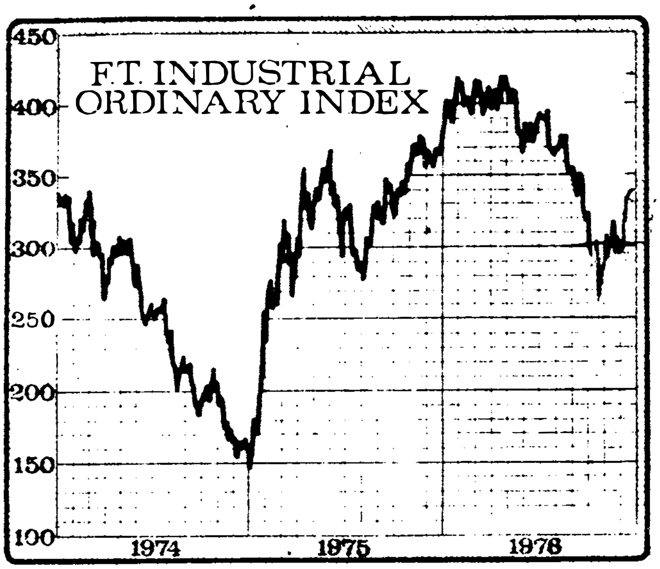
Britain Comes Back Strong

INTERNATIONAL STOCKS

Dec. 15 (NSIPS) — The London stock market has staged a remarkable comeback during this month, which was underlined this week when the *Financial Times* Industrial Ordinary Index withstood heavy pressure around Chancellor of the Exchequer Dennis Healy's controversial mid-week budget speech. On heavy selling, largely out of New York, the FTIO plumeted over 30 points (10 per cent) during Tuesday and Wednesday, then bounced back strongly at end week to 337.8, or a 2.3 per cent rise on the week, rising 15 points on Friday alone.



In the longer term, the London market has emerged since the beginning of December as one of the most exciting potential areas for a real investment coup, directly as a result of the Callaghan government's determination to resist the extreme deflationary demands of the International Monetary Fund (and Britain's New York banking creditors) in favor of an explicit fostering of industrial growth. Both because of this and due to Britain's new role in following the Italian lead in support of Euro-Arab cooperation and industrial monetary reform, substantial OPEC money has come back into sterling during the month, with a significant portion of it going into British equity.

In fact, this week, and for December as a whole, the British oils such as BP, Shell, Burmah, and Ultramar, along with heavy industrials such as Beecham and ICI, showed strong growth. Closely following this trend were the national European oil companies Pétrofina, Compagnie Française des Pétroles, Elf-Aquitaine, and Veba, while Exxon and Mobil were lackluster.

This week's *London Economist* stated the point succinctly. Since Carter is expected to inflate the U.S. economy severely to the detriment of real industrial growth in favor of make-work jobs, the magazine said, and since Britain is pursuing stable growth, the London equity market should begin to out perform the New York Dow shortly, and hold that lead.

Indeed, one interesting reversal of normal trends was the fact that the FT index and the pound firmed this week on the lowering of the Minimum Lending Rate to 14.5 by one fourth of a point. Since a cut in the MLR is generally expected to hurt sterling, because only high interest rates are supposed to keep any money in London, this can only mean that people have begun to buy sterling as a medium for investing in the attractive London equity market. In short, Britain has to some degree escaped the dilemma of having to choose between high interest rates for a stable currency and industrial suffocation or credit to industry and currency chaos.

British equities are way over-sold. After the spring sterling crisis, the FTIO plunged from an all-time high around 420 in April to the 260 level in mid-October, or back to the depths of the spring of 1975 (see chart). When the IMF first sent its team to London in mid-November, however, Prime Minister Callaghan pledged to the nation that "savage deflationary policies" being asked of Britain would not be allowed to destroy the country's goal of industrial progress and higher living standards through expanding social services. Reduced living standards, Callaghan made it clear, would stunt Britain's goal of higher technological development of industry and thus productivity.

Explicitly in response to this pro-growth political commitment in the face of enormous pressure, the FTIO rose almost to 300 by the time of the arrival of the International Monetary Fund delegation. A continued firm stand by Callaghan, which forced the Fund to spend over a month haggling pence and shillings at the Bank of England, brought the FTIO up by 13.5 per cent during December to yesterday's high of 337.8. Trader after trader in London stated that the cause of the market's rise especially through Monday, Dec. 13, was that Chancellor Healy's budget speech of Wednesday, Dec. 15 to announce Britain's response to IMF conditions "won't be as deflationary as the IMF demands."

The strong December pattern was momentarily interrupted in the thin and hesitant market immediately prior to the speech on Tuesday and Wednesday, by political selling out of New York which easily tricked off a 30-point drop in the tense atmosphere. Chief among the New York targets was British Petroleum, which IMF Director Johannes Wittiveen had pointedly demanded the government sell its control over as part of the IMF austerity package. BP, which supplies 30 per cent of Britain's oil, gives the country tremendous independence from the U.S. as an independent energy source and is close to joining the European oil cartel being formed by five continental national oil companies. BP shares plummeted from 758 to 718 pence by Wednesday's close, with a large part of the selling likely by U.S. interests hoping to drive down the price and then buy in at bargain levels.

But the basic strength of the market was clear by Thursday and Friday, after Healy announced budget cuts so minimal that they were universally hailed as non-existent. The FTIO rose from a low close Wednesday of 313.8 to 337.8 Friday. BP bounced back as well on Healy's announcement that the government would reduce its participation from 68 per cent but retain a 51 per cent controlling share, rising from 718 to 760, including a spectacular jump of 38 pence (5.2 per cent) on Friday alone. Overall BP rose 2 pence on the week. Other British oil showed similar gains, with Shell Transport rising 17 per cent on the week and Burmah and Ultramar 17 per cent and 9.8 per cent on the month.

British medium and long-term governments showed a similar pattern, rising overall 1.9 per cent on the week and 3 per cent since Dec. 1, on the political backbone of the Callaghan government.

Otherwise, basic industrial stocks too were strong, such as Imperial Chemical Industries, which rose 2.6 per cent on the week and 13.9 per cent during the month, and Beecham Aircraft, which rose 2.7 per cent and 18.3 per cent respectively.

INTERNATIONAL OILS: The performance of the European national oil companies involved in the "Euro-cartel" mirrored the British market during December, in sharp contrast to that of Exxon and Mobil, which have been weak all month as the OPEC states have negotiated direct deal after direct deal with the governments of Europe. Pétrofina, Compagnie Française des Pétroles, Elf-Aquitaine have all risen strongly during December, much more so than the flat performance of Exxon and Mobil (see chart).

	Nov. 30	Dec. 10 (Fri.)	Dec. 13 (Mon.)	Dec. 14	Dec. 15	Dec. 16	Dec. 17	Per cent rise during week	month
FTIO	297.6	330.1	333.7	324.3	313.8	322.7	337.8	2.3	13.5
Governments	58.1	58.7	59.0	58.8	58.9		59.8	1.9	3.
BP (pence)	740	758		730	718	722	760		2.7
SHELL	405	428					440	17	8.6
BURMAH	35	41					41	2	17.
ULTRAMAR	102	112					112	2	9.8
ICI	280	311					319	2.6	13.9
BEECHAM	321	370					380	2.7	18.3
PETROFINA (BFr)	4335	4420					4400	-.5	1.5
FR. DES PETROL (FFr)	93	99.2					102.5	3.3	10.2
ACQUATAINE	253	280.2					290.5	3.7	14.8
VEBA (DM)	112.8	113					114		1.
EXXON (cents)	51.13	52.58					52	-1.1	1.7
MOBIL	60	61.50					63	2.4	5.