

Go East – and accumulate gold

Amid all the gloom and doom in global markets and downgrade after downgrade of Western countries and banks that we saw in 2011, it has been somewhat overlooked that a number of emerging market economies and banks actually received upgrades during this time

As an example, Indonesia regained investment grade status last month by Fitch ratings, ending a 14 years stretch of being rated as “junk”. And major Chinese banks (which everyone seems to love to hate or to run from fear), actually were *upgraded* by Standard & Poor’s with the same stroke of a pen that saw 6 U.S. financial institutions downgraded:

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S&P Sees a Shift in Banking

Ratings Service Says Asia Banks Have Become Stronger Than Those in the West

HONG KONG—Standard & Poor’s Ratings Service said its downgrade of six of the biggest U.S. financial institutions and upgrade of two Chinese banks captures what it believes is a fundamental shift in the global banking landscape in favor of Asia.

The World Bank also recently issued a report highlighting the potential of most Asian nations to withstand a worsening of the Europe crisis, given their strong fiscal positions:

Bloomberg

Asia Can Withstand Europe Shocks: World Bank

By Sharin Adam - Nov 21, 2011

Most Asian nations have room to use fiscal stimulus to protect their economies from an escalation in the European debt crisis that may have “substantial” spillovers in the region, the World Bank said.

So when looking at recent global market movements, we would suggest that investors maintain a cool head, identify calmly where market sell-offs may be justified and where not, with the view to possibly enter oversold but fundamentally attractive areas/country exposures, such as in the emerging market as well as in the commodities space.

Depending on the severity of the Eurozone crisis (as well as the US debt crisis that is nowhere near fixed either), and the readiness of the Fed and ECB to engage in QE (money printing) to inflate the debt away, there surely are risks for emerging markets too. But there is always risk when investing, in anything, including cash that may actually get hardest hit soon as money printing/provision of limitless central bank liquidity appears to be the only answer to out-of-control debt – short of major countries’ defaults and financial chaos that policymakers seek to avoid.

More specifically with regards to commodities/precious metals, we would like to note that a number of extraordinary factors combined in the second half of last year that drove prices down considerably, such as margin hikes, the MF Global scare, and in the case of gold also forced selling or gold leasing by cash-starved Eurozone countries and banks. But margin hikes can’t continue indefinitely, and emergency gold can only be sold once. As these factors wear off, rising inflation combined with continued strong commodities/precious metals demand particularly from Asian consumers and investors may soon overpower the recent down-trend.

Investment Committee, Tyche Group Limited

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TYCHE SEMINAR

22 February 2012 (Wednesday), 6:30pm to 8:00pm

Registration : 6:15pm

Podium Floor, Executive Club, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong

DON'T LET A CRISIS GO TO WASTE

We have been asked a lot recently how to be positioned for the Eurozone debt crisis, including how one may benefit from it, as an investor.

One of the questions has been whether or not one should buy Credit Default Swaps (CDS – a risk insurance against a countries default) on countries like Italy and France, betting on their rising default risk. What we would like to point out in this regard is two-fold:

Firstly, when buying such CDS, it should be noted that they would only be triggered if the country in question actually defaulted. For this reason one needs to ask how likely it would be for Italy and France to default, given their considerable influence over the ECB which may simply expand money-printing (contrary to official assurances of respecting the ECB's original mandate) to a level where their debt would be bailed-out or inflated away? So (just like in the case of the United States which really is in as dire a financial position as the aforementioned countries), an outright default *may* happen, but it also *may not*!

And perhaps more importantly, from whom would investors usually buy such CDS? In

France, BNP Paribas has sold 1.5bn euros of them on France's debt, in Italy UniCredit insures more than 500 million of its governments bonds, and interestingly, in Austria, Oesterreichische Volksbanken AG has guaranteed 839 million euros of its national debt (although the latter bank has even yet to pay interest on 1 billion euros of state aid it received in 2009).

The problem here is that, if Italy really declared bankruptcy, then chances are that UniCredit would vanish even before, or at latest default together with the government – in which case the CDS it issued would be worthless too, defeating the whole point of the exercise. And who would want a Euro denominated CDS anyway, if the Eurozone (and presumably thereby also its currency) was in collapse?

So, we suggest to look elsewhere for opportunities instead, and will discuss those in more detail accordingly.

Please join us at our February Seminar presented in English by Julian Galvin (Executive Director) and Martin Hennecke (Associate Director), for a review of these topics and the outlook going forwards. As always, we aim to make our Seminars as interactive as possible, with questions from the audience most welcome.

As seats are limited, so please register early 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

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

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Phone e-mail

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