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How growth issues in the US will affect Asia



Q: Let's talk big picture first. We are seeing moderation in global growth these days. What do you foresee for the global economy for the rest of the year?

There are a lot of optimists out there, who believe that asset price deflation has actually eased, and business and consumer spending will drive the global economy out of recession. I am a little bit more cautious. I think there are significant headwinds in the global landscape, which will prevent us going back to a normal recovery again. We will see moderate growth, but not we are not over the hill.

Q: Let's talk about different regions. First of all, the US. It's widely expected that the Fed will stop QE2 at the end of June. There is a lot of concern that the effect this will have in the bond market. What do you think will happen and how will the end of QE2 affect Asia?

There are a couple of things here. The US desperately needs to come up with a plan to solve their debt problem, and that is concerning a lot of investors. Instead of having a crucial plan where they are able to take the difficult decisions, I think they will postpone the decisions to beyond the US election, which means that we will still be in a situation that the US dollar will continue to depreciate, there will be a loose monetary policy, and that will drive up currencies in Asia Pacific.

Q: So you think the interest rates out of the US will remain low, and what kind of effect will that have in terms of liquidity and investments abroad?

I think inflation is moderating. You've see that headline inflation has peaked. Core inflation probably still has another 6 months to go, but particularly in Asia the crucial part is food inflation. China and India are the two areas of concern where this still remains high. So interest rates in these countries will continue to head up over the next 6 months. But in the other countries as oil

prices moderate, and food production is better than it was last year, we expect the problem to be tamed in the next 6 to 12 months.

Q: You mentioned the debt problem in the US. There is political posturing going on, on whether the debt ceiling will be raised. Do you really think that the US will default on its debt?

It's unlikely. The US dollar is a fiat currency, so if worse comes too worst, they can just print more money. They will never technically default, but the scary part is if they don't really take any concrete measures, and simply print more money, then investors don't really have a reason to buy US Treasuries any more.

Q: Let's talk about the Euro-zone crisis. The EU is now saying it will follow in the footsteps of the IMF, saying that it will not give Greece its next tranche of aid, if Greece doesn't get its act together. If Greece defaults, what would the ripple effects be, and how would it affect this region?

The biggest fear for the EU is that a Greek default will start a contagion which will affect all the other countries, and that's the primary reason the EU leaders are trying to prevent a default scenario. There are only two ways out of this -- either they keep financing Greece for a long time, which is politically very difficult, or they force Greece to take the bitter pill to reform their economy.

Q: We are also hearing from officials at the IMF and the EU that they do not want to restructure the plan for Greece. So is that totally out of the question?

At the end of the day, it is going to be a restructuring. You can call it by a different name, be it an asset price sale or a soft restructuring, but at the end of the day, the investors who are currently in Greek debt, stand to lose a certain percentage of their money.