AMG Market Commentary

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Asia may not be leader, but surely the front-runner for global economic turnaround

Last week, U.S. reported the GDP figure for 2Q2009. The headline figure was -1.0%, better than consensus estimates of -1.5%. Also, it was far better than the -6.4% number in last quarter. Clearly, U.S. had made a step towards stability. But, private consumption, the largest components of U.S. economy, declined 1.2%. It became a big question mark for the continuity of its economic stabilization.

While U.S. is still struggling on the edge of contraction, some Asian economies are picking up already. Although they lack the size to lead the turnaround, they are undoubtedly running ahead in the race to recovery. China, South Korea and Indonesia are among the leaders.

China reported 7.9% growth in the second quarter, up from 5.8% in 1Q2009. Besides government led investment in infrastructure construction, domestic demand is also very buoyant. Private consumption kept on growing at double digits and government policies to stimulus housing and automobile demand was very successful. Though that external trade and FDI were still contracting significantly, the strong domestic drivers made China at much better position than other export-led economies.

South Korea was a surprise to many. The country not only managed to escape from a technical recession by returning to growth in the first quarter. It also made a strong come back in 2Q2009, with a 2.3% qoq GDP growth. In the quarter it had 14.7% expansion in exports and 3.3% growth in domestic consumption.

Indonesian GDP grew 4.4% in 1Q2009. The country is enjoying the fruit of tough policies in the last few years. The government trimmed fuel subsidy and cut public debt from 57% of GDP to 30%. With lower fiscal burden, it can now invest more in the under-developed infrastructure. President Yudnoyono announced USD 140 billion spending on roads, ports and power plants to year 2013, which shall help to boost the growth in coming years.

With strong domestic sources of growth, the Asian countries are well placed to thrive when external environment and demand come back. Although their stock markets are not cheap, they shall still be the picks for long term investors.

US : Neutral

Earnings seasons gave investors lots of positive surprises. More than 70% of the companies reported higher than expected earnings. Stock prices trumpeted on bottom line growth. Still, sales revenue is still weak. Without decent growth in income, the continuity for bottom line growth is not guaranteed.
Besides corporate earnings, economic data also improved slightly. Housing market had higher sales and reported

the first increase in home price since 2007. A single month of improvement is not sufficient to prove that U.S. housing market is touching base, but it is surely a welcomed surprise and worth looking at.

UK : Neutral
Bank of England expanded the size of Gilt purchase to GBP 175 billion. It was a surprise to the market and showed that U.K. government is still very concerned about the pace of economic recovery and unemployment problem. The announcement put pressure on pound sterling.

China : Positive
Chinese A market is re-opened for new share listing. Everbright Securities shall kick start the IPO market will RMB 11 billion public offerings late this month. As more new listings are announced, they shall attract more attention from the investment public and help keep A share market “red hot”.
More and more evidence is showing that the central government is trying to prevent the formation of asset bubbles. But, Premier Wen has confirmed that monetary policy will remain expansionary as the economy is only in early stage of recovery. Speculations on tighter monetary policy should be taken as chances to gain exposure to China market.

Hong Kong : Positive
Rumors about listing in A share market is also drawing investors attention to some companies like HSBC, China Mobile. It may stimulate the share prices for some time, but we still maintain the cautious to add into the market during adjustments.

Commodities : Positive
USD weakened on hopes for economy to head into recovery. It helped commodities prices despite that demand is still low. Crude oil moved above USD 70/barrel again while gold stayed firmly in the range between USD 900-1,000.

Hedge Fund : Neutral
Barclay CTA Index slipped by 0.1% last month, it lagged behind the Barclay Hedge Fund Index again while the latter made 3.17%. It shows that choppy market is not so favourable for CTA funds.

Government Bonds : Negative
Treasuries bond prices slipped as investors became more adventurous. 10 years Treasuries yield moved to around 3.6% in recent days. While more and more evidence points to stabilization in economy, need for safety assets withers. It is expected to remain headwind for high grade bonds.

Things to Look Forward:
U.S. housing and job markets, which lagged behind other sectors on the way to stabilization started to show signs of improvement. In July, home price, home sales as well as unemployment were all better than last month. If the trend continues, it would be another important step for improvements in economic prospect.

* All figures and information are collected from Bloomberg.com & Barclay Hedge.

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