

[Markets]

I've been thinking about...

**... the markets
in the new reality**

... emerging markets in the new reality

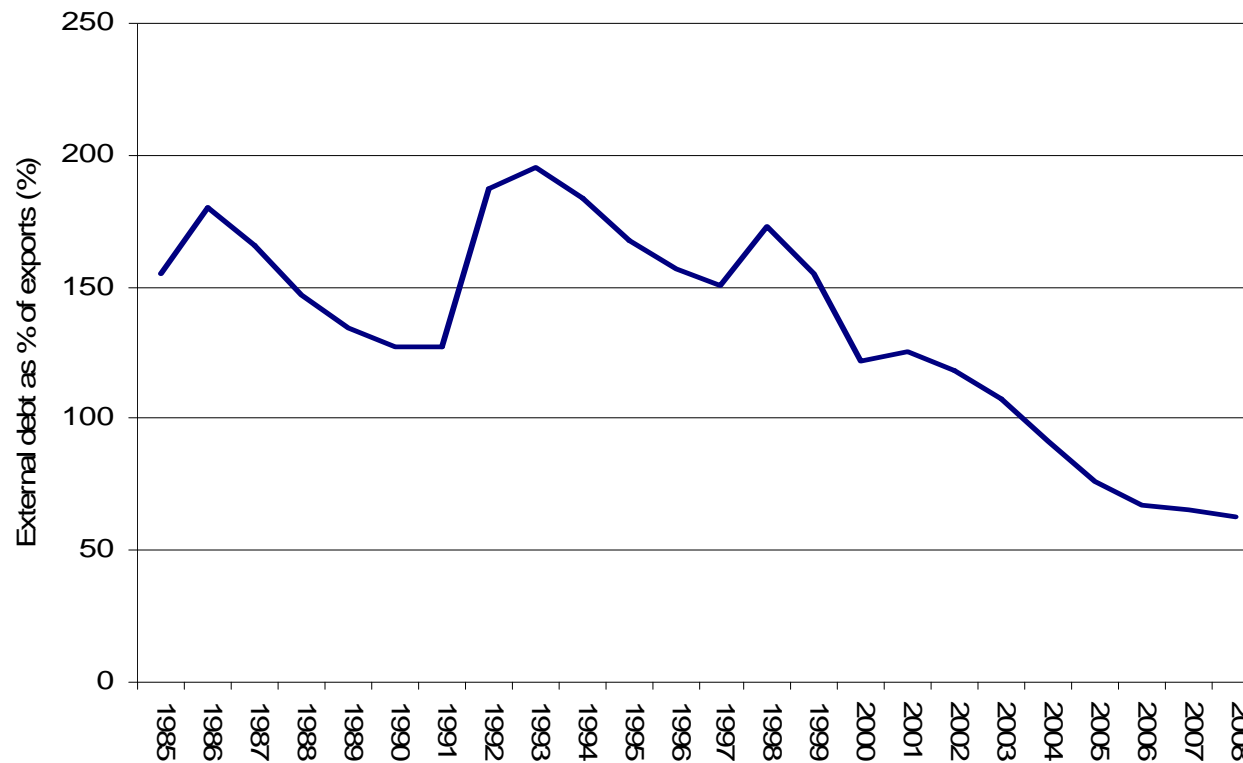
Chris Watling | CEO | Longview Economics



CONFERENCE

1. Structural Economic Strength in Global Economy Resides in Emerging markets

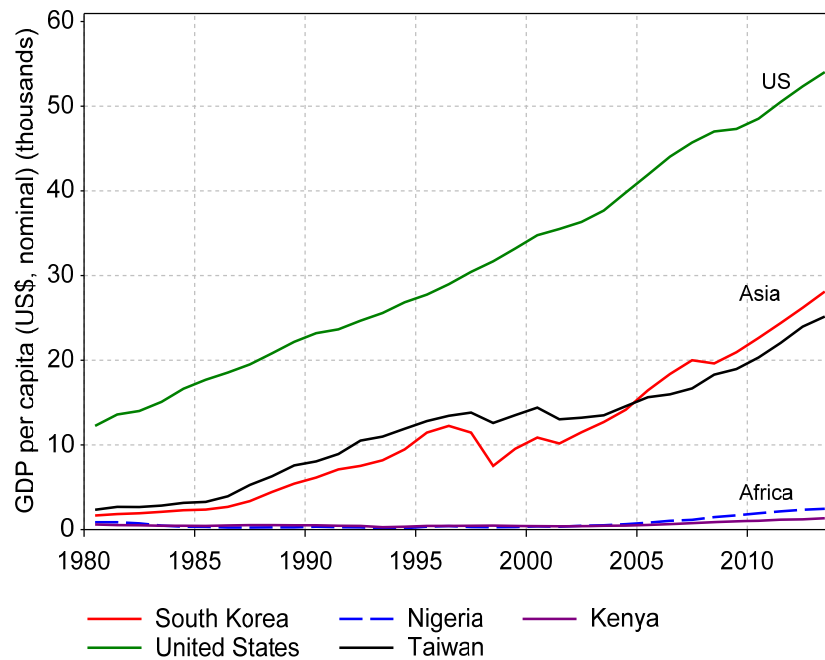
Emerging market external debt as % of exports



2. The Industrialisation Dynamic

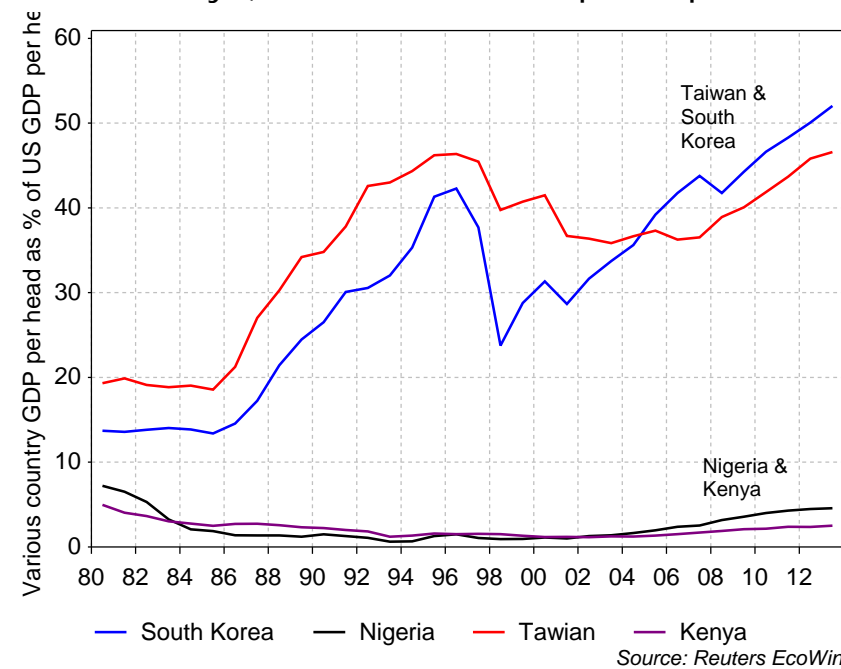
Emerging markets: Income Catch-up

GDP per Capita (US\$, US, Taiwan, South Korea, Nigeria & Kenya)



Source: IMF, Reuters EcoWin

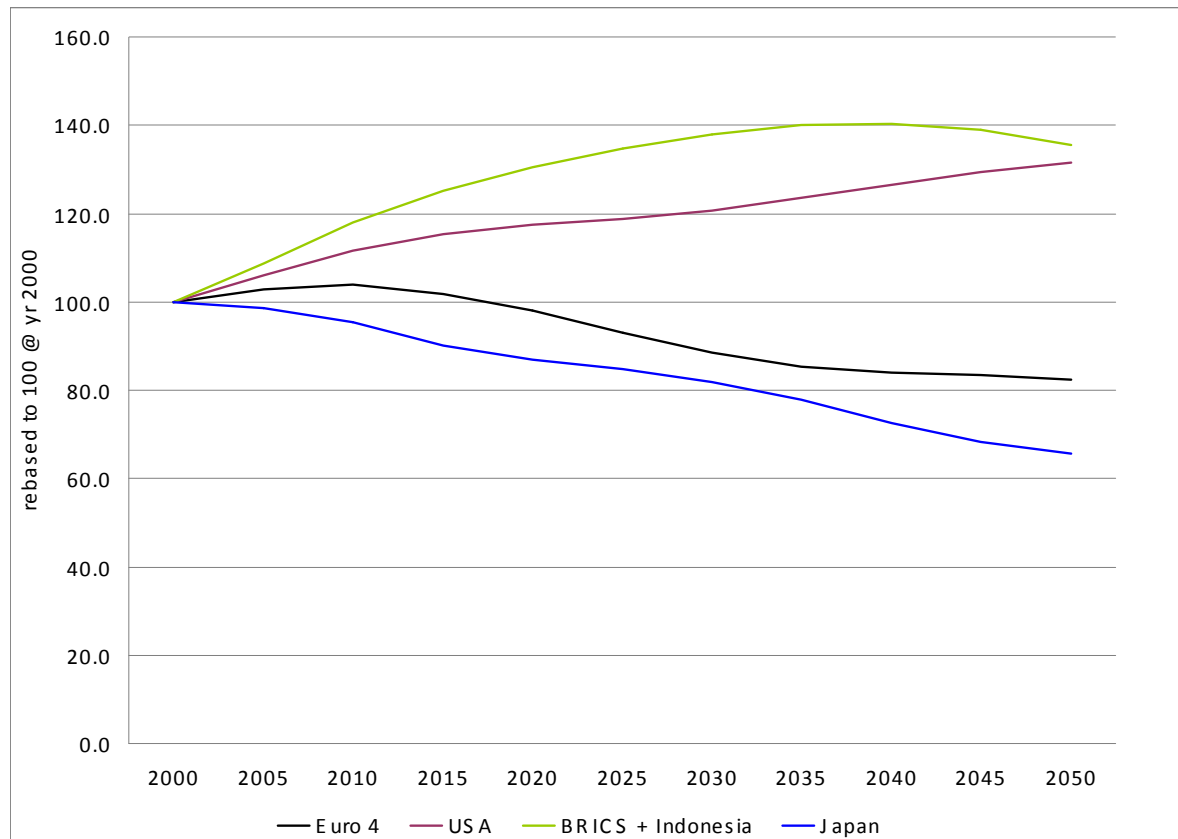
GDP per capita (Taiwan, S Korea, Nigeria & Kenya) as % of US GDP per capita



Source: Reuters EcoWin

3. Favourable BRIC Demographics

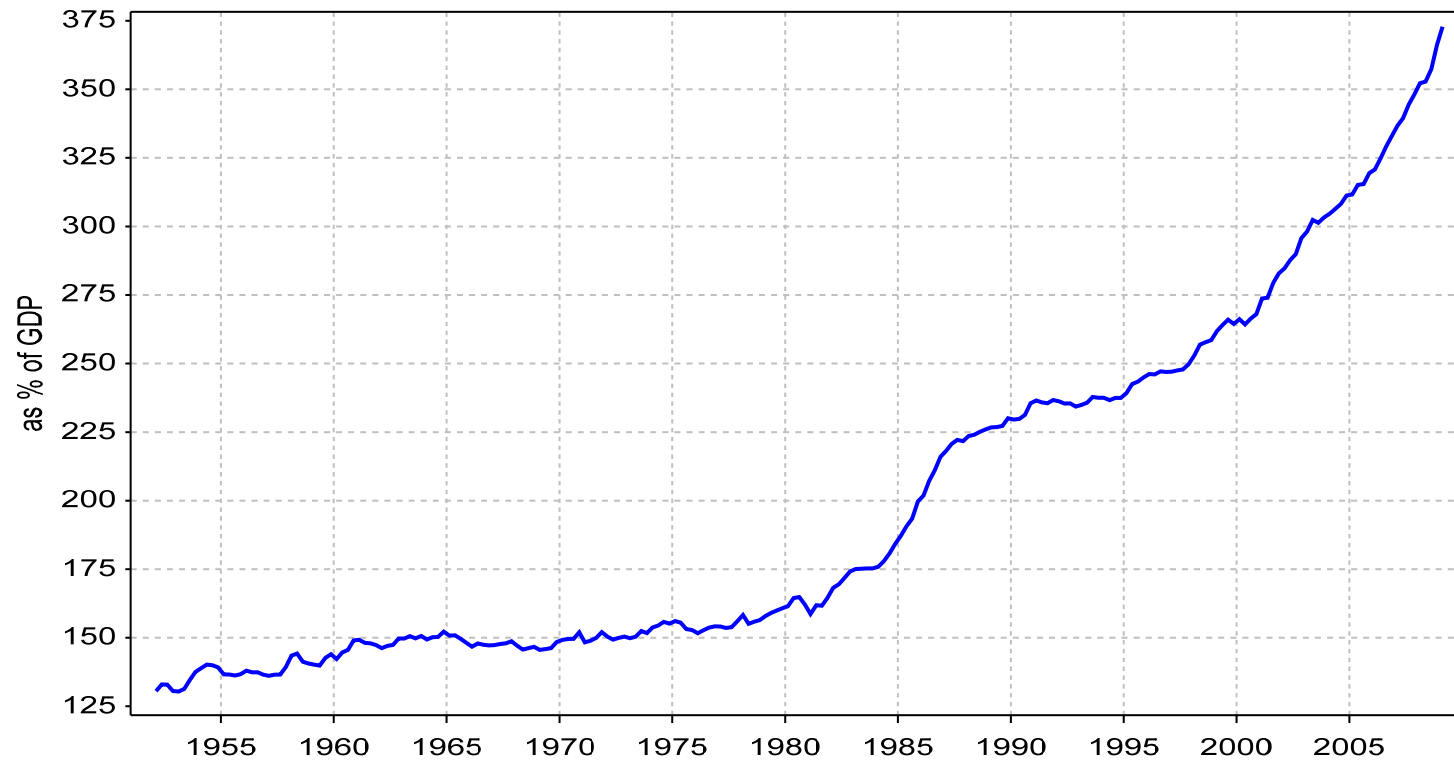
No of 18/20 – 64 year olds; BRICs vs. major Western Regions (rebased to 100 @ Yr 2000)



Most favourable demographic trends amongst working age population are in BRIC economies

4. Total Western debt levels are high & rising

Total US debt as % of GDP (1952 – 2009)*



Source: Reuters EcoWin

*includes financial sector debt, Source: US Federal Reserve Flow of Funds

5. Commodity Super Cycle – Alive & Well

Commodity Super Cycles (1780 – today)

US Commodity Super Cycles (1780s – today)

Start of super cycle	End of Super cycle	Size of Super Cycle	Length of cycle (years)	Index
Mar-1788	Dec-1814	135%	26.8	Warren and Pearson
Dec-1814	Feb-1843	-62%	28.2	Warren and Pearson
Feb-1843	Aug-1864	208%	21.7	Warren and Pearson
Aug-1864	Jun-1896	-70%	31.8	Warren and Pearson
Jun-1896	April-1920	218%	24.0	Warren and Pearson
Apr-1920	Jun-1932	-80%	12.2	CRB monthly
Jun-1932	Jan-1951	689%	18.6	CRB monthly
Jan-1951	Jul-1968	-40%	16.6	CRB monthly
Jul-1968	Oct-1980	215%	12.3	CRB monthly
Oct-1980	Oct-2001	-31%	21.0	CRB monthly
Oct-2001	today	129% (to Jul 08 peak)	7.9	World, CRB, Spot Index

Kondratieff, a Russian economist working in the 1920s, found evidence of a commodities super cycle back to the 1780s

Since his work in the 1920s, those super cycles have continued although appear to have shortened in duration

6. Key Resource Producers

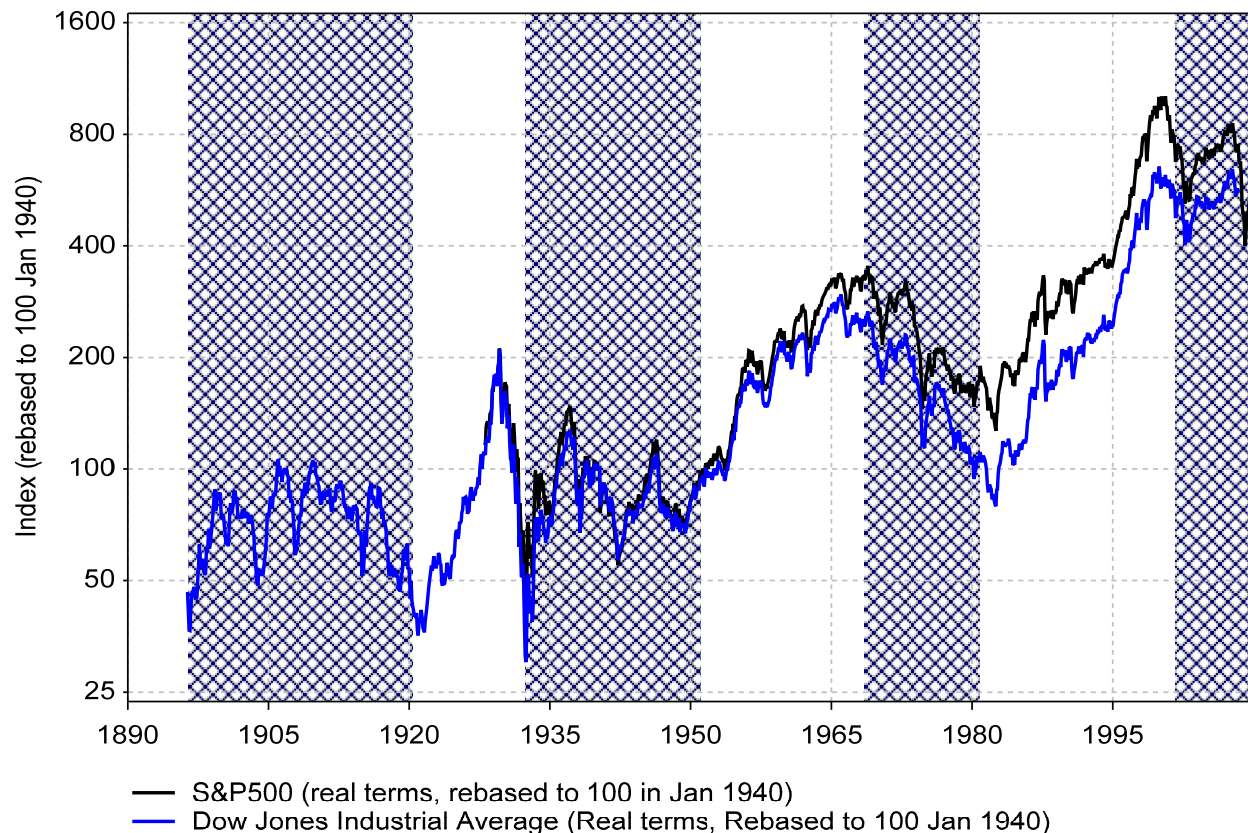
Largest net exporters of commodities in 08

	Copper	Aluminium	Oil	Steel	Coal	Nat Gas
1	Chile	Russia	Saudi Arabia	China	Australia	Russia
2	Zambia	Canada	Russia	Japan	Indonesia	Norway
3	Peru	Australia	UAE	Russia	Russia	Canada
4	Australia	Norway	Iran	Ukraine	Colombia	Algeria
5	Kazakhstan	Iceland	Kuwait	Brazil	South Africa	Qatar
6	Japan	Brazil	Iraq	Turkey	US	Turkmenistan
7	Poland	South Africa	Norway	Germany	Kazakhstan	Nigeria
8	Canada	China	Nigeria	Netherlands	Vietnam	Malaysia
9	Belgium	Tajikistan	Angola	Austria	China	Indonesia
10	Russia	Venezuela	Venezuela	Taiwan	Czech Republic	Netherlands

Source: Longview Economics, WBMS, BP, World Steel Association

7. US equity indices (real terms) 1896 to 2008 – shown against Commodity Super Cycles

S&P500 & DJIA inflation adjusted indices (1896 to 2009)



Source: Reuters EcoWin

US S&P500 and Dow Jones industrial Average (inflation adjusted) – long term performance 1896 to 2009

Criss-crossed areas represent Commodity Super Cycles, i.e.

- 1) 1896 – 1920
- 2) 1932 – 1951
- 3) 1968 – 1980
- 4) Oct 2001 - current

8. Switch in World Economic Growth Leadership

Table 1: Wallerstein's Cycles (I-IV) of Global Hegemony

Hegemonic Power	I. Hapsburgs (Austro-Hungarian/S p empire)	II. Netherlands (United Provinces)	France (?)*	III. Great Britain	IV. United States	V. ????
Ascending hegemony	1450 -...	1575 – 1590		1798 – 1815	1897- 1913/1920	1967 - ?
Hegemonic victory	1590 – 1620		1815 - 1850	1913/1920 – 1945	
Hegemonic maturity	- 1559	1620 – 1650		1850 – 1873	1945 – 1967	
Declining hegemony	1559 - 1575	1650 - 1672		1873 - 1897	1967 – (?)	

Source: Charles P Kindleberger, "World Economic Primacy 1500 – 1990"

*NB France added by Longview Economics



III portfolio
construction

CONFERENCE