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Thoughts for 2012 – are the Mayans right???

On December 21st. 2012, so predict the Mayans, the Doomsday will occur and the world will end – with that in mind, here are my thoughts from a macro-economic perspective as we head into the New Year…

Arab Spring – South Africa all over again…

People love democracy – the very notion, though abandoned by the Greek republics after a mere 50 years, serves as a lesson for us all… Sparta, a democratic military state (USA?) enjoyed the fruits of its own success, becoming rich, then was challenged to the point of exhaustion, before being overturned by a minor power… At the end of the day, while you may not like it, most developing economies need a strong man in charge, to line the pockets of his cronies but actually progress his state. Hand control to the plebeians, especially if armed, and chaos will result. And don't promise a better world to the people, because it rarely happens and civil discontent returns with a vengeance. Difference between South Africa and Zimbabwe? – 25 years… Don't expect the Arab Spring to deliver, with emerging strong men or military juntas the only likely outcome. Until that point, North Africa and the Middle East will remain volatile, with possible ramifications re. oil prices.

Japan – Kanto earthquake waiting to happen??

You can't ignore plate tectonics – yet we all have, with Tokyo sitting astride 3 seismically active plates that have been moving and generating increased tension since the Great Kanto earthquake of 1923 (100,000+ people died.. and it generally occurs every 70 years, which means er… 1993???). Notwithstanding the concentration of Japan's financial markets on the newly-created, quick-to-liquefy reclaimed land jutting into Tokyo harbour (did we hear the "Tsunami" word again?), the Japanese have been busy for years spreading their risk around the world, so insurers and re-insurers stand to take a massive hit when the earthquake happens (not if, but when!!). Of course Japan will liquidate vast holdings of foreign equities and bonds to re-patriate funds for re-construction, so add an insurance crisis to a global equity/bond crisis, just at a time when the US debt ceiling is being tapped again, and European countries find difficulty financing their fiscal deficits. NB the global banking system is already in crisis, so no point in wasting our breath there… And don't, don't, ever invest in Japan – 20+ years of youth not working, living at home with parents, not marrying, losing self-pride, sounds like a pioneer model for er.. Spain/Portugal/Ireland?

Eurozone accident in slow-motion…

Greece is less than 3% of the Eurozone GDP, but Spain and Portugal, those tourist hotspots with little else other than agriculture to offer, are truly down and out for decades to come. Some Smart Alec in the ivory towers of EU-ville believed you could throw money at the Iberian peninsula and start a real economy!! Well with youth unemployment at 50+%, and set to remain that way for a lost generation, and unfinished real estate locking up untold wealth and depreciating/rotting away, expect the banks to die a slow death and an EU drain on the Euro leading to a sun-baked index, where the Mediterranean economies are set to de-couple from the industrial north. Or will Alec in EU-ville overspend in the false belief that all can be saved, with a few trillion Euros of rapidly printed money. Remember how the drachma/lira/peseta/escudo exchanged at 10's to 1,000's to the USD in the past. Ever figure out why????

Iran, Iraq, Afghanistan, North Korea…

Diminishing western influence and growing domestic defiance will lead to western sabre-rattling... The smart thing would be to let these countries sit in their own stew pot, and slowly fall apart economically/politically, but US foreign policy in particular marches ahead based on ignorance and the need to establish its own unique brand of democracy (see earlier reference to Sparta!!). The net result in Iraq and Afghanistan bear testimony to this success… Fiscal problems and domestic economic issues may force the USA to stay out of a fight, and presuming Obama is re-elected he may have the good sense to do just that!!! But if pushed by Israel, which punches way above its weight in US decision-making (as sympathisers control Washington and the media..), an Iranian conflict would spell disaster for the USA, Israel, and oil and gold prices would sky-rocket as oil-hungry economies floundered..

Oil and Gold

No annual predictions would be complete without our 2 most talked about friends, the one with utility and the one with zero utility (electronics and satellites aside...). We remain skewed towards upside for both, with economic problems holing back demand for oil but problems with the supply side. Gold – upside based on civil unrest, collapse of Japan, economic uncertainty in Euroland/USA, and most hard assets declining in value or embargoed (Iran is a big buyer of gold, expect the Middle East to continue to procure..)

How to invest based on the above.

Buy gold stocks, where production is about to or recently started – the share price should be at a point of inflection, whereby a modest increase in gold price will have a big impact on the bottom line of the stock. With oil, low recently volatility favours an option play, with buying calls and maybe even selling puts at-the-money to fund more calls.

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