

This facility allows the customer to maintain all the benefits of trading with multiple counterparties, namely liquidity and flexibility of execution, while eliminating a potentially enormous exposure in the form of settlement risk. The resulting dollar

settlements to or from the prime broker will be small relative to the bulk amounts traded.

Conclusion

As plan sponsors frequently struggle with the complexities surrounding currency

overlay, prime brokerage can help to streamline many of the implementation issues. By helping to remove some of the hurdles in the enacting a currency overlay and improving manager efficiency, this will help to grow the market.

INVESTING IN THAILAND

By Doug Barnett, Quest Management, Thailand

This article discusses the outlook for the Thai market, its historical volatility, and how to reduce risk and improve returns by taking an active, quasi-private equity approach.

The Status of the Thai Economy

The SET index¹ is essentially suffering from poor worldwide sentiment, nothing else.

The domestic economy is looking good, and will perform even better as the U.S. and Japanese economies start to grow again.

Thailand has steadily improved its external payments position, supported by the recent rebound in exports and high foreign exchange reserves. S&P, Moody's and Fitch IBCA have continually upgraded their ratings outlook from stable to investment grade. Moreover, Thailand announced that it will repay its US\$4.8 billion in outstanding International Monetary Fund (IMF) loans during the first half of 2003, about two years before the loans are due.

Although investors are bearish right now, the Thai market remains interesting because:

- Thai interest rates (both on deposits and on loans) remain at historically low levels, while domestic inflation is running at an annual rate of less than one percent. As such, Thais are effectively earning a zero real rate of return on deposits, which will encourage Thai depositors to seek new alternatives for investment capital;
- the macro economic picture in Thailand continues to brighten. Thai GDP growth accelerated from 3.9% in 1Q02, to 5.1% in 2Q02, to 5.8% in 3Q02, and the National Economic and Social Development Board (NESDB) revised 2002 GDP up to 4.9% from 4-4.5%. The government figures indicate that the Thai economy is seeing an across-the-board recovery, and consumer confidence remains robust with improving access to financing providing support for consumer spending. The government made further moves to stimulate domestic consumption, by approving a

tax-cut package which exempts the first THB80,000 of income from tax. Furthermore, the government continues to boost the property sector by eliminating the capital gains tax on home sales, and by extending an incentive package, which reduces the business tax and ownership transfer fees;

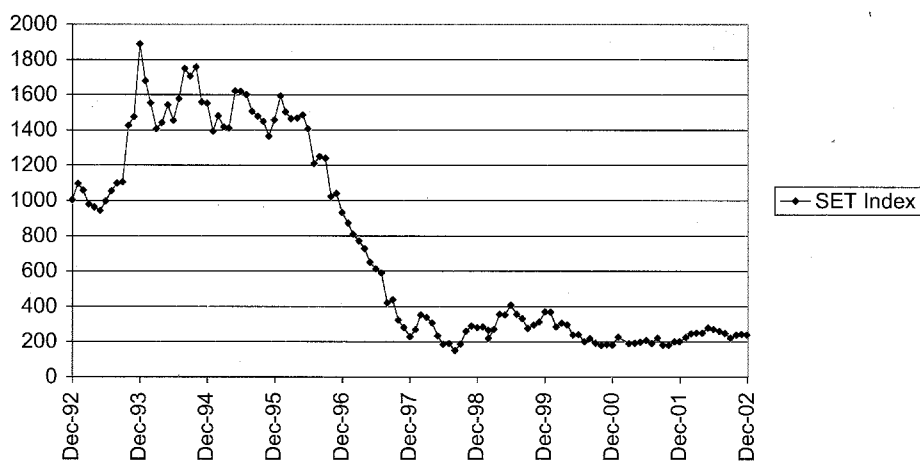
- with the government stimulating domestic consumption, there are many consumer-related companies showing profits and/or profit growth for the first time in years. In corporate fundamental terms, Thai listed companies have shown solid improvement in their operations. For the first nine months of 2002, 280 out of 356 listed companies produced better earnings, and the average earnings growth was 10% year-on-year (y-o-y). This earnings growth came as a result of increased sales, improved gross margins and lower interest rates. The market expects to see another 25 basis points cut in interest rate in 1Q03 which will boost stock

market sentiment, domestic consumption and improve corporate operating income;

- also, for the first time in years, these companies now have access to both the debt and equity markets, resulting in a large number of expected Initial Public Offerings (IPOs) over the next 12 months. In 2002, there were 21 IPOs with market capitalisation of US\$937 million. Gains above their IPO prices in the range of 2% to 99% were made by 10 out of 21 stocks. The President of the Stock Exchange of Thailand expects Thai market capitalisation (currently US\$45 billion) to reach US\$65 billion in 2003. Sixty companies are expected to list and 25 have already filed with the SEC for approval. IPOs tend to get investors excited in the Thai market;
- Government statistics continue to point to a gradual U.S. economic recovery. Exports showed strong growth of 8% and 10% y-o-y in November and December 2002

Fig. 1: Thai Market over the last 10 years

Value of \$1,000 Investment
(10 Years Ending December 31, 2002)



Source: Reuters

¹ A market-capitalisation weighted index of all listed Thai stock.

