Investment Conclusion

A positive outcome to the 2 April G20 Summit could help buoy overall market sentiment.

Summary

It is, in our view, just possible that the 2 April G20 summit could turn out – in retrospect – to be the "end of the beginning" of the current crisis.

THE G20 SUMMIT: THE END OF THE BEGINNING?1

AN “ISSUES WHICH KEEP ME AWAKE AT NIGHT” SPECIAL REPORT

"I think it is expecting too much for (the 2 April G20 Summit) to come out with detailed proposals in many different areas… the better goal… would be, as much as possible, to establish some principles that would guide reform around the world."

Ben Bernanke (10 March 2009)

Lessons From 1998?

Absent a truly major event of some description, picking the moment when market sentiment turns decisively can, in our view, be remarkably difficult – even in retrospect. However, we believe that such a moment can be identified with a remarkable degree of certainty in the context of the so-called “global economic crisis” of 1998. That moment was the publication of the Declaration of G7 Finance Ministers and Central Bank Governors of 30 October 1998.2

For reasons which (to our mind at least) remain unclear, this declaration – essentially an agenda for the reform of international financial architecture and other related measures to aid economic recovery – quickly convinced markets that the G7 had in hand policy measures commensurate with rapid economic recovery. For sure, whatever the reasons behind that shift, we judge that it did turn out to be the definitive moment in rolling back the 1998 crisis.

It remains our view, however, that such a “miracle cure” for the current crisis is unlikely to be forthcoming.3 So, we are cautious about any suggestion that the 2 April G20 Summit in London could provide a similar turning point.4

The G20 Summit: What We Expect To See

Substantively, we expect the 2 April G20 Summit will offer little which will directly address the financial crisis/economic slowdown. What we do expect are “outcomes” along the following lines:

• China may announce a new fiscal stimulus just prior to (or at) the Summit, as it did prior to the Washington Summit – although that stands largely to benefit China’s, rather than the global, economy;

• China may also agree to lend additional monies to the IMF as may the US and possibly others (eg Saudi Arabia) – and as the EU and Japan have already; that may reassure markets over sovereign default risk but we judge that risk to be low in any case;

1 Perhaps the best known reference to this phrase comes from then prime minister Winston Churchill’s speech at the Mansion House in London on 10 November 1942 shortly after the German army had been defeated at El Alamein in North Africa, a defeat of which he said: “But it is, perhaps, the end of the beginning”.

2 See http://www.g8.utoronto.ca/finance/fm103098.htm.


4 In fact, representation at the 2 April summit will be “G20 plus”, with the following 22 countries represented: Argentina, Australia, Brazil, Canada, China, Czech Republic (as the EU presidency), France, Germany, India, Indonesia, Italy, Japan, Mexico, Netherlands, Republic of Korea, Russia, Saudi Arabia, South Africa, Spain, Turkey, the United Kingdom and the United States. Additionally, heads of a number of regional organisations, including the ASEAN and the European Commission, and institutions such as the IMF, World Bank and UN will be present.

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PLEASE SEE ANALYST(S) CERTIFICATION(S) ON PAGE 3 AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 4 gl
• This would likely be linked to some modest progress on reform of international financial institutions (IFIs); but we judge such reforms to be of marginal relevance to the immediate crisis even though it would be a significant step forward in sustaining the relevance of the IMF in particular in the future;

• The Summit communiqué will likely nuance on the question of additional fiscal stimuli worldwide, where a clear difference of view persists between the US (for) and the EU including, now, the UK (against, at least domestically);

• Following US Treasury Secretary Timothy Geithner’s 26 March testimony on financial market regulation to the House Financial Services Committee, the G20 communiqué should also be able to declare broad agreement on the principles of regulatory reform (where the EU’s Larosière Report remains, in our view, a potentially key “blueprint” not only for Europe but more widely);5

• The communiqué will likely note progress on a range of action points from the detailed work programme launched via the G20’s 15 November 2008 “Washington Declaration” and agree to further work thereon (and, possibly but by no means certainly, to another Summit later this year or early in 2010);6

• There will likely be ritual denunciations of protectionism even though (according to the World Bank) 17 of the countries which committed in the “Washington Declaration” to eschew protectionism have since resorted to protectionist measures of one sort or another.

Anything significantly additional to that would, in our view, be a bonus.

One Step At A Time

Nevertheless, even such a relatively modest consensus should not, we believe, simply be dismissed, for the following reasons:

• At minimum such an outcome would mark at least some bridging of widely reported transatlantic differences of just a few weeks ago (which would, we judge, be a real negative for market sentiment were they to persist);

• There appears to us to have been a deliberate attempt in recent weeks to manage down market (and wider) expectations for the Summit. There is therefore an “upside risk” of generally positive perceptions of the outcome – aided by a (possibly cautiously) upbeat communiqué and subsequent press conferences;

• Bilateral meetings in the margins of the Summit itself – for example, between US President Barack Obama on the one hand and both Chinese President Hu Jintao and Russian President Dmitry Medvedev on the other – could add to the overall positive atmospherics of the day;

• A “successful” Summit stands to reinforce the generally positive market response to the launch on 23 March of the US’s Public-Private Partnership Investment Program and Mr Geithner’s aforementioned 26 March testimony on regulatory reform.7

The Bottom Line

At minimum, therefore, the 2 April G20 Summit (possibly coupled with a recent run of slightly improved data for some parts of the US economy) could help buoy overall market sentiment.

To be clear though, if that does indeed turn out to be the case we are not anticipating a turn-around in either markets or (in particular) the real economy comparable to that of 1998 following the G7’s 30 October Declaration.

Nevertheless it is, in our view, just possible that we may look back on the 2 April 2009 G20 Summit in due course and see it as “the end of the beginning” of the current crisis.


7 See http://financialstability.gov/.
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