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A view from the Far East…

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Our in house Investment specialist, David Stogdale travelled to Singapore in August and Hong Kong in November. David's travels were in aid of developing a new capability for our clientele around the developing theme of Asian Equity investment.

Over the last few years, it has become more evident that opportunities for Equity investment are far broader than the rather concentrated large cap stocks that the ASX provides. The emphasis of most investors around franking credits has reduced the range of opportunity for performance, which for retirees need not be solely income based.

David's recent few days in Hong Kong provides some interesting insights into the views of Hong Kong based investment houses on a global basis.

David summarises some of the key themes from the meetings he had…

The $US and its impact on Asian economies.

The now well flagged rise in US interest rates and preceding rise in the $US have had an impact across all of Asia. Less economically strong countries such as Malaysia and Indonesia have all felt the impact on their currencies as the $US has strengthened, coupled with softness in staple commodities such as Palm Oil and Fuel Oil. However, the days of the Asian crisis from past times is well behind us now and broadly, the fiscal positions are in substantially better shape across all of Asia. This is reflected in Bond markets where, in the main, Bond markets are in good shape, reflecting a higher level of confidence around the future of the region.

The likely continuation of the rise of the $US will have far less impact on the region than some commentators might predict as the shift here has been well flagged and comes as no surprise.

Chinese GDP shift

One of the most interesting aspects of discussions had was around the outlook for China. Universally, the view was that China is not slowing. The level of activity we see today is changing from what has been a largely capital intensive and infrastructure based boom and is now shifting markedly towards consumption and employment of capital assets for projection of Chinese capability offshore.

We should also note well the sharp and clear signals from the new president of China, Mr Xi Jinping. He has stamped his leadership with a determined policy to reduce the level of middle and upper level corruption across the Military, Central Government and State Owned Enterprises.

The impact of the policy shift here is palpable within the PRC. This will have a notable positive impact upon the construction industries, as well as relationships with external parties.

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This is a long term programme to make China a quality trading counterparty for the West – which is central to the long term plan for China under Mr Xi's leadership.

All of the houses we visited were of the view that China has much to offer the world and it will pursue its path towards its own goals *with the West* rather than isolating itself.

To this end, we see the Chinese embarking upon a series of Diplomatic and trade oriented missions – highlighted by the recent visit to the UK by Mr Xi and Madame Peng Liyuan where the British Royal Family lavishly hosted their Chinese guests as trade negotiators and PM David Cameron were working on trade opportunities. The visit here was far more than symbolic.

Further, we should also watch for a continuation of the unfinished business around currency management of the Yuan. As the $US has appreciated over the last couple of years, sho has the Yuan. The rather abrupt recent change in currency policy by the Peoples Bank of China concerned markets, but in reality there is more to go here and we should expect more, potentially quite soon as the Federal Reserve in the US is likely to raise short term rates, likely sending the $US higher.

Why is this occurring? The view from the more insightful managers we spoke to was that the Chinese do not wish to be left out of the game, indeed they see themselves as being central to the shaping of the world in the 21st Century.

This is actually very encouraging for world growth and also for Australia. Our recent (and to some degree short lived) Commodity export driven good times may be on the wane short term, but in reality there is far more to go here as the Chinese economy has much to do in terms of large scale internal growth, supplying both internal and International projects.

Asian Market opportunities

Investment opportunities within Asia are highly evident. The range of opportunities within the Asian markets is diverse with the rise of the Asian consumer as the most evident theme. While we might take shopping centres and travel to other nations for granted, these are VERY new features of life within Asia and they are embracing these opportunities at pace. Similarly, the freedom of the Chinese population to travel to places like Taiwan (the most visited place by mainland Chinese) and other regional countries like South Korea and of course Hong Kong has created mobility not only of peoples but also of capital.

We assess that Asia provides us with many investment and strategic opportunities that we should continue to focus on and allocate to. Our investment committee is developing this offering.

Yours sincerely,

ZEST Wealth Advisers.