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Review of Emerging Markets

July 2012, with a focus on the Asia-Pacific region

Highlights of the month

- Emerging markets ended July in positive territory as investors largely shrugged off ongoing macroeconomic uncertainties.
- Several central banks – including those of Brazil, South Africa, South Korea and the Philippines – cut interest rates in the month in a bid to boost economic growth.
- Recent reports have also indicated that Brazil is considering implementing additional stimulus measures such as tax cuts and investment incentives.
- In China, an improvement in HSBC's purchasing managers' index suggests that recent policy measures are having a positive effect on economic activity in Asia's largest economy.
- Elsewhere, domestic demand remains robust in a number of emerging markets, including Chile, Mexico and Indonesia.
- Various profit results and corporate deals highlight how the Asia-Pacific region remains an attractive growth market for companies.

Statistical summary

Stockmarket Indices (US$)	Jul-12	1 Month		3 Months	6 Months	12 Months
MSCI Emerging Markets	952.49	1.61%	▲	-7.17%	-6.56%	-16.28%
MSCI Eastern Europe	184.84	1.14%	▲	-11.30%	-11.45%	-28.98%
MSCI Russia	744.58	2.59%	▲	-11.98%	-11.98%	-27.53%
MSCI Arabian Markets ex Saudi Arabia	501.15	-0.34%	▼	-5.18%	-3.52%	-8.46%
MSCI Latin America	3,566.30	1.27%	▲	-9.11%	-11.97%	-17.20%
MSCI Brazil	2,593.83	1.42%	▲	-12.76%	-20.20%	-25.32%
MSCI EM Asia	398.46	1.55%	▲	-6.66%	-4.80%	-15.47%
MSCI China	54.27	1.30%	▲	-9.74%	-7.31%	-16.79%
MSCI India	370.66	-0.67%	▼	-6.40%	-11.61%	-25.20%

Sources: Bloomberg/MSCI/Barra

Global emerging markets in July

Economic newsflow in the month highlighted that recent slowing of activity in the developed world is having an impact on many emerging markets. Against this backdrop, a number of emerging market central banks have either already moved to cut interest rates, or have indicated an inclination to do so.

A highlight of the month was the widely expected decision by the Copom, the policymaking committee of Brazil's central bank, to cut interest rates by 50 basis points to 8.00% – a record low. The minutes of the meeting on July 11 hinted at the possibility of a further reduction in interest rates later in the year. The benchmark Selic rate has now been lowered by 450 basis points since August 2011. Towards the end of the month, reports also indicated that the administration of President Dilma Rousseff is looking to take steps to lower taxes and boost investment in Brazil.

Elsewhere in Latin America, Mexico remains a beneficiary of growing trade in the Americas and although HSBC's PMI for the manufacturing sector fell from 55.9 in June to 55.2 in July, the figure remains above the long-term average (a figure of more than 50 represents an increase in activity). HSBC noted that 'Growth of both output and new orders remained robust, despite having weakened from June, and encouraged firms to take on more staff. Inflationary pressures, meanwhile, eased, with the latest increase in costs the slowest in a year.'

The Chilean economy also appears to be in robust shape. While the central bank had envisaged a slowdown in activity due to an uncertain global macroeconomic environment, it recently noted that consumption and investment has shown no significant slowdown, with consumer confidence rising.

In Africa, the Monetary Policy Committee of the South African Reserve Bank opted to cut interest rates by 50 basis points to 5.00% in response to slowing economic activity. The central bank is looking for the South African economy to grow by by 2.7% this year, followed by 3.8% in 2013 and by 4.1% in 2014.

HSBC's purchasing managers' indices (PMIs) for the manufacturing sectors of Poland, Turkey and the Czech Republic indicated that activity remains largely resilient in Central and Eastern Europe, despite the ongoing problems in the neighbouring eurozone.

Region in focus: The Asia-Pacific

In the Asia-Pacific region, it appears that recent measures introduced by policymakers in China to boost activity are having a positive effect on the domestic economy. For example, HSBC's purchasing managers' index (PMI) for China's manufacturing sector rose from 48.2 in June to 49.3 in July (a figure of less than 50 represents a decline in activity). This suggests that activity in the manufacturing sector, much of which is exposed to weakness in demand for exports, is stabilising. HSBC found that manufacturing output in Asia's largest economy rose for the first time in five months in July. Hongbin Qu, HSBC's Chief Economist for China, believes that policymakers could introduce additional stimulus measures over the coming months to support growth and employment.

In India, the Governor of the Reserve Bank of India decided to keep interest rates unchanged at 8.0%. Economic growth has been slowing – in part due to heavy monsoon rains (which have reduced agricultural production) – and the central bank has revised downwards its projection for economic growth from 7.3% to 6.5% for the current fiscal year. Wholesale Price Index (WPI) inflation remains at an unacceptably high level of 7.3% (as per June this year), driven by rising prices for food and fuel.

Two central banks in the region moved to reduce interest rates during July. In Korea, the central banks decided at its meeting in the middle of the month to cut interest rates by 25 basis points from 3.25% to 3.00%. The Monetary Policy Committee noted that economic activity and inflation in South Korea are likely to be negatively impacted by slowing activity in the US and the ongoing problems of the eurozone.

Elsewhere, Bangko Sentral ng Pilipinas, the central bank of the Philippines, cut rates by 25 basis points to 3.75%. The Board noted that 'while the Philippine economy can rely on the resilience of domestic spending to sustain growth, additional policy support would serve as a buffer… The benign inflation outlook provides room for a reduction in rates as a pre-emptive move against the risks associated with the global slowdown.’

The Board of Governors of Bank Indonesia was similarly upbeat over the prospects for economic growth, underlining the continued resilience of the wider ASEAN region. The central bank is looking for Indonesia’s economy to achieve growth of 6.1-6.5% in 2012, followed by 6.3-6.7% in 2013. ‘Economic growth is mainly supported by strong domestic demand, as private consumption and investment growth remain high. From the production side, all sectors are expected to chart favourable growth. The main driver is expected to come from, among others, the transportation and communication sector, trade, the hotel and restaurant sector, as well as the manufacturing sector.’

A number of corporate deals and profit results recently announced by multinational companies continue to highlight the strong growth prospects of the Asia-Pacific region. In early July, for instance, China Ming Yang Wind Power Group, the third-largest maker of wind turbines in that country, reached an agreement to buy a 55% stake in Global Wind Power Limited. Global Wind Power is owned by Indian billionaire Anil Ambani. This deal is the latest example of a Chinese wind turbine group expanding its activities in India.

In mid-July, reports indicated that Alstom SA, the French company that is the world’s third-largest manufacturer of equipment for power stations, has plans to expand its operations in Tianjin, China. Once completed, its facility in Tianjin will be its largest (of six) factories worldwide that produce equipment for hydro-electric power stations. Alstom should be a significant beneficiary of the Chinese government’s plans to expand the percentage of electricity generation that does not rely on fossil fuels.

In the consumer space, The Coca-Cola Company noted that sales volumes in the second quarter of 2012 in Eurasia and Africa were 12% higher than they had been in the previous corresponding period. Sales in India were 20% higher than they had been in the second quarter of 2011.

All in all, the prospects for many industries and companies across the emerging markets of the Asia-Pacific region continue to be enhanced by the growth of intra-regional trade and favourable trends within the various economies. Some companies that are based in the region clearly have leadership positions in their respective industries at a global level. The rise of the Asian consumer, for instance, is one of the largest changes taking place in the world today, while the region continues to see significant fixed asset investment as government’s look to improve infrastructure.

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