



HAPPY NEW YEAR?

It's hard to tell...

In more youthful days, the New Year generally meant weeks of ruined cheques and letters as I continued, by force of habit, to write the previous year in the allotted spaces. Nowadays, life is made somewhat easier because cheques have become such a rarity and any mistakes in correspondence can be corrected by a simple click. This is just as well because the years now seem to roll by so much more quickly.

Useful predictions may be about as rare as a winter swallow.

As the calendar switches over to 2017, many of us are making – then probably breaking – our New Year's resolutions. It is also traditional for columns such as this to look back at the year just gone and predict something useful for the 12 months that lie in store. Although, if the past year is anything to go by, useful predictions may be about as rare as a winter swallow.

So to my review of 2016. Imagine for a moment that a year ago you had been ma-

roned on a desert island – or, to use the modern parlance, you had gone “off-grid”. No telephone, no computer, no television, no radio, no newspapers, and certainly no Facebook or Twitter. Then fast forward to 1 January 2017 when you are rescued (or log back on to the grid). “Have I missed much?” you might well ask.

It would be difficult to know where to start. Err, that UK referendum thing in June? Well, it didn't quite go the way that nice Mr Cameron intended. He has left No 10 (and indeed the House of Commons) and the UK is set to leave the European Union just as soon as the government (and the Supreme Court) can work out how. You want to guess who is PM now? You certainly May. And the Foreign Secretary is someone called Boris.

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Oh, and the US presidential election did not come up trumps for Hillary Clinton (again) and The Donald, that oddly-coiffured property developer off the telly, is about to move into the White House. The Italians also had a big referendum – their PM lost to a comedian called Beppe Grillo and he resigned too – while the President of France announced that he wouldn't be running again. Meanwhile, lowly Leicester City won the Premiership, Great Britain finished second in the Olympic Games, Andy Murray is the world's number one tennis player and Ireland defeated the All Blacks. Bob Dylan is the Nobel Laureate for Literature and scientists have discovered that the moon really is made of cheese.

OK, that last one I may have made up, but you get the picture. No one who had been “away” for the past 12 months would believe a word of what you told them. Six decades of post-war “certainty” seem to have disappeared at a stroke and the so-called Chinese curse that you may “live in



Donald Trump, President-elect of the United States

But is "interesting" necessarily a good thing?

What happened in 2016? Brexit. I will not go into that subject again (at least not this month!) but as a result, the Bank of England reduced rates again – they were halved to just 0.25%. This affects us directly in Gibraltar because we are bound by the same rates, regardless of the state of our local economy. I am not going to tempt fate by predicting the next move for rates, still less the timing of such a move, but they can only move higher, right? Let's see.

intersecting times" seems to have been fulfilled. But is "interesting" necessarily a good thing?

Sure, it is manna for the insatiable news channels and the slaves of social media but, from a financial perspective, the only certainty about uncertainty is that it is generally not a good thing – and especially not for the markets, be they trading in currencies, stocks or commodities.

As we start to implement our New Year (financial) resolutions, are we likely to experience another volatile year ahead that may well affect our own personal financial planning? I should add that what follows, dear reader, are my personal thoughts and conjectures and should never be considered as advice. Let us look at a couple of areas that are likely to be of continuing interest in 2017.

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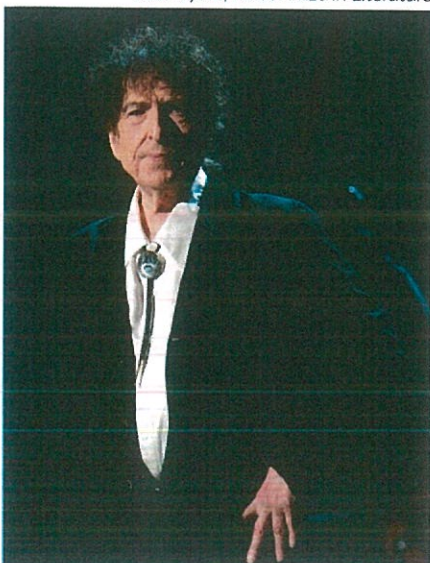
Interest rates are always my first consideration because they affect everyone, be they savers or borrowers. Last year, I was confident that interest rates in the UK were going to rise from their all-time low of 0.5%. After all, this record low rate had been in place since March 2009. Readers might recall that during the global financial crisis that struck the year before, the UK "base rate" had been reduced to a tenth of its previous value in just over six months. At the time, I cannot imagine many people expected the lowest rate of all time to persist.

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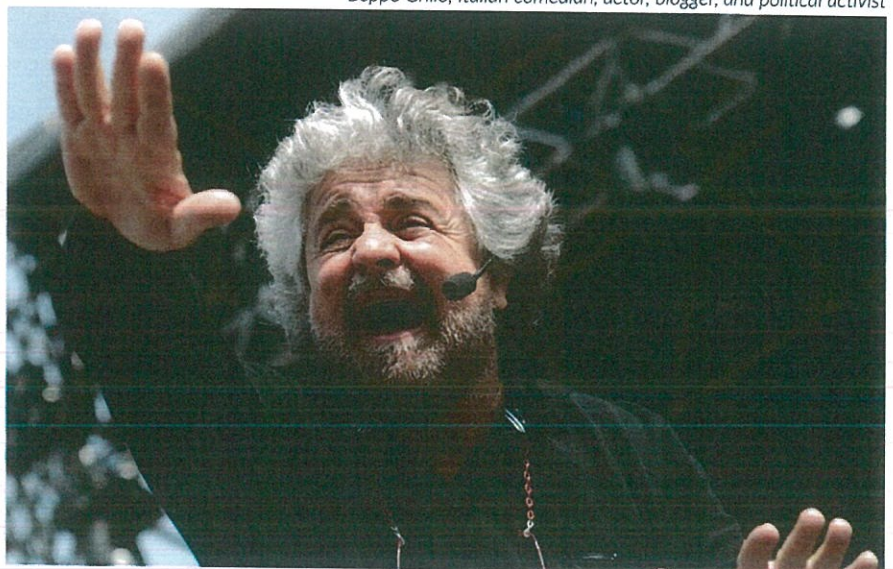
A thought does strike me though. Base rates set at just above zero have been with us for nine years. Most people under the age of 30 will not have borrowed money at so called "normal" levels – or, put another way, these super low rates are fast becoming the new "normal". If rates were to increase rapidly – perhaps as a result of a currency crisis – then borrowers, be they individuals, companies or governments will need to ensure that they can afford the increased cost of servicing their debts. Nobody wants to return to those dreadful days in 2008 when asset prices were falling in many countries as banks discovered that substantial parts of their lending portfolios were suddenly "non-performing" or "toxic".

The other side of the same coin (no pun intended) is the exchange rate. In much the same way that interest rates are important for most Gibraltarians – borrowers or investors – so sterling's value against other currencies (and the euro in particular) remains a constant issue. There are two sides to this debate and what augurs well for some as the pound rises or falls produces the opposite effect for others. Anyone employed in Gibraltar who lives or spends time in Spain will generally

Bob Dylan, Nobel Prize in Literature



Beppe Grillo, Italian comedian, actor, blogger, and political activist



welcome a rising pound (i.e. which buys more euro). Obviously, this becomes even more significant for substantial purchases such as property. The opposite is true for Gibraltar businesses importing goods from Europe or visitors to Gibraltar for whom a rising pound makes everything more expensive. So, the falling rate in the second half of 2016 has benefitted some and disadvantaged others.

My main concern as 2017 begins is that the uncertainty we have seen around the word in the past few years shows no sign of abating. International events could have enormous consequences for financial markets worldwide. January will see a new US administration installed and later in the year, important elections are scheduled in France and Germany. The political situation in Spain is still effectively in deadlock after two elections and a new, third election could eventually be needed. As I write, questions are also still being asked about a possible UK general election although this is not formally due until 2020.

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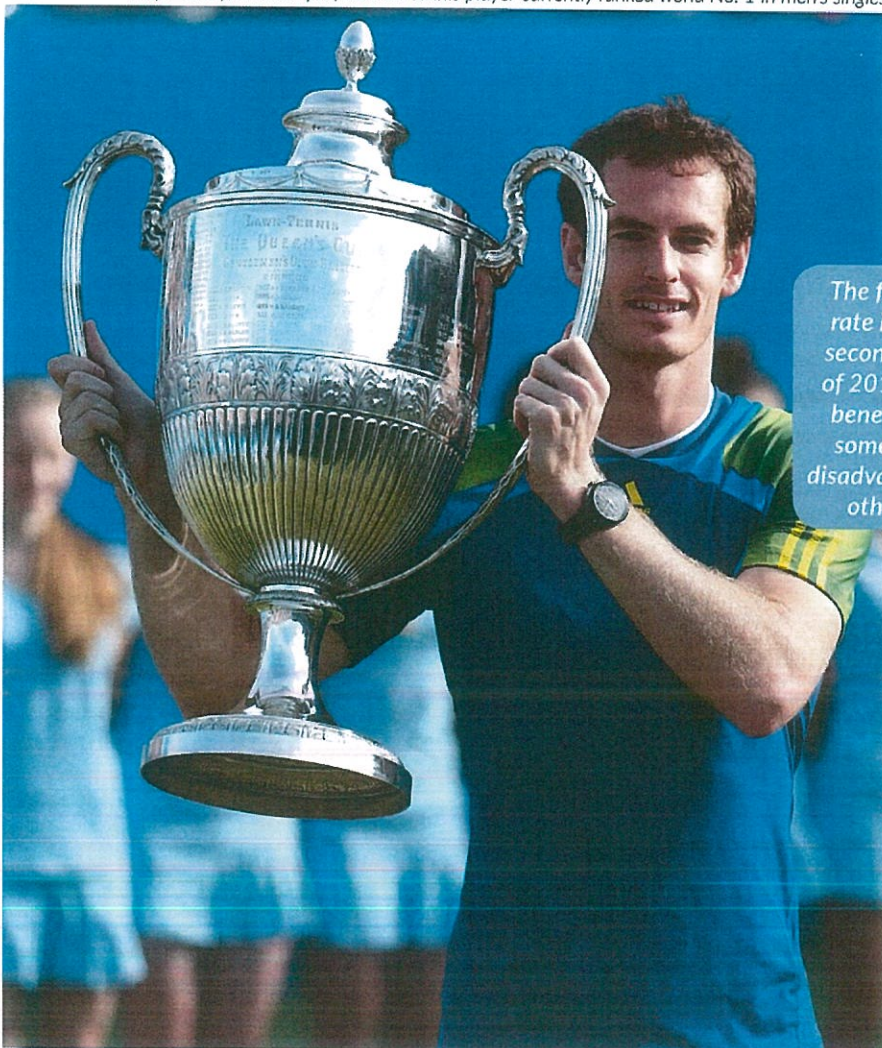
I wish all readers and their families a happy and prosperous New Year. I don't have a crystal ball but I predict that 2017 is likely to be just as

interesting – if not necessarily quite so surprising – as the year just gone. And I don't need a proverb, Chinese or otherwise, to back me up. Just keep watching the news.



Theresa May, Prime Minister of the United Kingdom

Andy Murray, Scottish professional tennis player currently ranked world No. 1 in men's singles



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