



## MARKET ANALYSIS

January 2009

December is traditionally an unusual trading month for markets, given that a number of days are lost to the Christmas and New Year breaks, and with trading volumes often significantly down on those days just before Christmas and between Christmas and the New Year this is perhaps a month where the data gathered has relatively minor significance.

December did however manage to produce a couple of headline grabbing events, firstly the reduction in interest rates by the Bank of England, European Central Bank and US Federal Reserve, with the latter lowering rates to 0.25%. The second major event was the revelation that respected US money manager Bernard L Madoff had in fact misled investors to the extent of up to \$50 billion. This may turn out to be the largest investment swindle in history and has claimed casualties as diverse as Banco Santander and Stephen Spielberg. The Madoff affair has led to questions being raised about the regulation and operation of hedge funds and the investigation by the US Securities and Exchange Commission is likely to dominate headlines for the early part of 2009.

December was also the month when retailers slashed prices in order to stimulate last minute pre Christmas spending, and when a number of established UK retailers went into administration, including Zavvi, Adams, Whittards of Chelsea and The Pier.

Despite further adverse economic news, most markets ended the month higher, with the leading performers being Japan, where the Nikkei 225 ended the month 4.1% up on November, and Hong Kong, where the Hang Seng ended the month 3.6% up on November. The current feeling is that markets are likely to see a positive start to 2009, although this could be a short term bear market rally, with the real recovery not expected until the second half of the year. Much will depend upon the retail sales figures for December, whilst eyes will no doubt be focussed on Russia's latest gas dispute with its neighbour Ukraine, as well as the recent events in Gaza. Both of these could go some way to halting the recent decline in energy prices.

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Key Data			
	31/12	28/11	+/(-)%
<b>FTSE 100</b>	4434.17	4288.01	3.4
<b>Dow Jones</b>	8776.39	8829.04	(0.6)
<b>CAC</b>	3217.97	3262.68	(1.4)
<b>DAX</b>	4810.20	4669.44	3.0
<b>Nikkei 225</b>	8859.56	8512.27	4.1
<b>Hang Seng</b>	14387.48	13888.24	3.6
<b>£ = \$</b>	1.4448		
<b>Euro = \$</b>	1.3387		
<b>£ = Euro</b>	1.0404		

Interest Rates	
<b>Bank of England</b>	2.0%
<b>European Central Bank</b>	2.5%
<b>US Treasury Reserve</b>	0.25%



**UK** – December has proved to be a difficult month statistically. UK unemployment has pushed closer to the 2 million barrier and GDP continues to contract. Insolvency practitioner Begbies Traynor has forecast that up to 15 major retail groups could shortly enter administration and the number of new mortgage approvals is now at its lowest since 1999. Sterling has also inched closer to parity with the euro, with £1 now only buying £1.0404, although tourists will find that Sterling has now actually reached parity. On a more positive note inter bank rates are continuing to fall and the Nationwide Building Society announced the reintroduction of the 95% mortgage, another sign that liquidity may slowly be returning to markets.

**Europe** – The majority of key Eurozone economies saw a sharp decline in the rate of inflation, and with German consumer confidence showing a 26 year low the message seems to be one of a worsening outlook for the Eurozone. The ECB took a relatively bold step in lowering interest rates by 0.75% and although there has been some suggestion that rates will be held in January it is expected that the likes of Spain, Italy and Ireland will press for further reductions.

**US** – Although the Madoff affair has been a major headline grabber the key event of the month was the \$13.4 billion assistance package announced for Detroit's "big 3" automakers. As a result of this action the three are likely to be able to stave off bankruptcy, at least until the new US President takes office. This will in turn temporarily safeguard over 1 million US autoworker jobs, however in the long run major reforms will be required if GM, Ford and Chrysler are to survive

The dollar has strengthened further against both Sterling and the Euro, although near zero interest rates in the US may mean that over the coming year the fortunes of the dollar could easily reverse.

**Asia Pacific** – December saw improvement in virtually all Asia Pacific markets, mainly fuelled by agreement amongst analysts that this region has been somewhat oversold in recent months. The momentum has also been fuelled by the Bank of Japan's cut in interest rates to 0.1% and the expectation that Asia will benefit from Barack Obama's economic stimulus package.

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