

Why tightening good for Asian?
Interview with David Lui
 veteran fund manager
 June 2011

Speaker Biography

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B: Hello everyone, welcome to HSBC investment commentary. This week we are very glad to invite Mr David Lei to share his view on Asian economy and market investment opportunity. Hello David. In the past few years we've seen that the circumstances of the global economy and the financial crisis have largely affected the Asian investment market. As the market is recovering, hot money starts to flow into Asian market, what do you think the current situation of Asian investment market?

D: I think Asian investment environment has been through a short-term setback since global financial crisis was over. Followed by US started to adapt quantitative easing policy, Asian economy turned to be stable and even exceeded the pre-crisis level in a short period. Why can we see such a quick recovery and how did that happen? In 1997 and 1998, the financial crisis storm swept through Asia. Since 2000 Asian economic was on its way of recovery. Early 2007 and 2008 it has showed some economic overheating in some areas especially real estate industry. As the global financial tsunami began, Asia was affected as well. Asian governments took series actions, such as monetary and fiscal support, to prevent their own economy from peripheral influence. But these actions and low interest rate environments is very easy to let economy being overheat. In 2009 and 2010 US government started to launch the first round of quantitative easing (QE1). Soon Asian economy became overheating. Thus US issue started to reflect on Asian area. So as you see, in the early of 2010, Asian export appeared to bounce up, domestic consumption also increased significantly, and government investment was also maintained the same level.

In terms of property market, China, Singapore and other countries have been restored and even exceeded pre-crisis peak. Since noticing the situation, Asian governments have taken a series of measures in 2010 to keep economic under control. For example, from the second half of last year to this year Chinese government has adopted a number of policies to control the economy. Similar situation appears in Hong Kong property market as well. These measures made investors feel under pressure in short term, but in fact it's not true. Because only by taking these approaches can we maintain the sustainable economic growth in the future. While if not we may soon be face with the serious internal economic overheating, which will not only affect the investment but also people's wellbeing. So at this stage, though the short-term market is in depression or below people's expectation, I still believe such measures will provide better investment opportunities and keep a quick and stable economic growth in next 12 or 18 months.

B: Just as you mentioned, the precautionary measures aim to prevent the economic overheating. Some Asian governments try to put inflation under control by increasing the interest rate. Under such situation, what kind of investment can benefit from it?

- D: Under the demand of risk-aversion, investors changed their way of investment from equity stock to bond during the global financial crisis. As QE1 was mainly targeted on bond, US government bond slumped sharply. Since then US business environment turned to be stable, economy started to recover. In consideration of the current level of US government bond, investors' interest shifted to high yield bonds (such as corporate bonds and some high-interest junk bonds) and convertible bonds. Investor concerned whether economic recovery could continue, if the equity market appears to fluctuate, high yield bonds which provide stable income are comparatively better. So as you see in the past 6 months or a while in the future, there will be more this kind of investment. Certainly some part of the investment begins to flow back to equity market. Such as US equity market, as you can see, is doing pretty well in term of USD this year. Especially good performance appears in some long legging-behind equities or some sectors that investors tend to favor after economy becomes better, such as retail industry.
- B: All right. Thanks David. In next episode we will discuss the investment opportunity in terms of different investment instruments.

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