This uncertain world

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Against a background of, dare we say it, unprecedented economic uncertainty, certainly unprecedented in the memory of many readers, one feature stands out as a stark certainty: globalisation.

As Leigh Hall commented in his presentation to the opening session of last year's conference of the Asian Securities Analysts Federation in Kuala Lumpur (see page 19): "Given the increased globalisation and liberalisation of world financial markets, liquidity can now flick in and out of markets at whim as never before."

Market users are continually on the hunt for the best return at whatever level of perceived risk is acceptable to them. And never before have they had such a smorgasbord of investments from which to choose. Domestic or international? Equities or fixed-income? Or a hybrid of the two? Fixed or floating? Hedged or unhedged? Simple vanilla product or a complex derivative? Direct investment or through a managed fund?

Investors enter this 21st century with greater choice and more knowledge about their choices than ever before. This gives them both freedom and responsibility, a burden shared by market operators, financial advisers and regulators. And the investors are there in far greater numbers: recent statistics from the Australian Stock Exchange revealed that Australia now leads the world in terms of the proportion of the adult population owning shares.

The cassandras have been quick to remark on the potential wealth effects of a savage downturn in the sharemarkets. That unwelcome possibility adds to the burden on regulators such as the Reserve Bank, faced as they are with managing the economy to maintain a balance between healthy and runaway growth, keep inflation at a desirable level and foster growth in employment (see page 6).

Add to this already heady concoction the specific one-off events contributing to uncertainties over the coming twelve months and it is clear why only a very brave person would dare to make a definite forecast.

So it is understandable that a panel of economists charged with gazing into 2000 and beyond, at a Securities Institute lunchtime seminar late last year, produced an unwonted element of consensus: this coming year is unusually hard to forecast (see page 14).

We have a wild card in the introduction of a goods and services tax and tax reform measures which will muddy the waters in terms of consumer behaviour and prices for several months either side of their arrival.

We have the staging of the Olympic Games in Sydney later in the year, another one-off event whose ripples have already made their mark and will continue to do so for months after the last of the athletes and spectators have departed this country.

We cannot ignore international developments but, for the most part, the global scene is not delivering additional worries to Australia; rather, in contrast to the previous couple of years, the international environment is relatively benign, rising oil prices and fears of rising interest rates aside.

A positive outcome of this is that it gives Australia a margin of breathing space to focus on domestic issues instead of being distracted by events overseas, as was the case in the wake of Asian crisis in 1998. That year closed on a note of genuine concern, even talk of a world recession, a fear that had lessened but still lingered early in 1999. Instability in emerging markets was very real, suggesting that 1999 was going to be another year of global financial uncertainty.

Instead, conditions stabilised. World growth improved. This year opened under the shadow of Y2K concerns but there was no looming crisis in global financial markets.

Yet the fickleness of markets remains and cannot be ignored or underestimated. The fortunes of the $A are a clear example. Our currency ended 1999 on a stellar note, much favoured by global currency markets. It was forecast to hit $US70 this year, backed by stronger economic growth in key economies. Six weeks later it was tipped as likely to find a level around $US60 or even lower.

Given the unpredictable nature of the dismal science of economics, it is appropriate that this issue of *JASSA*, the first in 2000, features a range of articles giving readers a choice of material on the global economic and financial developments that may or may not surprise us in the twelve months ahead. J