



EMERGING MARKETS WATCH

THE GRADUATE PROGRAM IN INTERNATIONAL POLITICAL ECONOMY & DEVELOPMENT
FORDHAM UNIVERSITY

IPED

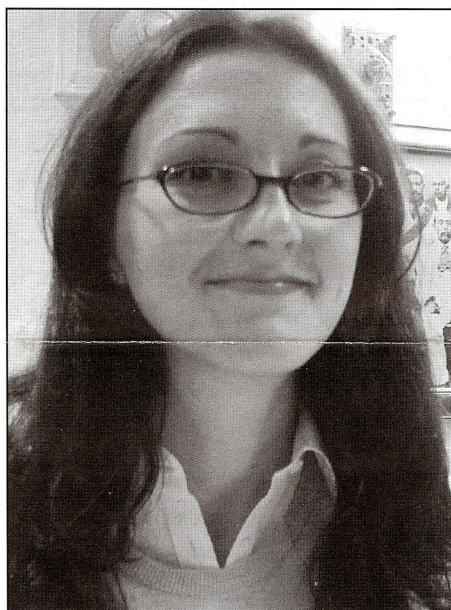
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Alumni Profile: Daniela Ilea

Citigroup Inc. is one of the world's largest financial services companies, providing a diverse range of services to over 100 countries and more than 200 million customers across the globe. Ms. Daniela Ilea, 2004 IPED graduate, spoke with us about her experience as Vice President of the Decision Management Unit in Citigroup. Her job involves forecasting profits and losses for credit card offers extended to customers. The unit also makes recommendations in terms of risk management, determining which clients should be receiving Citigroup's best offers, and segmenting the card members based on loyalty, profitability and risk.

Emerging Markets Watch asked Ms. Ilea about her insights on investing in emerging markets given the current state of the financial industry. There was a time, she says, when she would have considered investing in her home country, Romania. As of July 2008, analysts expected the further appreciation of the Romanian Leu (RON). In August, the Bucharest Stock Exchange introduced the trading of government securities—a move intended to jump-start the country's capital markets. With the recent financial crisis, however, Ms. Ilea feels that people are quite hesitant about investing at all. "Even my own country has been downgraded by rating agencies. I think at the moment, all investors are running towards American treasury bills as they pose the least amount of risk. For now, emerging markets isn't the place to be." As of November 2008, rating agencies such as Fitch and S&P downgraded their ratings for Romania, along



with several other European emerging markets such as Bulgaria, Hungary and Kazakhstan*. Nonetheless, Ms. Ilea strongly believes that the global financial crisis is an opportunity for further learning. "Looking back, no one outside the financial industry knew what a mortgage-backed security or a derivative was, but now we all understand what they are. This is supposed to be the next Great Depression and people will remember this time for years to come. It is a very good time to learn. I take advantage of it by seeing how management responds, seeing how my management deals with it." Ms. Ilea's position at Citigroup, Inc. requires a strong grasp of data and trend analysis, as well as forecasting. The strong foundation IPED provides in economic analysis and SAS, along with political and social science, is invaluable to those who want to pursue a career in the financial industry. Having this unique perspective of the world, says Ms. Ilea, will definitely make an IPED graduate an asset to any company. ■

*Source: *Emerging Markets Monitor*, November 2008

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 2008. Full versions of the papers can be found at www.fordham.edu/emp. For more information about the program, please visit www.fordham.edu/iped/summer/index.html

Brazil

By Gizem Esma Bayazit

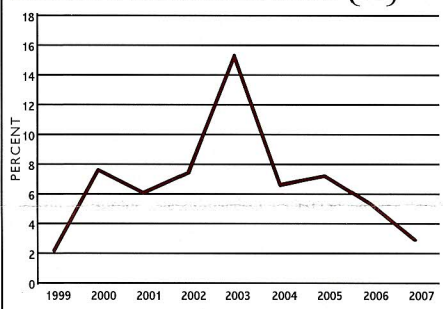
The short-term equity investment output in Brazil is good. Brazil's real growth in 2007 was 4.6%. In line with the average growth of 4.5% over the past three years, the target growth rate for 2008 has been set at 4.5%. This, however, is likely to be challenged by tendencies for higher inflation resulting from emerging signs of global depression. The unemployment rate in Brazil for the last ten years has been 9% on average.

The Central Bank under the leadership of Meirelles is strongly committed to the target inflation rate of 4.5%. Dedicated to inflation rate control, the country has better inflation rates (3.6% in 2007) compared to other BRIC (Brazil, Russia, India, and China) countries. During the first quarter of 2008, the country became a net creditor for the first time with a negative net external debt of \$ -18.8 billion. This brought a sooner-than-expected S&P investment grade.

Brazil's annual exports have been on a continual rise since 2002, reaching US \$161 billion in 2007. An exporter of commodity goods and raw materials, Brazil has enjoyed increased export revenue due to globally increased oil and commodity prices.

For the first time in five years, Brazil's current accounts balance headed a negative value at the end of 2007. On a brighter note, the country has a strong international reserves position. As for exchange rate stability, the Brazilian Reais remains volatile against the US dollar. This volatility, however, seems to have significantly decreased from that of the last five years' value of 18%. The

Brazil's Inflation Rate (%)



Reais is expected to further appreciate during the course of next year.

Brazil became the best-performing market in May 2008, following S&P's increase of its long-term foreign currency debt rating to investment grade for the first time. Due to the recently announced petroleum plants in Carioca and the investment grade granted to the country by S&P and Fitch, monthly return over the last 12 months averaged 5%. Also in May 2008, Petrobras, a state-controlled oil company, traded 17.2 times EPS (earnings per share). The excitement over petroleum prospects is soon to cool off due to the time required to set up plants. The best equity spot is likely to stay with last year's best performer, Maxima Participacoes fund. With the recent uplift of the Bovespa index, partnered with sound monetary and fiscal policies, Brazil's stock market is likely to continue to be an attractive option for investors in the coming year. ■

South Africa

By Ryan Jones

The outlook for equity investment in South Africa over the next year is good. South Africa has posted solid gains in growth of real GDP per capita since 2002. Continued growth in domestic output has led to annual gains of 5.1 and 5.4

percent in 2007 and 2006, respectively. High food and fuel prices have contributed to an inflation rate in South Africa well higher than the 3 to 6 percent target set by the Reserve Bank. Inflation first crept above this mark in April of 2007, when it was recorded at 6.3 percent. As food price inflation cools, and as long as the central bank maintains independence, inflation should return to the target in early 2009.

Unemployment stands at 25.5 percent, a huge number that may even be underestimated, as it is difficult to measure employment in rural areas or townships, where economies are informal and most people live in poverty.

The South African Reserve Bank (SARB) has learned the lessons of 2001's collapse in the Rand well, and have been shoring up their financial position ever since by building up reserves in gold and hard currency, reducing both the net forward open positions on the national books to zero and the volatility of the currency so that it trades within the band between 5.75 and 8.25 ZAR/USD since August 2003.

The coming World Cup in 2010 will result in a flood of currency being exchanged to rand, due to tourists visiting country for the massive event. Since South Africa is a relatively small economy compared to Germany and China, countries that hosted the last World Cup and Olympics, respectively, the demand for currency should pose a unique challenge for the SARB and should improve their reserve position considerably. The Johannesburg Stock Exchange's benchmark All-Shares Index has returned considerably more than either the U.S. S&P 500 Index or London's FTSE Index. Volatility, though, is higher on the JSE, averaging 4.6 percent per month, compared to London's 3.0 percent and New York's 2.7 percent. As growing global market volatility has affected the benchmark index of the Johannesburg Stock Exchange differently than the benchmarks in London and New York, the JSE has proven its worth as a valuable component of a diversified portfolio. ■

China

By Jessica Martin

The outlook for portfolio investment in China is poor. Due to an unfavorable global economic environment, inflationary pressure, speculative capital inflows, and leadership unwilling to take the proper steps to tighten monetary policy, China's market outlook in the near-term is uncertain.

A slowdown in export growth and a policy-induced easing in bank lending are helping to bring China's economy back from the brink of overheating, with real GDP growth set to moderate from almost 12% in 2007 to 9.5 percent in 2008.

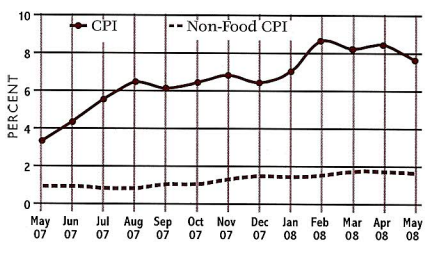
The reduction in export growth and a rise in import growth has reduced the trade surplus from the previous year to \$54 billion in the first quarter of 2008. The reduction in the trade surplus, however, is likely to stop temporarily since the current account surplus hit a record high of \$375 billion in 2007, or eleven percent of GDP.

The Yuan has appreciated against the dollar 6.6% since the end of 2007 and is currently trading at 6.85 per dollar. Although China has allowed more exchange rate flexibility, entrenched concerns about dampening exports has meant the adjustment has fallen short of that dictated by economic fundamentals. Even so, the gradual pace against the dollar will have a limited impact redressing China's large balance of payments surplus.

Despite strict capital controls, China is being flooded with the biggest wave of speculative capital or "hot money" to hit an emerging economy. According to leaked official figures, China's foreign reserves jumped \$115 billion during April and May 2008, to \$1.8 trillion. Massive hot money flows present two dangers to China's economy. First, capital could suddenly flow out, as it did from other Southeast Asian nations during the Asian Financial Crisis. Second, and more worrisome to a government whose legitimacy rides on economic growth and social

China's Inflation (%)

China's Consumer Price Inflation, year-over-year



stability, is the prospect of capital inflows fueling inflation.

Traditionally, hot money is visible in inflating stock prices; however, this is not the case for China. After surging almost 100 percent in 2007, the Shanghai-Composite Index has seen a dramatic reversal in share prices over the past year. The outlook for global financial markets is looking more uncertain and volatile each week. Fear and mistrust stemming from the U.S. financial crisis has hit the emerging markets especially hard. China's market losses total \$1 trillion, or 30% of total emerging market losses seen since July 2008. ■

Singapore

By Leon Villanueva

The equity investment opportunity for a one-year time horizon in Singapore is fair. Domestic macroeconomics have held stable. As of 2006, Singapore's real GDP growth has remained consistently high at 7.88% in local currency terms and 12.10% in dollar terms. Singapore's unemployment rate has been low and stable. As of 2007 it was 2.1%. Singapore's infla-

tion rate, however, has risen significantly over the last half of 2007, with an average of 7.9%.

Singapore exports have consistently increased per quarter, with the first quarter of 2008 being at a high of \$84.26 billion in exports. It has an upward trend balance of payments surplus. Over a five-year period, the Singapore dollar has steadily appreciated from 1.73 (in June 2003) to 1.36 (in June 2008). The expected appreciation of the Singapore dollar is also expected to decrease reserves as well as slow export growth.

Singapore's stock exchange seems to be weathering the global economic downturn well through strong domestic and regional demand. The Singapore Straits Times Index (STI) had returns of 206.7%, 57.9%, 4.1% and -3.8% at five year, two year, one year, and six months respectively; consistently beating the major stock markets in all but one of tested time periods.

The Singapore stock exchange seems to be affected by the global slowdown, notably in export-oriented industries. Domestic and regionally oriented industries, however, remain resilient. Receipts from tourism were higher than projected targets and financial intermediation services have remained strong. The Singapore stock exchange has consistently had higher returns and is (according to tests) efficient. More importantly in terms of volatility, the Straits Times appears comparable to more advanced markets. Singapore's economy, banking sector, and stock exchange seem to be kept robust by resilient regional and domestic demand. ■

Global Markets Fellowships

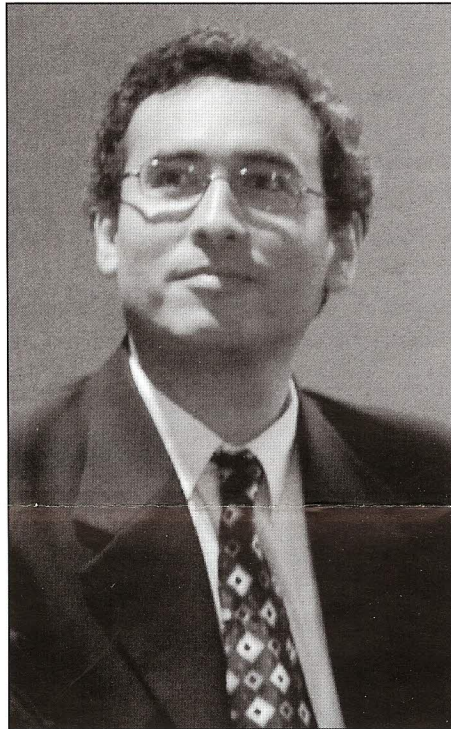
Designed to attract highly qualified full-time students who seek careers in the analysis of international commercial and financial markets into the IPED Program, the Global Markets Fellowship consists of a tuition scholarship combined with a graduate assistantship. Eligibility criteria are: relevant 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/aid.html ■

Faculty Interview: Dr. Erick Rengifo

Dr. Erick Rengifo is one of Fordham University's esteemed faculty members. With a PhD in Economics from the Catholic University of Louvain-Belgium and years of valuable experience in financial management, Dr. Rengifo is currently an Assistant Professor in the Economics Department as well as the Founding Director of the Center for International Policy Studies or CIPS. He teaches two undergraduate courses in statistics and statistical decision making; two graduate courses—Financial Economics and Financial Econometrics; and in the summer, Strategic Financial Management.

When *Emerging Markets Watch* asked Dr. Rengifo about his work, he shares that he loves doing many things at a time. This is very evident in the numerous projects that keep Dr. Rengifo busy. Right now, he is involved in technical research on measures of dependence using copula theory. Aside from this, he is working on credit default swaps (CDS) and is trying to model a limit order book using option theory. He is also doing more applied research on remittances and micro-insurance.

Dr. Rengifo also reveals his thoughts on emerging markets, given the state of the financial industry.



"The problem with developing countries in our globalized world is that they are suffering from two highly correlated issues: financial crises and economic crises. In the financial case they are in trouble for their investments in what were believed to be the most mature and secure markets in the world: financial instruments from the developed world. The other problem these countries are currently facing is that most (if not all) short

term foreign capitals are leaving their markets, causing not only a drop in the price of local financial instruments but also a depreciation of their local currencies. These problems have damaged the already vulnerable economies of these countries," he says.

"Consumption is lowering in developed countries and there are no clear signs of a soon recovery. This decrease in consumption implies that emerging markets economies exports are going to slow down, affecting their respective real economies. In this highly complicated environment, it is difficult to generalize whether to invest or not in emerging markets. I would say however, that if a proper fundamental analysis is performed, and some corporations are believed to be cheap (under priced) this is the time to buy them!!"

After working closely with IPED, Dr. Rengifo believes that what makes the program so successful is the diversity of its students. Their first-hand experience in emerging economies provides them with the strength to do things efficiently and effectively. "I believe that anyone who has been exposed to this "other" world, where humans exist in environments that no one can possibly imagine, provides the oxygen that flows through the blood of IPED students." ■

