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With my best regards

Andrew Freris

5 July 2015

RESULTS AND INVESTMENT IMPACT

Introduction

At 11.30 pm Athens time, the referendum results were 61.5% "NO" and 38.5% "YES", the No vote signifying rejection of the EU-ECB-IMF proposals.The Tsipras government had been at pains to argue that this was not a Yes-No vote on staying in the EU and the EUR but simply a rejection of the terms of the rescue plan.

The government claims that now they will have a stronger negotiating power with the EU, failing to explain why German voters, who will pay for most of the rescue, should be willing to pay up because the Greek voters decided not to pay themselves.The Tsipras administration claims that this vote was a victory for democracy is vacuous as it assumes that Greece's wishes towards its debtors should be heard and obeyed just because they were expressed freely and democratically, which they were.

The Greek government will start negotiations immediately, but unless the EU totally capitulates to the "wishes of the Greek people", one can not see what the EU can offer next ,other than much better terms than before.In which case, why they offer them now ? Because of the referendum ? If the terms to be offered are the same as before, Tsipras' administration will be at a dead end as they will return back to Greece without a deal.

Cruel but realistic

Greece's economy is unraveling fast.As from Saturday night credit cards were not accepted in 99% of all shops, ATMs run out o money,cash is king and old age pensioners are not being paid.Banks will not open this week as they can not, they simply have no cash left and the BoG can not supply them with cash as the ECB has stopped all emergency liquidity.Pharmacies rather than supermarkets were raided by people anxious over their supplies of medicines.

If the EU does not capitulate, Greece will slide very fast into genuine penury as it imports virtually everything.Introducing the drachma will lead to hyperinflation following from a huge devaluation of the new currency versus the EUR.

So Greece has no cards to play with, other than the threat to leave the EUR and the EU.All the cards are held by the EU , but there is a widespread belief that the EU does not want Greece out as it shows that the union is not unbreakable and, hence, other countries can leave.Other than this argument smacking of the US Civil War arguments or, flippantly, "Hotel California " ("you can always check in but you can never leave"), there is no concrete reasoning behind the argument why Greece can not be kicked out or leave without the EU and/or EUR collapsing.

This is NOT an argument about being cruel to Greece and letting old age pensioner die because of lack of medicines in order to force it to agree to a deal.It is however the reality of international politics and debt obligations.To win you have to have a loaded gun and be willing to use it, and not come to the table armed with good democratic intentions.

I have said that Greece leaving the EU/EUR should not be as catastrophic as imagined for the EU, EXCEPT IT WILL BE SO FOR GREECE ,a nightmare without end as opposed to the end of a nightmare.

Investment implications
I clip and paste the section from the Econote I posted you a few hours back.The investment implications for Asian investors were not dependent on who won the referendum and, hence, I stand by them.
I simply wish to emphasize that the EUR will be hit, but temporarily (as will be the AUD which collapsed on Friday), Eurostoxx will be hit as will other markets and the whole thing will pass as the EUR proved its mettle and strength since March this year.All this is bullish for US shares as the uncertainty may delay the Fed hiking and, you guessed, the USD is a haven from uncertainty.Our Asian choices stay, S.Korea, Taiwan and the Philippines, and all the new measures from China just announced will not make the Shanghai market fair valued, although it may help the AUD.

Summary of investment suggestions going forward from July 5th onwards

1. Asian investors are overwhelmingly USD based, and the events in Greece will impact primarily the EUR and EUR-denominated assets. The truth is that the on-going crisis had little impact on the EUR. After bottoming in March 2015 at 1.05, the EUR trended up (with bumps and grinds) to a current 1.11, hardly a sign of crisis. The Eurostoxx index fell from a recent 3,800 to a current 3,440.The German 10Y bunds rose from 0.08 % in April 2015 to a current 0.80%, rightly reflecting the concerns of investors on sovereigns, but not forgetting that a year ago these bunds were yielding 1.20 %!

2. Crisis, what EU crisis? (At any rate resulting directly from the Greek crisis). Asian investors are most unlikely to be holding either Greek bonds or stocks so there is nothing to worry about, and, even more importantly, any of their EUR exposure has improved since April 2015!

3. Buy Greece now? Not unless you held it a few months back, in which case you stand to make a killing if Greece votes Yes.

4. Buy EUR now? Yes, because a Grexit will ultimately mean little to the EU, and notions of the EU and EUR falling apart if Greece leaves, are so nonsensical as to bear little analysis or serious consideration.

5. Contagion effect? Honestly, contagion effect from Greece to EMKs? Greece was never in the EMK universe, and is such a special and unique case that anyone selling, say, Thailand or, for that matter, Mongolia, because of Greece is not a serious or well-informed investor. China collapsed because it was a train crash about to happen in slow-motion. Myself, and 1,000,000 other commentators, had said months ago that China was an absurd liquidity-retail-margin funded-closed market boom and was doomed to collapse, and it finally did, but NOT because of Greece! Surely the Greek crisis spooks EU investors because of its novelty, and one has also to allow for the hype over Greece leaving or not leaving the EU and the EUR.

6. What to buy in the next 6 months will not be predicated by Greece, see the imperturbable EUR, but by the incessant will-they-won't- they Fed decision. We believe that the Greek crisis is bullish for US shares as the longer the crisis lasts the more the Fed will be impeded into hiking rates, not because they love Greece and the EU, but because the hike could blow back in their faces. If Greece was totally settled tomorrow, I would issue a bear note on US shares, despite the fact that I have called for the Fed not hiking in 2015!

7. Bottom line: Greece's Yes or No will be, ultimately, of little consequence for the EUR, except knee-jerk reaction on Monday. Share markets are spooked with China (which, to repeat, has nothing to do with Greece) and a Greek No will spook them further, but short term as well. Keep your US shares powder dry for a Greek No,(never mind the immediate bearish impact) as this will keep US rates low for longer and will be bullish for US equities. Keep out of Chinese shares despite all the measures taken by the authorities to keep the market steady. The liquidity will need to be dried off.

8.We continue to like S.Korea, Taiwan and Philippines in Asia, limited choices, but decent earners in the middle of this perceived mess.

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