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It is difficult to please investors: Tan Teng Boo

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Synopsis

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The markets are obviously reacting rather strongly to China PMI numbers, isn't it?

Yes. The behaviour of the market basically reflects the fickle mindedness of investors. Not too many months ago, investors were saying that the Chinese economy was overheating and they reached the Chinese economy with a slowdown and had a soft landing. So right now, we have a soft landing and what do we get: We get investors worried that you are going to a crash. So how on earth do you please investors that are so fickle minded? I really do not know.

If you look at the situation globally, the behaviour of the stock markets has been pretty unprecedented. You have markets like Sensex, KOSPI Korea, Indonesia and Thailand - also Germany - holding up very well. Then you have markets like Australia, Shanghai and the US not doing so well. So this is a kind of 2-3-4 tier type pattern that you are seeing in the global stock markets.

0I have been investing in the stock markets for almost 40 years. I have never seen such a multiple level type of tiering and I am not sure what the message is. But if you look at the two main economic drivers for the global economy - China and the US - there are good reasons to believe that there will not be a double dip recession this year or even next year.

If you look at China, the soft landing is coming on along very well. In the case of US, although economic data has been rather mixed, the housing industry in the US has been weaker than what is expected. If you look at the overall situation, it is not surprising that you see a bit of a slowdown in the US economy in the second half, but do not forget that the unemployment situation in the US has been very unprecedented.

Productivity growth in the US in the last say, 3-4 quarters has been at a pace which is totally unsustainable. There are limits to productivity growth. So what that would mean is that there will come a point in time where employees in the US have no choice but to start hiring, otherwise they will lose business. So that point of inflexion - in terms of employers hiring - would be coming probably in the next one or two quarters.

This mean that the US economic recovery - that we have seen in the last three quarters - will move from the first phase, which was mainly due to inventory investment and government spending, to something which is more related to the housing recovery and job growth.

What is your call on Indian markets going forward?

My view of any market will always be from a very long-term perspective in the sense of 5-10-15 years. If you look at the latest inflation figure for India for May, whether it is the consumer price or the wholesale price, you are seeing pretty worrying figures coming from there. Of course towards the second half of this year the inflation numbers should be a bit more muted because you are comparing with a higher base of last year.

But there are a few things that I cannot have a finger on. How would a monsoon turn out to be? I cannot answer that. I do not think anybody can answer that. So my concerns over the Indian economy with regards to the inflation, budget deficit and so on, have not gone away. I just like to buy any investment with some marginal safety.

Talking about the Indian government's reform agenda, in the last couple of weeks, we have seen the Indian government take some bold steps, especially the one on freeing up auto fuel prices. Are you encouraged by what you saw there?

Yes. The reduction in the subsidies is definitely the right step in the right direction. I am just concerned with the timing given the fact that inflation rate is rising at a pretty high level. Probably it might be a good time to delay the adjustment in the fuel prices, probably at a later stage.

But fundamentally, philosophically that has to be done. Do not forget that Manmohan Singh is a brilliant Prime Minister and a brilliant economic strategist. But he is getting into in his age. He is 70+ and I really do not know who would be the successor. Who would be the next Gandhi? The next Gandhi is only about 40 years old. I am not sure whether at that age he would have enough experience, whether he would be able to build a team that would carry all the major reforms that are required to be implemented.

Nonetheless what could be the biggest risk at this point on time for India which may spoil the party for the equity markets?

The biggest risk is that local investors and foreign investors get too complacent. If you look at any market anywhere in the world, that is always the cause. The seeds of destructions are always being sowed where investors - local and foreign - get too complacent over longer term risk and then the day the longer term risk surfaces, they panic and run away.

So the most important thing is to be able to make sure that valuations are not too high and that whichever measure the government is undertaking is fully supported by the opposition and the ruling government.