# ►On Target

Martin Spring's private newsletter on global strategy

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## The Case for Investing in China Now

Since equity markets bottomed in July, US stocks have risen about 17 per cent – but China-listed shares have done much better, climbing about 24 per cent. Yet that has happened despite very different financial environments.

In the US the American central bank ("the Fed") is flooding its system with money, deliberately aiming to promote a stock-market boom whose "wealth effect" it hopes will stimulate consumer demand, strengthen economic recovery and create jobs.

In China, whose economy is growing four times faster, the Fed's counterpart in Beijing has been focused on slowing things down, steadily squeezing the banking system with interest rate hikes, higher reserve ratios and lending-growth warnings. Some price controls are likely.

This dichotomy seems to me to be telling us that the weight of money in China is starting to shift out of real estate – the sector where the authorities are focusing their efforts to restrain speculation – and into the shares of companies most likely to benefit from other forms of domestic demand growth. Savers drew down their bank deposits by a record $100 billion last month.

One sign of investor optimism is the outperformance of the mid-cap dominated Shenzhen bourse, which has risen about 70 per cent faster than the big-cap-dominated Shanghai market since the July bottom.

When I researched this article it became clear to me how investors are generally climbing into good consumer plays rather than the "policy stocks" sensitive to government action, or export-focused companies.

By historical standards, valuations are still moderate – suggesting that when the authorities decide they can relax their squeeze, there is great upside potential in the shares of what is by far the world's most powerful high-growth economy.

The negative factors restraining Chinese shares are mainly short-term:

• Government tightening is likely to continue as the authorities pursue their campaign against property speculation, especially in higher-priced homes in the coast cities, and seek to restrain over-investment in infrastructure.

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• The central bank is pushing up interest rates – several more increases are expected over the next few months -- and raising the proportion of deposits that large banks have to hold as capital reserves to 18½ per cent, a record high.

• Inflation is starting to become a problem. Although the latest surge in consumer prices is probably a short-term aberration, there are some worrying long-term trends. Labour costs in Chinese plants are estimated to have risen about 25 per cent over the past five years, compared to less than 4 per cent in the US.

• The currency war with the US is set to continue as the Americans pursue aggressively their dollar-weakening strategy while the Chinese refuse to give ground beyond allowing some minimal strengthening of their yuan currency. Eventually this will create problems for China, not only with the US, but also with the nations being hit hardest by the cheap-dollar policy such as its Asian neighbours.

• Export markets are likely to continue becoming more difficult due to growing protectionism.

• The massive stimulus package of nearly $600 billion is starting to lose its impetus and that will impact on corporate profits growth.

• Property taxes are likely as part of longer-term planning to control speculation. The prospect will continue to keep a lid on the animal spirits of the real-estate sector, which accounts for a third of the stock market.

## Still too dependent on exports and investment

• The government is squeezing the cash flow of property developers to force them to develop their idle land banks. It's boosting the supply of new housing for sale, which is depressing prices.

• Although domestic consumer demand continues to grow fast, it's off a low base. Private consumption is still only one-third of the Chinese economy, which remains far too dependent on capital investment and exports.

• Government policy remains committed to maintaining strong economic growth, which means Beijing will take its feet off the brakes the moment there are any signs of too much of a slowdown.

• Official stimulus will be maintained to promote long-term provision of public housing for those on low incomes, improvements to education and healthcare services, and regional development in western China.

• There are also political constraints on tough policies to restrain growth. Ahead of the five-year changeover of officials due in early 2013, local-government bureaucrats and their associated interests are keen to invest in projects and spend money before their time in control of events runs out, and are reluctant to see higher interest charges on bank loans to state-owned companies and local governments.

• Inflation risk is much less than it seems. Food prices, which fluctuate in response to temporary factors such as bad weather, accounted for three-quarters of the 4.4 per cent increase in consumer prices for the 12 months to October.

• The bureaucrats forced the banks to raise much more capital from the share markets to strengthen their balance sheets against the risk of bad debts based on unwise lending last year to regional and city governments. However, that surge in supply of stock is coming to an end. Banks look well-financed to cope with future disappointments and deliver a surge of new lending when Beijing gives the green light.

• China, now the world's biggest exporter, has mind-boggling resources to cope with any setbacks on foreign fronts – huge state-of-the-art factories so internationally competitive that surpluses pile up at a rate of $25 billion or so every month, foreign reserves of more than $2½ trillion, and tight control over exchange rates and capital inflows.

• It also has a massive flow of domestic financial resources based on very high savings, conservative government finances and a culture of thrift. No need to "print" the stuff to buy government bonds or toxic mortgage loans.

• Shares are generally not expensive, with the Shanghai Composite index trading at 16 times forecast earnings for the current financial year – well below the average for the past five years. London analyst David Fuller recently commented that the world's fastest-growing economy "is selling on future multiples which are competitive with those in the slow-growth West."

Anthony Bolton, the highly-regarded stock-picker who recently moved to Asia to run a new China fund for Fidelity International, points out that Chinese companies listed in Hong Kong generally trade at prices offering better value than their equivalents on the mainland exchanges.

• China is still largely a command economy in the hands of highly-trained technocrats who can and have moved rapidly and forcefully to implement policies to counter crises. They can act with far fewer of the foot-dragging effects of political consensus-seeking and pandering to special interests found in the West and in Japan.

## Weakness now is an opportunity to buy

How ironic that the near-death experience of the world economy in 2008 originated in the US, the country that promoted aggressively the merits of private enterprise, free trade and using market forces to discipline behaviour, yet has now responded with the opposite policies of huge public subsidies, regulation and near-total state provision of mortgage finance!

While America looks increasingly like socialist, sclerotic Europe, China becomes more like the US in its 19th century capitalist heyday. It is, Bolton says, "the investment opportunity of the next decade."

Investment bank JP Morgan recently predicted that China "will engineer a soft landing" with economic growth expected to bottom out in the first quarter of next year at 8 per cent.

It seems to me the very recent weakening in Chinese stock markets is more likely to be an opportunity to buy than a warning of an incipient ending of the bull trend.

CLSA Asia-Pacific's strategist Christopher Wood recommends that investors use the current correction in Chinese markets to buy the shares of banks and insurance companies, which should benefit from higher interest rates. "Chinese banks remain one of the few 'cheap' areas left in blue chip Asia."

He reminds us that the last time inflation and interest rates rose in China, in 2007, shares rose as investors interpreted the situation as positive for future economic growth.

Here are my own suggestions for a portfolio of China stocks – all are available to foreign investors through listings in bourses outside the country, nearly always in Hong Kong, often also in London, New York or Frankfurt…

## MY CHINA SHARE SELECTIONS ---------------------------------------------

| | Ticker | DY | PE | Div. cover | 12 mo. price chg % | |
|---|---|---|---|---|---|---|
| Anta Sports Products | 2020:HKG | 2.25 | 22 | 2.0 | 32 | Retailing |
| Asian Citrus | ACHL:LSE | 1.17 | 12 | 7.4 | 88 | Agriculture |
| Beijing Enterprises Holds. | 392:HKG | 1.36 | 19 | 3.8 | 8 | Infrastructure |
| China Nat. Building Mat. | 3323:HKG | 0.47 | 14 | 14.8 | 6 | Construction |
| China Oilfield Services | 2883:HKG | 1.16 | 13 | 7.9 | 57 | Energy |
| China Overseas Land | 688:HKG | 1.50 | 13 | 5.0 | -9 | Real estate |
| China Shineway Pharma | 2877:HKG | 1.04 | 20 | 4.8 | 130 | Healthcare |
| China Yurin Food | 1068:HKG | 1.82 | 17 | 3.1 | 51 | Food |
| Haier Electronics | 1169:HKG | 0.00 | 28 | n/a | 113 | Housewares |
| Hengan International | 1044:HKG | 1.75 | 36 | 1.6 | 25 | Consumables |
| Huabao International | 336:HKG | 1.04 | 29 | 3.3 | 49 | Chemicals |
| Ind&CommBank | 1398:HKG | 3.36 | 11 | 2.7 | -14 | Banking |
| Lianhua Supermarket H | 980:HKG | 0.91 | 31 | 3.5 | 89 | Retailing |
| Link REIT | 823:HKG | 4.08 | 5 | 4.9 | 23 | Real estate |
| Luk Fook Holdings | 590:HKG | 1.67 | 24 | 2.5 | 440 | Jewellery |
| Mindray Medical | MR:NYQ | 0.74 | 20 | 6.9 | -7 | Healthcare |
| Shandong Weigao | 1066:HKG | 2.42 | 31 | 1.3 | 37 | Healthcare |
| Want Want China | 151:HKG | 2.72 | 37 | 0.0 | 24 | Food |
| Wumart Stores | 8277:HKG | 0.81 | 41 | 3.0 | 46 | Retailing |
| ZTE Corp. | 763:HKG | 0.58 | 33 | 4.5 | -2 | Telecoms |

**Anta Sports Products** designs, manufactures and sells sporting goods, including footwear, apparel and accessories, throughout China. It is rated by *Forbes* as one of Asia's best companies with revenues below $1 billion. It has an excellent earnings growth record and a respectable, well-covered dividend.

**Asian Citrus** is China's biggest producer and distributor of oranges, and has recently bought the top supplier of tropical fruit juices. Listed in London as well as

Hong Kong, it has good growth prospects and the shares are reasonably priced. But wait for a correction.

**Beijing Enterprises Holdings** is a large conglomerate whose main focus is infrastructural services –natural gas (it's China's biggest distributor) , highways, sewage and water, with 38,000 employees. It's been showing respectable earnings growth and has a well-covered dividend.

**China National Building Material** supplies the construction industry with lightweight building materials and cement, as well as engineering services. Recently its earnings have been growing very strongly, but the share isn't particularly expensive.

**China Oilfield Services** provides drilling, logging and well services, as well as marine support and transportation services for offshore facilities. It has been showing respectable earnings growth and its shares are inexpensive.

**China Overseas Land & Investment** is a long-established property developer and manager with interests in Hong Kong, Macau and many parts of China. One to buy when Beijing eases up its squeeze on the real-estate sector.

**China Shineway Pharmaceutical** is a focused play on the growth of medical services in China as it manufactures and supplies injectables and similar hospital consumables. It's stock has been hot this past year. The company has been showing good earnings growth and has a well-covered dividend.

**China Yurin Food** is a focused play on rising living standards in China as it is a major meat processor and distributor. Investment bank J P Morgan recently made the stock one of its five top picks among midsized listed companies, estimating its annual sales growth for the first half of the year at an amazing 40 per cent. Earnings have been growing strongly in line.

**Haier Electronics** is another focused play on the burgeoning middle class, as it is the dominant supplier of washing machines and water heaters. Although it pay no dividend, its earnings have been growing strongly and the share price has rocketed this year.

**Hengan International** is a specialist supplier to the female market of personal hygiene and skin care products. As it's a favourite of small-cap investment advisers, its shares are a bit pricey, but earnings growth has been strong.

**Huabao International** is a specialist producer of flavours and fragrances. Although a bit pricey, the share has enjoyed reliable long-term earnings growth and the dividend is well covered.

**Industrial & Commercial Bank of China** is the world's largest. It is safe (largely owned by the Chinese state), has an excellent earnings growth record, yet is still relatively cheap, with a well-covered dividend yield of well above 3 per cent.

**Lianhua Supermarket** operates thousands of hypermarkets, supermarkets and convenience stores across 22 municipalities and cities. It is the largest listed food retailer and is, says GTI's Bruce Albrecht, "an awesome cash generator." The share's a bit pricey, but earnings have been growing strongly.

**Link REIT** is one of Asia's largest investment trusts, with a huge and growing income from rental of its commercial and residential assets in Hong Kong. It offers a dividend yield of more than 4 per cent, almost five times covered.

**Luk Fook** has over two decades built a large and highly profitable business in the design, manufacture and marketing of jewellery, mainly of gold, with almost 600 retail outlets in China, Hong Kong, Macau, the US and Canada. The share has soared this year – so wait for a major correction before buying.

**Mindray Medical** is a specialist developer and manufacturer of medical devices for diagnosis, patient monitoring and life support. It services hospitals in China, the US, the UK, France and Germany. It has a very good earnings growth record and is listed in New York.

**Shandong Weigao** is a focused play on the growth of China's healthcare sector as supplier of single-use medical products such as syringes, blood bags and stents. Its customer base embraces more than 5,000 hospitals, blood stations and clinics. Earnings growth has been outstanding, but the share valuation is high.

**Want Want China** is a giant of the snack food industry, supplying crackers, beverages and a wide range of similar products to China and other Asian markets. Its share has a strong, stable growth pattern, which accounts for its high valuation.

**Wumart Stores** is the Chinese retail chain sometimes compared to America's Wal-Mart, with more than 400 owned and franchised convenience shops and hypermarkets, primarily in Beijing and the north. Growth has been good, but the share is pricey.

**ZTE Corp.** is one of China's largest manufacturers of telecom equipment, with plants in the US, Brazil and Sweden as well as China. Recent earnings growth has been strong.

# The Case for Optimism

The outlook for equity markets is good, the well-known analyst and commentator David Fuller of *Fullermoney* newsletter told the Annual Contrary Opinion Forum in the US last month.

Positive factors include accommodative money policies with low interest rates, low inflation, what David likes to call the "progressing" (developing) economies are healthy, the West's recovery is only 15 months old, household savings are rising, equity valuations are reasonable and corporate balance sheets are mostly strong.

Here is a brief summary of the *Fullermoney* forecasts:

• The Asian-, resources- and tech-led global stock market recovery is resuming;

• The current cyclical bull market should have several more years to run, provided energy and food prices do not spike higher;

• The US will avoid a double-dip recession with the help of the growth of progressing economies;

• The three-decade bull market in US government bonds is coming to an end – yields will range higher over the medium to long term;

• Gold's secular bull market has at least several more years to run before it is halted by higher interest rates;

• The secular bull market for industrial commodities will continue, although it will be punctuated by recessions;

• The stock markets of the progressing Asian and resource economies will continue to lead;

• US and European multinationals leveraged to the global economy will outperform;

• Leading or promising sectors include technology, healthcare, mining, agriculture, global infrastructure and dividend increasers.

## QE2 Etc… It's Money Madness

The massive "printing" of money and supply of virtually-free credit by central banks is destroying the foundations of valuation on which investment choices are based.

That's why we are now experiencing such oddities as investors' buying index-linked bonds to lock in a negative return. That's why bonds and equities and gold have all been rising together – they are not offering conflicting forecasts about deflation or inflation, merely rising together on the floodtide of money and credit.

The policy has been likened by strategist Don Coxe to the battlefield use of heroin for wounded soldiers – necessary in the short term, but creating a different major problem of weaning patients off the pain-killer before they become addicts, unfit for anything.

"There is no historic precedent for such sustained stimulus, which means no one can predict what longer-term damage it will inflict."

There is increasing evidence that central bank officials are aware of the serious risks of the policy and are divided, in particular, over the latest bout of massive money "printing" by the US Federal Reserve.

The Japanese, who tried it for two decades, know it doesn't work – in fact it delays economic recovery by keeping zombie banks and uncompetitive companies in business, penalizing their efficient competitors. In fact they believe in the opposite policy of squeezing credit to prevent bubbles in asset prices.

Wolfgang Schäuble, the German finance minister, says another round of something already tried and seen to fail isn't going to solve anything. "US policy is clueless."

Senior central bank officials privately concede "they don't believe in the policies they have adopted, but don't dare speak out against them," Henny Sender reports in the *FT*.

"Many economists believe that zero interest rate policies actually discourage spending, since individuals have to save all the more given paltry returns" on their savings. "That in turn undermines the policies the central bank wishes to support."

Even at the top, there is open dissent. Thomas Hoenig, boss of the Kansas City Fed, and a member of the Fed's policymaking committee, voted against QE2

because of the risk it could lead to future inflation and fuel another boom/bust cycle.

He favours a get-tough path to economic recovery, with higher interest rates, removal of “extremely inefficient” subsidies for housing and a “greatly reduced role” for government in housing finance.

However, for the next few months, perhaps years, we must assume that the money madness will continue. And make our personal investment decisions accordingly – while never losing sight of the explosive risks that lie in the future as a consequence of inflating a bubble worse than the last.

## Forcing Bondholders to Suffer Haircuts

What are deserving cases, and how far should governments go to shield them from market realities, including speculative risks caused by their own actions?

The catastrophic global credit crisis began with a deserving case – America’s poor.

Do-gooders wanted them to share in the boom in property values created by the Fed’s policy of cheap and abundant credit. So the politicians fostered an environment that eventually meant the channelling of European trust funds to borrowers with no income, no job and no assets – ultimately producing the worst global economic crisis since the 30s.

When the bubble burst, the next deserving case were the banks. Governments believed all the rubbish about how essential and irreplaceable they were, and deployed an avalanche of money to wash away their tears and refinance them, so many could start another round of the same debt-driven, officially-sponsored speculation that got them into trouble in the first place.

The latest deserving case are bondholders. Governments have been struggling to prevent their having to suffer “haircuts” – forced write-downs of capital values – as part of the restructuring that is essential to restore the global financial system to good health.

Partly they’re doing this because present and future retirees do deserve protection against the costly mistakes made by the so-called experts that have been managing their pension funds, who foolishly invested in high-risk securities that they were conned into believing were sound “triple-rated” stuff, such as packages poisoned with sub-prime lending, or Greek government bonds based on lies that Eurozone officials knew to be lies.

A less acceptable reason is that so many politically favoured banks and institutional funds don’t want to “take to book” the huge losses they face on bonds still valued unrealistically in their balance sheets.

Restructuring of bonds, whether accepted voluntarily or imposed, would force them to write down the value of such securities – which would be a very public admission of serious misjudgments, require radical financial and strategic restructuring, and perhaps put them out of business.

That’s what is really behind all the uncomfortable manoeuvreing over the jittery market in the government bonds of Greece, Ireland and other Eurozone weaklings

– the political need, especially in Germany and France, to save their banks from heavy losses in the value of their holdings in those dud bonds.

The markets know that those countries are being forced into such austerity that their economies will be crippled and their societies destabilized, making their debt problem even worse. And they know that in a year or three those nations will be forced to default on their bonds unless there is a massive German-financed bailout that looks highly unlikely.

But now, it seems, this supposedly deserving case of investors in toxic debt is about to lose part of its political cover.

It's becoming clear that bondholders are going to be forced to add their contribution to those already made on a massive scale by taxpayers, workers and businesses to digesting the detritus of the burst credit bubble, by taking "haircuts" on their asset values.

Realization of this is what is behind the new bout of jitters in the bond markets.

Eurozone officials have started to say that bondholders will have to carry part of the cost of restructuring where *future* issues default. No one yet wants to admit that this should happen with failure of *existing* issues, which are the real problem.

But in the semi-official realm of banks on government life support, the haircuts have started. Holders of subordinated (higher-risk) debt in Anglo Irish, an institution bailed out by the Irish government two years ago after the collapse in the country's property market, have been offered compensation equivalent to only 20 per cent of par value.

The government has threatened them that if they refuse to accept this unattractive offer, it will introduce legislation forcing such burden-sharing.

As I have inferred, there is a case for some government protection of the ultimate beneficiaries of funds with holdings of bonds that are going to have to be restructured, such as retirees, just as there is a case for some official insurance of smaller bank deposits.

But bondholders as a whole are no longer a deserving case to be shielded at huge cost to the public as a whole. They are going to have to pay part of the price for their own past mistakes.

## Bugs in the Greenery

Green investing is starting to go out of fashion as the harsh realities of its economics are recognized, governments blanch at the cost of continuing to provide enormous subsidies, and the unintended consequences of their programmes become apparent.

In a world faced with harvest shortages, does it make sense to pay huge subsidies so nearly two-fifths of America's corn crop is used to make ethanol to fuel motor cars?

Massive subsidies -- $7.7 billion last year – and political measures designed to reduce dependence on imported oil have stimulated production of the alcohol fuel far beyond national demand.

As they're running out of space to store the excess, manufacturers are now exporting the stuff to Europe and even to the oil-rich Mideast, in competition with producers in Brazil, who are able to make ethanol profitably without subsidies.

Crazy.

It also seems the world now has a surplus of windmills. Vestas, the biggest manufacturer, is closing five plants in Scandinavia and axing 3,000 jobs.

Offshore turbines are much favoured by the renewables lobby, but are roughly three times as expensive as nuclear to build, when wind intermittency is taken into account.

The *FT* reported recently that "such turbines can only be financed through fat subsidies over the life of the installation." The new UK energy minister, Chris Huhne, "sees no inconsistency in supporting these subsidies (stealthily inserted into customers' bills) while rejecting similar support for other zero-carbon sources, such as nuclear."

At a cost in Britain of £149 a megawatt hour to produce, compared to £97 for nuclear and £80 for coal and gas, "wind power is an unreliable and expensive imported energy solution," comments Martin Vander Weyer.

In the US it currently costs $60 per megawatt hour (that includes all capital and operating expenses) to generate electricity using coal, compared to $176 for offshore wind and $241 using solar capture.

Energy investment specialist Allen Brooks makes this interesting comment about a project singled out by US Vice President Joe Biden as a praiseworthy example of green energy, the fitting of solar panels to substitute for conventional power at a fish hatchery in Montana…

"The solar panels cost $179,000 to install and… will generate 75 per cent of the hatchery's electricity, thereby saving the government $2,500 annually.

"Based on those economics, however, the project's payout on this investment will be 70 years." However, solar panels currently available are only projected to last for 40 years.

"This is an example of the folly of many green energy projects – they wear out long before they pay out."

## Defence Dottiness

As my good friend Robin Mitchinson says in his excellent blog *Whydonttheylistentous*, the new UK government's latest defence review "beggars belief."

Because it can't afford to cancel the building of two new aircraft carriers to which the previous administration committed the country, nor can it afford to equip them properly, the government has decided to complete both, but put one in storage on completion, while the other flattop will sail without aircraft – only helicopters and drones -- for eight years!

"What we are not told is that carriers also require a mini-fleet of escort ships and supply vessels," Robin writes, for which no provision has been made.

"Not that this would matter for very long in real hostilities," as the government has also cancelled plans to build a key component in a carrier group's electronic umbrella.

So *HMS Prince of Wales*, as the one operational carrier will be called, "will go to war with no planes, no protective escort, and no airborne early warning radar system. Should last about as long as the previous *Prince of Wales* that the Japs made short work of in 1941."

However, as compensation the Brits have been offered the amusing news that their government has entered into a deal to put their new flattop into a shared-use backup arrangement with the solitary carrier operated by the French, the traditional enemy.

This reminds Robin of "the great pun by Miles Kington," the late humorist, that when the French Navy decided it needed a stirring battle-cry, he suggested they decide on "To the water, it is time." But in French, of course: "*À l'eau, c'est l'heure*." (Pronounce it as if the words were English).

# Tailpieces

**American problems:** Although there are some hopeful signs for the US economy – such as the probability that all or nearly all of the Bush tax cuts will be extended – two huge negatives outweigh them:

• The housing finance mess is getting worse. A quarter of mortgage loans are "under water" (debt is greater than market value of the property), the default rate on government-insured loans is above 8 per cent, house prices are falling, and the explosive scandal over potentially fraudulent representation and warranties is crippling the market. Meanwhile, it seems, the taxpayer-financed new mortgages system appears to have learned nothing from the sub-prime debacle – loan-to-value ratios of an absurdly-high 96 per cent are, apparently, commonplace.

• The crisis in state and city finance is also intensifying as federal bailout funding fades away, with no prospect of fresh fiscal stimulus after Republican election victories. One consequence is going to be attacks on the privileged class – public-sector workers – who, as in Europe, enjoy benefits far in excess of those now available in the cost-cutting private sector. The Republicans now control both state legislatures and governors' offices in 20 states, and are increasingly influenced by the public-spending-hostile Tea Partiers.

**Buy the blue chips:** Within the US investing universe, "we still like leading (that also means performing) blue chip multinationals, which are leveraged to the Asian-led global economy," says *Fullermoney*'s Eoin Treacy.

"Most of these companies have respectable yields. Perhaps more importantly, they also sit on a treasure trove of cash, currently estimated to be approximately $2 trillion. That can fund significant dividend increases, share buybacks, takeovers and capital expenditure."

**QE2:** I don't believe that the latest money-printing fix by the Fed will have much success stimulating economic growth – but what if I'm wrong?

It would change investment strategies radically.

“Successful releveraging would mean normalization of US interest rates, which would in turn mean relative underperformance by Asia and other emerging markets,” says CLSA Asia-Pacific’s strategist Christopher Wood.

“The stock market that would perform best globally would be Japan,” as the yen would weaken markedly.

**Still cheap:** Although emerging markets are now fully priced, they still sell at a decent discount to the three-quarters of the stocks in the S&P 500 index that are not “quality” – which is “a particularly strange quirk in a strange market,” says Jeremy Grantham, chairman of the GMO fund management group.

“With their high commodity exposure, their strong finances, and their strong GDP growth especially, I believe that they will sell at a premium to the S&P, perhaps a big one.”

**Bubble risk Down Under:** Although Australia’s housing market has held up remarkably well in the global recession, fuelled by factors such as immigrant demand, official constraints on supply and subsidies, one wonders when the bubble will burst.

Implosion seems inevitable as it has become extremely difficult for young people to afford to buy their first homes. It’s estimated that the average buyer in Sydney now has to pay at least 7½ times his or her annual income for the average house.

**Effective stimulus:** Asian countries able to implement some of the most generous stimulus packages to combat the global recession because of their sounder governance, which delivered high levels of consumer and business confidence, strong fiscal positions and huge foreign reserves.

The packages were also much more effective because the banking system, prudently regulated, with healthy capital ratios and clear lines of state support, acted as an efficient pipeline to transmit stimulus to businesses, underpinning jobs, wages and consumer demand.

**Looking elsewhere:** The strength of the currency and the low growth in their domestic markets are motivating Japanese companies to relocate more of their operations to plants elsewhere, especially in developing Asia.

Nissan expects to make 71 per cent of its cars outside Japan this year, compared to 66 per cent in 2009. Toyota’s offshore production has grown to 57 per cent of its total. It plans to make its flagship Prius hybrid outside Japan for the first time, in its Bangkok, Thailand, plant.

**Mortgage monsters:** Almost all new mortgage loans in the US are now being financed by taxpayers through three government-owned agencies – Fannie Mae, Freddie Mac and the FHA, which are also on the hook for a huge legacy of dubious paper. In addition to the $148 billion they have already swallowed, they could need as much as an additional $363 billion over the next two years, according to an official estimate.

**On strike:** Although I have little sympathy for members of the UK 999National Union of Journalists – of which I was a card-carrying comrade long ago – in striking against painful but necessary cost-cutting measures, I can understand their anger at having such measures imposed on them by a director-general

earning the equivalent of $1.3 million a year, or about 70 times average pay in the UK.

Martin

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