

DÉJÀ VU

RISE OF POPULISM

Italy has become the latest financial market victim to fears that its populist ruling coalition will be an obstacle for deeper eurozone cooperation and worse still set the stage for another crisis. Yet this wave of populism is not a new phenomenon. Every now and then we see it manifest dramatically across the globe. The 2011 Arab Spring, Britain's infamous "Brexit" vote and the election of US President Trump with an "America First" manifesto are clear past examples as is Malaysia's recent election outcome.

Markets tend to have knee-jerk reactions and sell-off in such instances, only to bounce back when the dust settles. So we are not surprised by the Italian market's overreaction last week given that Italian assets have been the poster child for the European renaissance over the last eighteen months. If we follow the emerging pattern of the right-leaning politicians watering down their initial policy announcements (the coalition in Italy already seems to have dropped references to leaving the eurozone and demanding European Central Bank to cancel debt) many opportunities are in sight. We are on the lookout.

RISE OF US DOLLAR

After hitting lows in February 2018 following the inflation induced global sell-offs, the US dollar has rallied against most of the major currencies. Tightening dollar liquidity and the rising risk premium around Middle East has once again underpinned the dollar's safe haven status. Years of cheap and plentiful US dollar liquidity are over. Moreover, with the US rates on the rise, further strengthening is a possibility.

As such, concerns are mounting on markets (Asia is on the radar) that have a high level of US dollar debt that must be serviced. For sure, countries and companies that have over extended themselves in US dollar debt will be exposed. Equally, Asian exporters which have been sidelined due to the effect of lower US dollar revenues may find the stronger dollar acting as a catalyst to unlock the value.

One important fact to note is that Asia's US dollar debt seems reasonable – a 2016 report estimated it at 28% of total debt¹. Debt servicing thus seems to be

less of an issue than the market is pricing. Investors have a consistent track record of not being able to delineate between the emerging markets – and this attitude exposes value, especially in Asia. Again, we are on the lookout.

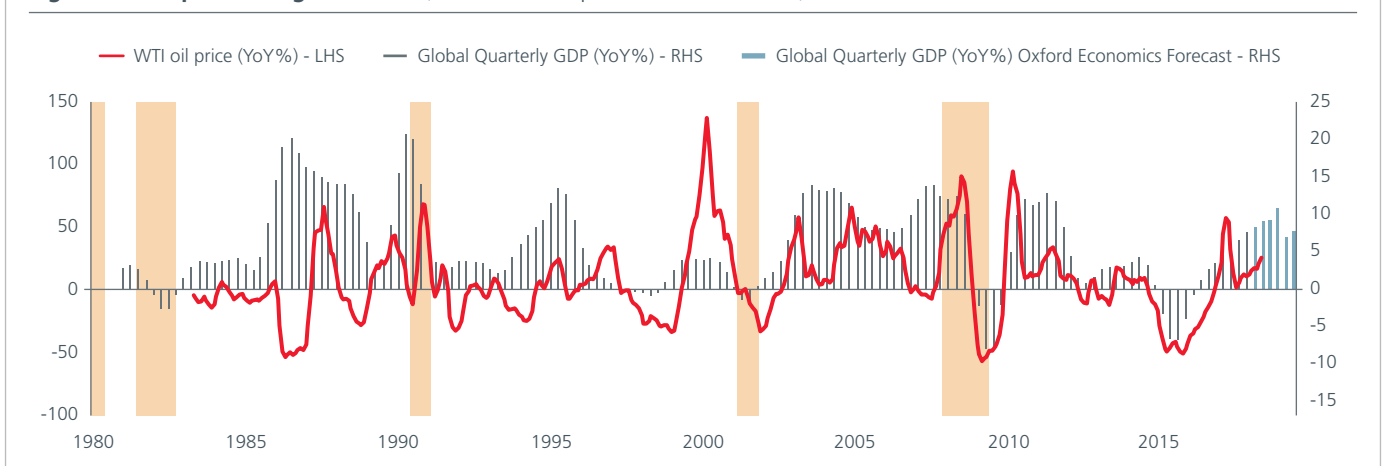
RISE OF OIL PRICES

Last but not least is the rising oil price. Brent oil hit USD80 a barrel last week for the first time since end of 2014. Oil remains a key cost to consumer and industry and so the rate of change of oil price is very important for the economic outlook. Although oil strategists have pointed out that the US is less reliant on imported oil, there is still a bottleneck in pumping oil out of the Permian Basin in US, which is unlikely to be resolved until the second half of 2019. Higher oil prices are a threat to economic growth. As of now, the signal is not flashing red. But should it cross USD95 per barrel, it will warrant a closer monitoring for client portfolios.



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Fig.1: WTI oil price and global GDP (shaded area represents US recession)





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