

## THE SCRAMBLE FOR AFRICA IS ON

The recent announcement by HSBC Holdings (the world's 2<sup>nd</sup> largest bank), that it is holding talks to purchase a controlling stake in South Africa's Nedbank Group, has made headlines and sparked investor interest in the African continent. However, the trend of major banks seeking to cash-in on the growing Asia-Africa trade links is hardly new, China's ICBC (Industrial and Commercial Bank of China, the world's largest bank) entered the fray back in 2007 taking a 20% stake in South Africa's Standard Bank, and China Construction Bank (the world's 3<sup>rd</sup> largest bank) teamed up with South Africa's First Rand Ltd banking group in 2009.

So what exactly is the increasing excitement regarding South Africa's banks all about then?

Well, South Africa, the continent's most advanced economy, is serving as a launch pad for foreign businesses to develop a pan-African presence. Africa generally is seen as an integral part in future trade deals with most of the world's fastest growing economies, including the BRIC countries and China in particular. As a matter of fact, trade between Africa and China has grown 40% per year since 2001, reaching a record-high USD107 billion in 2008, that has allowed China to displace the United States and the European Union as the continent's largest trading partner.

Today the Chinese are pumping oil from Sudan to Angola, logging from Liberia to Gabon, mining from Zambia to Ghana and farming from Kenya to Zimbabwe. But importantly this trade and investment growth goes beyond the commodity space to include Chinese investments in manufacturing and infrastructure as well.

### Spreading the Wealth. China makes its mark in Africa



Chinese contractors are building roads from Equatorial Guinea to Ethiopia, dams from the Congo to the Nile, and hospitals, schools and sport stadiums across the continent, that is starting to have a significant development impact. It seems that, unlike most of the West, China is viewing Africa as a place do to business rather than a place for handouts of aid (that never achieved anything), and their approach is working.

Africa's massive land resource is larger than all of the United States, China, Europe, India and Argentina combined. In our view, given its current underdevelopment and vast potential, the present growth trend is just in the beginning stages and will increase in significance over the coming years and beyond.

*Investment Committee, Tyche Group Limited*

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If you wish to have further discussion or seek financial advices from us, please write to [contact@tyche-group.com](mailto:contact@tyche-group.com)

# TYCHE FORUMS

Thursday, 21 October 2010, 18:15 registration for 18:30 to 20:00

Podium Floor, at the Central Plaza Executive Club, Central Plaza, 18 Harbour Road

## RISKS AND OPPORTUNITIES OF INVESTING IN AFRICA

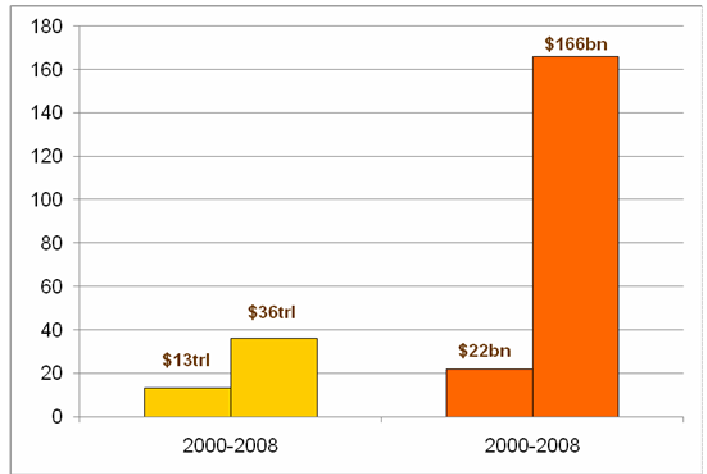
The United Nations forecasts that African GDP growth will be 4.8% and 5.8% in 2010 and 2011 respectively, the highest for any region in the world apart from Asia. This African economic growth has been driven by a combination of increasing population, urbanisation and a consistent expansion in trade particularly with the BRIC markets of Brazil, Russia, India and China.

Over the period 2000-2008 while world trade trebled from US\$13trl to US\$36trl, trade between Africa and the BRIC markets increased by a factor of almost eight times from US\$22bn to US\$166bn.

Unlike some countries in the developed world, the BRIC countries are not hampered by outdated impressions of Africa and see the continent for what it is – a fantastic investment opportunity.

“Perceptions of the continent are beginning to catch up with reality as investors gradually become more aware of the continent’s attractions. The 1990s were the decade of the Latin American Puma markets. The 2000s have been the decade of China and the Asian Tiger economies. The elements are in place for the next decade to belong to the African Lions”, says Alquity Investment Management.

At our Investment Forum this month our guest speaker will be an Africa market expert who has deep knowledge and insight into the continent. It promises to be a very popular event with a longer than normal question and answer session so that you can ask direct questions to the people who are actually at the centre of the Africa story.



Growth in World Trade versus Growth in BRIC-African trade

The Seminar will be presented in English by Mr Julian Galvin, Associate Director, Tyche Group and our guest speaker Mr. Paul Robinson, Chairman of Alquity Investment Management Limited.

**Our seminars are often oversubscribed, so please register early for you and your friends to avoid disappointment. Please register in any of the following ways: phone (852) 2525 3639; fax (852) 2525 3679; or e-mail [forum@tyche-group.com](mailto:forum@tyche-group.com)**

Please register me for your seminar on (please tick):

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### About TYCHE Group

- Tyche Group is a premier independent financial advisory firm based in Hong Kong. Its principles and practices can be defined as the process of providing advice and assistance to clients for the purposes of achieving financial goals.
- Tyche Group specializes in holistic financial planning and investment advice. We offer a one-hour meeting with an SFC-registered adviser to your overall requirements and objectives, at no cost to you and with no obligation to proceed further. To arrange a meeting, register online or call or fax us. We will contact you.

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## Investment Overview

### Can the Intervention prevent Yen's appreciation?

Japanese Yen reached a 15-year high against the dollar this year. As of Sep 23, the Yen appreciated 8.5%, which is closed to the historical record of 79 reached in 1995. The Bank of Japan was forced to intervene in the market when the Yen broke through the level of 83 Yen per dollar, for the first time since 2004. After continuous intervention by the Bank of Japan to curb the rise in the Yen, it has finally stabilized at around 85 per dollar.

Before the financial crisis, the carry trade on Japanese Yen was spreading, with low interest rates and a stable exchange rate; investors borrowed Japanese yen to invest in US Treasuries and other risky assets. However, the quantitative easing policy adapted in the USA has led to currency devaluation; forcing investors to move their money back to the Japan market, causing the Yen to appreciate.

However, the strong Yen has a negative effect to Japanese economy. As Japan heavily relies on its export sector, the continuous appreciation in the Yen will reduce Japan's export competitiveness. Also, the strong Yen could exacerbate a deflation problem, thus combating the economic recovery. In fact, Japan has recorded 17 months of deflation.

Since the 1990s economic bubble, the Japanese economy has been off-track, the recent financial crisis has further hurt the recovery of the Japanese economy. Japan had decided to expand its bank emergency loan scheme from ¥20 trillion to ¥30 trillion earlier, while introducing more than ¥9 billion in the stimulus package to revive the economy.

There is no doubt that the Yen has played an important part in the recovery of the economy. The question is whether the intervention can prevent the Yen from appreciating? We believe it can briefly curb the rise in the Yen, but it cannot prevent its uptrend in the long run based on the following fundamentals.

First of all, the scale of intervention is very limited, and with no consent from other central banks. According to the announcement from the Bank of Japan on Sep 17, a total of ¥1.8 trillion was injected into the market. However, compared to the recent intervention in 2004, with the support from Europe and the United States, they pumped ¥35 trillion in only 15 months. It is expected the Federal Reserve and the ECB will sign off on the intervention due to the slow economic recovery, as depreciation in the Yen will affect their exports.

Secondly, Yen has appreciated since the market has been bearish on the dollar. In fact, the Japanese economy is still very weak and the strong Yen doesn't reflect the truth. Investors expect a second round of quantitative easing by the Fed, this combined with the fact that President Obama's claims that US exports will double within the next five years. There are signs that the US dollar is weakening and therefore the Yen will remain strong.

One thing that investors shouldn't underestimate is that Japan's intervention may cause a chain reaction in the region. Brazil, Colombia and other emerging markets have indicated that they will follow Japan, to prevent strong appreciation in their currencies. Asian regions such as South Korea and Taiwan, which are heavily rely on export, may also intervene their currency. It is because they worry that the Japanese intervention may harm their exports.

In the short run, the Yen will probably stabilize at 85 per dollar. However, when investors realize the limited effect from Japan's sole intervention, the Yen will rise again in the long run and investors should look into the opportunities in other Asian currencies.

US against Yen (YTD)



### **Authority delay “Employee Choice Arrangement”, concerns the regulation on intermediaries**

The MPFA has recently announced that it has called off the “Employees Choice Arrangement” that was supposed to be launched next year. The authority believes that regulation on intermediaries should be strengthened first and there is no exact timetable.

There are concerns about the promotion and sales methods used by trustees and intermediaries. In the past, many Trustees provide incentives to attract members, such as gifts and coupons, etc. The concern is that Individual members may switch their MPF scheme for the incentive only, and it may ultimately lead to a loss.

Further, the SFC launched a consultation on strengthening investor protection in May this year. One of the suggestions made was to restrict the use of gifts to sell individual investment products. The MPFA introduced the new measures on Sep 4, and now intermediaries can neither directly nor indirectly encourage members to neither join a MPF scheme nor encourage transfer of assets, by giving out gifts.

Once again exceptions are provided to the banks allowing them to provide a list of services and concessions to induce members to switch their MPF scheme.

The MPFA is seemingly more concerned with intermediaries’ professionalism and service quality than providing real member benefits such as provider choice, inflation adjustment and fund choice.

The MPFA is going to consult the industry on how to improve the regulation. Citing the number of registered intermediaries increasing in recent years to 27,500 this year, from the bottom of 24,000 in 2006, and it is expecting these to rise in the coming future. For registered intermediaries, permitted activities are divided into two distinct regulatory areas being 1. Advising on insurance policies and 2. Advising on securities.

Currently, only around 34% intermediaries can provide investment advice such as fund allocation. Most of intermediaries are insurance agents only. Tyche recommends that Members select the right Adviser according to their needs. In particular, they should consider their investment style, risk tolerance, fund choice, performance and fees before making a decision.

## MPF Movement

### **“Employee Choice Arrangement” was put on hold**

- The Government has postponed the “Employee Choice Arrangement”, that was due to be implemented next year, and they have no schedule for its implementation.
- The authority said they need to strengthen the supervision of intermediaries, and also clarify which regulatory body is responsible for the regulation, to protect investors’ interests.

### **Conversions need to worry about the risk assessment of schemes to perform**

- MPFA is suggesting new measures to regulate intermediaries, such as requiring them to conduct risk assessments for the members.

- They may issue a questionnaire and consider setting a grace period of 2 years before implementing a policy change. However, the industry is concerned that it is difficult and costly to implement.

### **The authority does not recommend using MPF to purchase property**

- A lot of people have suggested that Hong Kong should follow Singapore’s Central Provident Fund; allowing money to be used for first home purchase.
- However, it is believed that the government worries that people will lose their housing and retirement security if the economy turns down.

We welcome any questions regarding MPF, including investment management and regulation, etc. We are pleased to share our views with you. We believe managing your pension fund place an important role for your future. We can be reached at:

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