PENDAL

Global Emerging Markets Opportunities Fund

Emerging Markets Spotlight

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Emerging markets go right or wrong at country level, but there are some similarities between economies and markets within particular regions. Examples include the commodity dependencies of Latin America and the Arab Gulf or the euro-linkage of Central Europe.

One of these similarities is the relative stability of the four South-east Asian markets – Thailand, Indonesia, Malaysia and Philippines – since the period of extreme economic and political volatility from 1996 to 2006. That stability has been weakened by the economic and social effects of coronavirus, notably in Thailand.

Thai politics have been deteriorating since the mid-2000s due to broad tensions between a reform-oriented, largely provincial political movement and a conservative, largely Bangkok-based elite with strong links to the royal family and the military. This second group has been in power under the military-backed government of former army chief Prayut Chan-o-cha since the 2014 coup.

This year Thailand has experienced an upsurge in anti-establishment protests that began in February when the Election Commission banned the progressive Future Forward Party. Covid-related lockdowns led to a period of calm, but protests have picked up again in recent months. Protestors are demanding the government's resignation, the dissolution of parliament and fresh elections under a new constitution. Demands also include a reduction in the monarch's roles in government and the military. This is intensely controversial for the royalist elite and may prove a particular source of tension.

The government seems unwilling at the time of writing to engage with protestors. Instead, it is again relying on technocratic delivery of a strong economy to mollify popular unhappiness. With policymakers expressing concern about the 2021 tourist season, the ministry of finance (and its new head, Arkom Termpittayapaisith, appointed as Finance Minister on October 5) is turning to fiscal stimulus to support the economy. One of the key measures is a consumption support scheme for the fourth quarter of 2020. This is modelled on the "Shop for the Nation" scheme deployed in 2019 but at a larger scale, allowing up to THB 30k (around US$1000) of consumer spending per citizen to be tax deductible from income taxes.

Finance minister Arkom previously worked in the transport ministry, where he played a key role in several major transport infrastructure projects. Commentators assume he has been picked for the finance ministry to push more of these kinds of projects through with the aim of further supporting economic growth.

Key points

The relative stability of the four South-east Asian markets (Thailand, Indonesia, Malaysia and Philippines) has been weakened by the economic and social effects of coronavirus.

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The twin policies of running a large current account surplus and accumulating foreign exchange reserves has been a consistent feature of economic policy in Thailand since 2006. This requires the management of exchange rates to prevent the Thai baht strengthening against the currencies of trading partners. This policy looks to be continuing. Thai foreign exchange reserves are up 10% to US$238 billion this year. This policy, combined with the economic impact of Covid-19, means monetary policy has had to be kept loose. The Bank of Thailand's policy interest rate, the one-day repurchase rate, remains on hold at a record low of 0.5%. The monetary policy committee is reported to be considering unconventional monetary policy measures such as quantitative easing or negative policy rates. If fiscal policy (described by the central bank as "the main driving force behind economic recovery") is not sufficiently stimulative – and with policy rates near the zero lower-bound – unconventional policies may be seen in Thailand.

Ultimately the "fortress balance sheet" approach to foreign exchange reserves offers economic stability and security. But it's dependent on a model of under-consumption and some degree of financial repression of people who are both workers and consumers. This can minimise financial market concerns about political unrest, and may once again allow the government to face down its critics. With tourism yet to show signs of recovery, we remain zero-weight Thailand and prefer to look for recoveries in the more domestically-driven part of the emerging market equity asset class.

Pendal Global Emerging Markets Opportunities Fund

As at 30 Sep 2020	3 months	1 year	3 years (p.a)	5 years (p.a)	Since Inception
Total return (after fees)	2.63	-2.10	3.52	7.07	8.47
Total return (before fees and tax)	2.94	-0.86	4.93	8.54	9.97
Benchmark	5.24	4.02	5.55	8.52	8.36

*Inception date: 07/11/2012

Past performance is not a reliable indicator of future performance.

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