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Asia Insight

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MARKET REVIEW

The MSCI AC World Index fell 2.4% in June. The MSCI Japan Index slipped 1.7% while the MSCI Asia ex Japan Index dropped 3.7% with index heavyweights China (-5.6%) and Korea (-4.3%) weak. Indonesia (-7.2%) and Malaysia (-5.2%) faired poorly. By sector, consumer staples (-1.9%) held up well.

All returns above are stated in US Dollar terms.

SUMMER BLUES

So the end game nears in Greece. Default, in one form or another, has been inevitable for several years. Hardly surprising for a country which has spent 90 of its 193 year history in default on six separate occasions (according to Wikipedia).

The Bank for International Settlements media briefing given by Claudio Borio (which accompanied their 2015 annual report) is, in our humble opinion, a *must read*. Unlike most other international financial agencies the BIS has consistently questioned the merits of QE and the accompanying increase in debt. The most relevant comments are quoted below;

"Debt burdens and financial risks are still too high, productivity growth too low and room for manoeuvre in macroeconomic policy too limited. The most visible symptom of this predicament is the persistence of ultra-low interest rates. Interest rates have been exceptionally low for an extraordinarily long time, against any benchmark. Moreover, the negative bond yields that have prevailed in some sovereign bond markets are simply unprecedented and have stretched the boundaries of the unthinkable."

"Persistent exceptionally low rates reflect the central banks' and market participants' response to the unusually weak post-crisis recovery as they fumble in the dark in search of new certainties. The rates are a vivid reminder of the extent to which monetary policy has been overburdened in an attempt to reinvigorate growth. They have underpinned the contrast between high risk-taking in financial markets, where it can be harmful, and subdued risk-taking in the real economy, where additional investment is badly needed. And in the longer term, they risk weakening the financial sector and economic activity, by hindering rational investment decisions and entrenching debt dependence."

"For some time now, policies have proved ineffective in preventing the build-up and collapse of hugely damaging financial imbalances, whether in advanced or in emerging market economies. These have left long-lasting scars in the economic tissue and have complicated global rebalancing."

"Seen from this angle, the very low interest rates that have prevailed for so long may not be "equilibrium" ones, conducive to sustainable and balanced global expansion. Rather than just reflecting the current weakness, they may in part have contributed to it by fuelling costly financial booms and busts and delaying adjustment. The result is too much debt, too little growth and too low interest rates. In short, low rates beget lower rates."

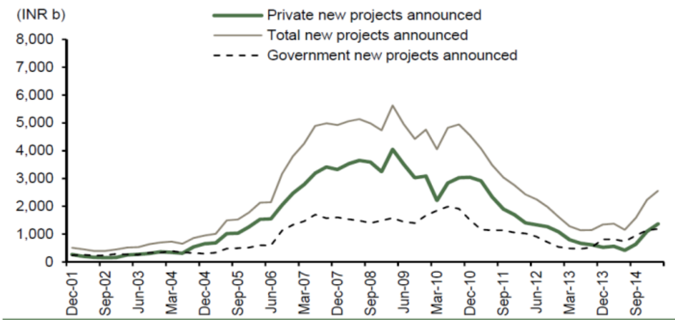
https://www.bis.org/publ/arpdf/ar2015e_tcintro.htm

CHINA - CUTTING RATES AGAIN

Last weekend the PBOC cut interest rates and reduced the RRR for selected banks. Market commentary suggested that this action was prompted by the 19% decline in the CSI 300 Index between the 8th and 29th of June but of course they may have seen a copy of Andrew Hunt's China industrial production proxy chart (below) which has just dipped into negative territory. The June HSBC China PMI came in at 49.4, Taiwan's PMI fell to 46.3 - the weakest reading in nearly three years.

INDIA - TURNING THE CORNER?

BNP Paribas published a very good if somewhat contrarian piece on India last month suggesting that the cyclical up turn which we have been waiting for is finally on its way. The chart below certainly looks encouraging. The number of stalled projects is falling, commercial vehicles sales are rising and industrial company order books are showing useful y-o-y increases. If only RBI Governor Rajan would stop fretting about inflation (which is non existent) and take a leaf out of the PBOC's book. Real interest rates in India remain very high which is unhelpful to what is still a highly leveraged corporate sector.



Source: CMIE

OUTLOOK

Global equity markets have suffered a setback with soft growth and the ongoing farce in the Mediterranean unhelpful factors. In our region the volatility of the Chinese A share market is centre stage. According to one survey, two thirds of investors who opened trading accounts in the first quarter did not complete their high school education. Those buying on margin are currently receiving a slightly alternative education!

HT&SD