

Outside the Flags

July 2011

Seven Headlines to Beat the Gloom



Debt crises, sovereign risks, double dips and banking strains: Page One headlines can make for depressing reading these days. But being a smart news consumer - and smart investor - means keeping an eye on the lesser headlines. Here are seven you may not have seen:

- **Robust Growth in Germany Pushes Prices**

- Analysts see a strong chance that German inflation will head towards 3 per cent by the end of the year against a backdrop of robust growth in Europe's biggest economy. (Reuters, July, 27, 2011)

- **Brazil Domestic Demand Still Strong**

- The Economist Intelligence Unit says economic growth in Brazil surprisingly picked up speed in the first quarter, challenging the government's efforts to cool the expansion (EIU, July 6, 2011)

- **Japan Retail Sales Top Estimates**

- Japan's retail sales rose 1.1 per cent in June, exceeding all economists' forecasts and adding to signs the economy is bouncing back from an initial post-disaster plunge (Bloomberg, July 28, 2011)

- **No Fear in China**

- Traders betting on gains in China's biggest companies are pushing options prices to the most bullish level in two years. The Chinese economy is projected to grow by 9.4 per cent in 2011. (Bloomberg, July 28, 2011)

- **Southeast Asia Booms**

- Southeast Asian markets are the world's top performers in 2011 thanks to strong economic and corporate fundamentals. Thailand's index hit a 15-year high in July and Indonesia's a record high. (Reuters, July 22, 2011)

- **Australian Boom Keeps Rate Rise on the Agenda**

- The Australian dollar hit its highest level in 30 years in late July as traders looked to the prospect of another rise in interest rates on the back of a resource investment boom. (WSJ, July 27, 2011)

- **NZ Bounces Back**

- The New Zealand economy has grown more strongly than expected after the Christchurch earthquake, helped by improving terms of trade. The Reserve Bank signals it may raise interest rates soon. (Bloomberg, July 28, 2011)

Standing back from all this, the picture that emerges of the world outside North America and southern Europe is of robust economic conditions. If anything, policymakers in many parts of the world, particularly in Asia, are seeking to pull back demand, rather than stoke it.

Australia, for instance, is enjoying its best terms of trade in more than 50 years. An unprecedented investment boom in mining is injecting extraordinary wealth into the economy and has helped to push the Australian dollar to levels not seen since it was floated in the early 1980s.

Likewise, China, India and much of South-East Asia are seeing strong investment flows and worrying more about over-heating than anything.

This is not to say that all is right with the world. The aftermath of the global financial crisis has created severe problems, particularly in terms of public sector debt and deficits. But we know that that news is in the price. Meanwhile, economic activity in much of the world is thriving.

For equity investors, that means opportunities for wealth building are increasing, not decreasing. Moreover, the global economy is becoming multi-polar, rather than overly dependent on the US, which means the potential benefits from broad diversification are even greater.

That's why focusing too much on the day-to-day headlines with the US debt ceiling or European sovereign issues risks missing many of the good stories out there.

Sometimes, the best advice is to read the newspaper from the inside out.

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