The InsightBureau

Café Insights

March 2015:

As part of the *Café Insights* series of interviews with inspiring speakers, The Insight Bureau recently caught up with Andrew Freris, one of Asia's most experienced economists. He provides strategic analysis and insights on the market of Asia and on investment opportunities.

AV: Hello and welcome to another in the series of *Cafe Insights*. I'm Andrew Vine, the CEO of The Insight Bureau and today I am in conversation with Dr. Andrew Freris. Andrew, welcome to Singapore.

AF: It's always a pleasure Andrew, thank you.

AV: Andrew has been based in Asia for the last 46 years or so with the experience that has included working with GE Capital, Solomon Brothers (which is where I first met you in '93, I think), Bank of America and latterly BNP Paribas. So Andrew now that you have established Ecognosis as your platform, what keeps you busy these days?

AF: Well after I left BNP Paribas, with whom I was for 14 years, in both Fixed Income and Wealth Management, I set up my own small advisory consultancy firm, but it has taken off very nicely and that keeps me busy in a lot of different ways. Because my background experience has been very, very varied – when I was with GE Capital I did Fund Management, with Solomon Brothers I did pure equities, with Bank of America I did pure corporate banking and with BNP Paribas it was Fixed Income and Wealth Management -- so that just about covers all the major areas in investment banking.

AV: Right, well one of the things I wanted to ask you first of all, just generally, is in terms of the state of the world economy. We've been talking about this with a number of speakers, in terms of, the game has changed. I mean a few years ago it was very much talking about a two-speed economy. A lot of interest into the emerging markets which seemed to be steaming ahead and the developed world very much in the doldrums. These days, it seems to be a much more complicated story; it seems to be a multi-speed economy. How would you characterise it?

AF: I think the most crucial difference of what's happening now and what has gone on in the last, let's say 20 years, is that the key components of the global economy -- which is the European Union, Japan and of course the United States -- are so completely unsynchronised it isn't true! Namely, the United States is doing macro-economically well and is about to increase interest rates, European Union is doing very poorly and it has cut -- and it will cut again and again -- interest rates, and so has Japan. So they are asynchronous, both on their cyclical economic positions and both totally unsynchronised on their monetary policy positions. The same thing, of course, happens in Asia where individual economies are also very different in their economic cycles and of course Asia over the last 12 months -- pick your choice -- I could give you some central banks that were increasing, some that were decreasing and some central banks that were keeping interest rates constant. So it is an incredibly mixed and diverse picture. I would even go to the extreme of saying, "global?" most definitely not! "Economy", well, it depends what you mean, ok but synchronisation on the economic cycle, most definitely not.

AV: So how would you characterise the emerging markets. I know that lumping them all together within BRIC doesn't seem to make sense to people these days. When you think about them the only two that seem to be interesting these days is India and China.

AF: Correct, and actually even if we cast our net a little bit wider and we took in Latin America; Latin America is primarily Mexico -- which of course is a client state of United States -- and Brazil -- which is primarily driven -- it is a huge domestic market but also of course with a considerable export exposure – and Brazil is doing very poorly right now, not because United States is doing poorly or Japan is doing poorly, it's a combination of domestic and external market considerations. So, the answer is, yes, there are very few specific emerging markets that are doing very well and a large number that are either doing indifferently or they are, again, in different positions in their phases. China and India are two very good examples.

AV: We will come back to Asia a little bit later. You are from Greece so I must ask you this question about the EU. How do you view the EU at the moment? It seems to be a region with a very long drawn out problem that needs to be fixed.

AF: I'll split it up in three parts, Greece in a sense it is a very distorted mirror to put up as a face of Europe but that distorted mirror there are quite a lot of distortions that are European, not just Greek. Now there is the inflexible labour market, economies that are absolutely packed with privileged groups and monopolistic, non-competing groups, and of course an economy -- in the case of Greece in particular -- which is hugely imbalanced, namely, they've got a very large service sector and virtually nothing else. And of course an economy that has got external imbalances and domestic imbalances so you can always see parts of Italy, parts of Spain, part of Portugal except as I said Greece is an exaggerated caricature of all that bewails and befalls European Union.

AV: There's quite a big split between the north and the south, between the "PIGS" as we call them and....

AF: Exactly and that's part of the distortion, namely that you have very, very different economies, some of them with very common problems but some of them with very common advantages that are not equally shared. As I said, Greece is a particularly good caricature example of what befalls and bewails the European Union right now.

AV: You're obviously following very carefully the oil crisis and what's happening with commodities…

AF: We split the commodities in two parts; the soft commodities, which are agricultural commodities driven primarily by weather, and here of course, we have things like wheat and soy and to some extent corn that are in over supply, namely, the crops have been very good, the future crops are likely to be very good and that has kept the prices down. And there is very little that can be done here because the weather cannot be controlled. Then we have the hard commodities and, the two primary good examples are oil and iron ore, both of which have been hit by a large amount of inflow of supply at the time that the demand for those was either flat or falling. And one of the major culprits, if you want, in the case of iron ore has been the drop in demand coming out of China. China's slowdown is one of the major culprits. When it comes to oil, it's of course the progressive, but then accelerated, coming on line of shale production in United States and, of course, the refusal by the Saudis to cut back their oil supply. You don't need to be a Nobel prize winner to point out what that means; falling prices!

AV: But that's good for the world economy though, isn't it? Or not?

AF: It is good as far as inflation is concerned, and of course it good as far as potential further pressures are concerned, but it is not very good for the producing countries. But then the producing countries are relatively limited. Yes, it has hit Australia very, very hard. And of course neither the European Union nor Japan are producers of hard or soft commodities, so they are enjoying – if that is the expression -- the benefits of lower prices which might have come at a time that the Central banks would have wanted to see accelerating rather than decelerating inflation. But there you go...

AV: Closer to home here, in Singapore and with ASEAN, though we hear a lot about India and China but we hear progressively more about some of the economies in South-East Asia.

AF: I must admit I look at the macro economics only to the extent that this is going to tell me something or help me make money for my clients in the equity markets. So I think it is almost irrelevant to say, "Look, China still continues to have the best macro-economics in Asia" at the time that it is not going to help its equity performance. Equally, telling you that "the macro economics in Thailand are not the most attractive", but still the Thai equity market is one of the best performers -- possibly the second or third best-performing market, consistently so for now a year and a half. So I'm interested in a combination of the two. And of course it now falls very easily to point out that the macros in India -- not particularly good --- is still is one of the best performers because of the expectations of further cuts in interest rates, and expectations -- some of which are unlikely to be fulfilled – of reformist, liberalising policies by the Modi administration. Thailand still has got a military dictatorship, continues to perform well, and the macros now are progressively looking better. And the Philippines, that clearly can almost do no wrong, is possibly the best performing market in Asia with good, but not outrageously good, macro-economics. Bottom line, is look at the combination of the two and I'm coming down very rapidly that the markets that I would like my clients to be in for the next year as far as equities is concerned is: India (but with a short term view, in other words no longer than one year because I don't think we are going to get the expectations fulfilled out of the reforms of the Modi administration); secondly The Philippines; third Thailand; and then last but not least, Indonesia -- some macroeconomic problems remain there, but I still think ultimately an economy that is likely to perform well, and therefore likely for the equity markets to perform. Bottom-line, I like India, Philippines, Thailand and Indonesia (with a question mark). China, I need to wait for another half a year, or more, before the macros are substantially supportive of earnings before the market flies again.

AV: Great. Well, it's always good to hear someone stick their neck out and give us a view. Thank you very much Andrew, and see you again here very soon.

AF: Always a pleasure, looking forward to it.

http://www.insightbureau.com/AndrewFreris.html