LUNDGREEN'S
ECONOMIC SPOTLIGHT

WEEK 10 2018



REACHING GLOBAL MILESTONES

Lundgreen's Capital constantly grows its business and continues to gain international recognition

LUNDGREEN'S CAPITAL:

Advising large and professional clients about investments and financial risk management.





PETER LUNDGREEN:

Founding CEO of Lundgreen's Capital and a trusted advisor for clients. Peter is also a conference speaker and an experienced source for the global media with 100+ appearances annually.

LUNDGREEN'S CHINA FUND

A mutual investment fund listed in Luxemburg investing in carefully selected value stocks and attractive growth stocks plus bonds.



The market never sleeps - we're always up for a conversation.

Lundgreen's Capital
professional investment advisory

Hammerensgade 1, 2nd Floor, DK – 1267 Copenhagen K, Denmark – Phone +45 70 26 88 55 – www.lundgreenscapital.com

Lundgreen's Capital is a licenced investment advisor regulated by the Danish FSA

THE HUNT FOR GROWTH IN ASIA

In spite of rising global economic growth, two of Asia's largest countries rely even more on public financed GDP growth - it may satisfy the stock market in the short-term, though it's long-term unhealthy.

Since long, Japan has amazed with a reasonable solid GDP growth. The positive development has happened in conjunction, or as a consequence of, Bank of Japan's quantitative monetary policy inspired by the American central bank. In addition, Prime Minister Abe's government has run an expansive fiscal policy for five years. Such a cocktail of course results in some form of growth. I belong to the perpetual critics of quantitative monetary policy and argue that it doesn't help macroeconomic growth particularly much.
Instead, I argue that the primary reason for Japan's higher GDP growth over the past year and a half is due to a larger export to emerging market economies in Asia. The statistic shows increased exports coincides with a significant increase in industrial output during the same period, as graphic one shows.
I argue that Japan's growth was supported by regional and global factors, rather than growth created by domestic public spending without structural forms.

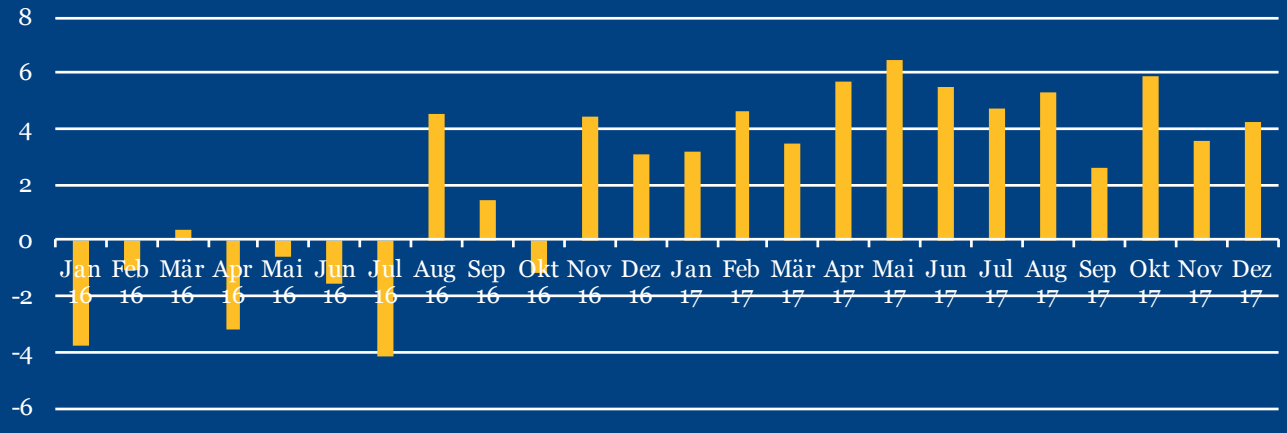
When the new Japanese fiscal year starts on the first of April, it's going to be the sixth year with an expansive fiscal policy, and even the most expansive throughout the years. To be fair, the cost of the military will increase due to the threat from North Korea. But otherwise, money will be spent on typical public expenses.
However, a growing number of economists are becoming critical about Prime Minister Abe's economic policy. There is an increasing risk that investors and the financial market lose confidence in Japan because the public debt simply grows to new heights without a solution on how to wind it down one day. The Japanese government is constantly working on unrealistic budgetary assumptions as the only solution on the rising debt is an even faster growing GDP to make the accounting look good. An example is one precondition in this year's budget- a 1.8 pct. GDP growth. So, it was probably a disappointment that the GDP growth in the last quarter of 2017 just reached 0.5 pct. on an annualised growth.

Also, in India, the work with the new budget has been hectic ahead of the new fiscal year starting the first of April. The GDP growth rate has increased since mid last year, though it has actually just returned to the same level as before the economic growth dropped unexpectedly. But Prime Minister Modi has further created a challenge for himself based on his election promises where the biggest promise was to generate millions of new jobs in the industrial sector, which simply failed. As graphic two shows then, the industrial production has even had a more difficult time, except for the last few months of 2017.

This year's new fiscal budget is very interesting because next spring is election time in India, so the election campaign is in reality being kicked-off together with the new budget.

***Graphic 1*:**

JAPAN - YEARLY CHANGE IN INDUSTRIAL PRODUCTION (IN PCT.)



Source: Ministry of Trade & Industry, Japan

Another challenging dimension for Prime Minister Modi's government is that there is no spare fiscal room to both initiate new investments with a long-term positive effect and to hand out money / subsidies to secure easy votes for next year's election.

The budget, presented by Finance Minister Arun Jaitley on February 1st, contains a budget deficit of 3.3 pct. of GDP instead of 3.0 pct. as promised a year ago. A consideration is, of course, whether a fiscal budget deficit really interests anyone anymore as governments the past years have run deficits as they pleased without any concern from bond investors? The tide can change very fast as the U.S. hikes interest rates more than expected, and investors suddenly might start to pay attention to creditworthiness again. But the conclusion is obviously in India too, that the target is to get growth in a higher gear this year, or at least satisfy some voters - no matter what it may cost.

Agriculture gets a lot of attention in the budget, where the government now in principle tries to build in a guaranteed profit margin to the farmers as a proportion of the production costs. The calculation methodology of the substitutions is highly complicated, but I assess that the government may be forced to keep agricultural prices at a certain level through support, or intervention in the market as a result of the new proposal. Thus, the markets for agricultural products becomes partially more government-controlled with a lack of efficiency over time. This is expected to contribute to increased purchasing power among farmers in the rural areas which of course supports the GDP growth. But in my honest opinion, the new fiscal budget does not in any way represent creative macroeconomic thinking. Therefore, I expect investors increasingly to show more caution as the budget primarily is about pushing up GDP growth regardless if it's healthy growth or not.

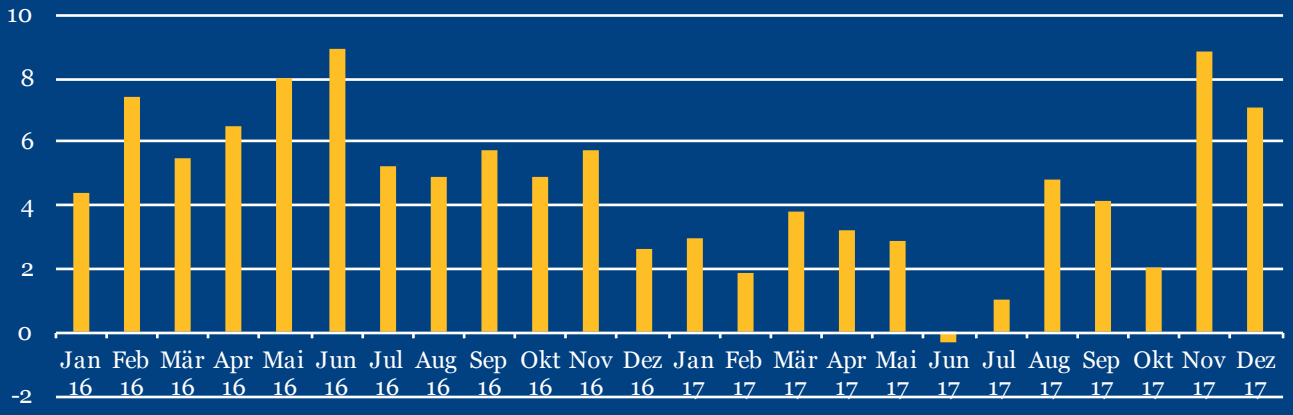
I argue that the Q4 numbers from last year, that newly where released, shows the trend with a stronger government influence on growth.

The GDP growth reached 7.2 pct. on annualised basis which was up from 6.5 pct. in the prior quarter. But the growth was increasingly unhealthy with gross fixed capital formation rising with 12 pct. against 6.9 pct. in the prior quarter, the government spending went up from 2.9 pct. to 6 pct. Whereas the increase in private consumption slowed from 6.6 pct. to 5.6 and the export growth dropped from 6.5 pct. to 2.5 pct.

Overall, the headline growth in GDP may be enough to satisfy the stock market i.e. reducing the risk for steep sell-offs at least for a period. But my perception of the global bond market is that the attention towards various risks is increasing which quickly can hit countries that run unworried fiscal deficits like Japan and India choses to do once again to push up GDP growth in the coming financial year.

Graphic 2 **:**

INDIA - YEARLY CHANGE IN INDUSTRIAL PRODUCTION (IN PCT.)



Source: Ministry of Statistics, India

Disclaimer: This report has been prepared by Lundgreen's Capital ApS for information purposes only. It is not an offer or solicitation of any offers to purchase or sell any securities, currency or financial instrument. The evaluations, calculations, opinions and recommendations of this magazine should not replace the making of own opinions about whether to make any such transaction. Whilst reasonable care has been taken to ensure that its contents are not untrue or misleading, no representation is made as to its accuracy or completeness and no liability is accepted for any loss arising from reliance on it. Lundgreen's Capital ApS, its affiliates or staff may perform business services, hold, establish, change or cease to hold positions in any securities, currency or financial instrument mentioned in this report. Additional information is available from Lundgreen's Capital ApS. This report is not intended for anybody outside the European Union. Lundgreen's Capital ApS, Copenhagen, is acting as an Investment Management Advisor under the inspection of Finanstilsynet / Danish FSA. This publication is published pursuant to Executive Order No. 1234 of 22 October 2007 on the compilation and dissemination to the public of certain investment research. It is strictly prohibited to use the photos in this publication in any way. Short quotes from the publication are allowed if the source is mentioned. In case that a whole section or article is used it can only happen if it has been approved by Lundgreen's Capital ApS. The contact details can be found on the website www.lundgreens.com.