

Can Germans Cheer up again?



The International Monetary Fund has said world markets are still under strain from the US housing crisis. In Europe, one of the world's most advanced market economies, Germany, is also hardest hit. Consumer confidence in the country dropped to the lowest in more than five years as soaring energy prices sapped purchasing power and the economic outlook deteriorated, according to Bloomberg. GfK AG's index for August, based on a survey of about 2,000 people, fell to 2.1, the lowest since June 2003, from 3.6 in July, the report said. Economists predicted the gauge would fall to 3.5 from an initial July estimate of 3.9, according to the median of 25 estimates in a Bloomberg News survey. A sub-index measuring income expectations decreased to minus 20 from minus 7.2 and a gauge of consumers' propensity to spend fell to minus 26.2 from minus 23.7. A measure of economic expectations plunged to minus 8 from 7.5 too.

As a matter of fact, record oil and food prices pushed inflation in Germany to 3.4% last month, squeezing disposable incomes just as the euro's gains and a deepening US housing slump curbed demand for exports. Business confidence dropped the most since the September 11 terrorist attacks in 2001 and investor confidence fell to a record. Since the close relationship in financial markets around the globe, the worst US housing slump since the Great Depression has pushed up the cost of credit globally and roiled financial markets. The world's biggest financial companies, including those in Germany have posted almost \$470 billion in writedowns and credit losses since the start of last year after the subprime mortgage market collapsed. With regard to international trade, German sales abroad dropped the most in almost four years in May and

manufacturing orders fell for a sixth month. German business confidence fell more than economists forecast in July. In the near term, continued pressure on purchasing power and the darkening economic outlook clearly act as overhang over private consumption. Someone has argued that there exists consumer recession now. Fortunately, unemployment has dropped to a 16-year low of 7.8%, which may provide some support to consumer spending as labor unions push for more pay. The ECB raised its benchmark rate by a quarter point to 4.25% this month to curb inflation in the 15-nation euro region. It may raise rates again by March even as economic growth slows. German stockmarket is expected to underperform other developed countries over the few months.

Microscope

Germany is the world's third largest economy in USD exchange-rate terms and the largest economy in Europe. Competition and free enterprise are promoted as a matter of government policy. However, the state intervenes in the economy through the provision of subsidies to selected sectors and the partial ownership of enterprises in sectors of strategic importance. The German economy is heavily export-oriented, with exports accounting for more than one-third of national output. As a result, exports traditionally have been a key element in German macroeconomic expansion. Germany is a strong advocate of closer European economic and political integration, and its economic and commercial policies are increasingly determined by agreements among European Union (EU) members and EU single market legislation. Most German experts agree that there are domestic structural problems to be addressed. Beginning in 2003, the government gradually deregulated the labour market to tackle formerly high unemployment. However, there is problems in the weak domestic market, most likely stemming from stagnating wages over more than a decade.

MARKET BRIEFING

YTD % (local curr)

US DJ
11,370 (-14.3%)
Nasdaq
2,310 (-12.9%)
Euro Stoxx 50
3,351 (-23.8%)
HSI
22,740 (-18.2%)
Japan NK225
13,334 (-12.9%)
China Shanghai Composite
2,865 (-45.5%)
Singapore
2,922 (-15.7%)
India BSE30
14,274 (-29.6%)
Brazil BOVESPA
57,199 (-10.5%)
Aus All Ord
5,028 (-21.7%)
US-10yr Bond
Yield 4.00%

As at 25/07/08

Insight: "High Yield Bond"

In finance, a high yield bond is a bond that is rated below investment grade at the time of purchase. These bonds have a higher risk of default or other adverse credit events, but typically pay higher yields than better quality bonds in order to make them attractive to investors. The value of speculative bonds is affected to a higher degree than investment grade bonds by the possibility of default. For example, in a recession interest rates may drop, and the drop in interest rates tends to increase the value of investment grade bonds; however, a recession tends to increase the possibility of default in speculative grade

bonds. Nevertheless, high yield bonds are often considered a separate asset class, involving different characteristics from those of other securities, helping you spread assets across different segments of the financial market, reducing your risk concentration in any one asset class in your overall portfolio. In addition, they have less interest rate volatility risk than long-term US Treasury bonds. In general, the longer a bond's maturity, the more vulnerable its price is to interest rate fluctuations. High-yield bonds are typically issued with maturities of 10 years or less, and are callable after four to five years. Their interest rate risk exposure is lower. High-yield bonds can also be repackaged into collateralized debt obligations (CDO), thereby raising the credit rating of the senior tranches above the rating of the original debt.

A-Z Financial Tools

X-Discipline is an investing strategy that yields higher returns in good markets and better loss protection in bad ones, for time-starved individuals who want independence from financial advice. People lost money because of failure to sell. Since there's no safe haven where you can buy a stock and forget about it, X-discipline may be a solution for this.



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