



Samsung Galaxy S III

EC NEWS Letter



Apple iPhone 5

ECONOMIC CONSULTANTS

News Letter 10 / 2012

Samsung vs. Apple II!

Monetary policy in turbulent times

Government Pension Fund Global!

Editor

Lars Johan Myrtroen,

01.10.2012

Government Pension Fund Global

Few nations have the luxury of having a national fund of some magnitude compared to the number of inhabitants. The Norwegian **“Government Pension Fund Global”** was established to build a reserve for future generations and to secure financial stability in Norway. As a rule the politicians agreed to spend only 4% of the yearly return, something that in the beginning sounded quite wise. Worth mentioning though is that the yearly return over time have not been very good. But still with oil revenues constantly growing and new reserves found all the time they have been able to add considerable amounts to the fund every year. The money derives from heavy taxation of the oil companies operating in Norwegian waters and national direct ownership.

Market value

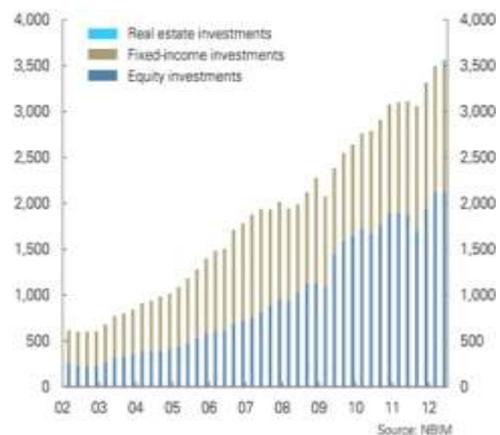
The fund’s market value rose 65 billion kroner to approximately 3700 billion kroner in the second quarter of 2012.

Equity investments had a market value of 2,122 billion kroner, while the value of fixed-income investments was 1,428 billion kroner. Investments in real estate had a market value of 11 billion kroner at the end of the quarter.

The market value is affected by investment returns, capital inflows from the government and exchange rates. The fund returned -77 billion kroner in the quarter and received 72 billion kroner in new capital from the government. A weakening of the krone against several major currencies boosted the market value by 70 billion kroner.

Current value is approximately 3.725 billion and you can follow the development 24/7. If interested in following check out <http://www.nbim.no/>

One can always argue and discuss political decisions, but the truth is that consensus has been among all parties that this has been a good way. So with that in the back of your mind you perhaps will find it interesting to read what the Governor of “Norges bank” has to say.



Monetary policy in turbulent times

Address by Governor Øystein Olsen.

“Central banks the world over are now conducting monetary policy in what must undoubtedly be called turbulent times.

My address will focus on how and why new tools of monetary policy are being deployed internationally and our response to these developments in Norway. The economic situation here is quite different from that of surrounding countries and we have been able to operate within the established monetary policy framework.

Growth in the global economy has been weak since the 2008 financial crisis and has affected some countries more severely than others. Countries with large imbalances when the crisis began are now facing formidable challenges. The imbalances have been self-reinforcing. Higher pricing of risk has resulted in increased yields on the government bonds of countries with a high level of debt. Fragile government finances have become even weaker. A decrease in the value of government bonds has also generated uncertainty concerning the position of banks. Banks have had to consolidate their balance sheets and have curtailed lending to firms and households, amplifying the decrease in economic activity. Heavily indebted countries are now working to make banks more robust and strengthen government finances. Cost competitiveness must be restored. The road will no doubt be long and arduous. But the situation across countries differs considerably and is reflected in wide yield spreads. Investors now demand substantial premiums for investing in less safe assets. Capital is seeking safe havens, even though real returns on presumably risk-free investments are low or negative. Wide yield spreads may persist for a period – it takes time for countries to restore competitiveness and build up stronger balances, particularly when growth is also weak in other regions. Substantial economic imbalances in Japan and the US also need to be redressed. Turbulence and bad times in Europe are now dampening activity in these countries and in emerging economies. This situation has led to the emergence of new forms of monetary policy in many parts of the world. Interest rates have been low –

close to zero – for a long period. The Federal Reserve has indicated that the federal funds rate will most likely be exceptionally low at least until mid-2015. In the event, the US key rate will have been close to zero for almost seven years. As key rates cannot be lowered further, several central banks have decided to apply other methods. The methods fall into two main types:

The first method relates to communication. Statements concerning the future central bank key rate are being employed as a new monetary policy tool. Here at Norges Bank, the application of this method is not new – the interest rate forecast has been published by the Bank since 2005. The aim is to influence interest rate expectations and thereby contribute to achieving the objectives of monetary policy. The Federal Reserve has published board members' expectations of when the first key rate increase will take place since January 2012.

The second method is known as quantitative easing, or balance sheet policy, and consists of measures to change the composition and size of central bank balance sheets. This use of the balance sheet differs from the usual monetary policy operations in that instruments other than the key rate are used to influence market rates and economic activity. Traditional monetary policy operates through the commercial banking system: it influences the economy because banks let their interest rate conditions in the central bank pass through to their customers. Moreover, liquidity management is used to keep short-term rates close to the key rate.

In countries where the key rate is close to zero, this instrument has been exhausted. At the same time, the effect of the key rate may be weaker than normal as many banks are consolidating and are reluctant to engage in lending. Using balance sheet policy, the central bank seeks to influence longer-term interest rates and thereby funding costs in a more direct manner. Purchases of government or private sector bonds are intended to depress yields and push up securities prices – the so-called portfolio effect. Studies from the past three or four years indicate that the portfolio effect has been in operation in both US and UK markets – bond prices have increased and long-term yields have fallen as a result of quantitative easing. The aim is to achieve lower long-term yields in order to boost lending and investment. In addition to the portfolio effect, the new use of the balance sheet can have a signal effect: central banks that engage in large-scale purchases of securities to pull down long-term yields are sending a signal that the key rate may be kept low for a long period. In this sense, balance sheet policy also contributes to anchoring expectations and supporting monetary policy communication. It is not easy to say what the situation would have been without these measures. However, it is likely that central bank bond purchases have curbed the decline in output in the UK and the US. These measures, by their nature, have an impact on central bank balance sheets – in terms of both size and composition. When a central bank purchases government bonds, it pays for the bonds with new electronic money. The money ends up as increased bank deposits at the central bank – also known as

central bank reserves. This strengthens banks' holdings of liquid assets and may induce them to increase lending. The pricing of government bond holdings in the private sector is also affected. Private sector bond purchases can ease funding conditions for firms more directly than purchases of government bonds by depressing interest rates on private sector market funding. As with government bond purchases, central bank reserves also increase in this case. The latest measure implemented by the Federal Reserve, known as QE3, is a plan for the purchase of mortgage-backed securities.

A third form of balance sheet policy is interventions in the foreign exchange market. Central bank foreign exchange purchases are also balanced by an increase in banks' deposits in the central bank. In September 2011, the Swiss National Bank decided to announce a minimum exchange rate, a floor, for the Swiss franc against the euro owing to the substantial appreciation of the Swiss franc. Interest rates and inflation in Switzerland were close to zero and growth was low. According to the Swiss National Bank, a further appreciation could have resulted in a recession with deflationary developments. In order to defend the floor, the Swiss central bank has purchased foreign currency in large quantities. This has led to a considerable expansion of its balance sheet. The chart shows the wide swings in central bank balance sheets since the 2008 financial crisis. Expansion of central bank balance sheets has been particularly rapid in the UK, the US and Switzerland and somewhat more moderate in the euro area.

As mentioned earlier, the purpose of balance sheet policy is to stimulate the economy by lowering interest rates and funding costs in a situation where the key rate is close to zero. Central banks themselves emphasise that the positive effects of balance sheet policy are uncertain – and the effects must be weighed against possible problems. There are four factors that can be highlighted here:

First, it may be difficult for central banks to exit the markets once they have built up large bond holdings, and this would require considerable portfolio adjustments for households, firms and banks. Postponing a reversal of the measures could generate expectations that interest rates will remain very low for too long a period after the economy has recovered. This could in turn generate expectations of high inflation further ahead. Indeed, the connection between inflation and the money supply constitutes the second challenge. When a central bank purchases securities or provides longer-term loans to banks, the monetary base, i.e. banks' deposits at the central bank, increases. There is no direct relationship between the monetary base and inflation. The risk of inflation can only arise if growth in the monetary base coincides with an increase in the broader monetary aggregates through higher customer deposits in banks. For the broader monetary aggregates to increase, banks must increase lending or purchase securities from enterprises outside the banking sector. Since the crisis in 2008, the monetary base in Europe and the US has grown considerably more rapidly than the broader monetary aggregates. The risk of

high inflation in such a situation should be viewed in the context of central bank exit strategies. In the future, central banks will want to reverse the extraordinary measures that have resulted in substantial growth in the monetary base. This will normally be done when the crisis is over and the economy is recovering. Third, the large sums of money involved may also affect exchange rates. Even if central banks do not intervene in exchange markets directly, the measures may in the short term reduce the value of the currency issued by a central bank. This will, in isolation, strengthen exchange rates in countries that were initially less severely hit by the crisis. Small, open economies can be vulnerable to large capital movements when powerful instruments are deployed by large countries. A possible side-effect of balance sheet policy is that the private sector also takes longer to strengthen equity capital and reduce risk than it would otherwise have done. With the low price of capital, it costs little to postpone restructuring and put off debt repayment. Finally, confidence in economic policy may be affected. The dividing line between monetary and fiscal policy seems to be more blurred. Balance sheet policy may dampen the effects of market volatility on interest rates and give heavily indebted countries a breathing space and time to adjust. On the other hand, the measures may also reduce the incentive to carry out necessary fiscal tightening.

In the euro area, different considerations are now being balanced in the new "Outright Monetary Transactions" (OMT) programme.

Under this programme, the European Central Bank (ECB) may only purchase bonds from countries that have entered into a loan agreement under the European Financial Stability Facility (EFSF) or the European Stability Mechanism (ESM) – which in turn is conditional on a commitment to fiscal tightening.

One reason for the ECB's decision to establish the OMT programme is the partial breakdown of the monetary policy transmission mechanism in the euro area economy. There are wide differences in interest rates facing banks and firms across Europe. Although the same key rates apply to all the euro area countries, average corporate borrowing rates differ widely from country to country. Some of the variation is due to differences in credit risk across countries owing to very different economic situations. Additional risk premiums may reflect fears that one or more countries might at some point have to replace the euro with a new local currency. ECB President Mario Draghi has referred to these as convertibility risk premiums. One of the objectives of the OMT programme is to reduce this premium and restore the proper transmission of monetary policy.

The OMT programme can be regarded as an answer to the signs of financial market fragmentation in the euro area. Differences in financial conditions across countries have become considerable and the willingness to provide loans across national borders has declined. The same picture is reflected in the so-called TARGET2 balances. TARGET2 is the central interbank settlement system in the euro area. In all countries, interbank payment settlement is carried out by the national central bank. One bank's payment

to another is settled by adjusting the two banks' deposits in the central bank. Central bank reserves are the means of interbank payment. In the euro area, interbank payment settlement takes place in two stages: banks have their settlement account in the national central bank, while each country's central bank has, in turn, an account at the ECB. If, for example, deposits are transferred from a Greek bank to a German bank, the Greek bank's deposits in the Greek central bank are reduced, while the German bank's deposits in the Bundesbank increase by the same amount. The Greek central bank's debt to the ECB increases in turn, while the Bundesbank's claims on the ECB increase accordingly. Such changes in claims and liabilities are expressed in the TARGET2 balances.

In a well functioning market, the bank that had drained its central bank reserves would borrow to replace them in the interbank market, balancing the transfer described above. Imbalances in TARGET2 are a symptom of an interbank market that is not functioning efficiently between all countries in the euro area. If banks in the north are no longer willing to lend to banks in the south, the southern banks must meet their need for reserves by borrowing directly from the central bank. The northern banks increase their reserves at the central bank accordingly. In addition to increasing the claims in the TARGET2 system, this inflates the Eurosystem balance sheet. The central banks are the hub of the system and are required to receive deposits from areas where banks have a surplus of reserves and extend loans to areas where banks as a whole need more funding.

Imbalances between countries in the TARGET2 system give no indication of who will bear the losses if a bank defaults and the value of the collateral posted is not sufficient. Any losses are allocated among the participating national central banks according to their relative shares in the ECB's paid-up capital.

To sum up the international picture: over the past year, growth prospects have been lowered for all the large advanced regions. In Europe, activity is likely to decline this year owing to debt problems and fiscal tightening. Unemployment is on the rise. Fiscal and monetary policy space is limited, or virtually exhausted. Many countries must tighten fiscal policy to reduce debt to a sustainable level. Central banks have responded by communicating that interest rates will be held low for an extended period. And they have stretched the limits of monetary policy to counteract a deeper and more persistent downturn.

The economic situation in our external surrounding environment stands in contrast to that of Norway. Domestic activity is particularly high in the oil industry and construction sector, and both employment and the supply of labour are on the increase. Unemployment remains low and stable. Public finances are healthy. Norway's terms of trade are favourable, with high export prices and low import prices. At the same time, house prices and household debt are still rising. Nonetheless, the Norwegian economy is not unaffected by the turbulence abroad. Developments in Europe and a strong krone exchange rate are adversely affecting some Norwegian

export industries, such as the paper, metal, and furniture industries.

While other countries have used non-traditional instruments, we have managed to come through by using our main instrument – the key policy rate – which is now 1.5 per cent. It is low because inflation is low and because adverse conditions abroad are curbing growth in a number of industry sectors in Norway. Very low interest rates abroad and high risk premiums in money and capital markets underpin this picture. Norges Bank's conduct of monetary policy is geared towards low and stable inflation. The operational target of monetary policy is consumer price inflation of close to 2.5 per cent over time. At the same time, monetary policy shall contribute to stabilising output and employment. We also give weight to the risk that low interest rates may over time lead to excessive risk-taking and debt accumulation in the household and business sector. Such imbalances can give rise to negative ripple effects further ahead, with a considerable impact on output and employment.”



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iPhone 5 vs. Galaxy S III

Design: Visibly seeing a huge size disparity between the two, the iPhone 5 is undoubtedly easier to grasp in the hand, seeing that it is lighter in weight, skinnier in frame, and not as cumbersome to hold in the hand as the Galaxy S III. In addition, it is quite evident that the iPhone 5 is the more premium looking device between the two, as it sports a brushed aluminium rear casing and a sturdier construction. However, there is no doubt in our mind that the Samsung Galaxy S III would probably handle a fall a lot better than its rival – mainly because its plastic body wouldn't be as badly beaten up.

Below their displays, there are physical buttons that get us back to their respective home screens – though, one is raised while the other is recessed. Nevertheless, there is not one that is more advantageous since the necessary tactile responses are there.

Looking around the sides of both handsets, they share many common elements – like their 3.5mm headset jacks, microphones, power buttons, and volume controls. However, the Samsung Galaxy S III employs a more universally favoured microUSB port, which offers video-out with the aid of an MHL adapter, while the iPhone 5 sticks to Apple's newer proprietary Lightning docking port.

Sizing up evenly to one another, these flagships bear the same count 8-megapixel auto-focus cameras with LED flash, both of which can shoot 1080p videos of course. Meanwhile, Apple's beauty sports a front-

facing 1.3-megapixel snapper, while there is a 1.9-megapixel one on the Galaxy S III. So far, it looks like an even match, but we will compare the qualities of the two a bit later on. After spending some time meticulously detailing their intricacies, it is still a difficult call on which device has the better display. With the Samsung Galaxy S III's 4.7-inch HD 720 x 1280 Super AMOLED display, we love it for its larger size and saturated colours, while the iPhone 5's 4-inch 640 x 1136 Retina Display wins for its better visibility outdoors and exceptionally accurate colours. Sure, the Retina Display of the iPhone 5 coughs up the higher pixel density of 326 ppi, versus the 306 ppi figure with the SGSIII, but in all honesty, it is negligible since they are both soundly detailed. Since they both flaunt great viewing angles, it ultimately comes down to colours for this one. Being an AMOLED panel, the SGSIII exhibits cooler tones that tend to cast a bluish hue to the colour white, while the iPhone 5 produces colours that are very natural in tone – so it is simply a matter of preference.

Interface and Functionality: Android versus iOS, what else more can we say about that? Here is the thing, if simplicity and ease of use is more important to you; there is no question that the iPhone 5 delivers the goods with that. Otherwise, if you care more about personalization and better sharing functions, the Samsung Galaxy S III will win you over. As much as we appreciate the intuitiveness attached with the iOS 6 experience on the iPhone 5, it lacks the completeness and comprehensive features found with the TouchWiz Nature UX experience with the Galaxy S III. Sure, they

both have their own voice assistant service, but the Galaxy S III benefits more with tertiary features like S-Beam, SmartStay, Pop Up Play, and not to mention the various gestures in play with the platform. All in all, there's a lot more found with the SGSIII experience. At their core, the various organizer apps on both handset function in pretty much the same manner – albeit, we prefer the more stylized look of the apps on the SGSIII. Regardless, when it comes to email functionality, the SGSIII is undoubtedly the preferred handset, as the Gmail app provides for one very close desktop-like experience. Even more, there are other small features with the SGSIII that make it more scrumptious – like its “select all” feature with emails. When it comes to typing us lengthy messages with their respective keyboards, we find them more than point for the job. Of course, the SGSIII keyboard layout is more spacious than its rival, but the fantastic auto-correct feature of the iPhone 5 enables us to type faster with its keyboard. Then again, there are always the swiping gestures in play with the SGSIII keyboard that some people will appreciate. Either way, both are more than equipped in this area.

Processor and Memory: On paper, the Samsung Galaxy S III will get more nods with its 1.5GHz dual-core Qualcomm Snapdragon processor with 2GB of RAM (quad-core Exynos with 1GB RAM for the international version) – whereas, the iPhone 5 seems ill-equipped with its 1GHz dual-core Apple A6 processor with 1GB of RAM. However, when it comes to real world performance, the iPhone 5 exhibits the cleaner and more fluid performance with various operations.

Well, the Galaxy S III still displays one responsive performance as well, but it doesn't match the iPhone 5's level of finesse. Then again, there is not much of a challenge with the static home screen look of the iPhone 5, where in contrast, there are numerous graphical elements in play with the SGSIII home screen.

With the various models out there, both smartphones are available in 16GB and 32GB capacities, but the iPhone 5 has a 64GB version as well – while the Galaxy S III can supplement its storage thanks to its microSD card slot.

Internet and Connectivity: Packing 4G LTE connectivity for the ride, the playing field is now even with these two beauties, as complex web sites are able to load in no time at all. Moving onto the performance of their respective web browsers, again it is the iPhone 5 that exhibits the more fluid navigational controls, but it is not by much, as the SGSIII is still smooth with its executions. However, if you are able to download the Adobe Flash Player for the SGSIII, you will be treated to a close desktop-like experience. Considering there are many different versions of the two handsets to support various carriers around the world, you won't have much of an issue finding one that'll work abroad – in addition to working domestically. Meanwhile, the two also share 4G LTE connectivity, but as usual, there are numerous versions to cater to each network carrier. Being high-end devices and all, it doesn't surprise us to find them sharing many similar connectivity features – such as aGPS, Bluetooth 4.0, 802.11 a/b/g/n Wi-Fi, and mobile hotspot.

However, the Galaxy S III comes equipped with NFC, making it more ready for mobile payments – plus, quick and easy sharing thanks to its S-Bean function.

Camera: After carefully combing over the shots we captured with both handsets, there's not one clear winner when it comes to the quality of their outdoor shots – simply because they are frankly acceptable in many ways. Especially worth noting, the SGSIII tears apart the competition with its useful set of camera modes, features, and manual settings – like Burst Mode, Share Shot, and Buddy Photo Share. Specifically, the two exhibit plenty of detail and a fair amount of exposure to make them likable, but there is a slight hint of over-saturation with the SGSIII shots. However, the iPhone 5 is able to show its superior control with shots taken in low lighting, as it maintains a good level of detail, more natural colours, and better adjustment with exposure – whereas the SGSIII shots appear darker in tone and with softer details. Therefore, in terms of their all-around performance, the iPhone 5 has the advantage. At the same time, it is also a difficult decision for us to adamantly specify which of the two coughs up the better 1080p video recording quality. To tell you the truth, their recordings are absolutely dreamy in so many ways. From their superb details to their smooth capture rates, there is no question that these two handsets are more than ideal to capture the moment. However, after taking a closer look at the two videos, the only blemish that stands out to us, is the miniscule amount of artifacting going on with the Galaxy S III, as it quickly pans. Still, it is

hardly evident and does not prove distracting in any way.

Multimedia: No arguing about it, the music players on both devices are appreciable for their spiffy presentations – so yeah, we are attracted to both the iPhone 5's cover flow mode and the Google Play Music's cool 3D carousel. Speaker-wise, the two perform admirably with their quality, as they exhibit pleasant tones with no evidence of crackling or distortion at the loudest setting. In particular, television sets with bright and large displays tend to capture more attention – and that is the case here with this comparison. Even though the two are able to play high-definition videos with no problems at all, it is simply the huge display of the Samsung Galaxy S III that captivates us. Furthermore, we truly appreciate the SGSIII's "Pop Up Play" feature, which overlays the video we're watching on top of anything.

Call Quality: Aside from the fantastic noise-cancelling performance of the iPhone 5, these two lovely devices perform on the same level with call quality. In general, conversations are easily handled on both ends of the line, resulting in one acceptable performance.

Battery: Running off Sprint's 3G EV-DO network, we are able to handily get through a solid one day with our normal usage – mostly comprised of web surfing, emailing, texting, and a few phone calls. Unfortunately, Sprint's LTE network is not up and running around our parts, however, it is almost certain that it will no doubt drain the batteries of these two very

quickly. When it comes down to it, they parallel each other in this department.

Conclusion: As history tells us, Apple's flagship will no doubt sell very healthily during its reign, even despite the horde of competition that is always on the prowl. However, it is coming after Samsung's very own flagship in the Galaxy S III, which as we have witnessed, has proven itself to be a viable competitor in the landscape. From head to toe, there are plenty of remarkable elements that make us love both phones wholeheartedly. But when we combine all of the necessary aspects to make a device appealing to a geek's heart, like their specs, performance, wow factor, and software experience, it seems as though the Samsung Galaxy S III has the goods to stand out just a tad bit more. Even though its looks might pale in comparison to the chic styling of the iPhone 5, the Samsung Galaxy S III is able to closely match Apple's pride and joy in many categories. Ultimately, it is the TouchWiz Nature UX experience and its extensive set of functionality that makes the SGSIII the more productive and complete handset between the two. Meanwhile, though, the iPhone 5 remains the best device for users who just want a good-looking handset with great performance and a very easy-to-use mobile operating system.

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