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ECONOTE No. 55: Thailand, Russia and Brazil (Oh, and a note on the US election/Trump) **6/11/2016**

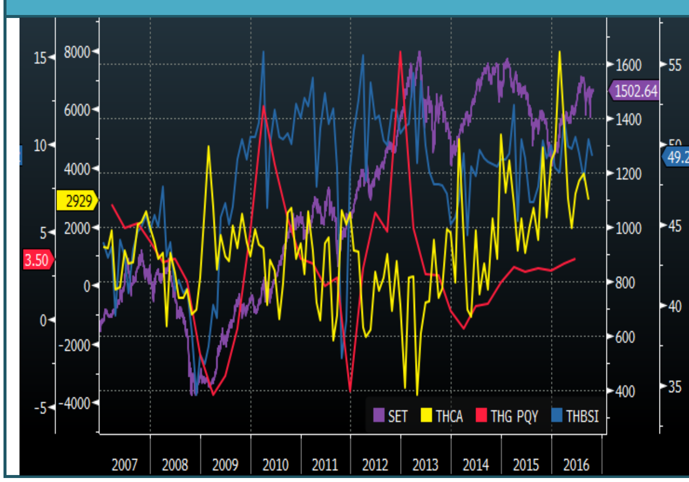
Summary	Investment Conclusions
Aha! Periods of uncertainty you say! US elections, the Fed on hold till Xmas and the G2 still unattractive. The three economies featured here had, and still do, a strong dose of "negative" politics but seem to be doing OK and could continue to do so both post- Trump and post- Fed. We have tried to move from a US-centric view, and have maintained that the US is important but not half as important as it is believed to be, and that includes the US elections and the Fed. Our choice of small Asian equity markets Taiwan, Thailand, Indonesia and to a lesser extent S.Korea and the Philippines proved correct in that they have performed YTD in USD quite well and we expect our new additions, Brazil and Russia will continue to do so.	Thailand and Brazil have in common political upheavals, in Brazil via votes and in Thailand through an army coup with the death of the King adding uncertainty. Russia has politics of a different kind, the thrusting Putin, but all three appear to be able to shrug off the impact of politics. It might sound insensitive to democracy but IBOVESPA's spectacular 79.0%, MICEX's 27.0% and SET's 19.0 % all YTD, USD performances can add useful returns to an otherwise dire equity space. As for the usual suspects of the G3 equities, and especially the UST and S&P 500, the elections and the Fed will continue to spoil the, very, quiet party.

The uselessness of pre-election investment advice

Consider the following points: (1) There are only two candidates in the US election with roughly equal chances of being elected (but see below) (2) Clinton's policies are likely to be familiar and a continuation of present ones, Trump's very possibly will be neither (3) It would now follow that a "cautious" investor would not adjust 50% of the portfolio managed as that would preserve the current state of knowledge and risk taste, while he/she would adjust the other 50% to allow for the "Trump risk" including lower bond prices (Trump plans to widen the deficit) and a weaker USD (Trump would renegotiate all major trade deals).It would also follow that post-election, 50% of the portfolio would be incorrectly positioned The 50% allocation is based, crucially, on poll forecasts which in a closely run election can be notoriously inaccurate. The last Bush election was "won" on a tiny majority and after inconclusive recounts, and the last UK Conservative election victory plus the Brexit referendum were both totally "unforecastable". So the pre-election advice to a US investor will be, at worst widely wrong, or at best "a do nothing" realistic advice.

And what has this to do with Thailand, Russia and Brazil? A great deal in fact, as these three markets beset by politics (admittedly of the known kind), are still doing reasonably well equities-wise. We add Brazil and Russia to our preferred portfolio which consisted of small Asian equity markets only, including Thailand. As for the G3, the outlook for monetary policies remain as diverse as ever with the BoJ and ECB on QE mode with asset purchases in place, and not much else. UK's Brexit is going to get extremely messy, with the Parliament having a say and with the BoE undecided whether to cut or hike but staying with QE. No wonder the G3 equity markets have performed poorly YTD in USD : S&P500 +2.0%, EuroStoxx 50 -7.0%, Nikkei +3.7% and FTSE100 -9.0%.

Fig.1: Thailand, SET (violet), C/A (yellow), GDP (red), Sentiment (blue) 2007-2016



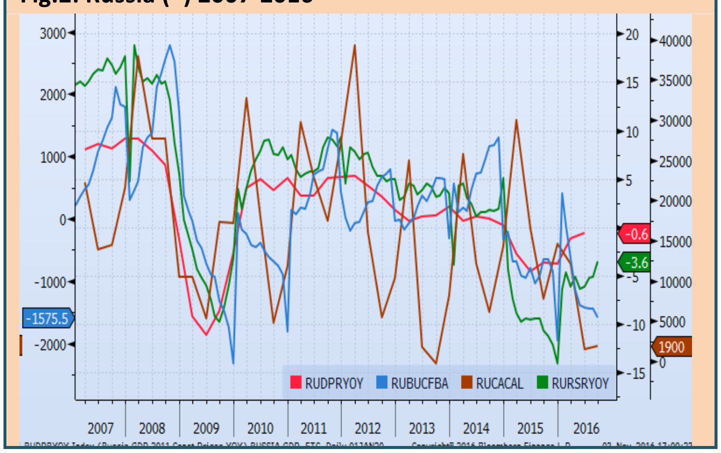
Source: Bloomberg

ECONOTE No.55

Back to Thailand, Russia and Brazil

As the data in Fig 1 show, the military coup in **Thailand** and the royal death had variable impact on sentiment which remains good. GDP growth is on a rising trend and fiscal policies will support this, while the state of the current account surplus will help keep the THB steady after the recent volatilty.The SET continues to register the second highest performance in Asia YTD. The absence of any progress to political stabilisation has, clearly, not impacted the markets so far. With resistance to the military appearing subdued, till at least the royal succession has been effected, there is no reason to expect that pure political events will impact current economic and financial performances. **Russia** is a more complex case because of its continuing presence in military politics. Its budgetary position has not recovered,with a still widening deficit (Fig. 2).However with improving inflation and a bottoming-out of the shrinking GDP growth, the situation is improving as reflected in the

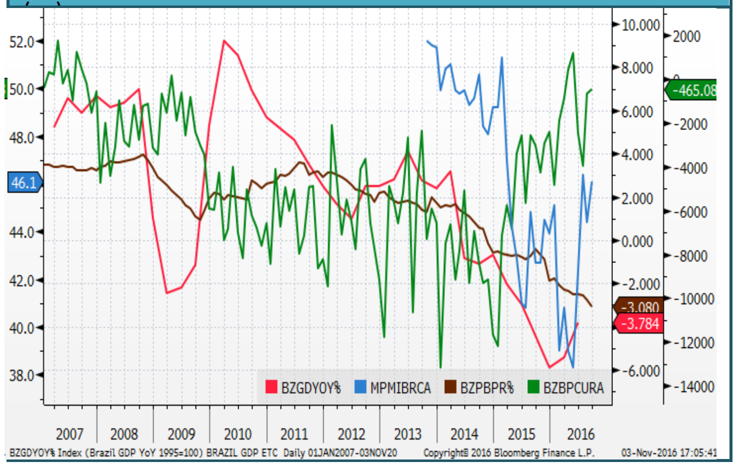
Fig.2: Russia (*) 2007-2016



Source: Bloomberg. (*) GDP (red), Budget balance (blue), C/A (brown), Retail sales (green)

reflected in the bottoming of retail spending shrinkage. The poor outlook for oil, we stay oil bears, will not help the current account. However the central bank, after the sharp rate hikes, seems now prepared to ease in 2017 as inflation has fallen, and this will add support to the otherwise good performance of equities. Last but not least, is **Brazil**, where the ouster of president Russeff was greeted enthusiastically by the markets as registered by the excellent performance of equities, the sharp uptick in expectations and the relative stability of the Real. GDP growth is still shrinking (Fig. 3) but seems to have bottomed. The still growing budget deficit is likely to be brought under control under the recent measures passed to reform, among others, social security related payments. The

Fig 3: Brazil: GDP (red), PMI (blue), Deficit%(brown), C/A



Source : Bloomberg

There have to be some conclusions !

issue of the scandal-ridden Petrobras will require more time to resolve. Brazil can be bought not on current performance but on the promise of a conservative administration trying to bring fiscal and legal order in an economy blessed with huge natural resources, big industrial and agricuturall sectors and a big domestic market.

For a long time now, Econotes had been harping on the theme that there is no global economy but a series of economies far less interdependent than previously imagined and NOT because of a loosening of globalisation, but because the historic extent of interdependence had been widely exaggerated. Examples are plenty, but we can start with the long term delinking of the USD from Asian currencies, bar Hong Kong, and the complete overestimation of the role of China in this “global economy”. One can not blame the economic slowdown in the G3 on China, and hence expect the recovery to start from China as well. The best single cure for this overestimation is to enumerate the financial crises which took place in Asia after the meltdown of the banking and financial system of the US in 2007-9. Precisely none. Case rests on the interdependence.Hopefully this places Trump and his potential threat to the universe as we know it in some perspective, and the merit of thinking small, as we do, and keeping to some obvious areas. This is not about being clever and right (none of which we , even remotely, are) but it is about looking slowly to a few facts and then act on them in modest and slow fashion.Simple. Andrew Freris (writing completed 6/11/2016)