Global Matters Weekly

10 February 2020

Opportunities to leapfrog in Emerging Markets

– *David Lashbrook, CFA*

Having personally experienced how the mobile telephone has transformed communications and enabled business in Africa, I wonder if the combination of poor existing infrastructure and technological advancement could transform the retail sector in emerging markets. Just as Kenya-based Safaricom has led the world in mobile money transfers, I wonder if there is an opportunity for Africa to pioneer retail delivery via drone.

Casting back thirty years to the early 1990s when I was managing our farm in Zimbabwe, I can distinctly remember the frustrations of trying to order fertilizer by landline telephone. It took me a week to get through to the fertilizer company and when I finally succeeded, they couldn't hear me! Devastating when your crops are wilting in the field, not to mention the disastrous financial impact personally and for the wider economy of what was then the breadbasket of Africa. Fast forward to 2010 when mobile phones were commonplace and provided a reliable service. I wasn't farming any more, but I can imagine that I would have been able to swiftly place an order by call or text. Moving forward another 10 years to today, I am confident that I could place an order via an app on my smart phone. Isn't technology wonderful for business?

We are all very aware of the transformation of the developed markets' retail sector from high street and malls to online and, as an investor in African real estate, we wonder how this trend will manifest itself where we operate in Africa ex South Africa. Retail penetration in this geography is currently far less than in developed markets and although there is arguably an opportunity for expansion, we approach investments in new shopping mall developments with some caution. Whilst the threat from online retailing is present and growing (for example, it is possible to have goods delivered within a week to Lagos or Nairobi from China via Ali Baba), it is not nearly as evolved as it is in developed markets. Barriers to entry are high because locally-based online retailers in Africa would face the same challenges as in store retailers: (1) low GDP/capita and therefore limited buying power, (2) procurement challenges – periodic unavailability of hard currency to purchase supplies, (3) competition from local markets – informal street-side markets are still commonplace and culturally popular, (4) transport infrastructure challenges – slow ports, severely potholed roads, continual congestion and lack of street signs (e.g. Accra has no physical street name signs – if you don't have Google Maps, directions are given by landmarks!) and (5) an unreliable/non-existent postal system.

Kenya is a world leader in the mobile money transfer business. Back in 2007, the in-country challenges with existing over the counter banking and poor landline telephone infrastructure gave Safaricom the opportunity to launch M-PESA, the mobile phone-based money transfer system. I wonder if the significant infrastructure and postal system challenges mentioned above could pave the way for tech-savvy online retailers in Africa to leapfrog ahead and lead the world in drone delivery.

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The **Marketplace**

- The Coronavirus continues to occupy major news headlines and investor sentiment
- The US impeachment saga ended on Wednesday as the Senate voted to acquit President Trump
- Brent crude fell 6.3% ending the week at $54.5 a barrel
- Gold fell 1.2% ending the week at $1570.4 an ounce

Market **Focus**

US

- Non-farm Payrolls were released on Friday, surpassing the expected 160k at 225k for January.
- Positive economic data during the week pushed major equity indices to new record highs.
- China announced that it was cutting tariffs on around $75bn of goods to mitigate some of the impact of the Coronavirus.
- The ISM Manufacturing PMI jumped back into expansionary territory for the first time since last July, printing 50.9.
- Over the week, the major gauge of US stocks increased 3.2% whilst treasuries fell by 30 basis points.

Europe

- Industrial production in Germany and France fell in December as factories suffered from a broad European slowdown and ongoing French strikes.
- The European Central Bank's President Christine Lagarde said that eurozone growth remained modest, and that very loose monetary policy was still necessary.
- Germany's factory orders over the past year fell 8.7%, the largest year-on-year decline since September 2009

UK

- UK Services PMI for December was revised up from 52.9 to 53.9, with the composite index signalling a recovery.
- The composite PMI rose to 53.3 for the month of January, the strongest reading since September 2018.
- Prime Minister Boris Johnson stated that there was "no need for a free trade agreement to involve accepting EU rules on competition policy, subsidies, social protection [etc.]" in a speech on Monday.
- The UK Equity index gained 2.3% over the past week, with gilts declining 60 basis points

Asia/Rest of The World

- Chinese authorities deployed multiple financial measures in response to the Coronavirus' impact last week intended to support the economy, such as providing liquidity to the banking sector.
- It was reported that the US is considering sanctions against Russia's biggest oil producer (Rosneft) for maintaining its ties with Venezuela

Past performance is not indicative of future returns.

Source: Bloomberg. Returns in local currency unless otherwise stated.

Asset Class/Region	Currency	Currency returns			
		Week ending 7 Feb. 2020	Month to date	YTD 2019	12 months
Developed Market Equities					
United States	USD	3.2%	3.2%	3.1%	24.7%
United Kingdom	GBP	2.3%	2.3%	-1.1%	9.1%
Continental Europe	EUR	3.9%	3.9%	3.1%	23.4%
Japan	JPY	2.8%	2.8%	0.6%	13.2%
Asia Pacific (ex Japan)	USD	2.8%	2.8%	-1.0%	9.5%
Australia	AUD	0.1%	0.1%	5.1%	20.1%
Global	USD	2.7%	2.7%	2.1%	21.0%
Emerging markets equities					
Emerging Europe	USD	0.0%	0.0%	-3.6%	16.3%
Emerging Asia	USD	3.7%	3.7%	-1.0%	9.9%
Emerging Latin America	USD	0.2%	0.2%	-5.4%	0.1%
BRICs	USD	3.0%	3.0%	-1.5%	10.6%
MENA countries	USD	-1.8%	-1.8%	-2.4%	-1.0%
South Africa	USD	2.4%	2.4%	-6.6%	-4.2%
India	USD	1.2%	1.2%	-0.9%	10.4%
Global emerging markets	USD	2.8%	2.8%	-2.0%	7.5%
Bonds					
US Treasuries	USD	-0.3%	-0.3%	2.3%	9.1%
US Treasuries (inflation protected)	USD	-0.3%	-0.3%	1.9%	9.6%
US Corporate (investment grade)	USD	0.1%	0.1%	2.4%	14.4%
US High Yield	USD	0.6%	0.6%	0.6%	9.7%
UK Gilts	GBP	-0.6%	-0.6%	3.3%	9.2%
UK Corporate (investment grade)	GBP	-0.2%	-0.2%	2.7%	11.5%
Euro Government Bonds	EUR	-0.4%	-0.4%	2.2%	8.4%
Euro Corporate (investment grade)	EUR	-0.1%	-0.1%	1.0%	5.6%
Euro High Yield	EUR	0.5%	0.5%	0.7%	9.3%
Japanese Government	JPY	-0.2%	-0.2%	0.2%	1.7%
Australian Government	AUD	-0.6%	-0.6%	2.6%	9.4%
Global Government Bonds	USD	-1.0%	-1.0%	0.7%	6.1%
Global Bonds	USD	-0.7%	-0.7%	0.7%	6.6%
Global Convertible Bonds	USD	1.3%	1.3%	2.8%	10.5%
Emerging Market Bonds	USD	0.3%	0.3%	2.5%	9.9%

Source: Bloomberg. Past performance is not indicative of future returns

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Asset Class/Region	Currency	Currency returns			
		Week ending 7 Feb. 2020	Month to date	YTD 2019	12 months
Property					
US Property Securities	USD	1.6%	1.6%	2.7%	13.1%
Australian Property Securities	AUD	0.7%	0.7%	7.1%	12.3%
Asia Property Securities	USD	2.2%	2.2%	-1.9%	3.6%
Global Property Securities	USD	1.2%	1.2%	0.8%	12.0%
Currencies					
Euro	USD	-1.3%	-1.3%	-2.5%	-3.6%
UK Pound Sterling	USD	-2.2%	-2.2%	-2.7%	-0.5%
Japanese Yen	USD	-1.3%	-1.3%	-1.1%	0.0%
Australian Dollar	USD	-0.3%	-0.3%	-4.9%	-5.8%
South African Rand	USD	-0.7%	-0.7%	-7.4%	-9.4%
Swiss Franc	USD	-1.4%	-1.4%	-1.1%	2.4%
Chinese Yuan	USD	-1.3%	-1.3%	-0.6%	-3.7%
Commodities & Alternatives					
Commodities	USD	-0.6%	-0.6%	-8.0%	-3.1%
Agricultural Commodities	USD	0.5%	0.5%	-2.6%	-4.4%
Oil	USD	-6.3%	-6.3%	-17.5%	-11.6%
Gold	USD	-1.2%	-1.2%	3.1%	19.8%
Hedge funds	USD	0.7%	0.7%	1.1%	7.4%

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Important notes