Investment Insight

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ARIA | CAPITAL

Real money: *Much of the recent talk around infrastructure spend has emanated from the Trump administration. However, if we want to understand where the real money is spent in the sector we need to look to Asia where India and China remain the key players.*

*China spends about $1 trillion a year on transport and other public facilities. India spends a comparatively modest $185 billion but its rate of expenditure growth is forecast to be significantly higher than China's. However, both face challenges and in this week's **Inside Track** we look at the landscape through the lens of Bloomberg economists Tom Orlik and Abhishek Gupta.*

Chemical reaction: *According to CSO figures, 2016 was the highest year on record for Irish goods exports, up 4% on the previous year. But who are Ireland's most important trading partners? Some of them, such as the UK, are as you might expect, but did you know that we export more goods, mainly "chemicals and related products", to Belgium than we do to the UK? In **Pic of the Week** we take a closer look.*

The Inside Track

Asia is where the real money is being spent on infrastructure. Bloomberg economists Economists Tom Orlik and Abhishek Gupta recently outlined the landscape.

In China, the challenge is to do more and earlier to wean the economy off its reliance on public investment. In the early stages of development, capacity to mobilize resources around roads, port, and power projects was a source of strength. In the post financial crisis period though, infrastructure spending risks becoming part of an unending effort to support growth, even as efficiency fades. Average return on assets for state-owned infrastructure firms has fallen to 3 percent. There are opportunities for continued productive spending - notably in urban public transport, waste-water treatment, and energy efficiency. Indeed, based on the Global Competitiveness Report, China's infrastructure is about where it should be given the country's level of development. But the current system isn't channelling funds to the right places. BI Economics' forecast is for China's infrastructure spending to slow from about 18 percent real annual growth in 2016 to just above 3 percent in 2027.

In India, the challenge is the reverse - mobilizing government and the private sector resources to blast through infrastructure bottlenecks. The story of India's creaking and inadequate transport and public utilities is well known. Rapid urbanization is only making the problem worse. Prime Minister Narendra Modi envisions smart cities and high speed rail networks, but significant challenges remain. Banks stuffed with non-performing loans mean financing is a challenge, political frictions mean delivery at a state level is tough to do, and public sector inefficiencies mean partnerships with the private sector are required. BI Economics' forecast is for infrastructure spending to accelerate from 5 percent real growth to 13 percent over the next decade.

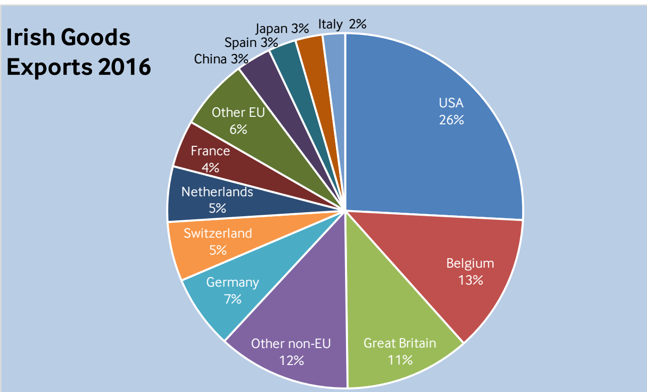
In Developing Asia, the space for productive investment is immense. A joint United Nations Asean report published in 2015 put Southeast Asia's infrastructure spending needs at about $110 billion per year in the decade to 2025. BI Economics forecasts infrastructure spending in Indonesia, Malaysia, the Philippines and Thailand to grow at an average annual real growth rate of about 5 percent over the next decade, and possibly faster. This reflects an intensified commitment to narrow gaps in support of higher growth potential in Indonesia and the Philippines, as well as the region's commitment to integration, which requires improved transport links and power supply. The challenge will be finding funding. China's deep pockets, and engagement with the region through its One Belt One Road initiative, should help close the gap.

Quoted...

"My father used to say: 'Don't raise your voice, improve your argument." - Desmond Tutu

Pic of the Week

2016 was a record year for Irish goods exports, amounting to €117 billion for the year, almost as high as our €121 billion services exports. USA and Belgium were our top two export destinations, between them accounting for over a third of the total. Delving into these figures we find that the significant majority of exports in both cases was accounted for by "chemicals and related products", which of course includes pharmaceuticals. But with all the sensitivity around Brexit, how important were food and live animal exports to Britain? At about 3% of total goods exports, important but not critical appears to be the answer.



Market View

	Last 7 days	Last 12 mths	YTD	5Y Ann.
Global equities	-0.6%	+16.7%	+4.7%	+8.6%
US equities	-0.7%	+18.9%	+5.7%	+11.5%
European equities	-0.8%	+10.2%	+2.9%	+6.6%
EM equities	-0.2%	+18.7%	+8.4%	-2.5%
Irish equities	-0.2%	+6.0%	+2.2%	+15.3%
Commodities	-2.9%	-4.0%	-3.5%	-10.3%
Hedge funds	-0.2%	+6.6%	+1.6%	+1.4%

Economic indicators	*Bond yields*	*Inflation*	*GDP YoY*
Ireland	+1.1%	+0.3%	+7.2%
Germany	+0.4%	+2.2%	+1.7%
USA	+2.6%	+2.5%	+1.9%
China	+3.4%	+0.8%	+6.8%

Currencies	*Current*	*YTD Δ*
EUR:USD	1.06	+0.6%
EUR:GBP	0.87	+2.0%
EUR:CNY	7.31	-0.3%
GBP:USD	1.22	-1.5%
Bitcoin	1,206.08	+26.7%

Commodities	*Current*	*YTD Δ*
Gold	1,203.65	+4.5%
Copper	5,747.25	+4.1%
Oil	51.95	-10.5%
Wheat	446.50	+6.2%

Week ahead: Key events

13/03 US Labour Market Conditions
14/03 China & Eurozone Industrial Production
14/03 Germany CPI
15/03 Japan Industrial Production
15/03 UK Employment Data & US Mortgage Applications
15/03 US Rate Decision, CPI & Retail Sales
16/03 Eurozone CPI
17/03 US Industrial & Manufacturing Production

Central Bank rates	*Current*
Eurozone	0.00%
USA	0.75%
UK	0.25%

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