‘Sing when you’re winning, you only sing when you’re winning’

It appears that it’s not only Europe’s golfers that are in good voice today.

Alibaba has proved to be one of the largest listings in history and although only formed in 1999 is now valued at a similar value to Proctor & Gamble which was founded in 1837. This is a frightening reminder of just how transformational and disruptive the internet has been for business.

Everyone loves a winner and founder Jack Ma (singing above) told CNBC that there could be a tenfold increase in packages shipped within China in the next ten years. Furthermore, global fund managers are keen to play the long term shift within China from an infrastructure investment/export led economy to a consumer driven one. Take these factors, a strong global PR campaign and allocate shares to a select few and you have the recipe for a strong first day’s dealing with the shares rising 38%.

However, while Alibaba may be a compelling play on Chinese internet retailing, sadly this is not matched by corporate governance. The complex company structure prevented the company from listing in Hong Kong, and shareholders have virtually no say over the company, with control in the hands of Jack Ma and a handful of key employees, indeed he has said that shareholder interests would come behind that of customers and employees. In addition, the investment in Alibaba is via variable interest equity which in effect means a shareholder would receive profits from the company without owning the assets.

The select few global fund managers who were issued shares are no doubt feeling pretty pleased with themselves. However, we note that some veteran Asian fund managers did not participate in the float such as fund manager Hugh Young of Aberdeen Asset Management who said that the legal structure and corporate governance did not meet the fund management firm’s criteria for investing.

Which got us thinking….when things are going well and a share price is flying, corporate governance can seem trivial but when the wheels come off it can be a different matter. Tesco is a classic example where, from a corporate governance point of view, the wheels look to have well and truly come off…. the shopping trolley!

What are we watching this week?

Markets remain in a risk averse mood with subdued trading volumes following comments from the Chinese finance minister who said that his country’s economy faced downward pressure but that there would be no major policy changes in response to individual economic indicators. Copper and iron ore dropped, hitting the Mining sector. The UK Food sector was hit hard by profit warnings from both Tesco and Tate & Lyle. In the US, President Obama announced a crackdown on tax inversion deals which saw some of the speculative money flow out of various sectors. Geo-political tensions continued to focus minds with US air strikes against Islamist militants while there were reports that Moscow’s parliament was drafting laws to allow the seizure of foreign property on Russian soil as a reprisal for sanctions imposed by the West. To add to concerns there are also now pro-democracy protests in Hong Kong.
Despite this uncertainty global mega-deals are still taking place with Merck acquiring Sigma Aldrich for $17bn, Mitsubishi is acquiring Ceramq for $1.4bn and Siemens purchasing Dresner Rand for $7.6bn. On a smaller scale in the UK, Greene King confirmed it had made an approach to Spirit Pub Company.

In the UK, Labour’s party conference highlighted the introduction of a 50p in the pound top tax rate, mansion tax and tobacco industry fee should they win the next general election to help fund the NHS. Furthermore the minimum wage would be set at £8.

In Europe, the mood remains downbeat with the EU’s measure of consumer sentiment having dropped again in September. Elsewhere, the French flash September PMI manufacturing appeared to flag recession, coming in at 48.8 compared to a reading of 50.3 for Germany although this was a fifteen month low. The German Ifo Business climate index also dropped slightly below expectations suggesting that the German economy is no longer running smoothly. ECB President Draghi in a follow up to ‘whatever it takes’ re-iterated that monetary policy will remain accommodative for as long as necessary to push inflation higher. While this raises the chances of full blown QE we are mindful of ongoing Bundesbank reluctance. The different path of monetary policies in Europe and the USA was reflected in the Euro falling to a 12 month low against the US Dollar.

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US existing home sales saw an unexpected decline in August following four months of straight improvement. Orders for long lasting US manufactured goods dropped by 18% in August from the previous month although about in line with expectations with July having seen a huge surge in aircraft orders. Indicators from the US manufacturing sector remain mixed ahead of the first official reading on US Q3 GDP due at the end of October. Despite this the US Dollar hit a fresh four year high against a weighted basket of currencies as Fed member Fisher commented that the Fed may behind the curve with interest rate hikes.

In China, following the finance minister’s comments the HSBC flash manufacturing PMI eased some concerns, coming in at 50.5 in September ahead of expectations largely due to strong exports which were at a four year high. Chinese media reports also suggested that the four largest banks would relax mortgage policies to support the property market. Whilst this is in itself unlikely to stimulate the property market it might signal stronger government action is on the horizon.

Finally, at least there is one thing less to worry about this week. After all the disruption from the Scottish vote at least investors will not have to fret about Wales as referendum hopes there look to have been dashed by a poll showing support for Welsh independence at just 3%. Probably a relief given a lot of the UK’s gas supply this winter will be coming through Milford Haven!

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