

To: Oakmont Corporation

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As we approach the end of the first quarter of 2010, it is difficult to find any real changes in direction in the various corners of the global economy.

Having spent most of February away in Argentina and kayaking amongst the ice-floes in the Antarctic, there is a strange feeling that the world has stood still. There is an extraordinary constancy about the suspended financial crisis and in particular crisis talk that pervades the Press and other commentators.

Britain in its state of political suspension rolls on without addressing any of its fiscal and financial problems. Government pronouncements are basically ignored and the Prime Minister's ability to be 'economical with the truth' has become so blatant that it hardly excites comment – everyone awaits with some boredom for the announcement and onset of the election battle.

Europe continues in its own introverted sweet way. In Greece nothing has changed, the economy remains a mystery, bankrupt along with its Mediterranean neighbours, but no bail out, only a smoke screen of European ministerial meetings. It seems that the core of the dilemma facing the European Central Bank and Germany is that a very large percentage of the Greek government debt is owned by Deutsche Bank and their French counterparts. For the time being, one can only guess that Greek debt will go on being absorbed by these banks and then possibly recycled into the ECB, a party that can continue for quite a long time.

The big elephant in the room, America, and the smaller elephant, China - continue to dance, reminiscent of young and old bulls in African safari parks, kicking up dust and bellowing. Interestingly, the US government seems to have reached a state of paralysis as Congress ties itself in knots over the major issues, of health care reform and bank reform. Both are intractably complicated, and made more so by the hugely powerful lobbies in the respective industries use their weight to derail the legislation.

Unable to address internal issues, it is worrying that Congress is focussing on the exchange rate and China. Today, it is probably in the best interests of America to have a fixed exchange rate with China; a floating exchange rate would create a situation where Chinese actions could drive the dollar up or down any time they wished by announcing or actually executing a buying or selling of dollars. Congress has forgotten the old adage that, you should be careful what you wish for!

In the meantime China which, as I have said before, is probably the only country that has an executive that can plan intelligently for the short, medium and long term, and has a fair chance of executing those plans, is encouraging rapid growth within its own economy. To stay in power and avoid civil unrest, Beijing knows that it has to deliver steady growth. Inflation itself is growing, however, and this is more difficult to control with a fixed exchange rate against the dollar. This present currency lock does mean that Chinese inflation continues to grow as wage and food prices rise and will be exported to the US in the form of higher prices. A phenomenon that is of considerable benefit to US industrial recovery which, as it happens, is taking off at a great rate.

The rapid pick-up in US industrial output is flowing through into capital expenditure and is beginning to stabilise the job market.. There is also a growing trend for US companies to bring home production from Asia, all of which augers well for a general improvement in the US economy over the next twelve months. As is often the case, this could be derailed by the politicians particularly if political grand standing sparks off a round of protectionism.

With Spring in the air and the problems of winter receding, the rate of recovery in the private sector will increase. If the politicians can control their desire to spend and reign in the public sector, then there will be a general economic recovery. It is a big 'if' but possible!

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