



Emerging Markets  
Investing in the new reality...



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# Masterclass – Emerging Markets

The West vs. the Emerging Markets

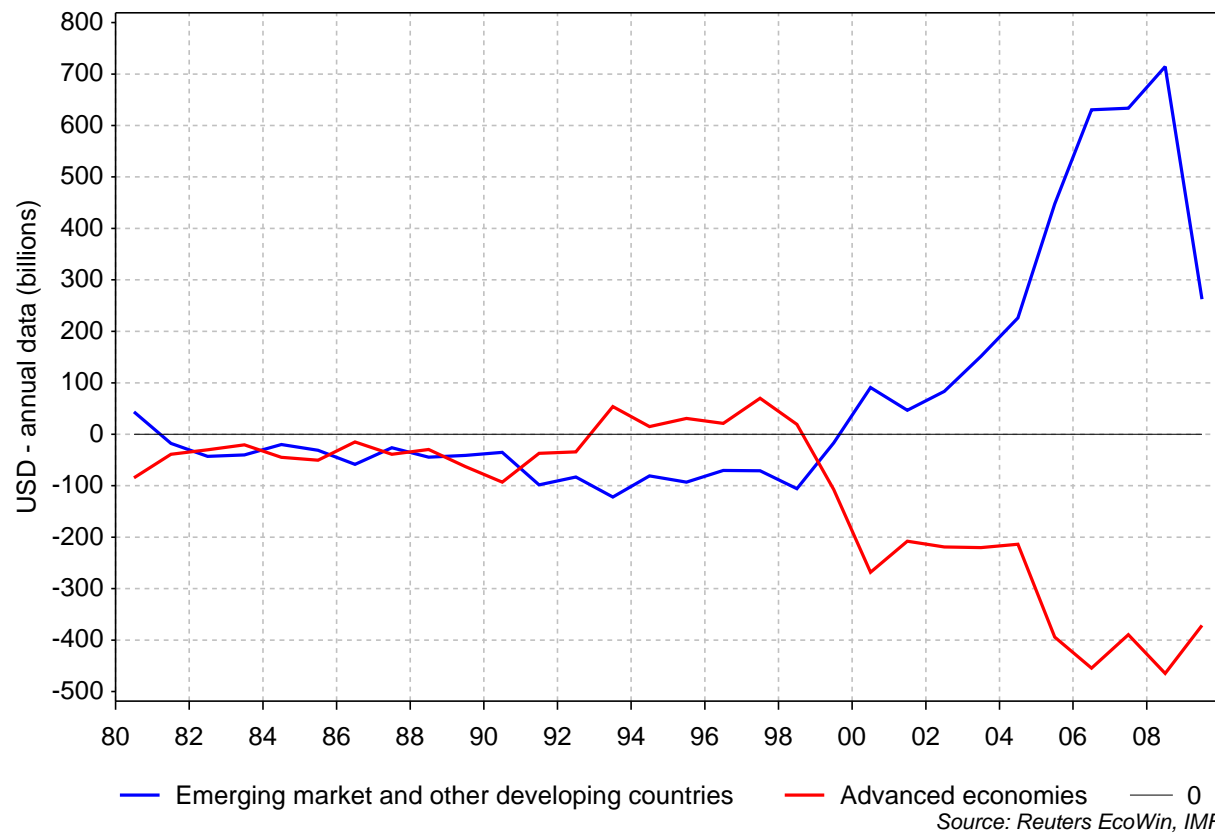
Chris Watling, CEO, Longview Economics

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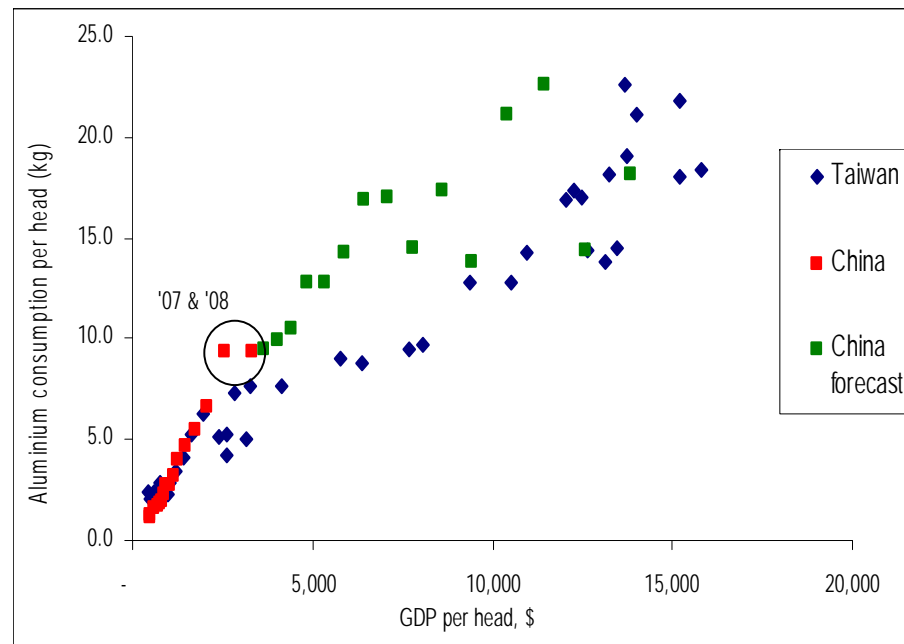
# 1a. Emerging Markets – Structural economic strength



Annual current account balance (in US\$): Emerging Market vs. Advanced economies

## 1b. The Industrialisation Dynamic

Chinese pattern of industrialisation (1990 to today) vs. that of Taiwan (1970 – 2007) – shown with Aluminium consumption



## 1c. Emerging markets: Income Catch-up

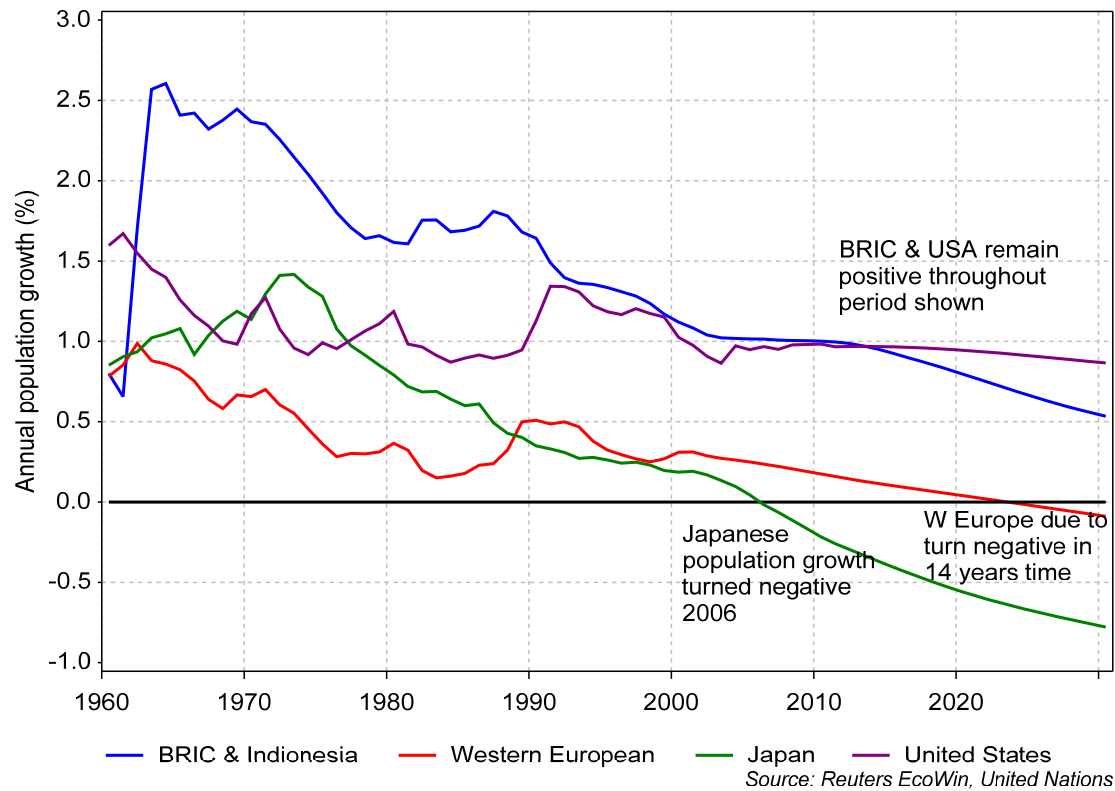
Long term average economic growth rates, shares of world economy, GDP per capita (US\$) & share of world population

	1990 – 2010* (long term average real p.a. GDP growth)	Share of world economy on PPP basis	Share of world economy – nominal basis (US\$)	GDP per capita (US\$)	Share of world population
World GDP growth	3.47	100	100	6,910	100
United States	2.60	21.3	27.8	41,640	4.7
Euro area	1.84	15.01	22.4	32,130	4.9
G7	2.16	40.8	60.6	n/a	n/a
Newly Industrialised Asia**	5.36	3.64	3.2	21,032	1.3
Developing Asia*	7.73	22.70	n/a	n/a	52.9
China	9.93	10.8	5.0	1,700	20.4
India	6.47	4.6	1.8	730	18.0
Emerging & developing economies	4.93	n/a	n/a	n/a	84.8
Middle East	4.93	3.99	2.25	n/a	3.7

\*Developing Asia = China & India & 14 other Asian countries; \*\*Newly Industrialised Asia = HK, Taiwan, Singapore & S Korea

# 1d. EM – Better Demographic Profile

Total population growth (annual, %; 1960 to 2050)



## 2a. Preconditions for Relative Decline of leading world economic powers

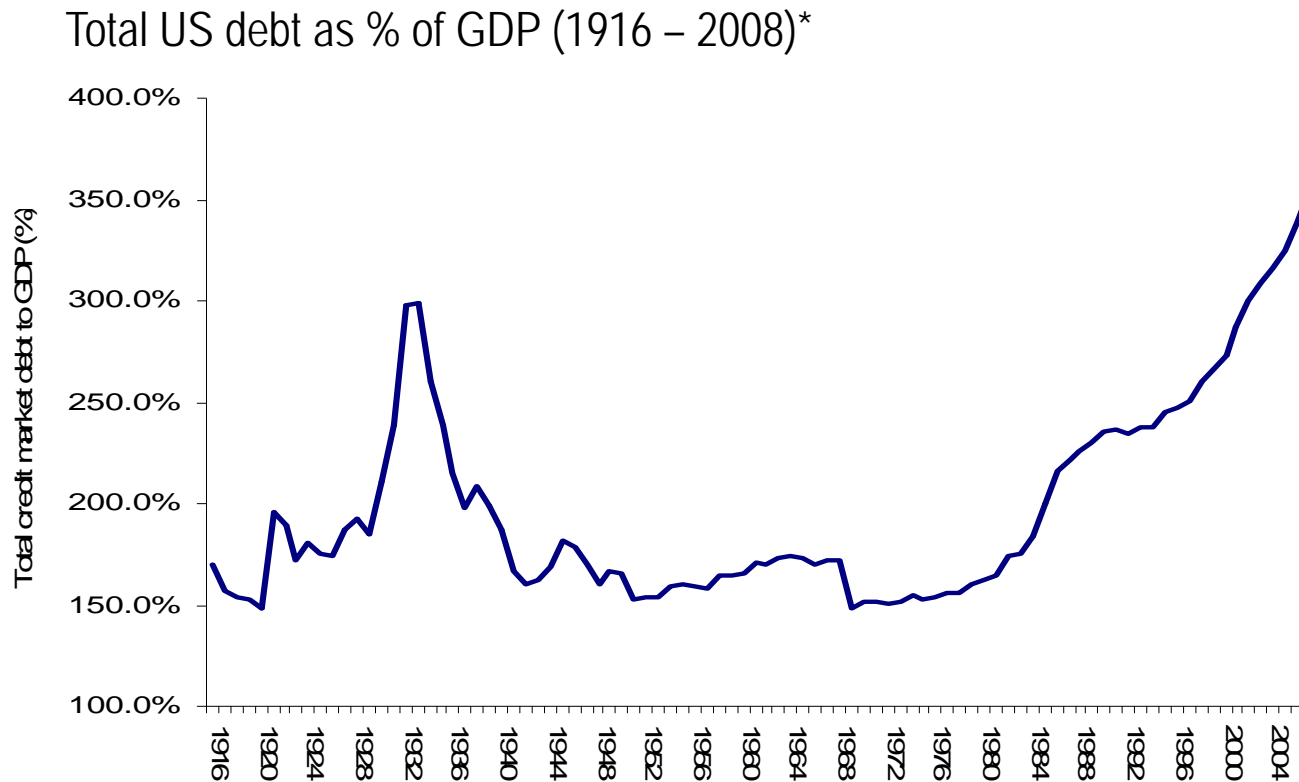
Kindleberger's preconditions

1. Overindebtedness
2. Foreign Policy overstretch – military overextension
3. Currency debasement
4. Energy dependency
5. Political corruption – “consolidation of groups looking after narrow parochial interests” Paul Kennedy
6. Financialisation of economy – deterioration of manufacturing base
7. Loss of technological leadership (?)

Source: CP Kindleberger, World Economic Primacy, 1500 - 1990



## 2b. Record Indebtedness (US & Western)



\*includes financial sector debt,

Source:

## 2c. Shifting World Economic Primacy – a weakened USA (& west)

Rule of Thumb – World Economic Primacy; The 100 Year Cycle

Economic Primacy	
C15th	Italian City States
C16th	Portugal & Spain/Hapsburgs
C17th	United Provinces of Netherlands
C18th	France (?)
C19th	Great Britain
C20th	United States
C21st	???

Source: Kindleberger

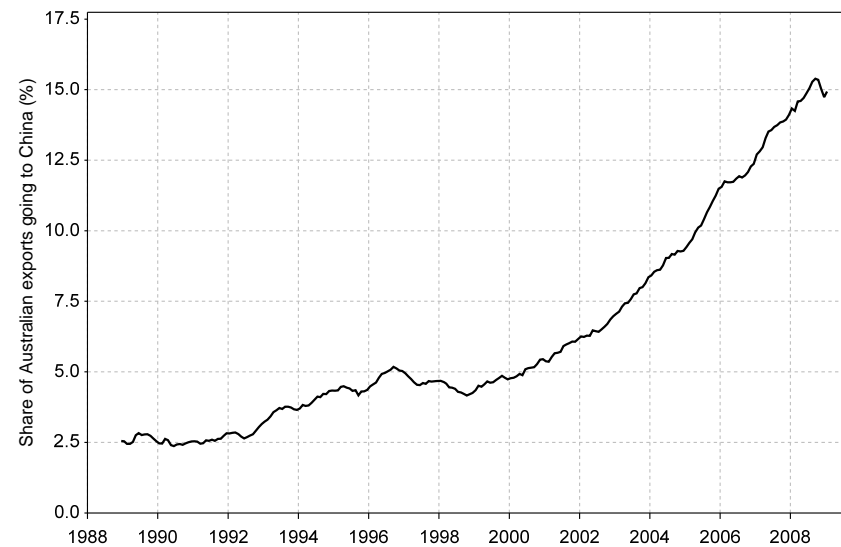
## 3a. China – Central to EM strength Emerging 2nd Global Centre

Share of Brazilian exports to China  
(% of total)



Source: Reuters EcoWin

Share of Australian exports to China  
(% of total)



Source: Reuters EcoWin

## 3b. China's Growing Share of Commodity consumption (From G1 to G2)

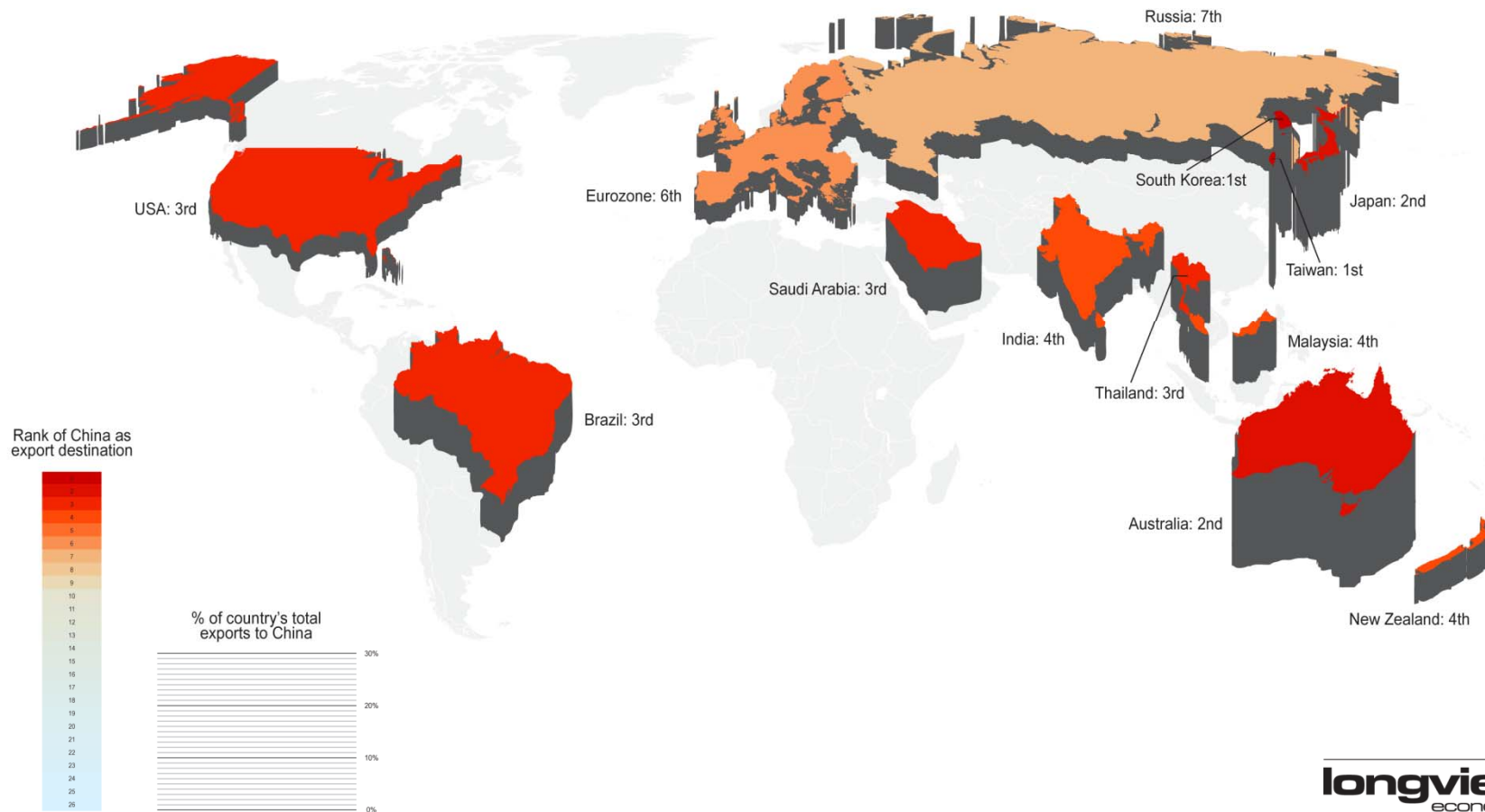
	China's share of world consumption (% of total)		
	1998	2008	2020*
Copper	11%	28%	43%
Aluminium	11%	33%	45%
Oil	6%	9%	20%
Lead	9%	36%	n/a
Gold	8%	13%	n/a
Coal	29%	43%	50%+
Natural Gas	1%	3%	n/a

Source: Longview Economics, WMBS, BP world oil report

\*\*Forecast Longview Economics  
Jan-10

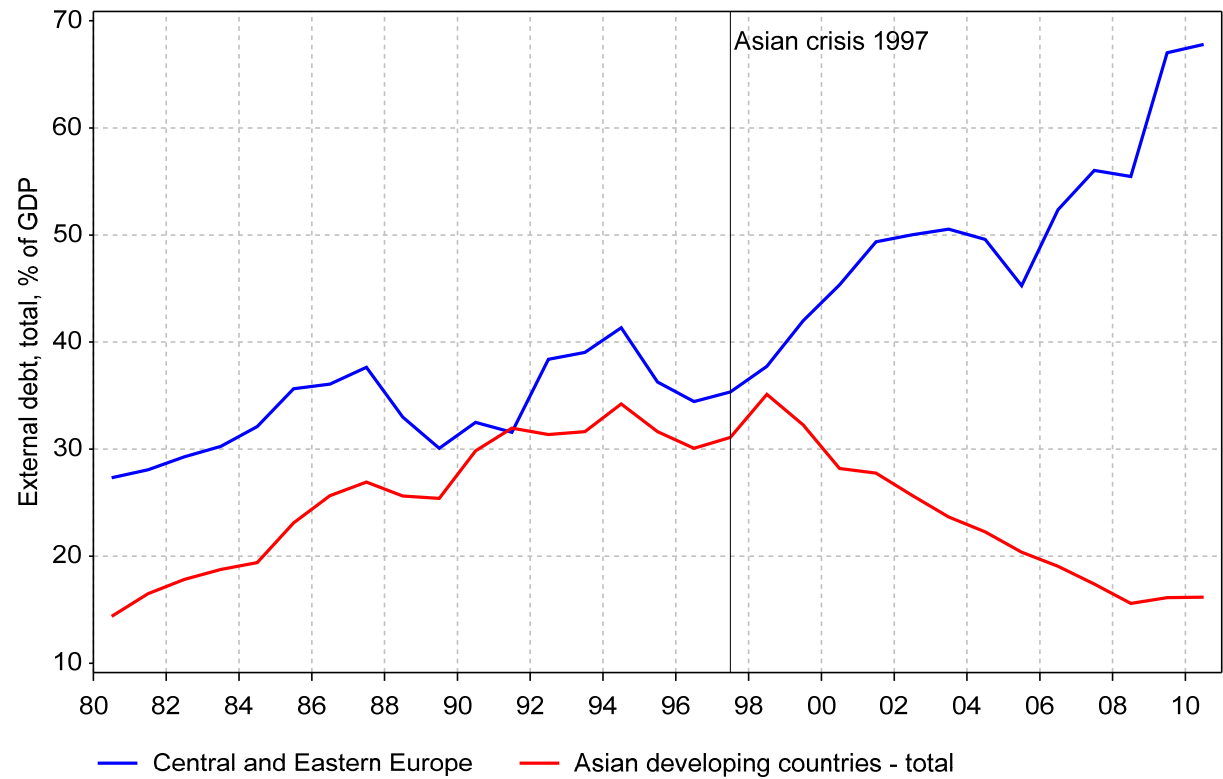
# 3c. China's Importance to Global exporters

## EXPORTS TO CHINA IN 2008



## 4a. Eastern Europe – the exception

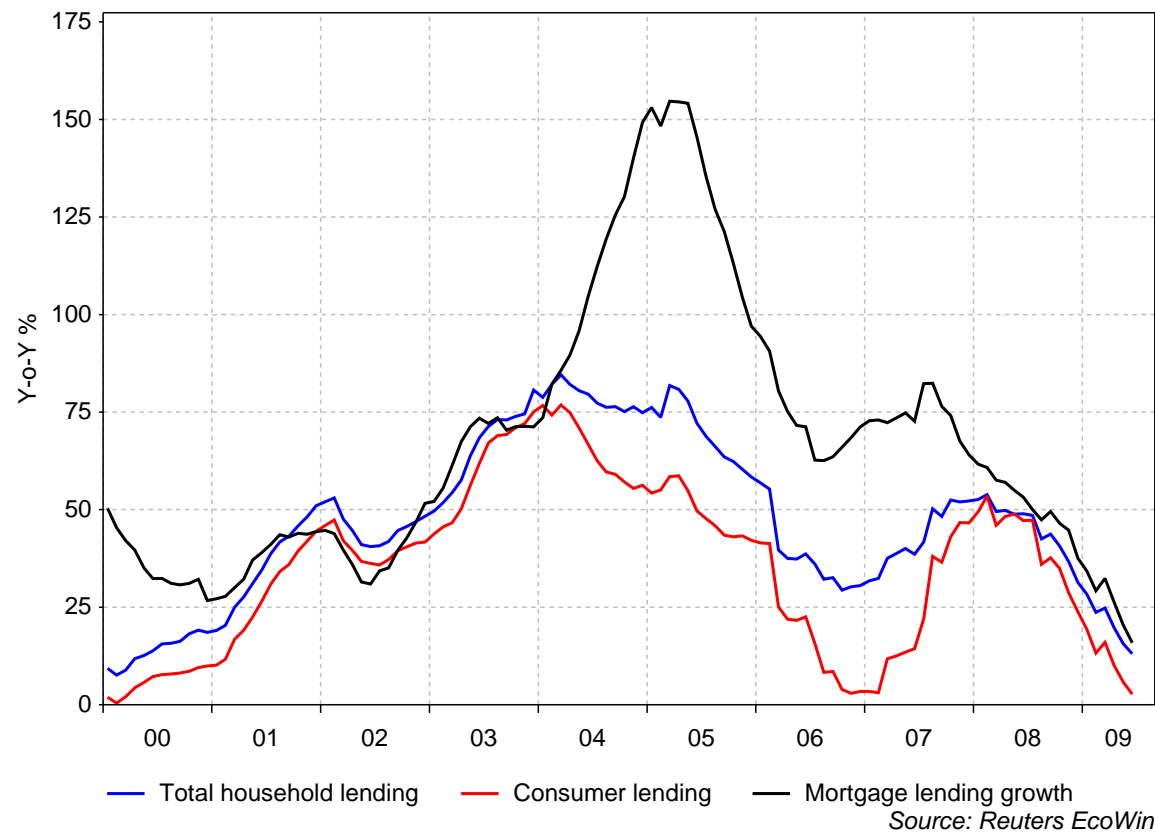
External Debt to GDP – Central & Eastern Europe vs. Asia (developing)



Source: Reuters EcoWin, IMF

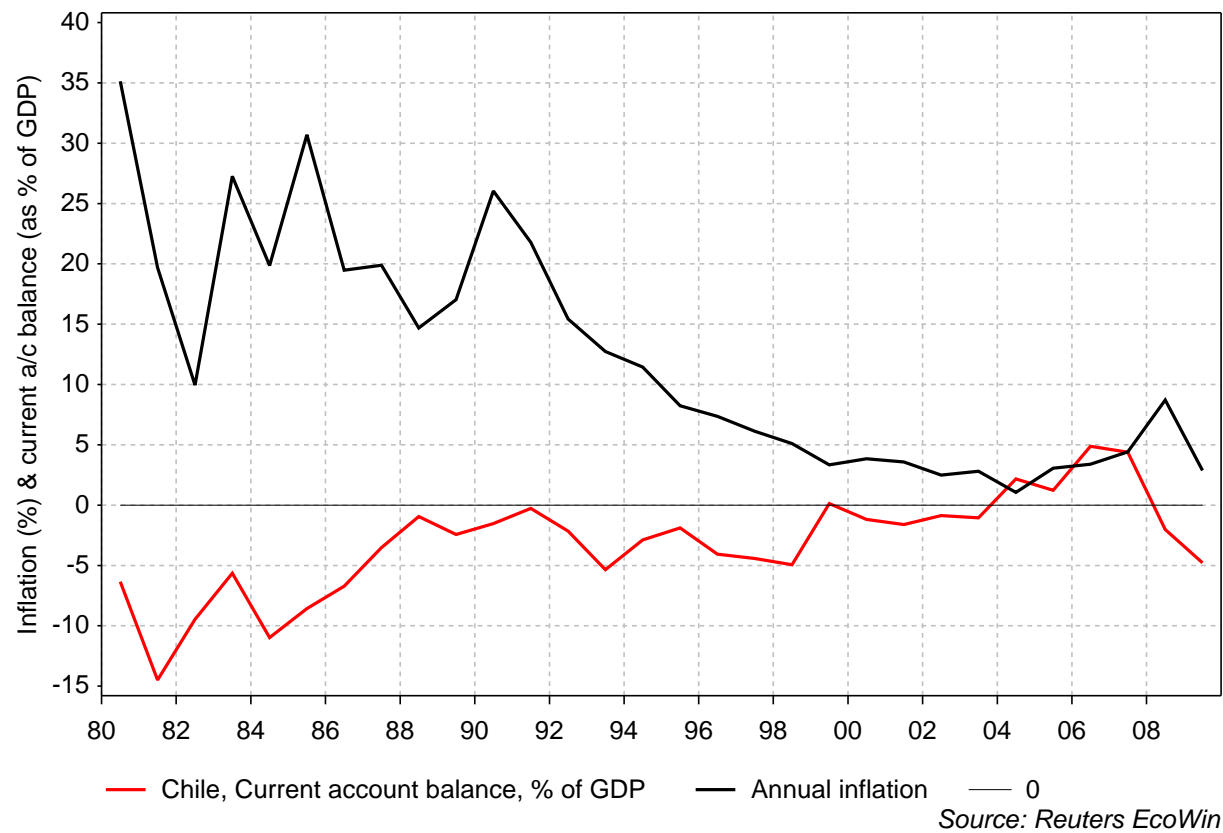
## 4b. Bulgaria: Unwinding a credit & asset price bubble

Household lending growth (Y-o-Y %)



## 4c. Chile – Paragon of Virtue

Chilean current account balance as % of GDP & annual inflation (%): 1980 to current





## 5a. Emerging Market Valuations – Attractive?

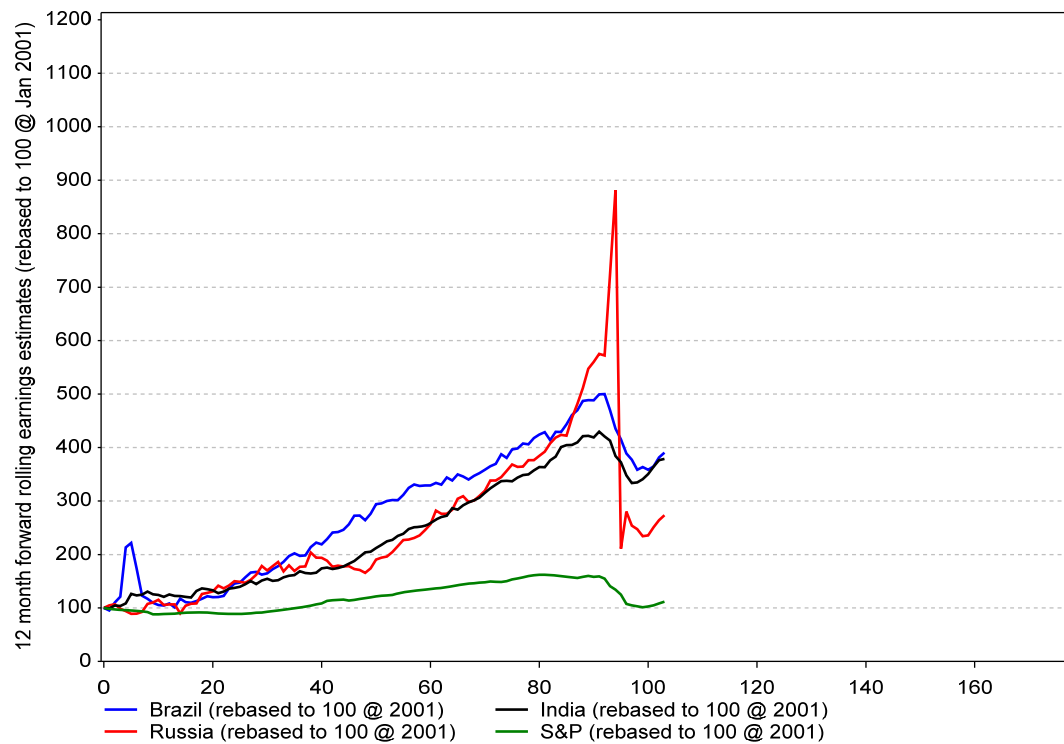
MSCI Emerging Market index country weightings & PERs (based on 12m forward consensus EPS)

Western B/marks	PER (12m fwd eps)		MSCI EM	PER (12m fwd EPS)	% index weighting
US	14.7		Israel	13.2	2.9
UK	13.3		Indonesia	14.4	1.8
Euro zone	13.4		Turkey	9.9	1.6
			Chile	17.0	1.4
MSCI EM	PER (12m fwd EPS)	% index weighting	Thailand	11.0	1.3
China	16.4	18.8	Poland	13.2	1.2
Brazil	12.1	15.3	Colombia	-	0.7
S Korea	12.5	13.1	Czech Republic	11.8	0.6
Taiwan	13.7	11.4	Egypt	-	0.6
South Africa	12.7	7.2	Hungary	9.7	0.6
India	16.4	7.0	Peru	11.2	0.6
Russia	7.3	5.7	Phillippines	13.6	0.5
Mexico	14.7	4.7	Morocco	-	0.3
Malaysia	16.3	2.9			

Source: Longview Economics, JCF Aggregates; Ecwin

# Outlook for EM Earnings (vs. S&P earnings)

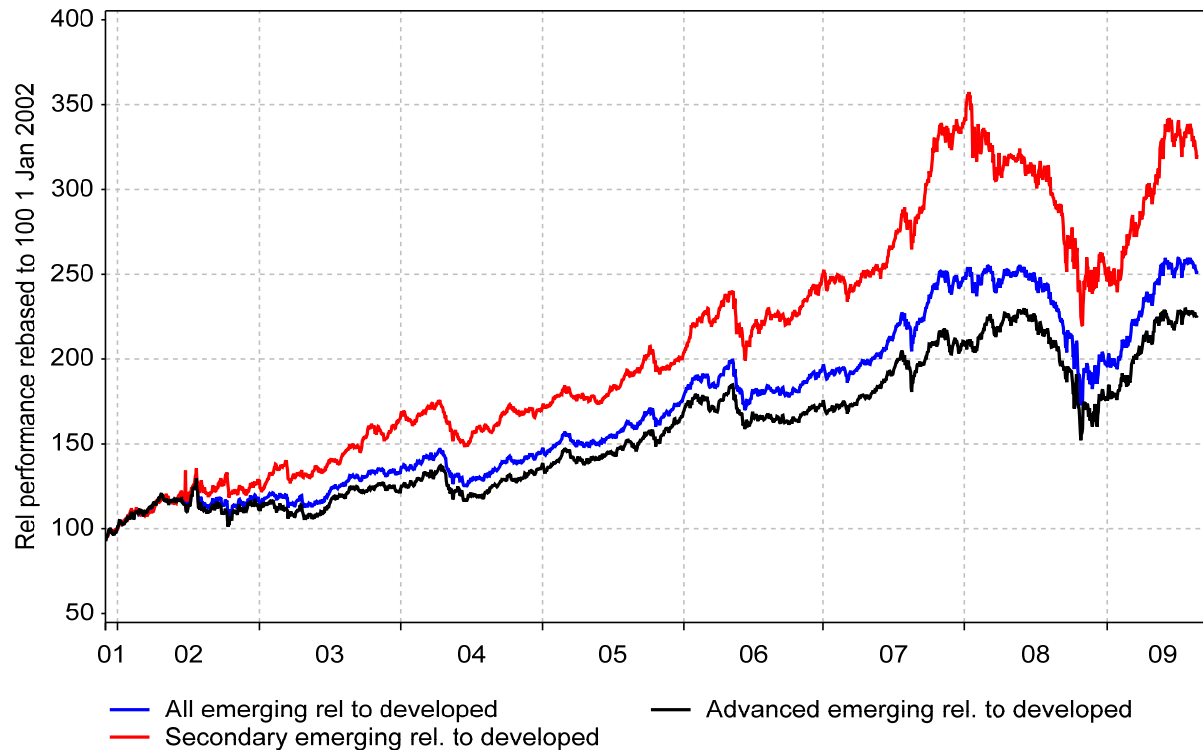
Consensus Earnings growth (2001 to current) – Brazil, India & Russia (benchmarked against S&P EPS growth)



Source: Reuters EcoWin

# MSCI Emerging Markets vs. Developed Equity markets

EM equities rel. to developed world equities



Source: Reuters EcoWin

# Conclusion

- Emerging markets – faster economic growth
- EM – driven by industrialisation & Income catch-up
- Emerging markets – structurally strong
- West – structurally weakened
- Small share of world GDP; large share of world population
- China – increasingly significant global trading partner
- Valuations – attractive?

- **Disclosures:** This report has been prepared for information purposes only and is not a solicitation, or an offer, to buy or sell any security. It does not purport to be a complete description of the securities, markets or developments referred to in the material. The information on which the report is based has been obtained from sources which we believe to be reliable, but we have not independently verified such information and we do not guarantee that it is accurate or complete. All expressions of opinion are subject to change without notice. This report has been prepared solely for the person to whom it is addressed and must not be relied upon by any other person for any purpose whatsoever. We accept no responsibility whatsoever for any investment or asset allocation decision taken on the back of any or all of the information and/or advice in this report.
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