

Magni Client Information - Post Embargo

Talking Points on International Equity Research and Investing

October 2015

Country Ranking Trends

- For a second consecutive month, Magni Research slightly upgraded China for its improvements in reporting economic data. Accurate economic data from China would increase confidence in reported GDP growth and related statistics. Businesses and investors would be better able to analyze opportunities and capital could be deployed more confidently. Additional upgrades are possible if Magni Research finds evidence that the commitment has been implemented. China improved its relative rank by one position and now has the fifth lowest Magni Country Score in the developed and emerging markets.
- Over the last year, only Japan, Philippines, and Spain have improved their scores faster than China. Another 13 countries have improved their scores over the past year, though not as fast as China, while the scores of eight countries have decreased (i.e., United States, Canada, United Kingdom, Colombia, Hong Kong, India, New Zealand, and Ireland).

Malaysia Corruption: Real Issue or Accusations

- Market Integrity is one of the 12 Magni Economic Standards. Market Integrity involves the ability of companies to conduct business in the country's markets on an open and honest basis. It is one of the hardest Economic Standards to assess as no independent organization directly measures factors related to this standard. Many years ago Magni discovered that countries that do a good job preventing money laundering tend to have high Market Integrity. As such, Magni Research uses assessments of anti-money laundering practices as source material for many factors within Market Integrity.
- Newspapers have carried recent allegations of missing money at 1Malaysia Development Bhd. (also known as 1MDB), the troubled Malaysian state investment fund. The Wall Street Journal has also reported that investigators had traced close to \$700 million of deposits moving from Singapore into a bank account of Premier Najib Razak. Magni will be following the ongoing investigation to determine the extent to which the underlying issues relate more to weaknesses in the country's laws and enforcement of these laws OR whether the issues relate more to politically-driven accusations.
- Magni reviewed Malaysia's anti-money laundering practices and determined that the existing scores for Malaysia were accurate. The country has a robust anti-money laundering legal framework with generally well-developed and implemented policies. Malaysia has largely up-to-date laws, as well as effective enforcement mechanisms against money laundering and terrorism financing. Malaysia still has room for improvement in the areas of prosecuting infractions and using financial intelligence.

China's Somewhat Better Data

- China has been widely criticized in the media, especially in US financial publications, for questionable data on its economic performance. For example, recent reports on quarterly economic growth are considered suspect.

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- As part of its continued market reforms, China is attempting to increase the accuracy and reliability of the data it publishes. In a significant move, China has agreed to publish their economic and financial data according to international standards. China meets most of the standard's requirements though they fall short in some reporting aspects for their labor market and government operations. As a result of China's agreement to abide by international standards, Magni has upgraded China for its performance on Data Dissemination.
- The IMF appears likely to soon include the Chinese yuan in its basket of reserve currencies. Inclusion in the Special Drawing Rights, the fund's unit of account, may make more countries comfortable using the yuan or including it in their foreign-exchange holdings.
- Magni will be watching for further improvements by China. For example, China may soon declare its intention to eliminate currency controls and open their capital account. We view both potential declarations as positive, though Magni would need to see clear implementation of such intentions before meaningful upgrades could be considered.

The Greek Crucible?

- Following September's renewed mandate for Greek Prime Minister Tsipras, his governing coalition has managed to pass the first in a series of austerity measures required to unlock new bailout funding. The passage of the current bill was expected to allow the release of €2 billion out of €86 in fresh bailout funds. However, without the pressure of imminent euro exit there are indications that a familiar pattern of delays may be reemerging. Creditors say only a fraction of the prerequisites expected of Greece by mid-October have been implemented. A further set of austerity measures is expected to be voted on by mid-November and would lead to release of an additional €1 billion. Only following a successful progress review on the country's austerity plan commitments will Greece be able to begin debt restructuring talks with its euro area partners. With a debt burden of over 180% of GDP, debt restructuring will be critical to Greece's longer term recovery.
- The European experience with Greece has potential implications for other countries using the euro; especially those with significant debt. How will the precedents from the Greece crisis be applied? Will Germany be willing to continue funding bailouts? Will future country bailout negotiations reopen unresolved, but currently ignored, splits between Germany and France on the best governance policies across the union? If the states of the US are the laboratories for democracy, is Greece the crucible for European governance? Magni will be watching closely to understand the implications for Greece AND for the rest of Europe.