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BIG RISK FLASHPOINTS FOR 2015

Lord Mark Malloch Brown, the UN's former chief of staff, looks at the biggest flashpoints likely to affect markets before the end of the year.

A perplexed, inward looking US has become becalmed on the international stage by gridlock between a late second-term President Obama and a Republican Party majority in both the Congress and Senate, said Lord Mark Malloch Brown.

The former chief of staff at the UN added the result of such paralysis is a country that does not know if it wants to intervene internationally again and consequently is in danger of dropping off diplomats' speed dial altogether. This means regional players are more important today than they have been in the past. The US is preoccupied with its own problems so it looks to regions like Asia to be an inconsistent friend at a time when China is growing in power, he said.

Speaking at the BNY Mellon UK Investment Conference in March, Malloch Brown continued that while all of Obama's successors are keen to reboot and promise a more assertive US, American support for its former role as global policeman is at an all-time low. Meanwhile, risks abound on a global scale and have the potential to filter through to capital markets. So what are the big five risk flashpoints to watch out for in the remainder of 2015? Here Malloch-Brown gives his views:

A wider conflagration in the Middle East

Gone are the 'glory days' of just trying to fix the Israel/Palestine issue. Yet again troops are on the move in the Middle East with Saudi Arabia's announced intervention in Yemen which may prove a more difficult situation to extricate themselves from than their last such action in Bahrain .

At the same time Islamic State (IS) infects wider Shia-Sunni relations, and countries from Lebanon and Jordan to Turkey and Saudi Arabia come under internal stress as well as crisis in their international alliances. There is a re-ordering of state loyalties at play because of this inter-Muslim conflict.
The intelligence community estimates at least 1,000 new fighters are being recruited a month for ISIS from Europe and beyond. The hope then becomes can we kill them faster than they can recruit? That is a terrible political and human calculus. It also poses further questions over whether airborne responses alone without any effort on the ground can have serious unintended consequences.

Unsettled relations in China's backyard

Asia too has started to look troubled, as there have been extreme increases in military spending in the region. In 2013 most of the world's spending on defence went down, while only Russia and Asia went up. There was a 62% increase in Asian spending, which stemmed from China increasing its spending and others reacting to it. China has increased its defence spending by some 120% over the past decade and is set to increase by 12% this year. At the same time slowing growth and the corruption crackdown in China gives a real sense that there are choppy waters ahead for its domestic market.

Renewed crisis in Europe

There is the question of how the EU and eurozone can hold up to different economic variations in the north and south of the continent. The German-centred manufacturing hub of Northern Europe continues to show strength, while the Southern half of the continent is struggling with structural deficits that are hard to contain with a currency valued at the same level as Germany's.

It is hard to believe the Greece scenario will have a happy ending: Greek unemployment and living standards are such that it seems there is little choice but for Greece to fall out of the euro. If a Grexit occurs, combined with the real possibility of a referendum on UK membership of the EU, there could be a real knock-on effect with referendums to follow in other countries.

Russian aggression

For the first time in a generation here in wider Europe one neighbour has invaded the other: Russia into Ukraine. The respect for sovereignty and borders is under threat as Russia destabilises a neighbour because of the political direction it was taking. All this against a backdrop where Russia is rearming and the rest of Europe is struggling to bring its military spend back up to even 2% of GDP, the NATO commitment, because the level of will and ability is not present.

Yet, however popular Putin is in Russia, and he is very popular, there is an emerging middle class in the country that finds itself barred by his behaviour from being part of a wider community in Europe.

Humbling of the BRICs

While India and China still have good growth stories to tell, Brazil and Russia have fallen way off form. In Brazil the political movement demanding President Dilma Rousseff's resignation or impeachment is gathering strength. The core of the move against her is the scandal around Petrobras and massive corruption payments that have surrounded it.

The falling oil and commodity prices are in many ways linked to the slowdown in China and this is helping to create the perfect storm of political, business and economic crisis in Brazil. The 'R' from BRICs is not doing much better as oil and gas makes up 60% of Russia's exports and commodities make up the bulk of the rest.

However, the next acronym outside of BRIC is MINT (Mexico, Indonesia, Nigeria and Turkey). Could these by the next poster boys of emerging markets? Nigeria depends more on oil exports than Russia but so far it seems to have managed to rebalance its economy somewhat and now earnings from oil is a much smaller percentage of its GDP. Its politics, however, are fragile. But then the same could be said for the other three members of this grouping.

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