

# BACK TO BUSINESS

## MARKETS

### War-bound geopolitics have no effect on the world

**Global economies have bigger things to worry about than the actions of fanatical anarchists**

Richard Harris

The soccer World Cup in Brazil kicked off after a heated row about allegations of misconduct in the highest levels of football administration.

The moral of one of Aesop's Fables is that "a man is known by the company he keeps", and so far Sepp Blatter, the president of Fifa, soccer's governing body, has managed to lose most of the senior members of his committee, who resigned over allegations of corruption.

On the pitch, those who have won rejoice cautiously (as it is too early to celebrate), and those who have lost have blamed the managers, players, the press, the supporters and especially the referees.

Referees have disallowed at least two clear goals, awarded penalties that were not, missed those that were, and somehow avoided seeing off-the-ball incidents such as an elbow in the eye or a head-butt in the face that are not within the laws of the Beautiful Game.

Referees in narrowly fought matches are increasingly determining the result of the game. This is partly because Fifa, in its conservatism, refuses to allow the technology commonplace in most other sports, so we can see things 20,000km away in Hong Kong when they are not visible to the man with the whistle.

Investment forecasting implies interpreting a particular piece of news about a situation and extrapolating into the future. Applying this to football, could the obvious disunity in football administration mean that the man in the middle feels pres-

sured to blow in such a way that treats tournament darlings or villains differently? Could the human frailties of a referee turn it into an Ugly Game?

Forecasting the big news for the markets this week is dominated by the advanced encroachment into Iraqi territory of the Islamic State in Iraq and the Levant, also known as Isis.

This international crew of bandits revealed their true colours by massacring 1,700 young men who had surrendered, expecting more favourable treatment. It means that no Iraqi soldier is likely to surrender

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in the future, undoubtedly making their job harder.

Iraq is likely to break up for good this time – reverting to its precolonial tribal regions of Sunnis, Shiites and Kurds, and areas held by Isis.

There should be few better excuses for the markets to price off than murky war-bound geopolitics, combined with the throttling of oil supplies. But in fact, US markets are essentially flat, and in Hong Kong and mainland China, indices have gone up.

It is of course early days, and things may get worse, especially when you think that Isis is now

the most successful jihadist movement.

However, as in the World Cup example above, it is easy to build a scenario whereby we can become ultrabearish.

The lack of stock market reaction may be down to the fact that Isis are an international bunch of misconceived adventurers, misfits and extremists with little real affinity for the country and the people they are occupying. They are highly unlikely to be able to form an administration to govern the country.

Second, one of the mantras that I have observed in the market is that politics affects the markets short term but economics affects them long term.

In this case, the reduction of oil exports from Iraq will not be total, and our dependency on Iraqi oil is less than ever before. The news may be shocking and spectacular, but it has not yet strayed into economics.

The third factor is that maybe Iraq doesn't really matter. The West is moving from a policy of intervention towards a more practical, if indeed cynical, calculation of the politics of self-interest.

Perhaps it is preferable for the superpowers to allow instability to reign in global hotspots, as a nation riven with internal strife is less likely to threaten the status quo.

It is far worse to deal with a rogue state such as North Korea, Libya or Syria, with an overwhelmingly powerful leader than to live with a failed state. A rogue state can organise the full resources of a whole country to create mischief and threaten its neighbours.

As serious as the events in Iraq are, the Hong Kong market is primarily affected by China, and China is primarily affected by economic growth in the United States and Europe.

Tragic civil war in failed Middle Eastern states will only be of impact if the oil stops flowing. There are greater headwinds for our markets to face, such as the US losing momentum during sluggish summer trading and falling back, rather than the invasion of a troubled land by fanatical anarchists.

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Investors, like referees trying to cope under the glare of attention at World Cup, need to stay calm  
Photo: EPA