



February 28, 2011 Where are Asian Markets Headed?



Q: Let's start with the Emerging Markets. Countries like Indonesia, India and Thailand were really the darlings of 2010. But now about 20% of the investment from last year has already been pulled out in outflows so far this year. What's causing the nervousness among investors?

What you've seen just now is the unwinding of the carry trade as people get more optimistic about the US economy. They think that interest rates in the US are going to rise very fast, probably in the 4th quarter of this year. But I think that's probably a little bit over-optimistic.

Q: We've been getting some good data out of the US but do you think that there are good fundamentals there and this will carry through?

There are good fundamentals in terms of corporates, but I think there are significant headwinds as well. You still see households deleveraging, house prices are still falling, and I think people are over-optimistic that unemployment is going to come back down. You will see further improvement on the unemployment rate, but I think it's over-optimistic to expect that the Fed is going to start raising rates.

Q: Do you think there's going to be a jobless recovery for quite some time in the US?

Indeed. You will get more signals to confirm that later on this week when the Humphrey Hawkins testimony happens, and the payroll numbers that come out later this week. But probably I think the scenario is that the Fed is going to err on the side of not raising rates, given that fiscal tightening is going to happen anyway as they start to cut spending.

Q: Let's talk about the high price of oil and high price of food in so many of the emerging markets. Food inflation is such a big headache for China, India and several other emerging markets, a lot of countries are taking steps like helping some of the people with subsidies, helping farmers with subsidies, India banning export of onions for example. They are taking steps. How long do you think these problems will last? Do you think the government really can get a control on this?

I think they are here to stay. I think the food prices were already at a record high even 6 months ago, whether you look at sugar, coffee or wheat. The one good thing is that rice is not part of this commodity cycle, but it is part of the overall food basket of Asia Pacific. What countries in Asia are really scared of, is that food and oil prices feed into domestic inflation, which is happening, and that leads to unrest at the consumer level. They will try their best to stem the food price increases by giving subsidies, by giving more handouts from the budget which are coming. But it is a source of concern for all the countries in Asia.

Q: So, are you saying that with those subsidies that some of their steps taking, they are just very limited because you think this is going to be a continuing problem? Is it out of the control of the government?

To certain extent, food and oil is nothing that the Asian countries can control. India for example, imported a lot of its oil. What they want to avoid is the situation that the prices domestically rise dramatically. So, by preventing export from happening they will hopefully be able to offload some of the materials domestically to keep prices stable. But it is out of their control.

Q: Finally, about the companies in general, many of them are cash rich. Where do you think they are actually going to look for investments?

People are going to wait for the demand to pick up before to start investing in capital expenditure. They are sitting on their cash. They are very cash rich. They might share do buy-backs but to really spend on capital expenditure, they really need to see the demand coming through worldwide.