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Econotes is a research publication available free on request. It is not a solicitation for business. It is devised and written by Dr. Andrew F. Freris based on 46 years of market experience which included senior positions with GT Capital, Salomon Brothers, Bank of America and BNP Paribas as well senior academic posts with universities in London and Hong Kong

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AN ASIAN MOSAIC: INDIA, INDONESIA,THAILAND AND THE PHILIPPINES

Summary	Investment Conclusions
▪ These four markets share two common characteristics, politics and budgetary performances. Indonesia and Thailand share political uncertainties, while India and Philippines share very different fiscal policies and approaches. ▪ The markets of Indonesia and Thailand do not seem to have been affected significantly or all, so far, by political uncertainties. ▪ India's budget disappointed with a list of the usual plans and the usual reforms, but with no timelines or sense of radicalism and determination. Philippines has had its budgetary reform and continues to do well-albeit quietly.	▪ We remain bullish with the equity market of the Philippines but await direction as the market may have peaked for now, we keep stable positions in Indonesia till the election results are known (July 22) and likewise keep stable positions in Thailand which continues to do well. ▪ We remain bearish on India and advise modest and steady reductions in positions. ▪ In global terms we stay bullish on US equities, neutral to negative on the EU and negative on Japan

Do politics matter ?

Indonesia's presidential election looks unlikely to be resolved till the final count by July 22. Who gets elected , Widodo (possibly more liberal) or Prabowo (possibly more nationalistic in policies and more conservative) could impact the outlook for the market. But for now, the stock market is still the best performig in Asia at YTD 23.5% in USD terms (Chart 1) and the IDR keeps strengthening.Politics should not be disregarded where policies are involved (see our coments on India), but equally Asian investors have a knack of looking right through situations which do not affect the sound fundamentals of economies.

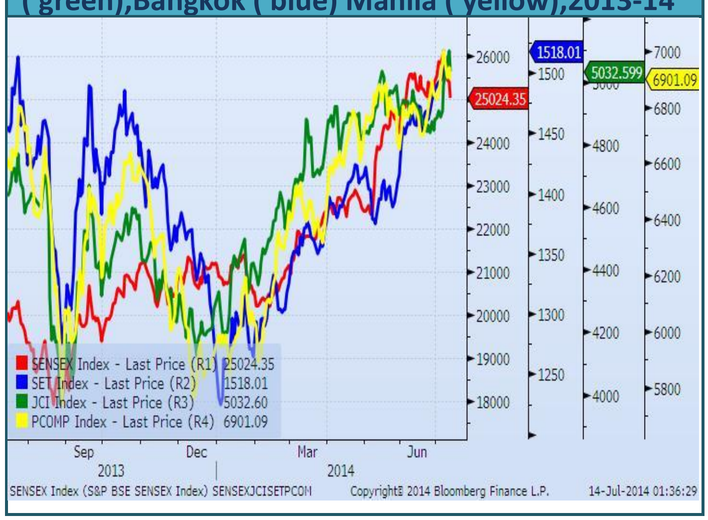
This could be said for the situation in **Thailand** which seems to have dropped from the radar screens of commentators with the military very much in firm control.The stock market is 19.0% up YTD in USD terms and the THB keeps getting stronger.

In both cases deciding to wait till the election results are out in Indonesia and keep a careful eye on Thailand without adding on positiosn would make a great deal of sense.

As for the other two economies the markets seem to be giving their own verdicts.In the case of the **Philippines**, the main news have been the confrontation with China over outlying islands.The economy is doing modestly well, although GDP growth has decelarated, but the stock market at is a 19.5% YTD, USD terms performance, while the PHP is stengthening.(Charts 1 and 2).

In **India** and following the budget the market turned and the weakening of the INR which had started before the budget continued.(Charts 1 and 2)

Chart 1: Local stock inidces,Mumbai (red),Jakarta (green),Bangkok (blue) Manila (yellow),2013-14



Source: Bloomberg

The Indian budget

The budget did not deliver any major, radical or new reforms but consisted instead of series of well-known and well-worn measures. These included opening up defense and insurance industries to more foreign investment, plans to introduce the long-awaited goods and services tax, as well as an acceleration of disinvestment of state enterprises. Promises were made to re-target subsidies which now take 14% of all government spending. And adding a surreal touch to what was expected to be a “game changer” budget, the government promised toilets in all elementary schools and constructing a 60 storey statute to Vallabhbhai Patel, one of India’s founding fathers. There was nothing in the budget of abandoning defunct policies such as subsidies and closed markets (retail sector) or fast restructuring of the state.

Chart 2: Forex to USD,INR (red), IDR (green), THB(blue), PHP (yellow), 2013-14

Source: Bloomberg

FACTBOX : Indian budgets

.It has been argued, with some reason that the time has come for Indian fiscal policies to move away from the annual nail-biting spectacle of budgets. The idea is that policies will be introduced throughout the year and not wait for 12 months. Nonetheless the “impact and publicity effect” of budgets cannot be underestimated, especially in the case of the new Modi administration.

To misquote Churchill in the current case in India, “never so much was expected by so many from so few and never so little was delivered by so few to so many... Politics is the art of the possible and.clealry, in the case of India; this limits the speed of change.

Alleviation of poverty and malnutrition is still based on subsidies. Memorably Woody Allen said that “the poor people are poor because they don’t have money”. Poor people are not made wealthier by being given free or subsidized food and electricity but by being given the means to earn more. These means are widespread quality elementary education (especially for girls, an area where India is woefully behind all Asia, let alone China), investment in all sectors to create jobs and a flexible labor market. In the case of infrastructure investment there was little in the budget. It is easy to be critical from the outside, but equally it is easy to be frustrated by the insistence to evade the obvious and go for the low hanging fruit.

Investment consequences

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We have explained why the politics in Indonesia and Thailand argue for caution and why Philippines continue to be attractive. Unlike India, Philippines did go through a period of fiscal retrenchment and controlled the need of external funding as well as ensuring that existing taxes were collected. The resulting healthy fiscal position allowed the quick initiation of an extensive infrastructure investment program. All these developments were coupled with an effective attack on corruption starting with the previous president.

India is a more difficult case, where a bullish story will now need to be developed on the basis not of policies, as the budget did not include anything which would impact earnings in the next 12 months, but on non-budget developments.

Reductions in interest rates are unlikely anytime soon as CPI inflation remains steadily in excess of the targetted 6.0% and any further weakness of the INR triggered by falling interest rate differentials could cause further rise in import prices.

Hence our suggestion to keep reducing slowly positions in Indian equities given now that bull run seems to have ended.

(Completed 14/7/2014)