

Trans-Pacific pact to reshape stock portfolios alongside trade flows

REUTERS, Washington

BUY Japan. Buy Vietnam. Buy US media stocks. Buy Mexican food stocks. Sell China.

For investors wanting to take advantage of the Pacific Rim free trade pact that appears to be nearing completion, that's what a savvy stock strategy might look like.

The 12 nations of the Trans-Pacific Partnership (TPP) could wrap up an agreement in coming weeks, after the pact cleared a major US hurdle with Congress's decision to give broad negotiating authority to President Barack Obama.

The deal, which covers 40 percent of the global economy and is expected to deliver \$295 billion in annual global economic gains, will have long-term implications for Pacific Rim companies, and for competitors in countries that are late to the party or don't join.

Although details of the deal are still under wraps and full implementation is years down the track, fund managers are starting to look at the implications for long-term positioning.

According to an analysis by the Peterson Institute for International Economics and the East-West Center, the United States and Japan - the bloc's economic heavyweights - are likely to win the most in dollar terms, with big boosts to Japanese car and chemical exports and US services.

"It's definitely on our radar," said Geoffrey Pazzanese, who oversees non-US equity assets for Federated Investors, which has more than \$350 billion in assets under management.

"We have a very large overweight in Japan and to me the biggest winner, country-wise, will be Japan."

In Japan, textiles and transport equipment are among the expected winners.

Japanese exports of transport equipment are seen rising 24 percent by 2025, according to projections in the Peterson study. Still, diffuse global supply chains muddy the benefits, and costs. Seventy percent of Japanese-branded cars sold in the United States are built in North America, with Japanese makers such as Nissan Motor Co



US President Barack Obama signs HR 2146 Defending Public Safety Employees' Retirement Act, which includes fast track trade promotion authority that allows Obama to negotiate trade treaties, including the Trans Pacific Partnership, during a bill signing ceremony at the White House in Washington on June 29.

and Toyota Motor Corp ramping up investment in Mexico.

Mexico, Chile and Peru had already benefited from past trade deals and could do even better with the TPP since it goes beyond traditional tariff-cutting pacts to set common standards in areas like intellectual property, said Stacy Steimel, Latin America Managing Director and Investment Strategist for PineBridge Investments.

"These countries have been able to increase their potential GDP growth on the basis of the wide range of trade agreements that they have negotiated and pursued. This one, because it goes even further, could bring even more benefits."

The study suggests that Southeast Asian nations Vietnam and Malaysia will see the biggest relative gains, both economy-wide and by sector.

The biggest winner within low-wage Vietnam is expected to be clothing and footwear, with the study showing value-added output up 44.6 percent in 2025 and exports up \$52 billion.

Potential beneficiaries in the sector, which ships 60 percent of its output to TPP countries, include Thanh Cong Textile Garment Investment Trading Company and Northern Textiles and Garments.

Meanwhile, the \$57 billion US yarn and textile industry is hoping US negotiators win protections for a sector that is rebounding from a decade-long slump and sustains more than 1.5 million regional jobs.

Vietnam's stock market offers limited investment options, however. Although the Ho Chi Minh Stock Exchange's market capitalization rose 15 percent between 2012 and 2014, it is still just 1 percent of

Tokyo's and 10 percent of Kuala Lumpur's.

In Malaysia, machinery and electrical equipment are seen by the study as big beneficiaries, getting a combined \$26 billion export boost for products such as those made by Muhibbah Engineering, Sime Darby Industrial, Favelle Favco and Khind Holdings.

HSBC economists wrote in a research note that stronger protection for intellectual property under the TPP would encourage foreign investment in Malaysia's electronics sector, which makes up 20 percent of total exports and has 60 percent of value added from overseas.

Mexico's deputy trade minister has said the country hopes to double agriculture exports to Japan to about \$2 billion a year, while exports of personal hygiene products and other cosmetics to Japan would also increase.

That could help Kimberly-Clark de Mexico, which makes personal care and household hygiene products, and Genomma Lab Internacional, a maker of personal care products.

Mexican food companies Gruma and Grupo Bimbo could be in line to benefit from stronger farm exports.

Other major winners could include dairy giant Fonterra, if New Zealand gets the access to dairy markets in the United States, Canada and Japan that it is seeking. Air freight companies United Parcel Service and FedEx Corp stand to gain from increased shipping demand.

Pazzanese said an expected strengthening of intellectual property rights under the TPP would be a boon for US tech, biotech and media stocks such as Walt Disney Co.

Overall, if the TPP was the only factor affecting stocks, his trading strategy would be to buy Mexico, Japan and US agriculture, tech, media and telecommunications, and avoid countries sitting out at least the first round, like Indonesia, the Philippines and China.

"What I would be short is short China, short (Association of Southeast Asian Nations) markets that didn't make the cut," he said.

Malaysia ringgit hits 16-year low on political uncertainty

AFP, Kuala Lumpur

Malaysia's ringgit hit a 16-year low Monday on growing political uncertainty following allegations that a probe into a state investment fund found hundreds of millions of dollars were transferred into the prime minister's personal accounts.

The currency dropped 0.8 percent to 3.8088 against the greenback in Kuala Lumpur, the lowest level since May 1999.

The currency was fixed at 3.8 to the dollar in 1998 during the Asian financial crisis after it slumped 35 percent the previous year. The peg was dropped in 2005.

Malaysian stocks were also down 1.3 percent, in line with regional markets that have been roiled by the Greek debt negotiation saga.

The Wall Street Journal reported on Friday that government investigators had uncovered nearly \$700 million that moved through government agencies, banks and companies linked to state-controlled investment fund 1Malaysia Development Bhd (1MDB).

It said the funds ended up in the accounts of premier Najib Razak, who chairs the advisory board of 1MDB which he launched in 2009.

Malaysia's attorney general said Saturday that a task force would investigate the allegation, which Najib has dismissed as "political sabotage".

1MDB has said it had never provided any funds to Najib, and the premier has in the past persistently denied any wrongdoing.

Both Najib and 1MDB have also said that previous leaked documents had "reportedly" been tampered with, and that the documents cited by the WSJ had not been verified.

The prime minister, under pressure after being accused of failing to properly address allegations that hundreds of millions of dollars have gone missing from deals involving 1MDB, earlier this year ordered government auditors to examine the fund's books.

Ooi Chin Hock, a dealer with M & A Securities, said the cloud over the prime minister and his failure to respond specifically to the allegations were causing uncertainty.

"Weak oil and commodities prices, along with an unexpected slowdown in exports of Southeast Asia's third largest economy, is also putting strain on the ringgit," he told AFP.

"Investors' confidence has been shattered. Unless we settle the political issue involving Najib and 1MDB, the ringgit could slide lower."



Chinese President Xi Jinping poses for a group photo with the delegates attending the signing ceremony for the Articles of Agreement of the Asian Infrastructure Investment Bank at the Great Hall of the People in Beijing on June 29.

Beijing names preferred chief for China-led bank

AFP, Beijing

Beijing on Monday named a former vice minister of finance as its preferred candidate to head the China-led Asian Infrastructure Investment Bank (AIIB), a potential rival to the Washington-based World Bank.

"The Chinese government has officially nominated Jin Liqun to be China's candidate for the presidency of the AIIB," the finance ministry said in a statement.

He is effectively certain to be appointed as Beijing will initially have a 26.06 percent share of the votes at the bank, giving it veto power over the choice of the president, which requires a 75 percent majority.

The AIIB has been viewed by some as a rival to the World Bank and Asian Development Bank, and the United States and Japan -- the world's largest and third-largest economies, respectively -- have notably declined to join.

Beijing will be by far the largest AIIB shareholder at about 30 percent, according to the legal framework signed by 50 founding member countries last week.

Jin, who is now chief of the AIIB's preparation body, has previously worked for both the World Bank and the Asian Development Bank, as well as the finance ministry, according to a biography attached to the statement.

He was also formerly a top official at the China Investment Corporation, the country's sovereign wealth fund, it showed.

"He has 'abundant experiences in leading and managing government agencies, international organisation and private companies', the statement said.

A Hubert Humphrey Fellow in economics at Boston University in 1987-88, Jin has a master's degree in English literature, speaks fluent English and reportedly good French.

Nominations close this month and the president will be elected at the inaugural meeting of the bank's board of governors after it is officially launched, expected to be later this year, the Chinese finance ministry statement said.

German factory orders slip in May

AFP, Frankfurt

German industrial orders, a key measure of demand for goods in Europe's top economy, slipped slightly in May, the economy ministry said on Monday.

Provisional official data showed a decrease of 0.2 percent month-on-month, following an increase of 2.2 percent in April.

Analysts polled by financial services firm FactSet had pencilled in a slightly bigger drop of 0.4 percent for May.

The decline was attributable to weaker domestic demand for German-made goods. Domestic orders fell by 0.6 percent, while export orders edged up by 0.2 percent, the ministry calculated.

Orders from the eurozone were down 1.5 percent, while orders from outside the single currency area grew by 1.2 percent.

The economy ministry said that looking at data for April and May combined, factory orders increase by 2.7 percent compared with February and March.

The trend, therefore, "remains pointed upwards, particularly for foreign orders," the ministry said. "German industry is gaining momentum."

China's influence grows as Russian crisis rocks Central Asia

AFP, Dushanbe, Tajikistan

At a bazaar in Tajikistan's capital Dushanbe, once a far-flung outpost of the Soviet Union, cheap goods from neighbouring China are helping offset the pain caused by Russia's economic meltdown.

As low world prices for Russian energy exports and Western sanctions over Ukraine stir economic trouble in Russia, Tajikistan has seen its national somoni currency weaken and thousands of migrants drift back home to a mostly jobless environment.

Last month the impoverished Central Asian country's national bank announced remittances -- mostly transfers from Russia where close to half of Tajikistan's working age males are believed to work -- had fallen by over 40 percent comparing the first quarters of 2014 and 2015.

Yet the economic bonds tying the nation of eight million people to gargantuan China are growing stronger every day.

"The trade is good here," says a Chinese salesman at the Korvon bazaar in Dushanbe, who gives his name as Wan and hawks affordable synthetic versions of the Tajik national dress worn by conservative families.

"There is always some kind of opportunity," he told AFP. Formally China unveiled its Silk Road Economic Belt -- a vision of massive investments in infrastructure to power overland trade and economic integration across Eurasia -- during a speech President Xi Jinping gave in energy-rich Kazakhstan in 2013.

Beijing's economic transformation of the lands west of its restive Xinjiang province has gathered pace in the last decade, overhauling Russia as the main trade partner of four of the five Central Asian countries that gained independence from Moscow in 1991 as it splurges billions of dollars on roads and pipelines to



A Chinese worker carries a bucket at a construction site of a road between Dushanbe and Khujand in Tajikistan.

link up the disjointed region.

"China is certainly the most visible player economically, and the loudest one," says Raffaello Pantucci, director of International Security Studies at the Royal United Services Institute (RUSI) in London.

"The amounts of money that you see being allocated or discussed when Russian leaders or individuals visit the region are always eclipsed by those that follow Chinese visits," he told AFP.

Publicly Russia has not complained at growing Chinese economic dominance in its onetime backyard while the pair share membership of the Shanghai Cooperation Organisation (SCO), which includes all five Central Asian

states and will mark its 14th annual summit in the Russian city of Ufa next week.

Moscow is also hopeful it will be a core beneficiary of China's Silk Road vision, but has tellingly resisted the creation of a development bank within the SCO, reportedly fearful it would expose China's seniority in their regional partnership.

For Tajikistan, lacking the resources of other Central Asian states -- Kazakhstan, Turkmenistan and Uzbekistan -- China's belt is a lifeline. Beijing has pledged to invest at least \$6 billion or the equivalent of 70 percent of the country's annual GDP over three years last September.

Investors lower Samsung Elec Q2 expectations amid S6 doubts

REUTERS, Seoul

Doubts over the sales prospects of Samsung Electronics Co Ltd's new flagship smartphones are damping expectations of a rapid turnaround for the South Korean giant, even though profit likely continues to recover from last year's troughs.

After peaking in mid-March as favourable reviews for the new Galaxy S6 models boosted earnings hopes, the company's stock price has languished and was down nearly 6 percent for the year as of mid-day trade on Monday. Supply shortages for the curved-screen S6 edge and economic headwinds in Europe and China have lowered expectations.

"After the first-quarter results the consensus for

second-quarter earnings was somewhere in the high 7 trillion won (\$6.22 billion), but now I think so long as the first digit doesn't start with a six it won't be a shock," HDC Asset Management fund manager Park Jung-hoon said.

The average forecast from a Thomson Reuters I/B/E/S survey of 39 analysts tips April-June operating profit at 7.2 trillion won, the same as a year earlier and up from 6 trillion won in January-March. Of those surveyed, 20 have cut their forecasts in the past 30 days by an average of 3.9 percent.

Samsung is expected to guide its second-quarter revenue and profit on Tuesday, with full results to follow at end-July.

To be sure, analysts say the trend of gradual earnings recovery remains intact. The

Thomson Reuters I/B/E/S survey tips 2015 profit to recover to 27.8 trillion won from the three-year low of 25 trillion won in 2014. Third and fourth-quarter profits this year are expected at 7.3 trillion won and 7.5 trillion won, respectively, posting significant gains in annual terms.

Samsung expects the new phones to be their best-selling devices to date. Data from researcher Counterpoint released in June showed that Samsung sold 6 million S6 smartphones from the April 10 launch to the end of the month, outpacing the previous S5 model in the same time frame.

But analysts say Samsung's failure to anticipate demand for the S6 edge led to a missed opportunity.