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## **Oil & Gold Rising: China Outlook**

Far East Growth - China, India, Vietnam, and other similar economies may produce growth and inflation at even higher rates than North America. As Covid eases this could surprise “experts” in the longevity of global commodities sourced in Canada.

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*February 4, 2022*



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## INVESTMENT OUTLOOK

February 2022

### Oil & Gold Rising: China Outlook

Inflation is now running at 7%, and it remains to be seen if this is a “transitory” trend: even if supply chains clear, as the pandemic winds down globally, wage rises and commodity prices are still important factors. Oil is at \$87 a barrel (\$90 for Brent), and we forecast \$120 to \$150 a barrel within a year, based on supply constraints. We are trying to “oil proof” our Bamboo Asian portfolio against these higher energy costs, but India and China still import nearly all their fuel. Gold’s rise to \$1840 is signaling a declining faith in the US dollar, in US hegemony, and in President Biden’s faltering leadership.

Meanwhile, China is gearing up for its important party congress in October 2022, with a new leadership line-up under President Xi. The Beijing authorities would like to keep the economy stable and buoyant (growing at 4% plus) until this national event. “Zero Covid” will also be maintained, we expect, though “dynamic “clearing” of foreign visitors -- however, this is translated -- may assist business. China’s economy grew at 8.1% in the year 2021, mainly due to a 30% growth in exports and a US\$676 billion trade surplus. The RMB has risen nearly 9% against the US dollar in the past 2 years, and we

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expect it to remain strong in 2022. In contrast to monetary tightening in the US and Europe, the PBOC is easing its bank reserve requirements, reducing interest rates, and relaxing lending and mortgage policies to help the struggling property sector. All this will help Chinese equities outperform US equities in 2022.

Beijing wants to pivot away from internet e-commerce, and video games (the growth sectors of the past 5 years) towards Biotech, AI, semiconductors, 5G, robotics, quantum computing, alternative energy sources (solar, nuclear, EVS), and focus more on “Common Prosperity” rather than just profitability. We are trying to find the winners in all these sectors, which will outperform in the next 5 years.

Despite the demographic headwind -- China’s vast population has peaked at 1.4 billion - - but only added 480,000 in 2021 (only 10 million babies were born, compared to India’s 25 million) -- we believe that China, having attained a “middle class”, or European living standard in its major coastal cities, can continue to grow at nearly 5% (which would imply that its economy overtakes the US G.D.P. by 2030), and that corporate earnings in the favoured sectors will be 20% to 30%. (Domestic brands are growing much faster). Moreover, China’s A Shares stand on 14 times future earnings (Hong Kong H Shares on 9 times) compared to 20 times forward P.E. for the US market.



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Meanwhile, our favourite Asian markets continue to be India, Vietnam, Indonesia, and Malaysia, which will benefit from higher energy and commodity prices.

India's growth continues at around 8% to 9%. The Rupee is steady at 74 to the US dollar. Inflation is at about 5.5%, but interest rates remain high by global standards (6.8% on 10-year Indian government bonds). We believe that housing and mortgage lending will continue to grow at over 20%. The Information Technology Sector is also demonstrating its resilience during the pandemic, with Infosys, TCS, Wipro, and smaller players, such as HCL, winning +60% new orders. It is worth emphasizing again India's success in vaccinating nearly 80% of its population of 1.38 Bn., and also connecting all its people, digitally and financially, by opening bank accounts. Mr. Modi, Prime Minister since 2014, deserves credit for streamlining and modernizing India's economy and bureaucracy; and we fully expect him to be re-elected for a third 5-year term in 2024. We select India as the best 10-year investment in the world, followed by Vietnam, a much smaller, less liquid market (\$250 billion compared to \$3.5 trillion), but with great growth promise. We have recently seen short-term foreign selling of Vietnamese securities, which we see as a long-term buying opportunity in sectors such as banking, construction, property, software, and consumer products. Vietnam's young population of 100 million is avidly embracing capitalism. Like India, it is where China was in 2000, with two decades of growth in front of them.



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On a personal note, I would like to conclude this month's outlook by remarking that, after 2 years of pandemic lockdowns and travel restrictions, spent in the UK and USA, I am finally setting out, in early February, to return for a 2-month visit to Asia, including a 21-day mandated hotel quarantine in Hong Kong. I shall be able to report next month to all our readers and investors on the exigencies of this novel adventure!

*R. Lloyd George*

Hong Kong  
1<sup>st</sup> February 2022



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