# ►On Target

Martin Spring's private newsletter on global strategy

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## Gold Starts to Recover Its Traditional Role

Gold is making a comeback as money, despite a century of near-universal negativism about its future as a key element in global finance.

Recently "its popularity as a medium of exchange for international transactions has been soaring," reports the *FT*'s John Dizard, with large volumes of both "reported and unreported" trading in the physical metal.

This has been particularly noticeable in recent months as the impact of US government sanctions on international banks for failing to comply in full with the dictates of its foreign policies "has become severe."

Since May the American authorities have extracted almost $12 billion in fines in settlements with France's BNP Paribas and Zurich-based Credit Suisse. As a result, Dizard says, "the world is finding ways to get along without the dollar."

Gold is one of several alternatives.

"Not many transactions are actually invoiced in gold as such; instead, gold is used as the settlement medium rather than for the price quotation," he says.

The increase in such transactions has generated demand for "physical metal held in reliable counterparties in secure vaults in locales considered safe from confiscation by a vengeful [US] Justice Department."

Traditional 400 ounce bars are being flown from London to Switzerland, where they are melted into smaller bars of one kilo or less. Those are then flown to places such as Istanbul, Dubai, Shanghai or Singapore, where they go into "a secure vault owned and operated by some family who have been in the business for a few hundred years."

Businessmen concluding deals in trade attacked by the American authorities, or potentially at risk, execute them through instructions to such specialist gold bankers, who transfer ownership of physical metal in their vaults from one party to another.

This is costlier and more troublesome than using the international dollar clearing system – "but it is less expensive than having dollar cash balances frozen indefinitely; or having one's dollar clearing bank covering fines through interest rate margins or service fees."

Governments hate gold because of the freedom it offers its owners to conduct their own affairs in ways like this, often beyond the reach of their policies and confiscatory practices. That's why, despite the volume of anti-gold propaganda,


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so many governments themselves continue to favour gold as a store of value -- beyond the potential hostile actions of other governments.

## Approaching Threat of US Financial Crisis

The rich, with their ownership of investment assets and ready access to cheap credit to gear up their holdings, have continued to be “the chief beneficiaries of… unorthodox monetary policies,” says the CLSA strategist Christopher Wood.

“In the world of equities, multiple expansion – not earnings [growth] – has been the chief driver of equity gains in America and Europe in recent years… Price-earnings ratio expansion contributed to an estimated 75 per cent of the gains in the US stock market last year and 43 per cent so far in 2014, and accounted for all the gains in Europe in both 2013” and the first half of 2014.

“Similarly, in the world of fixed-income, capital gains and related yield compression have been driven by the leverage employed in carry trades – leverage only available in a post-financial crisis world to the affluent.”

Wood argues that although the official rate of unemployment in the US has been falling, that gives a false impression of fundamental conditions in the labour market, as nearly all the improvement has come from people “leaving” the work-force by giving up looking for work. “More unemployed Americans leaving the work-force than found a job in 49 of the past 50 months.”

Unlike Fed chairman Janet Yellen, with her Leftist inclinations, many economists believe that this phenomenon is not cyclical – that is, temporary – but structural (fundamental). “America has entered the European dynamic, where rising government benefits reduce the incentive to work at the lower end of the labour market.”

If this view is correct, there is less slack in the labour market than the Fed currently believes. A pick-up in average hourly earnings growth is the most likely source of an “inflation scare,” which could bring a jump in expectations of monetary tightening sooner than previously expected.

That could have a shock effect, because continuing high debt levels mean the US economy “will prove ultra-sensitive to the impact of higher interest rates.”

However, Wood argues, any such inflation scare is likely to be short-lived, as such scares have in the past, as any evidence of rising-wage pressures, if such a development occurs, will probably turn out to be “‘late cycle’ confirmation that the US economic recovery which began in 2009 is nearing its end, not its beginning.”

Other interesting points he makes:

► Values in the futures market currently give a 56 per cent chance that the first interest-rate hike by the US Federal Reserve will happen in June next year, and an 85 per cent chance it will occur by September.

► There is a “truly remarkable” appetite for aggressive debt structures “just six years after such structures were discredited in the global financial crisis.” High-yield corporate bond issuance in the US rose from $43 billion in 2008 to a record $336 billion in 2013, and rose to $182 billion in the first six months of this year. There is also renewed appetite for higher-risk “covenant-lite” loans.

► History shows that there is a well-established tendency for financial markets to test a new Fed chairman in the first few months in office. “Given the almost eerie sense of calm, if not complacency, hanging over markets, as reflected in record-low volatility measures, the suspicion is rising that such a test may be approaching.”

## Property Buying Tips for Expats

By Chad & Peggy Creveling

Living as an expat in a foreign country for a few years can be rewarding enough as a renter; choosing to live there permanently and buying a home can almost feel like you're living a dream.

But don't let the slick real estate brochures or expat mortgage brokers seduce you into buying before you're ready.

Owning property overseas can have a major impact on your finances, whether it's a condo in a booming Asian city or a cottage on a tropical beach.

Buying property in a postcard-perfect locale can be a dream, but don't let it become a bad dream without taking these six concerns into account:

► **How long will you live there?** It's understandable to want to own your own home, but how long you plan to live there matters. Expatriates tend to lead transient lifestyles, so if you'll only live in the home for a few years, you may want to reconsider whether buying property makes sense.

Thinking that you'll rent out your home if you need to leave may not be the best plan financially.

There are a number of costs involved in being a landlord and most single units do not — with some exceptions — make sense as stand-alone investments. And as sophisticated as it sounds, collecting a string of houses in various countries where you've lived is generally an inefficient use of capital that few can afford.

Even if you expect to sell when you leave, you may find unfavourable market conditions depressing prices to below what you paid. Property price cycles tend to be long, so waiting out a downturn can be expensive.

You'll also need to plan for transaction costs in both buying and selling, which are more expensive to absorb for short-term purchases. Unless you're sure you'll live in a certain home for five to seven years, renting may be a better option.

► **What legal protection do you have as a foreigner?** Many expats are surprised to find out how much laws and their enforcement differ in their newly-adopted country versus their homeland.

Local laws may not shield you against breach of contract, incomplete work, late delivery, cost overruns, developer insolvency, or false advertising.

In some places, you may not be allowed to own land, and there may not even be escrow accounts to protect your down-payment until the purchase is complete.

► **What taxes are involved?** Understand how you may be taxed on any income or gains on your property, both in your country of residence and in your home country (if applicable).

If enforcement of tax laws is lax or ambiguous, don't count on this remaining the case forever. Tax laws change, so if you decide to buy, you'll want to keep abreast of current laws.

► **Is there a market for used homes?** The market for newly-built houses may be hot, but the secondary market may be extremely illiquid, especially in developing countries where property developers are churning out new projects like hotcakes.

Most buyers expect their property's value to go up before they sell, yet in certain markets there's a "used car" discount that needs to be factored in, especially if the unit is a condo and the other project owners haven't been paying their maintenance fees.

Check out the secondary market and talk to some expats who have completed a sale of their unit.

► **Real estate agents are salesmen, not advisors**. Problems occur when you depend on a salesman for advice. And brokers cannot be counted on to provide reliable information or analysis in areas such as fair market property values, ownership or tax laws, future zoning changes, or even factual numbers on market supply and demand.

These are areas you'll want to check out independently and take responsibility for. Your broker isn't getting paid to take an interest in your long-term welfare.

► **If you're planning to buy-to-let,** do the numbers first. While some properties can make good investments, by no means is real estate a one-way financial bet.

Counting on capital gains alone for your return is a mistake many people make. The reality is that on average property prices can only increase in line with buyers' purchasing power. For most places, this limits long-term average price increases to the long-term average rate of wage inflation.

If even your taxi driver says he's making easy money flipping properties, it may mean a market price correction is in order.

When you evaluate a property as an investment, you'll want to calculate an expected internal rate of return based on the estimated net income after tax over the time-frame you expect to own the property.

Consider all income — and all costs. Err on the pessimistic side when you factor in costs like vacancies, maintenance, management fees and insurance.

Your estimated internal rate of return (IRR) should be higher than your cost of borrowing for an investment to make sense. And if you're paying cash, your expected IRR should be higher than the expected return for other investments you might otherwise make.

Finally, be sure to factor in an illiquidity premium, because unlike the stock market, you can't simply sell one share of your investment property if you need to raise funds.

*The Crevelings operate a private wealth advisory firm specializing in helping expatriates living in Thailand and Southeast Asia build and preserve their wealth. For more information, visit their website www.crevelingandcreveling.com.*

## How Positive Genes Populated Society

Scientists are starting to discover how our genetic make-up predisposes our behaviour, destroying the myth that what we do is entirely shaped by the social environment, which itself can be shaped by appropriate political policies.

Nicholas Wade, an eminent science writer, reports in his new book* on two genes that academic researchers have proved are linked to human behaviour:

► Oxytocin, “sometimes known as the hormone of trust,” plays a central role in promoting social cohesion. It dampens distrust of strangers, promotes feelings of solidarity, and heightens willingness to defend the group.

► MAO-A is associated with aggression. Individuals have anything from two to five copies of its elements called promoters – “short stretches of DNA that lie near the genes they control.” An American study has shown that men with only two copies are significantly more likely to commit “serious delinquency” such as violent assaults, theft, selling drugs or damaging property.

Wade cautions: “Genes don’t determine human behaviour; they merely create a propensity to behave in a certain way.”

However, “important aspects of human behaviour are shaped by the genes” and “these behaviour traits are likely to vary from one race to another, sometimes significantly so.”

Wade has many interesting things to say on the subject of race.

For example, medical geneticists have developed sets of genes called Ancestry Informative Markers that can be used to distinguish one race from another with near-perfect accuracy.

How can they do that? It’s because although all humans have the same set of genes, each gene comes in alternative forms, called alleles. Although there’s only a few known cases of a particular allele occurring in only one race, the frequency of occurrence of alleles does differs from one group to another. That is the principal means of identifying, not only races, but also ethnic groups within races, and even the most probable geographical origin of ancestors.

Over generations, genetic patterns change through natural selection. Those whose genetic combination is favoured by circumstances are more likely to survive. In this way they are “selected” to spread more widely their favourable genes.

Different genetic patterns can be shaped by the physical environment. For example, about 3,000 years ago a genetic variant evolved in Tibetans that lets them live at high altitude. Those who had it, survived. Those without it, died out.

A mutation allowing adult humans to digest milk – known as lactose tolerance -- conferred an enormous advantage to those who developed it in Europe and East Africa, so they had ten times more surviving children than those who did not have it. Their descendants have come to dominate the Caucasian race.

Genetic patterns are also shaped by cultural factors. “If a cultural practice provides a significant survival advantage, genes that enable a person to engage in that practice will become more common,” Wade writes.

An important example he gives is how changing attitudes in Europe over the centuries built the launching-pad for the Industrial Revolution.

Economic historian Gregory Clark has documented the steady but radical change in four behaviours in the English population between 1200 and 1800 – in interpersonal violence, literacy, propensity to save, and propensity to work. These changes “were of pivotal economic performance,” Wade explains. “They gradually transformed a violent and undisciplined peasant population into an efficient and productive work-force.”

These positive, wealth-creating behaviours were spread throughout the population by a simple genetic mechanism – the rich had more surviving children than the poor. A study of wills showed that men with little wealth left on average two surviving children, while those in the wealthiest class left an average of four.

In this way “the values of the upper middle class – nonviolence, literacy, thrift and patience – were thus infused into lower economic classes and throughout society. Generation after generation, they gradually became the values of the society as a whole.”

This was happening throughout Europe, and spread across the globe in the European colonies.

There was a critically-important genetic transformation as “the ratchet of wealth – the ability of the rich to raise more surviving children – slowly diffused the social behaviours required for modern prosperity.” It provided the basis for the explosive material growth that produced the West’s global domination.

*  *A Troublesome Inheritance: Genes, Race and Human History, by Nicholas Wade, pub. by Penguin Press.*

## Equity Income Specialist’s New Fund

Neil Woodford, the top-rank British fund manager who left Invesco Perpetual to launch his own business that investors are backing with the equivalent of some $8 billion of their capital, has shown that he intends to stick with his individualistic investing style in his new fund Woodford Equity Income.

Its distinctive characteristics include:

► Heavy bets on pharmaceutical giants despite their well-known problems of expiring patents, intensifying competition from generics and buying resistance from government healthcare providers.

AstraZeneca, GlaxoSmithKline and Roche are in the new fund’s top ten holdings and amount to nearly one-fifth of the portfolio.

► Major stakes in the tobacco sector whose companies have been top-performing investments for years because, ironically, governments’ anti-smoking policies have greatly strengthened their barriers to entry by competitors and protected the high profitability of their brands.

British American Tobacco, Imperial Tobacco and Reynolds American are also in the new fund’s top ten holdings, and account for more than one-seventh of the portfolio.

Woodford says he backs these two sectors in a big way because they are "resilient to falling demand, have strong balance sheets, and attractive valuations. I have been very careful in building a portfolio that avoids sectors I believe are vulnerable to a faltering global economy."

► He ignores the consensus, makes no effort to track the index, and is prepared to take major "conviction" positions, such as in Imperial Innovations, which backs leading-edge technology pioneers, especially in biotech/healthcare.

It's a small-cap, and doesn't even pay dividends yet, but Woodford owns a tenth of its stock and has made it one of his new fund's top ten holdings.

Other less-obvious, somewhat "boring" companies he believes in are the telecoms giant BT, aero engine maker Rolls-Royce, the public-services outsourcing group Capita, clothing retailer Next and motoring services provider AA.

His contrarian style sometimes produces "extremely painful" underperformance, comments James Mackintosh, but made him a great success over the long term. At Invesco Perpetual, his home for 25 years, he "made his clients significantly richer, with his High Income fund turning £1,000 into £23,000, rather than the £10,000 they would have made from the wider market (including dividends)."

# European Stock-picks

Contrarians look for bargains in sectors out-of-favour with investors. From that viewpoint, Europe could be a good place to look now, especially for companies focused outside the Continent's own minimal-growth markets, with a strong international focus to their businesses. They could do well, especially if you expect European central banks to be panicked into aggressive easy-money policies to drive down exchange rates of the strong regional currencies.

Investment group Natixis says that now "it looks difficult to find growth stocks with attractive valuations in absolute terms," but there are "investment opportunities… in growth sectors offering broad exposure" to the emerging economies, and the US.

The latest additions to its Emerging Growth portfolio include: **Wartsila**, the Finnish energy services specialist that makes 38 per cent of its sales in emerging markets (EMs); **Nutreco**, the Dutch producer of animal feeds with a 37 per cent exposure to emerging economies; **Linde**, the German capital goods giant with 34 per cent of its sales in the EMs; **SKF**, the Swedish bearings specialist with 31 per cent; **BIC**, the well-known French maker of ballpoint pens, lighters and other disposable consumer products, also with 31 per cent.

Companies in the portfolio with the most concentrated exposure to sales in the EMs are: **Swedish Match**, the specialist smoking products company (100 per cent); **Swatch Group**, the Swiss maker of "smart" watches (57 per cent); **Philips**, the well-known Dutch electrical products giant (53 per cent); **Adidas**, the German sports footwear leader (51 per cent); and **Anheuser-Busch Inbev**, the Belgian beer giant (50 per cent).

If you would prefer to stay away from emerging markets, Natixis lists these firms with the highest US sales as a proportion of their total: **Shire**, the Irish healthcare giant currently in merger negotiations with AbbVie, with a 96 per cent US

exposure; **Anheuser-Busch Inbev** has an 87 per cent US focus. Three others with similar very-high American concentrations are **Weir Group**, the British industrial equipment supplier; **Ashstead Group**, UK the construction industry equipment provider; and **Philips**.

Natixis says that the premium in valuations of growth stocks relative to those of value stocks has fallen back from the peak of around 50 per cent reached in March last year to around 33 per cent now – below its ten-year average -- with the correction most substantial in the sectors food and beverages, and consumer goods (luxury, tobacco, cosmetics).

## Blame the Nanny State and Fear of Risk

Why has the avalanche of "printed" money and almost-free credit made such a poor job of stimulating the world's economic activity?

There are three reasons, Roger Bootle of Capital Economics argues in the *Telegraph*:

► Spending is too low in Europe because of policy failures in the euro currency system and in the labour market. The latter is malfunctioning because of interference by "armies of bureaucrats and lawyers… in misguided pursuit of some sort of 'social solidarity.'"

The consequence is failure to create jobs and appallingly high unemployment. That constrains growth of consumer incomes, and therefore of spending. It also "depresses investment opportunities and increased the perceived risk of expansion."

► Spending is too low in the two main groups of surplus countries – oil producers and the Asian emerging economies.

► Low investment spending by companies in the West because of deficiencies in financial services and, more importantly, the malfunctioning of corporate boards in taking decisions about real investment.

"There is now a gaping cavern between the interest rates available to retail servers and the rates of return sought by industrial and commercial companies when considering their investments. As a retail saver you might be lucky to get 1 per cent or 2 per cent a year, yet companies turn their noses up at projects which do not yield more than 10 per cent… sometimes 15 or even 20 per cent."

A corporate culture has developed that "runs scared" of risk. One reason is the regulatory and legal burdens placed upon directors. Another is "the change in the structure of executive remuneration which has focused executives upon the short-term performance of the share price rather than the long-term growth in their business.

"Real investments which may have payoffs well beyond the personal time horizon of the current executive team are now much harder to get through."

## The Foolishness of Most Foreign Aid

British premier David Cameron recently said it's been his proudest achievement, with annual spending on foreign aid increased over his government's four years in office from £8.4 billion to £12.6 billion. This has been done despite a policy of "austerity" in government finances, with savage cuts in sectors such as education, welfare services, the police – and especially defence. The UK now has the smallest

army since the 18th century and the smallest navy since Henry the Eighth.

Does this make sense?

Since 1960 Western governments have pumped more than $1 trillion in aid into sub-Saharan Africa – "with the remarkable result that GDP per capita has declined," as one writer puts it.

My friend Robin Mitchinson, an expert in the field who spent many years administering foreign aid projects, points out that countries qualify for British handouts even though they be corrupt, incompetently governed, even terrorist havens, and usually kleptocracies "where the ruling elite steal everything not nailed down." The former president of Malawi spent his aid money on an executive jet and a fleet of Mercedes for his cronies.

"Leading with the begging bowls" are countries such as Nigeria, "an immensely wealthy oil state renowned for its endless looting of the national treasury;" Pakistan and India, able to find the money to finance nuclear weapons; Afghanistan ("say no more"); Ethiopia, with its "particularly oppressive and unpleasant regime"; Sudan, whose president is wanted for war crimes; Zimbabwe.

"Pick any nasty, corrupt, failed state run by a brutal dictator – and British money is going there."

Prime beneficiaries of the foreign aid business are the "rapacious consultancy firms that specialize in 'good governance.'" It is not uncommon for them to charge out their specialists at $1,200 a day while paying them only $400, and to "play games with airfares, daily subsistence allowances and 'lump sum' items that require no supporting documents."

Whether aid money is spent wisely and usefully is questionable.

Take the example of Montserrat, a tiny Caribbean island with a population of about 4,500. After devastating volcanic eruptions, the UK spent more than $18 million to build a new airport. Locals told them it was in the wrong place, but Britain's aid bureaucrats new better. The runway of the new airport ends abruptly – at a cliff edge.

"The basic fault with aid is that it creates dependency," Robin writes. "My Malawian counterpart reckoned that it was the worst thing that had happened to Africa. Without it, Africans would have had to stand on their own two feet.

"It severs the tie between politician and voter/taxpayer. When aid replaces tax revenues, the need for public accountability is minimalized, and this opens the door for politicians to plunder the Treasury, safe in the knowledge that the public will not much care; it is not their money. Corruption becomes the norm."

And that is Cameron's "proudest achievement"?

## Setbacks for Natural Gas

In Asia, free-market prices of LNG (liquefied natural gas) have almost halved over the past five months. Japan, for example, has been buying at $11 per unit, compared to $20 as recently as February. The reasons include reduced inventory-building in Japan and Korea ahead of nuclear power start-ups, softer economic

growth in India and China, milder weather and fewer outages in supplies.

Some rebound in prices is expected soon as inventory-building picks up ahead of winter demand.

An unrelated but important story about this fuel is that the German government has announced a ban on fracking, the process used to recover natural gas and related liquids from shale deposits, despite that country's dependence on Russian supplies.

Germany has shale reserves of 2.3 trillion cubic metres of gas, or enough to meet all domestic demand growth without needing to increase imports. It also has the technology – it's been a pioneer in tight-gas recovery for a half-century – and has much of the pipeline network that would be needed to distribute shale gas.

The ban "comes in response to widespread green hysteria over claims that fracking poisons groundwater," reports the *WSJ*, although US evidence makes it clear that "most groundwater pollution is caused by faulty wells, regardless of drilling method."

The answer is effective regulation of all natural gas recovery, not banning fracking.

## The Fat Fallacy

The standard recommendation of almost every national and international advisory body in the world that a healthy diet should be low on fat is based on a "big fat lie about cholesterol," writes James Delingpole.

"In 1997 a massive trial of 350,000 men at high risk of heart disease found that drastically cutting down their cholesterol and saturated fat consumption did not improve their survival prospects. Worse, according to an earlier study in Finland, men who continued to follow a low saturated fat diet were twice as likely to die of heart disease as those who didn't.

"In fact no trial has ever demonstrated the benefits of reducing dietary fat."

One unintended consequence of the unscientific war on fat is that flavour in foodstuffs has been substituted by boosting sugar content. "It's sugar, it seems, rather than fat, that is primarily responsible for the growth in obesity."

That's a problem created by those who have profited either professionally or financially from the low-fat, anti-cholesterol propaganda – such as nutritionists, activists, chief medical officers, interventionist politicians, supermarkets and food manufacturers, pharmaceutical companies, doctors, even newspapers touting the latest health scares.

It's a "vast but entirely pointless, corrupt and worthless global industry built over decades on a foundation of junk science, public hysteria and woefully misguided government regulation."

## Tough Times Ahead

With London Business School experts saying don't expect returns of more than 3 or 4 per cent a year from equities over the next decade, and negative returns from bonds, savers should keep about half their capital in cash or near-cash securities, says *Money Management* adviser Russell Taylor. He warns: "Banks are bigger, less profitable and more dangerous than ever."

Quantitative easing, he says, has inflated asset prices but done nothing for economic growth.

The ongoing revolution in technology has reduced the power of labour relative to capital, "so ensuring that the return on capital is at its highest level ever." But growing dividends make the rich richer without adding to demand for goods and services as their needs are already satisfied.

"Without growing demand from mass consumption markets, businesses see no urgency to invest and few new jobs are created."

In Europe, although current policies are pushing economies into a deflationary spiral, "politicians are understandably worried about making supply-side reforms that will free labour markets when employment growth is so weak," while "financial orthodoxy prevents them from implementing spending on such basic essentials as transport, power, water and communications."

# Tailpieces

**Renewable energy:** Offshore wind turbines are much more prone to "catastrophic" fires than generally believed, according to a new study by researchers at Imperial College London. It concludes that such accidents, which can lead to turbines costing more than $3 million apiece being written off, could easily be up to ten times as many each year as have been publicly revealed.

This is yet another blow to the reputation of offshore wind, Britain's most-favoured method for meeting its European legal commitment to be generating about 30 per cent of its electricity from renewables by 2020. One reason is strong political opposition to expanding onshore wind farms.

Even without allowing for higher repair and replacement costs caused by destructive fires, offshore wind-power is estimated to be 60 per cent more expensive than onshore in the UK, and three times the current wholesale cost of electricity. Dieter Helm, an Oxford University economist, has described it as "among the most expensive ways of marginally reducing carbon emissions known to man."

**India:** It's difficult to invest in from abroad, because of controls on foreign inflows and ownership. Most investors take the easy route of buying into funds. FE Trustnet lists four investment trusts (closed-end funds), 28 mutual funds/unit trusts/OEICs, 19 ETFs and 30 offshore Indian funds.

The best performers over the past five years have been: First State Indian Subcontinent A (117 per cent); Golden Sachs' India Equity Portfolio Base (89 per cent); Aberdeen Global Indian Equity D2 (80 per cent) and Aberdeen's investment trust New India (75 per cent).

However, you can invest directly in several of the larger Indian companies that have ADRs/GDRs listed in New York.

Here's a new list of them provided by FullerTreacyMoney's Eoin Treacy: Bharat Forge, Dr Reddy's, HDFC Bank, ICICI Bank, IndiaBulls Housing Finance, Infosys Technologies, Ranbaxy Laboratories, State Bank of India, Tata Motors, WIPRO.

**Euro:** Its strength relative to other currencies is "crazy," says Fabrice Brégier, chief

executive of Airbus's passenger jet business. Europe cannot be "the only economic zone of the world that doesn't consider its currency… as a key asset to promote its economy."

The European Central Bank should intervene to drive down the euro's exchange rate to the dollar from current levels around $1.34 to the range $1.20-1.25.

Germany would probably oppose any such move on the grounds that currency manipulation is a "soft alternative" to hard but necessary policy options, such as the country adopted, ultimately with great success, after converting from the Deutschemark to the euro at a painfully-high exchange rate.

**Food safety**: The embarrassing Shanghai Husi scandal – Chinese media revealed workers repackaging date-expired meat for sale through restaurant chains such as McDonald's and KFC – is a classic example of what industrial consultant Paul Midler has described as "quality fade."

Chinese companies often start out supplying high-quality products, but then start cutting corners, sometimes in alarming ways, to improve their profit margins.

The lesson, the *WSJ* comments, is that managers "must always distrust and verify what their suppliers tell them. Regularly scheduled inspections are useless, as the factory will be spruced up for their visit. Surprise visits and spot checks are the only defence against fraud and fakery."

**US policy failure:** Although lending to businesses is reaching record levels in the US, that should not be taken as evidence of strength in economic recovery, bankers are now warning privately.

"Much of the corporate lending is going to fund payouts to shareholders, finance acquisitions, and fuel the domestic energy boom… rather than to support companies' organic growth," the *FT* reports.

**Early-bird success:** South African media group Naspers has done sensationally well out of its investment in the Asian start-up Tencent Holdings. That Hong Kong-listed company has developed into one of China's three biggest Internet businesses, along with Alibaba and search engine Baidu. Tencent, which owns the QQ messaging service and the WeChat mobile messaging app, is now valued at about $120 billion. Naspers's original stake of $34 million is now worth $40 billion.

**Wise words:** *Political language is designed to make lies sound truthful and murder respectable, and to give an appearance of solidity to pure wind.* George Orwell.

Martin

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