RAM Capital
WEALTH WORKING

NEWSLETTER

Market Comments
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From
Mete Sarper

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Some interesting points…

1. EM central banks continue easing monetary policies, along with the FED and ECB.

2. Chinese Premier indicated once again on TV the government's objective of creating more labor and grow the confidence on the economy. Furthermore, Wen reiterated the government's aim of reducing inflation in order to gain more flexibility on monetary policies. More easing to come, as well as more cuts on RRR to be expected (3 cuts are expected in Q3 & Q4)

3. Brazil announced US$66 billion (2.7% of GDP!) of new infrastructure investment programs. Brazil will be selling licenses to the private sector for the construction of 7'500 km of roads and 10'000km of railways. Subventions will come from BNDES, the state bank of development (approx 80% project financing will be met by BNDES).
   Brazil infrastructures are quite old and for the little there is, it is way too insufficient for a country of that size. This compares very negatively versus to other EM countries. According to WB, only 5.5% of roads are asphalt roadways compared to 80% in Russia, 54% in China, and 50% in India. The railways show a similar lack where Brazil has only 30'000km of railways compared to 85'000 km in Russia, 66'000 km in China and 64'000 in India. This new program will also open new investment opportunities for investors.

4. The reduction of inflation in India to a 3 year low gives the Central Bank room to maneuver, even though the inflation rate at 6.9% is still relatively high. The pressure is now on the government to deliver the reforms that would help lower the structural inflation. However, with an eye on the 2014 elections, the willingness of the government to press with new reforms could be found wanting.

5. Deposits at US Banks increased 3.3% to US$ 8.88 trillion at the end of July 2012. Business lending rose 0.7% to US$ 7.11 trillion during the same period, and the gap expanded 15% since May to US$1.77 trillion! Banks have already bought US$ 136.4 billion of Treasury and government agency debt this year, which is more than the double the US$62.6 billion in all of 2011…In this cycle of inherent weak demand for loans when interest rates are almost at 0%, where consumers, households and businesses are paying down debt is again another prove of the "Balance Sheet Recession" period that the US and Europe find themselves in (as commented on www.ramcapital.ch website). Hence, interest rates are here to stay low for years, banks to continue buying Treasuries and government agency debts through the deposit/loan gap, growth to continue sluggish between 1.5-2.5% in the US, lower in Europe, 0-1%. The Fed now holds as of August US$1.66 trillion of Treasuries, ahead of China's US$ 1.16 trillion!
   However, the US will come out this period earlier than Europe, as US banks have deleveraged their balance sheets after the 2008 financial crisis, where as Europe has yet to start. Draghi's LTRO program has delayed the inevitable bank balance sheet deleveraging which is expected to be in the tune of €.1.5 trillion.

6. Although equities at these levels present an interesting cycle in terms of dividends versus UST yields, fixed income still looks the beneficiary in this complex situation. Lower supply of high quality securities is expected to fall, therefore investment grade debts will benefit from the excess cash, as well as EM bonds to boost yields in portfolios.