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“Performance of Emerging Markets”

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Fancy returns in EMEs may loose some sheen in 2008, says AEP.

Though the Indian stock market provided the second highest returns after China to the investors in 2007, among the Asian emerging market economies though the returns in the year 2008 are not expected to remain as “fancy” as in the past, according to ASSOCHAM Eco Pulse Study.

Although the boom period is expected to continue in the EMEs, the causes attributed to returns for not remaining “fancy” in 2008 are the expected slowdown in US economy, shrinking growth in corporate earnings and high base effect that would hold back the stock market momentum in these economies.

China gave the maximum return of 78.5 per cent to investors in the market followed by India where the market rose by 49.3 per cent in 2007, the AEP study on “Performance of Emerging Markets” revealed.

The analysis was based on rise in indices of the leading stock exchanges of the EMEs including Shanghai Composite Index, S&P CNX Nifty and Hang Seng Index.

In the U.S. economy grew at a 2.8 per cent in the Q3-07 but it is anticipated that the growth rate may decline to 1.9 per cent as there are signs of weak consumer spending, diminished business investment, continued tight financial conditions. The index of US manufacturing activity has dropped to 47.7 in December, the five year low, down from 50.8 in November. Job creation in US has dropped to 40,000 in December, after 173,000 in November.

ASSOCHAM President Mr. V.N. Dhoot said “The Indian economy will have to face the challenges of rupee appreciation, high interest rates and slow down in the manufacturing sector”.

In the previous year as the Indian economy also witnessed a declining growth rate of 4.5 per cent in core infrastructure sectors like crude petroleum, petroleum refinery products, cement, coal and steel in October '07. The exports would find it difficult to improve the performance in the year 2008. The growth in Rupee terms for the period April-October 2007 was mere 7 per cent. The IT sector is finding difficult to shove off the rising rupee affect as growth in top line of four major IT companies in India, slowed down to 27 per cent in first two months of this fiscal as compared to 45 per cent last year.

The inflow of FIIs in the calendar year 2007 in China was around USD 61.67 billion and the Indian market received USD 16 billion, which fuelled their stock

markets to set new records. The prime reason for high returns in the EMEs was massive shuffling of funds by FIIs from developed markets to EMEs particularly to India & China- the two fastest growing economies in the world.

The Hang Seng index of the Hong Kong Stock Exchange gave third highest return at 38.75 per cent to its investors, on the back of the GDP growth at 6.2 per cent. The growth was propelled with the rising labour income, better job prospects with private consumption expenditure registering a growth of 6.6 per cent, 11.3 per cent rise in exports and buoyant financial market

Driven by strong domestic demand, Malaysia's GDP growth inched up to 6.7 per cent; the engine of growth has been private consumption and government spending. In the calendar year 2007 Kuala Lumpur Composite Index measured by the 100 stocks provided return of 20.03 per cent to its investors.

The minimum return was given by Singapore, where the Strait Times Index provided 13.73 per cent return to its investors despite a healthy GDP growth rate of 8.6 per cent propelled by growth in manufacturing sector grew by 7.3 per cent while services sector registered a growth of 6 per cent.

The Five Developing Asian Economies Index

Sno.	Classification	Return (In per cent)	GDP Growth Rate (In per cent)
1	SSE Composite Index	78.57	11.5
2	S& P CNX Nifty	49.31	9
3	Hang Seng Index	38.75	6.2
4	Kuala Lumpur Composite Index	20.03	6.7
5	Strait Times Index	13.75	8.9