March 19, 2012
Markets look ahead

Q: China is experiencing a slowdown. How are they coping with it back home?

Well, it's a difficult balance. On the one hand, they have tightened monetary policy last year to curtail the rising property prices and inflation. They have done that relatively well. The risk now is on the other side that they have tightened too much. So for the moment what they are going to do is to loosen monetary policy to try and increase growth and try to stir domestic demand. But it is a long way to go for that. It doesn't happen overnight.

Q: You mention house prices. House prices are dropping and some data came out that saw further drop. Wen Jia Bow came out last week saying that the drop needs to be more. House prices are still too expensive. How does the Chinese government balance inflation with growth?

It's purely a question of monetary policy. I think a growth of 7.5% instead of 8% is not significant in the sense of slowing down, but it's the direction that is more important. China has to re-balance its export led model to a private domestic demand growth model and at the same time not having a hard landing, and encouraging domestic demand by pro-active policies. So, it's a very difficult balance to go through over a number of years.

Q: What does it mean for the rest of Asia? I can only assume that a number of countries that rely on export are going to hurt.

Manufacturing is not going to move out of China any time soon let's be clear about that. So whenever China slows down, it's going to impact Asia negatively. China is a significant customer for the rest of Asia according to all the statistics that have come out. When China slows down, all the rest of Asia also slows down.

Q: China's sliding down, the same as the US. We had data last week with 15 of the 19 top banks were able to pass the stress test. Is it positive looking at the US? Or, we are getting a little bit of ahead of ourselves?

All data that's been coming out over the last 6 months has been positive, whether it is jobless claims or manufacturing or production. But we have been here before last year. There are still three very big risks out there for the US economy. One is that they are not in a position where they can loosen fiscal policy. Fiscal fighting is going to happen next year and that's going to detract from demand. The consumer is going to de-lever over the next few years, so you can't have the consumer lead recovery that has traditionally happened in the US. Oil prices can spike any time, and that can stall the budding economic recovery that is happening right now.

Q: Last week oil was up to $126 a barrel. Christine Lagarde in Beijing said that yes the global economy is growing but oil prices could cause a real problem as far as global growth is concerned.

Absolutely, that is the big wild card out there, which is why you've seen Saudi Arabia make noises that they are prepared to increase output. The fact that the US is saying that they are prepared to use the strategic reserves of oil, shows that they are conscious of the oil price. But at the end of the day, if there is a potential conflict, oil prices will spike. It's going to hurt both the US and Europe especially the peripheral economies in Europe. In Asia there are only two economies which are exporters of oil that is Malaysia and Vietnam. So, everyone gets hurt if oil price goes up.