

# Asia's great investor rotation flows to North from South

REUTERS, Singapore/Hong Kong

Alongside the great rotation from bonds to equities and from emerging to developed markets that has been 2013's overriding investment theme, Asia is seeing its own migration in portfolio flows: from the South to North.

Foreign investment flows have lifted stock markets in China, South Korea and Taiwan since July, the first and tentative signs that investors still see pockets of value at a time the outlook for emerging markets is glum.

The appeal of these markets comes from several factors.

While the consensus calls are still for an outperformance of equity markets in Japan, the United States and the rest of the developed world, a growing number of investors believe there is scope for Asia's trade-driven, open economies to do well as US growth recovers.

To add to the mix, stock prices have been hammered in China and Korea, based on what some analysts believe are exaggerated perceptions of a collapse in Chinese growth, and these countries are buffered by huge trade surpluses.

South Korea received foreign portfolio flows totaling \$853 million into equities in July, reversing part of the heavy outflows in previous months, data collated by BNP Paribas showed. Korea's bond market has received more than \$12 billion this year.

Foreigners also bought \$2.75 billion of Taiwan equities last month, offsetting sales in June. They sold \$253 million of Indonesian equities and heavy amounts of bonds and stocks in India.

Data on flows into Chinese shares and bonds is scarce, but the China Enterprises Index .HSCE of the top Chinese listings in Hong Kong has jumped about 9.5 per-



A merry-go-round modeled on Paris' Eiffel Tower is seen outside an upmarket shopping mall in Shanghai.

cent since the end of June.

"The whole story in Asia is one of rotation," said John Woods, head of Asia fixed income at Citi Investment Management. "What we are seeing in terms of flows is a sharp unwind of Southeast Asia and capital inflows into North Asia, particularly Korea and Taiwan."

For a majority of investors, particularly those who aren't dedicated to emerging markets, the biggest factor driving decisions is the coming monetary tapering by the US Federal Reserve. Looming is a reduction in the four-year quantitative easing (QE) that flooded markets with cash and sent investors scurrying for yield.

The big picture asset allocation theme, therefore, remains one of switching from bonds to equities. Citi data shows bond funds globally

saw outflows of \$2.2 billion in the week that ended August 7, while equity funds received \$9.6 billion.

Thus, barring some allocation at the margin, few fund managers want to risk exposure to Asia's slowing economies in an environment of rising yields and better US growth.

"The QE unwind is a big issue," said Mark Wills, senior portfolio manager at State Street Global Advisors' asset allocation team in Sydney.

"Once tapering was on the table and the hunt for yield ended, investors wanted the best quality risk they could lay their hands on and that's US equities at the moment."

But equities in the most sought-after developed markets - Japan and the US - are expensive and that's one reason investors are still

quite discerning about putting all their money in dollar or yen assets.

"Revenue for companies in the S&P 500 is still pretty poor and they're finding it hard to increase margins," said Wills.

Based on Thomson Reuters StarMine data on analysts' earning forecasts in the next year, US equities are trading at an average price-to-earnings (P/E) ratio of 14.7. Japan trades at a P/E of 14.5. That compares with 10 for emerging Asia, and an even cheaper 8.5 for China and 8 for Korea.

That gap in P/E valuation between Asia (outside Japan) and the US is at its widest in eight years.

While analysts have scrambled to cut profit forecasts in Asia ex-Japan since February, regional earnings growth over the next year is still expected to outpace that in

the US. Consensus forecasts are for average earnings-per-share (EPS) increases in the next 12 months of 9.6 percent in the US, versus 13.5 percent for emerging Asia, 17.5 for Korea and 18 for Taiwan, according to Thomson Reuters I/B/E/S.

Even China, which has often burned investors, is looking better to some.

"Our view towards China is two-fold in that much of the bad news has been priced in, that valuations are compelling and we're taking a 12-18 month view that equity markets in China will be higher," said Citi's Woods.

It's more than just valuations that make North Asia attractive for the discerning investor. These countries offer better direct exposure to the pick-up in technology exports that will accompany a US recovery. Their markets fare better when oil and base metal prices are lower than do Malaysia and Indonesia, whose markets are heavy on commodity producers.

The selloff in dollar bonds this year, as markets pre-empted a Fed tapering, has also been milder in Korea.

Asia on the whole has seen yields .JPMACI climb 100 basis points to 5.3 percent since May this year, with only about another 100-150 basis points to go before bond yields are at long-run averages. Before long, the bonds would be attractive from a risk-return perspective, Citi analysts reckon.

So far, though, there are enough reasons to keep global investors hesitant about putting money into North Asia.

The biggest risk comes from China, over whether authorities there can keep growth from falling too low even while they focus on fixing banks and the labour market.

Other risks could come from foreign exchange losses as a rising US dollar drives emerging market currencies down.

## China produces fewer millionaires as economy slows

AFP, Shanghai, China

China's millionaires, a symbol of the country's growing wealth, increased at their slowest rate in five years in 2012 as the economy and stock market stumbled, a survey showed.

The number of millionaires -- defined as those with personal wealth of at least 10 million yuan (\$1.6 million) -- rose just three percent year-on-year to 1.05 million, said the independent Hurun Research Institute and consultancy GroupM Knowledge.

The number of "super-rich" Chinese -- with personal wealth of at least 100 million yuan -- went up only two percent to 64,500, also the slowest pace in five years, according to the survey released on Wednesday.

The slowdown came as growth in the world's second largest economy slipped to a 13-year low of 7.8 percent in 2012.

Only a quarter of Chinese millionaires were "very confident" about the domestic economy in the coming two years, the survey showed, down from 28 percent in 2011 and nearly half of those questioned in 2010.

China's economic growth slipped further to 7.7 percent in the January-March period this year and slowed to 7.5 percent in the second quarter, raising alarm bells over possible deeper weakness.

Beijing, the nation's capital and political centre, had the highest number of millionaires with 184,000, or 17.5 percent of total, the survey said, ahead of the financial hub Shanghai on 147,000.

Stock market sluggishness also contributed to the slower growth of the wealthy population, with the Shanghai exchange's benchmark index gaining only 3.17 percent last year.

About 15 percent -- 160,000 -- of Chinese millionaires named stock investments as their main source of wealth, down five percent from 2011, according to the survey.

Real estate remained Chinese millionaires' top investment choice despite government regulations aimed at cooling the market, the survey said, but they had a growing tendency to seek such investments overseas.

# India slaps controls on forex outflows to boost rupee

AFP, New Delhi

India slapped new controls Wednesday on foreign exchange outflows as it struggled to narrow a record current account deficit and arrest the fall of the rupee.

The central bank announced that Indian firms can only invest 100 percent of their net worth abroad, down from an earlier 400 percent.

Resident Indians now can only send out of the country \$75,000 each year -- down from \$200,000 annually, the bank said on its website, and the money cannot be used to buy property.

"The present set of measures is aimed at moderating outflows," said the Reserve Bank of India.

But it said it would consider allowing bigger outflows for "any genuine requirement" and added the restrictions would not apply to overseas investments by state-run energy firms to feed India's fuel-hungry economy.

The steps followed plans announced by the government earlier in the week to curb imports of oil, gold and some non-essential goods and allow state-run firms to issue quasi-sovereign bonds abroad to help plug the deficit.

India last year recorded its biggest-ever current account deficit -- the broadest measure of trade and capital flows.



A parking lot employee receives payment from a customer as he holds Indian rupee notes in New Delhi.

The deficit and India's stuttering economic growth have put heavy pressure on the rupee, which has been hitting a string of lifetime lows against the dollar.

"We will leave no stone unturned" to control the current account deficit and stabilise the rupee, Finance Minister P. Chidambaram told parliament.

But financial markets have been unimpressed so far by the measures announced.

The currency slid by more than a

third of a rupee Wednesday to a new closing low of 61.43 rupees to the dollar, just shy of its lifetime trough of 61.80 it hit last week.

Economists dismiss India's moves as "plumbing measures" and say to ensure investor confidence and a long-term revival of the rupee far-reaching reforms are needed to open up the still heavily state-controlled economy.

The capital controls were announced as India's woes were underscored by data showing infla-

tion spurred to a five-month high in July as the weak rupee drove up import costs.

The Wholesale Price Index, India's main cost-of-living benchmark, accelerated to 5.79 percent from a year earlier, far outstripping market forecasts of a five percent jump.

The inflation resurgence will delay even further interest rate cuts needed to boost the economy, which has been growing at five percent -- its lowest pace in a decade -- economists said.

The central bank "has to cater to both currency and inflation risks", which means monetary easing to kickstart growth "is off the table for now", said HSBC economist Leif Eskesen.

Politically sensitive food prices climbed in July by 9.74 percent while the cost of onions -- a staple in every Indian diet -- soared by 145 percent on an annual basis.

The Congress-led government has been desperate to tame inflation, especially of food, and revive the economy, fearing a voter backlash in elections due by May 2014.

India's troubles have been exacerbated by signals the US could soon slow its stimulus drive that prompted big investment flows to emerging markets, and homegrown graft scandals that have alarmed foreign investors.

## Walmart trims 2013 outlook amid tight spending

AFP, New York City

US retail behemoth Walmart Thursday reported a 1.3 percent increase in earnings amid sluggish sales, slashing its full-year outlook due to tight consumer spending in the US and abroad.

The company described continued weakness in the US, where higher payroll taxes, higher gasoline prices and virtually non-existent inflation for groceries have crimped returns.

Earnings for the second quarter ended July 31 came in at \$4.07 billion on revenues of \$116.2 billion, up from the year-ago level of \$4.02 billion on \$113.5 billion in revenues. Analysts had expected revenues to reach \$118.6 billion.

Earnings per share was \$1.24, compared with expectations of \$1.25; the company said the figure was hit by one cent due to an unspecified charge in Walmart International.

Walmart shares were down 2.8 percent to \$74.21 in opening trade.

Comparable store sales in US Walmart stores, the company's biggest retail division, dipped 0.3 percent, below expectations and the second straight quarter the closely-watched metric has declined. Walmart expects "relatively flat" same-store sales in the upcoming quarter.

Comparable store sales for Sam's Club stores grew 1.7 percent, within the company's forecast.

Revenues in Walmart's international division rose 2.9 percent to \$32.96 billion, but international profits edged 1.3 percent lower to \$1.47 billion. Walmart International chief Doug McMillon said consumer spending is "under pressure" in both developed and emerging markets.



"The retail environment remains challenging in the US and our international markets, as customers are cautious in their spending," said Walmart chief financial officer Charles Holley.

Walmart trimmed its forecast for 2013 net sales growth to between 2 and 3 percent from a previous projection of 5 to 6 percent.

The company also forecast that full-year earnings would be between \$5.10 and \$5.30 per share, versus the previous range of \$5.20-\$5.40.

"This revision reflects our view of current global business trends, and significant ongoing headwinds from anticipated currency exchange rate fluctuations," Holley said.

Expenses related to anti-bribery compliance efforts continue to rise. The company undertook a probe into corruption allegations against it in several markets following reports the company paid \$24 million in bribes to officials in Mexico.

Walmart has spent \$155 million so far in 2013 on complained with the US Foreign Corrupt Practices Act. Compliance programs for the remainder of 2013 will be \$75-\$80 million per quarter, "higher than originally expected," Holley said.

## Holcim reports profit leap, but sales disappoint

AFP, Zurich

Swiss cement group Holcim surprised with a near 50-percent leap in net profit for the first half of the year on Thursday but also reported that sales fell.

The group, which is working to crimp costs, said that the net figure rose by 47.4 percent to 571 million Swiss francs (460.6 million euros, \$612.3 million).

Cement and concrete are important indicators of economic activity since they are tied to activity in the construction industry which reacts quickly to the general climate for

business and household confidence.

Analysts polled by the AWP agency had broadly expected an outcome of 529 million Swiss francs.

But sales were lower than analysts had expected, totalling 9.6 billion Swiss francs, a fall of 5.1 percent on a 12-month comparison. Analysts had expected 9.7 billion Swiss francs.

The group said that sales had fallen because of weak economic conditions.

Sales had been lower than expected in India, its key market in

Asia, and also in Canada, Mexico and Morocco.

Another factor had been a hard winter in the northern hemisphere which had crimped activity in the construction industry.

Holcim said that a programme to contain costs was going well. Action to restructure the business was beginning to have a clear effect in Latin America and in Europe.

The company said that it expected sales of cement this year to increase but that sales of aggregates and concrete mix ready for use would be lower than in 2012.

The group stood by its financial targets and said it expected to achieve internal growth of its operating and net profit figures.

However this is more cautious than its outlook at the end of the first quarter of the year when it spoke of achieving a "significant" increase.

At the end of July, French group Lafarge, the biggest cement-maker in the world and Holcim's main rival, also struck a more cautious note saying that it now expected sales of concrete to rise by 3.0 percent, having mentioned previously growth of up to 4.0 percent.

## SingTel raises Bharti Airtel stake for \$302.2m

REUTERS, Singapore

Singapore Telecommunications Ltd said on Thursday it will increase its effective interest in Bharti Airtel Ltd to 32.34 percent from 30.76 percent, paying around \$383.6 million.

SingTel, Southeast Asia's largest telecommunication operator, said it had agreed to buy 788,538 shares, or 3.62 percent, of Bharti Telecom Ltd. Bharti Telecom holds approximately 43.57 percent of Bharti Airtel.

"The acquisition would allow SingTel to increase its effective stake in BAL (Bharti Airtel), and is in line with SingTel's strategic focus on maximising the value of its existing businesses, which includes reviewing opportunities to increase shareholdings in existing associates," the Singapore firm said.

SingTel reported on Wednesday a 7 percent rise in its first-quarter net profit, but warned of falling revenue due to the weakening Australian dollar.