



View from the Bridge

an alternative look at the investment world

By Clive Hale

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“The only function of economic forecasting is to make astrology look respectable”

This marvellous quote from Keynes could equally be applied to the bank stress tests. An illustrious reader of the “View” has asked me if I believe that the market will realise at some point next week that this is another euro con job and will sell off as a result.

The answer to the first part is an unequivocal “Yes”. The construction and results of the tests have been common knowledge for some time and the conclusion that they tell us absolutely nothing about the true financial state of European banks is a given.

How the markets react to the “bleeding obvious” is something completely different. Even Basil Fawly and the bog-witted O’Reilly couldn’t have dreamed up a plot of such stupendous ineptitude. One thing the Americans did get right was to make sure that the tests on their banks carried a modicum of credibility and for those that failed the capital injection phase was appropriate and swift. This is far from saying that the American banks are problem free but action was taken, confidence boosted and financial stocks rallied.

In Europe the stress tests almost never happened. Done properly the “casualties” would have been far greater than seven out of ninety one, but the fall out would have been unacceptable, especially to the French, whose banks have significant exposure to Greek and other “suspect” sovereign debt. It is unfair to single out the French (...only joking!), but there was a lot of pressure to moderate the “stress” and what we are left with just perpetuates the uncertainty.

Markets don’t like uncertainty and would normally take this as a signal to correct even though they have known about the outcome for weeks. Maybe they have treated the event as an SEP*. What they have noticed is some better economic numbers. German IFO, UK GDP, Eurozone manufacturing and service index, French business and consumer confidence plus Eurozone industrial orders were all better than expected and the markets forged ahead last week.

The FTSE and S&P, not directly affected by these tests, have made tentative moves above the earlier highs of the month, encouraging for the bulls, but Germany, France et al are lagging and their verdict on the tests may determine the longer term direction. Another “interesting” week is afoot.

**Somebody Else’s Problem - in the Hitch Hikers Guide to the Galaxy an alien spacecraft parked at Lord’s cricket ground was invisible to another variety of stressed “Test” match watchers’ as it was surrounded by an SEP field.*

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