IPED

Emerging Markets Watch

The Graduate Program in International Political Economy & Development
Fordham University

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Alumni Profile: Claudia Pessagno

Ms. Claudia Pessagno, IPED 2005, shares with *Emerging Markets Watch* her insights into the valuation, strategy and performance of oil and gas companies, with particular focus on Latin American and Southern European companies and regional issues. Claudia serves as an associate equity analyst at IHS Herold, the world's leading independent research and consulting firm focusing on the valuation, strategy and performance measurement of energy companies. While financial analysis is crucial for an equity analyst — language, cultural, political and macroeconomic understanding of the regions of focus are equally important since the energy industry is affected not just by business decisions but by geopolitical dynamics as well. On trends in the energy industry, Ms. Pessagno reveals that "While the energy industry is increasingly important to the global economy, oil and gas resources are becoming harder to access. The "easy" resources have already been found. Now, companies are faced with geologic complexities, continuing trends of resources nationalization—especially in emerging markets—which make it harder for energy companies to tap resources. Political instability is a daily reality for energy companies, given that considerable oil and gas resources are located in politically unstable regions." Ms. Pessagno sees a distinct dichotomy in energy outlook for Latin America. Brazil and Colombia, offering stable and fair terms, are attractive countries to invest. Recent oil finds in offshore Brazil could transform the country into a global producer, leading to OPEC membership. In contrast, Venezuela and Bolivia, whose recent trends of resource nationalism and expropriation of energy assets have forced out foreign oil companies from the domestic energy space. The remaining Latin American countries face shaky political situations and uncertain economic prospects.

Ms. Pessagno shares that her core economics courses in the International Development Studies track, particularly Econometrics, were instrumental in understanding the business environment. A fundamental understanding of financial analysis with a focus on international finance is essential for anyone interested in an equity analyst career. Ms. Pessagno also recommends the advanced certificates in either financial econometrics and data analysis or in international business and finance. In addition, students should also avail themselves of the opportunities to gain practical and invaluable experience the program provides, through internships, fellowships or language study trips — which are also attractive advantages in the job market. ■

What is IPED?

IPED stands for the International Political Economy and Development Program at Fordham University in New York City: a program that trains graduate students in the advanced interdisciplinary analysis of global economic relations and international development issues. Graduates frequently work as financial analysts in the private sector, economists and policy analysts in the public sector, and project managers in the non-profit sector.

Emerging Markets Watch is a student-run newsletter of Fordham's IPED Program. It aims to share with prospective students and friends in the academic, non-profit, government, and corporate community IPED analysis in emerging markets and country risk analysis.

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Investment Prospects for Emerging Economies

EDITORS' NOTE: Fordham's *Summer Certificate Program in Emerging Markets and Country Risk Analysis* is an intensive 10-week program designed for international business professionals as well as current graduate students. The program offers students the opportunity to develop the political, economic, and financial analytical skills needed to evaluate the potential risks and rewards associated with the dynamic and volatile financial markets of Asia, Latin America, Africa, and Eastern Europe. Below are abstracts of the papers completed during the summer of 2009.

For more information about the program, please visit www.fordham.edu/iped/summer.

Hungary

By James C. Kachelmeyer

Sound economic policies together with loans from the International Monetary Fund (IMF) and European Union (EU) have helped stabilized Hungary's economy since March 2009. The country has an above average portfolio investment prospect for 2010.

Hungary has had an impressive level of annual GDP growth averaging 12.92% from 2001, and despite a 6% deficit in 2009, a 2-3% growth rate is expected for 2010.

While Hungary's membership in the EU since 2005 has been pivotal for new imports, markets and credit opportunities, given the collapse of the Hungarian forint and a high deficit level, the country is unlikely to satisfy EU's condition of maintaining a fiscal deficit of 3% of GDP or less for two consecutive years before full Euro integration in the near term. The government has targeted a 4% deficit for now.

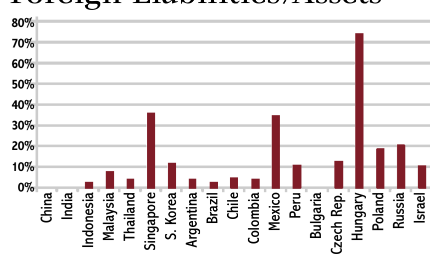
Unemployment rose from 7.99% in 4Q2008 to 9.7% in 1Q2009 but Hungary's strong pro-union laws and negative population growth has helped alleviate the adverse effect.

Until 2008, Hungary was seen as a safe, low risk premium investment resulting in easy foreign loans. The country developed a very high ratio of foreign liabilities(73.8%). When the forint devalued following the mortgage crises, Hungary was unable to repay its massive foreign liabilities and the currency collapsed, plunging 73% in 7.5 months..

Interest rates were raised to 11% last Fall but reduced to 8.5% in July 2009 and the exchange rate of forints to USD should remain relatively stable over the following year, within a range of 178.9 to 203.3, barring a major event.

Significant swings were also manifested in The Budapest Stock Exchange (BUX) from a high of 29264.90 on 7/31/2007 to a low of 10190.15 on 2/27/2009 but have since regained ground to 15940.90 on 7/15/2009. The BUX's return at 22.6% in 1H2009 has outpaced the S&P500, the FTSE and Nikkei225. ■

Hungary: Foreign Liabilities/Assets



India

By Xiaoyi Fan

Overall, the equity investment opportunity for a one-year time horizon in India is excellent. With expectations of a swift recovery from the global financial crisis, India is poised to perform well at the macro level, benefiting from a strong currency and a stable stock market.

Led by strong performances in the key sectors of services (63% of real GDP), financial services, and the telecommunication industry, the country is on track to achieve a 7% and 7.5% growth rate in 2009 and 2010 respectively. However, inflation is expected to reach 5% at end March 2010 due to increasing commodity prices and expansionary monetary and fiscal policies. Exacerbating this inflation concern, government deficits have risen to 5.93% in 2008 which could widen to a 16-year high of 6.8%. At over 68% of GDP, there are fears that the huge government debt could also drive out private investments. Further roadblocks to sustainable development are the poverty (25% of the population living below the poverty line) and unemployment rates (6.8% in 2008).

Helped by a controlled exchange rate regime, large foreign exchange reserves and strong current account and balance of payments, the Indian Rupee is expected to slightly appreciate against US dollar in the one-year period. In addition, India's stock market is expected to return an average of 2% monthly in the coming year. Market correlation of the BSE & S&P has risen over the past decade as the country has gradually integrated into the world's financial market. Moreover, the country's accounting and regulatory regime is expected to continually improve, helping to turn India into a more investor-efficient market with new growth opportunities in industries such as food products, energy, healthcare, and transport. ■

Israel

By Ygal Arounian

Portfolio investment prospects in Israel will be above average in the coming year as the country is expected to post a recovery in its GDP growth (between 2-3% in 2010) after a slowdown in the past 2 years. Israel's exchange rate should remain stable and trend towards appreciation over the years. Geopolitical threats from the region could, however, undermine Israel's security.

Unemployment is expected to rise to 6.4% from a 10 year low of 5.7% in 2008 but with the global economy gaining traction, the unemployment rate may remain stable. Inflation has decreased with falling oil prices and will likely range around 2% in 2009-2010, below the central bank's upper bound of 3%. Israel's central bank is relaxing its monetary policy with interest rates at 0.50% in a bid to stimulate the economy. Israeli banks have a healthy capitalization ratio of 9% in accordance with Basel II standards and have been reducing foreign liabilities over bank assets from 16% in 1998 to 10% in 2008.

Exports have seen a decade of good growth due to multiple free trade agreements and participation in the WTO since 1995. International reserves dipped to 4.8 months of imports in 2008 but should increase to 6 months as exports regain ground and the impact of new government tax cuts aimed at increasing foreign investment kicks in. Though Israel's debt-service and external debt ratio hovers at a high 13% and 45% respectively, this is unlikely to pose a critical problem with the stable Sheqel and resumption of economic growth in 2010.

Israel's Tel Aviv stock exchange has regained ground since its January 2009 lows, posting 37.8% returns during 1H2009 and is expected to continue its path of healthy growth for the following year. Further, even though Israel's market risk is markedly lower than the rest of the emerging markets, it has outperformed the MSCI emerging markets index by 26% year to date. ■

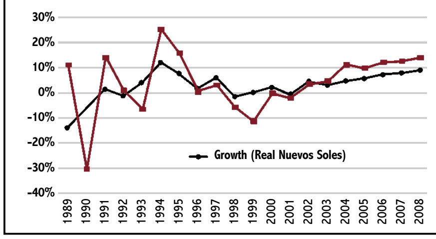
Peru

By Jorge Vargas

Short-term prospects for portfolio investment in Peru remain above average and are expected to outperform most Latin America economies through 2010 and beyond due to sound macroeconomic policies, stable exchange rates, low inflation, and ample foreign exchange reserves. The country's stock market is projected to post strong returns over the coming year with solid economic fundamentals and declining volatility.

Peru achieved an average growth rate of over 7% from 2004-2008, and almost 10% in 2008. Despite the impact of the global financial crisis and an overall contraction of the economy, GDP is expected to grow 3% in 2009 and to lead the economic recovery in the region through 2010. Peru's financial sector has largely remain unscathed by the crisis due to the low foreign liabilities exposures as a percentage of banking assets(below 12%), high capitalization ratios, and ease of maintaining a high bank reserves ratio in a tight credit environment.

Peruvian Real Annual GDP Growth Rate



However, the probability of a populist government coming to power after the 2011 elections could lead to changes in the current pro-foreign investments legal framework that could stifle Peru's development. Further, increasing income inequalities, and high poverty and unemployment rates (8.5% in 2Q2008) remain areas of concern.

The exchange rate of the local currency should remain stable over the investment period. Although commodities exports are anticipated to recover in 2H2009, owing to large stimulus plans by China and India and resumption of mining projects, the recovery of imports, due to increased domestic demand and the likely strengthening of the US Dollar, should rein in the appreciating currency.

Significant investment opportunities are expected in the local stock market with above 93% returns over 1H2009. Peru presents a strong portfolio diversification option having had above average returns amongst emerging markets year-to-date July 2009 (3% monthly return month compared to 1-2%). ■

Global Markets Fellowships

Designed to attract highly qualified full-time students who seek careers in the analysis of international commercial and financial markets into the IPED Program, the Global Markets Fellowship consists of a tuition scholarship combined with a graduate assistantship. Eligibility criteria are: relevant professional work experience, professional proficiency in English and another language widely used in international business, and strong cross-cultural skills. Students committed to a professional career in international business and finance with a focus on emerging markets may also apply for the Emerging Markets Travel Program. The application deadline is early January for the following fall semester. *For further information, go to www.fordham.edu/iped and follow the link to "Financial Aid."* ■

Faculty Interview: Dr. John P. Entelis

Initially precipitated by a chance advice to study Arabic in Egypt, Dr. John P. Entelis's academic training on the Middle East and North Africa culminated in a PhD in political science from New York University. After having joined Fordham's faculty in 1970, he was one of the founders of the IPED Program where he was Director from 1979-1980. Besides being the Director of Fordham's Middle East program (1980 to present), Dr. Entelis teaches four graduate courses: Political Economy in the Middle East; Political Risk Analysis; Comparative Political Analysis; and Politics and Petroleum.

Dr. Entelis is nearing completion on a project on Algeria as part of a multi-country study for Stanford University's Program in Energy and Sustained Development. The study explores the relationship between national and international oil companies. He is also working on various scholarly publications. In addition, Dr. Entelis frequently consults for private and public institutions including the U.S. State Department and the Foreign Service Institute.

Emerging Markets Watch asked Dr. Entelis to share his views on the Middle East and North Africa. "Overall the region has not reached the level of its potential in economic development that people expected it to be 50 years ago given its human capital, resources and its proximity to the EU market." In the Middle East, political variables are also potentially trumping what otherwise may look like economic opportunities. Dr Entelis also offered some thought on China as an emerging superpower. "As a political scientist, political legitimacy and economic development are inseparable. China still remains a question mark as long as it remains authoritarian. Its potential to develop economically would be limited — and we see it through the protest movements, ethnic conflicts and other evidence of discontent. China has a long way to go as long as it remains communist. So I would argue that the more growth and even development that China experiences, the less likely it can sustain this form of governance and it would have to open up. They are not there yet because there's still enormous poverty out there and thus enormous underdevelopment."

As one of the founders of IPED, Dr. Entelis observes that the quality and diversity of the student body has improved immensely over the years. "This remains an unique program and more than ever, there is a need to know the interplay of actors on the global stage, how the economy and the government are going to affect capital markets." Given recent events in financial markets, IPED students will be well-equipped to think outside the box of the formal financial world.

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