EMERGING MARKETS WATCH

THE GRADUATE PROGRAM IN INTERNATIONAL POLITICAL ECONOMY & DEVELOPMENT

FORDHAM UNIVERSITY

IPED

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Alumni Profile: Jennylyn Tanchua

Ms. Jennylyn Tanchua is the Sector Economist for the U.S. Corporate Ratings group of *Standard and Poor's Ratings Services (S&P)*. S&P is a financial services company that provides investors market information in the form of credit ratings, indices, and investment research. Ms. Tanchua's work includes regular commentaries on credit conditions and corporate outlooks. She also helps incorporate economic analysis and forecasts into the ratings process of US corporations. In addition, she is part of the group that handles identification of macroeconomic vulnerabilities, systemic risks, and market bubbles.

According to her, emerging markets are very important in her work since the largest U.S. corporations her team follows have significant and rising exposure to these markets. It is also very common for big U.S. companies to have at least 50% of its revenues generated overseas. When asked about her opinion in these emerging markets she explained: *"Emerging markets, particularly the largest ones – China, India, Brazil, and Russia – have performed relatively poorly this year, due both to external and internal factors. The key is how well they adjust and reform their economies to get to the next level of growth."*

Ms. Tanchua mentions that she benefited from IPED's interdisciplinary approach, especially since the program gives importance to political and sociological factors for a more holistic analytical process. She claims that IPED helped sharpen her writing ability which is an integral part of her career. Most importantly, she believes that IPED's international worldview helped her gain a wide perspective in anticipating global trends, while still considering the many factors that each country uniquely faces. ■

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 iped.fordham.edu and follow the link to "Financial Aid."

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Fordham University's graduate program in International Political Economy and Development Program is a program that trains graduate students in the advanced interdisciplinary analysis of global economic relations and international development issues. Graduates frequently pursue professional careers in international finance and banking, international economic policy, and in international relief and development.

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 the abstracts of the papers completed during the summer of 2013.

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

China

By Brendan Nosal

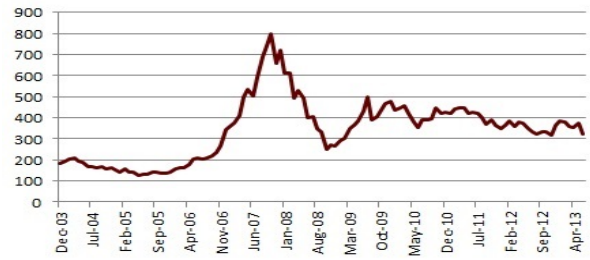
Despite a slowing rate of growth and the need to transition from an investment-based economy to one that revolves around consumption, China's low-interest rate environment still offers above normal returns for investors.

In terms of fiscal policy, the Chinese government has run small deficits for the past 20 years due mainly to industrialization and a push for modernization. M1 Money supply increased from 1.65 trillion USD in Q1 2007 to 4.9 trillion USD in Q1 2013, indicating substantial accommodative monetary policy to combat the global recession.

Notwithstanding possible over-leveraging, China's reserve-deposit ratio is a healthy 23% and has held relatively steady since 2007. Furthermore, foreign liabilities as a percentage of assets are at nearly non-existent levels for 2012, which minimizes overseas exposure of Chinese financial institutions. As of Q1 2013, reserves stood at an all-time high of 3.44 trillion USD, and China held enough reserves to pay for 7.4 months of imports. This elevated level of foreign reserves has considerably aided export growth.

Recently, China's SHCOMP has not performed well, losing 7.9% of its value in the year ending June 2013. Although SHCOMP offers lower returns, it exhibits low correlation with developed equity markets and with other BRICS nations.

Shanghai Composite Index



The Chinese economy is beginning a transition from dependence on investment to a more developed consumption-based model which presents challenges to overcome. For these reasons, investment opportunities in China are above average, and may improve further as the country transitions to a period of sustainable growth. ■

Brendan Nosal is an Equity Research Associate at Sandler O'Neill & Partners, L.P. pursuing his M.A. in Economics at Fordham University.

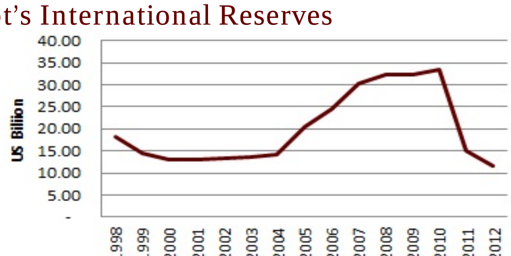
Egypt

By William Spisak

Despite the tremendous potential for growth, investment opportunities in Egypt are poor because of the political instability that continues to undermine market and economic performance. Systemic weakness such as high government deficits, a depleted stock of international reserves, and an overvalued currency are clear indicators that a future crisis is very possible.

Egypt's economic growth has slowed down tremendously after the global financial crisis and the unemployment rate has continued to increase. This may be attributed to the instabilities brought about by the Arab Spring and the succeeding overthrows of the last two presidents. Also during this period, the government has tripled its budget deficit, a level that will surely cause a future crisis due to unsustainability.

Egypt's International Reserves



The current high capital account deficit of Egypt and the small amount of its exports relative to its imports suggest weaknesses that may undermine the stable exchange rate it enjoyed over the last decade. Exchange rate is also threatened by the depleted level of international reserves demonstrates the fact that it can barely sustain two months of imports. As wheat is Egypt's primary import, this can also have devastating effects on food prices and hunger in the country.

The Egyptian Exchange (EGX) is a risky market for investors. Standard deviation of the market over the last ten years has almost tripled compared to the same period measured for S&P500. Though EGX has had a 463% increase over a ten-year period, the market is still very vulnerable to shocks.

Investing in Egypt is a highly risky endeavor at this time. If a technocratic government elected by broad consensus can ease Egypt into a more fiscally sound position, then the country's true potential may be realized. Until then, investment outlook will remain on the negative side. ■

William Spisak is pursuing his M.A. in International Political Economy and Development at Fordham University.

South Africa

By Maris Krumins

The prospects for equity investments in South Africa are below normal. South Africa has always been an entry point into Africa and the dominant economy of the region. However, widening current account deficit, labor force rigidity, and a weak education system have made South Africa less attractive for investing. Furthermore, volatility and depreciation of the Rand exposes investors to additional risks.

The country has been running a budget deficit since 2008 accompanied by a sluggish GDP growth rate. Governments fiscal ability to run future deficits is limited thus posing doubts about its ability to implement large-scale infrastructure projects envisaged in the National Development Plan that are required to ensure future growth. As inflation in June 2013 was 5.5% year-on-year and thus close to the upper bound of inflation target, South African Reserve Bank is limited in its ability to lower the discount rate to boost weak domestic demand. The unemployment rate record of the country is at a record high of 25% and is expected to remain there for the near future due to problems in its education system.

The ongoing sovereign debt crisis and austerity measures implemented in most of the European countries make the demand for the South African exports uncertain. South Africa has run current account deficit since 2003 and in 2012 it reached 6.26%. Moreover as other countries in Africa exhibit robust GDP growth , South Africa might not only loose the largest economy status to Nigeria, but also capital flows might change direction towards countries with faster growing consumer demand.

Although low standard deviation of stock returns makes the Johannesburg Stock Exchange (JSE) less risky, JSE posts returns well below others in developed markets. Overall return over the last year has been a negative -3.2%. Meanwhile the S&P 500 has grown 17.9% over the last year.

South Africa is a country with great potential, however recent developments in its equity market, macroeconomic challenges and currency depreciation and volatility makes investing less recommended in the country. ■

JSE All Share Index

**USD adjusted values*

Maris Krumins is a Fulbright Scholar from Latvia pursuing his M.A. in International Political Economy and Development at Fordham University.

Brazil

By Pumla Molope

The prospects for equity investment in Brazil are above average in the medium to long-term. Economic growth has slowed but remains positive as a result of good accumulation of foreign reserves, low unemployment rate, and counter-cyclical fiscal policies. Equity markets are also attractive and the hosting of the 2014 World Cup has contributed to its economic growth. Despite these improvements, high inflation rates and recent labor protests remain a concern. In addition, there is distrust of the government, currency depreciation and low investment levels existing in the country.

In recent years the economy has been assisted by increased exports and interest rates which are favorable to foreign direct investments. The hosting of the 2014 World Cup has also augmented the country's growth forecast by at least $70 billion over a ten-year period. In addition to these positive indicators, the unemployment rate has decreased to a current low and income distribution has improved.

Over the past decade, the country was able to retire its debt to the International Monetary Fund and has transformed its current account from a deficit to a surplus. This performance can be attributed to the country's high commodity prices and buoyant international reserves. Although the exchange rate has deteriorated for most of the year, it is expected to strengthen by the end of the year.

As of the end of 2011, Brazil's stock market is the eighth largest in the world in terms of market capitalization with a PE ratio less than the S&P500. Central Bank data shows that foreign inflows to Brazil's stock market almost tripled in the first quarter of 2013 from the previous three-month period to $7.74 billion. This is more than the net inflows for the whole of 2012 and the strongest quarter since late 2010.

With the recent economic performance of the country, along with prospects brought about by the World Cup, investment in Brazil remains positive. ■

Bovespa Index

**USD adjusted values*

Pumla Molope is an Investment Analyst and Chartered Accountant who finished a post-graduate degree in Accounting Science from University of South Africa.

Faculty Profile: Dr. Mary Burke

Dr. Mary Burke is currently the Associate Chairperson of the Department of Economics. Aside from her administrative and advisement duties for the department, she teaches both graduate and undergraduate courses in the areas of Statistics, Money and Banking, and Monetary Policy. Dr. Burke completed her BA in Mathematics, MA in Economics, and PhD in Economics at Fordham Rose Hill.

During the course of her career, she has done various consulting work on business valuation of different companies. She has worked on areas of federal taxation, transfer pricing, goodwill impairment analyses and mergers and acquisitions.

When asked about her insights on the current issues facing the Emerging Markets, she relates it to the courses she currently teaches. She explains that the Emerging Markets are highly vulnerable on the strategies and policies of the U.S Federal Reserves and the central banks of the developed nations. She mentions that the huge capital inflows to these emerging markets distort the normal behavior of some economic indicators. For instance, the possible reversal of the quantitative easing of the US Fed will surely have a significant effect on currency exchange rates and the economic activities of these nations.

According to Dr. Burke the IPED Program is a very vibrant and interesting program. She comments, *“It attracts very good students who are interested in learning economics, international markets, and international development. Then they go out and do very fascinating work, making a difference in the countries they are in”.* ■

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