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ECONOTE No. 60: The Paralipomena (Παραλειπομενα) of the "global" economy 25/5/2017

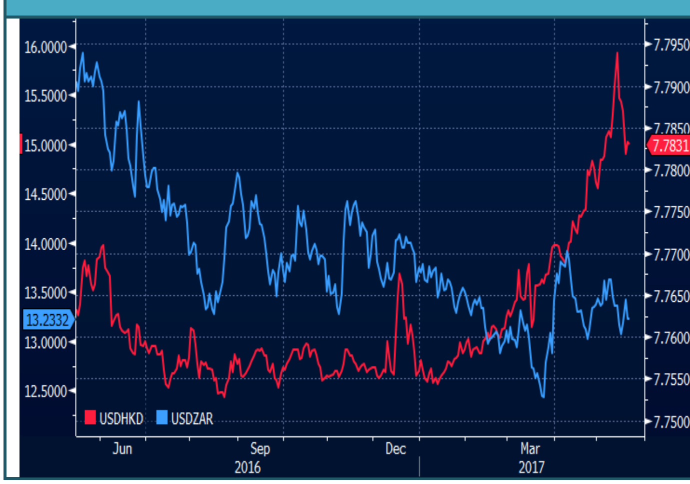
Summary	Investment Conclusions
The Greek word "paralipomena" means, "items left out"and is used mostly in conjunction with biblical texts. Here, in a burst of erudition, we use it to mean all the bits and pieces which are going on in the global economy but which seem to have dropped through the cracks what with all the attention being paid to Trump, North Korea, the French elections, the farce of the Brexit negotiations and so on. We focus here on a variety of snippets and news, invariably including Trump but also, among others, the political crisis in S.Africa, the train crash called Brazil and which is not getting any better and, last but not least, the other train crash called the Hong Kong property sector.	Most Asian equity markets are doing well. We prefer smaller Asians, S.Korea among them. India continues to be expensive with no policy developments to drive it. Mexico is doing better because Trump's threats of trade war and walls proved just that. The strong performance, until recently, of Brazil has just been compromised. S. Africa pays the price of bad politics. Russia will have a tougher time with a weak oil price notwithstanding OPEC's recent efforts. China will continue to have the "best " GDP and the "worst" equity market. Stay out of Hong Kong property and the HSI, as the crash is now a matter of time. See below for details!

A mosaic of trends, with " global ones "nowhere to be seen !

While big and small EU countries vote for continuing globalization and multilateral links, Trump's moving away from all that is still there except much more hesitant. Brexit will become a Greek tragedy, the theatrical type, as Tsipras has preempted the financial one. But joking aside, Greece did do a loan/aid deal in mid May and is out of the radar screen. The Fed will hike more times but the ECB and BoJ will not ,for now. China hiked rates twice so far, but not the rest of Asia. Asian stocks, overall, outperform G3 stocks and Brazil till very recently outperformed all of G3 ! Japan carries on pretending that Abenomics is doing well ("Abe" what ?). Japan's 1Q.17 GDP growth was boosted by a sharply negative GDP deflator which "added positively" to the decline in the growth of **nominal** GDP. Remember that if your nominal salary falls in absolute terms, but the prices of the goods you buy fall more, then your real salary will rise. (Got that? Japan experienced it just now) Want any further proof of the total absence "global" trends? Hence our inverted comas in title. Right now our favorite crash site is the HKD. (See Fig.1). The HKD is under pressure as HKD interest rates have not adjusted as the Fed hiked twice and is about to hike again.Once the HKD rates rise, as they will under the peg, the stock market which has been driven by , among others,property stocks will "adjust",polite speak for crash, and the absurd property prices in Hong Kong will follow.

In-between all this S.Africa had its own crisis with president Zuma coming under strong pressure to resign over the firing of ministers of finance all connected with a possible financial scandal involving his business connections.The rand declined sharply (Fig. 1) although it recovered some of its losses while the issues involved remained unresolved. S.Africa remains one of the most important economies in the African continent and its currency trades in forex carry markets.

Fig.1: USD/HKD (Red), USD/ZAR (Blue) 2016-2017



Source: Bloomberg

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From Trump to Temer and back

Econotes has repeatedly indicated that the obsessive attention to Trump is good for Trump (publicity) but bad for focused investment decision -making as the rest of the world, and Asia in particular, go on their own ways.The Fact Box below shows that Asian equities YTD USD returns are not bad, except for China.Moody's downgrade of China's debt raised, once again, the totally irrelevant issue of China's debt having grown to 260% of GDP as opposed to 160 % in 2008.Dividing debt (which is not a flow) with GDP (which is) is dividing apples with bananas.No one has yet shown the cost of funding this debt p.a as percent of GDP which is the relevant issue. China's debt is almost all domestically held with overseas entities owning about 1.5% of total.China may end up having a domestic "bad debt" crisis but cannot have a Greek/Argentinian/Brazilian/Russian type of external debt crisis even if it tried ! Its external debt is about 12% of its GDP

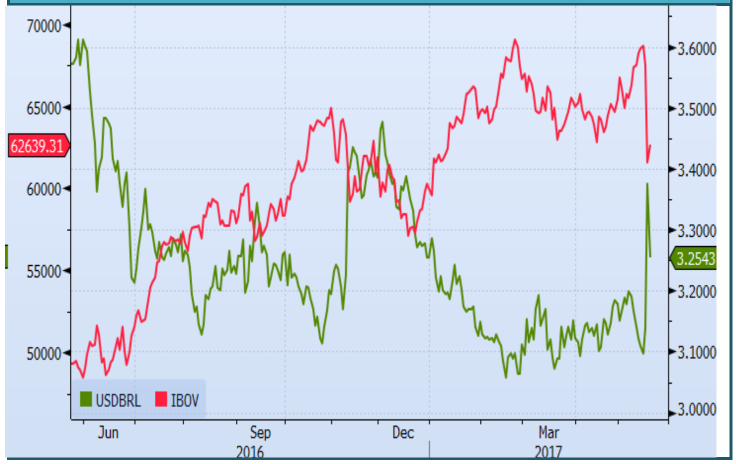
Fact Box: Asian stock market metrics

Market	Yd. USD %	P/E 12M fwd.	P/B	RS	Mov Aver
HSI	15.0	12.7	1.20	Over	Above
SHCOMP	0.0	13.2	1.44	Ok	Below
TWSE	16.2	13.8	1.73	Ok	Above
KOSPI	22.5	10.0	1.00	Over	Above
SENSEX	21.0	20.0	2.60	Over	Above
STI	16.4	14.7	1.20	Ok	Above
FBMKLCI	12.7	17.4	1.67	Ok	Above
SET	5.4	15.0	1.85	Ok	Above
JCI	10.0	15.8	2.50	Ok	Above
PCOMP	13.8	18.8	2.26	Ok	Above

Source: Bloomberg, rounded as of 23/5/17.RS indicates overbought or in middle range, while Moving Average indicates index above or below the 30D

and China is global net lender and not a borrower. And talking of Brazil, to summarize: there are three scandals going on. The Petrobras scandal involving just about everyone in the political scene, the Oderbrecht construction scandal involving widespread bribing of anyone who would take a bribe and not only in Brazil, and the JBS meat packing scandal which has now dragged president Temer into all this. As the JBS canaries begun to sing in return for plea-bargaining, they also have provided tapes supposedly showing president Temer approving brides to politicians to keep their mouths shut. Result? See the eloquent Fig 2, where the "jaws" of the collapsing USD-Real rate and that of the Ibovespa stock index have met. Brazil faces a third year of recession as a result of the scandals and of their impact on confidence and investment, while its politics are mired in a swamp.

Fig 2: Brazil: USDBLR (green) IBOVESPA (red) 2016-17



Source : Bloomberg

Summary with emphasis on real assets

The Asian equity markets will likely continue to outperform the G3 because the Asian rates cycles is (and has been for decades) disconnected from the USD rates cycles, bar Hong Kong, let alone from the ECB of BoJ rate cycles. China stays unattractive as its better GDP performance was never necessary or sufficient to drive the market.There will be no new policy initiatives except those restricting liquity and bond issuance in order to contain the risks of the credit/bond market.Hence the realtive unattactiveness of the SHCOMP.

Econotes has focused in the past, always within its compliance limits, on investment in real assets including niche areas of the property sector (not in HK!) such as sheltered old-age accomodation, on unusual uses of space/land such as outdoor poster advertising and on niche areas of green energy, such as on the recycling of industrial gases.Ecognosis' own advisory activities had explored investment possibilities in logistics parks in Latam and in a global chain of dental clinics.Ecognosis Advisory would like to think that its expertise lies in truly diversified and medium to long term unusual opportunities ! While investors continue to appear reluctant to pay for advice and research,let alone for portfolio management of their money, (see the unstoppable rise of ETF etc) Econotes will stick to "non paper" investment ideas, and continue to report on these.

Andrew Freris (writing completed on 25/5/17)