

What's your autumn investment plan?

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If the current dollar price upswing has left you guessing about what should be your short-term investment strategy - to invest your savings or to hold on to them, then it seems you surely have the luxury of spending more time thinking about it before taking a final decision.

Going by the current dollar price trends it is anybody's guess that cash will be the king for investors this autumn. At least that is what you are most likely to conclude if you extrapolate the future exchange rate of the greenback versus the euro from what it is now.

Experts say the surging dollar has gained much of its momentum from widespread belief that the slowdown of the US economy has bottomed out and that a booming "China, India and Co." has provided the requisite resilience to the global economy to withstand a worldwide recession.

The story is different on the other side of the Atlantic. The euro's current fall (against the dollar) is being attributed to the slowing down of most euro zone economies. Europe's biggest economy, Germany, has witnessed a 0.5 per cent quarterly fall in its gross domestic product (GDP) for April-June. France's GDP has declined 0.3 per cent quarter-on-quarter. Italy, euro zone's third-largest economy, is also likely to see its GDP shrink more than expected.

Optimism

Given that, is it being too optimistic to think that the dollar will gain much of the ground it lost in the past couple of years? Probably not.

"This [dollar's upsurge] trend is likely to persist, albeit fluctuations, for at least the remainder of 2008. This is partly because with interest rate standing at two per cent, there is room for the US Federal Reserve to raise rates, not cut. Whereas, the European Central Bank is under pressure to keep its policy rates on hold," said Dr Syed Basher, research economist at Qatar Central Bank.

He also referred to a notion of investment behaviour that is known as "dollar smile", developed by Morgan Stanley economist Stephen Jen, to explain his optimism about the greenback's continued rise in the near future.

He says the US economy will most likely contract further, and it is due to this slowdown that the dollar will rally upward as dollar-based investors retreat from risky markets (i.e. assets dominated in currencies other than dollar, such as euro or yen) and increase their holdings of dollar-denominated assets.

Meanwhile, the dollar's rise has brought a big relief for expatriates here. Smiling faces are back at the banks and remittance houses across the Gulf. That's because as the dollar rises, the value of an investor's savings in GCC currencies rises, and that fetches them better remittance value in terms of their homeland currencies.

Krishnan Ramachandran, CEO of Barjeel Geojit Securities, assures the dollar's uptrend is expected to continue for quite sometime now and in the near term of two-to-three months the euro is expected to trade at about 1.44 against the greenback. So even if the investor has not identified a product for himself, there's not too much to worry. The value of his dirham savings will automatically go up. That's also true for all other Gulf currencies since all, except Kuwait's, are all pegged to the dollar. Their savings are on the auto-pilot mode for now.

So is "holding on to cash" the best investment option for expats, at least for now? Should they postpone their investment plans?

Basher says with share prices rallying downward amid negative real interest rates across the GCC markets, he does not see a better option other than "holding on to cash", particularly in the short-run. "Facing economic uncertainty, it is always a good idea to delay investment decision until new information emerges," he warns.

But with share prices in the region at their "ridiculous lows" - the same holds true in almost all the home countries of the Gulf expatriates - many believe this is the right time to take the low-price advantage.

After about four years of bull run, the equity markets across the globe are very attractively poised with favourable valuations that provide a sound foundation for their upside rally.

Moreover, the emerging markets, especially the booming duo of India and China, are growing much more strongly than the traditionally-accepted industrialised countries and their rising GDP translates into attractive potential for equities.

"For investors who were left out in the last market rally, it is a good time to selectively and systematically start investing in the equity markets with a clear two-three year perspective," Ramachandran says.

Plunge

Of course the timing of the plunge is still a big decision to make. The stock markets are not known to perform satisfactorily amid high and persistent inflationary pressure, as it significantly affects valuation of equities. "The market sentiment is also affected by fear of global economic contraction and falling oil prices," says Basher.

So you have some time to track the market. Popular wisdom is the market will pick up after the Ramadan.

As an alternative, real estate does not seem a viable option. The property market in the Gulf has been witnessing increasing investment interest that has led the sector to be "red hot". That leaves prices to head only in one direction - cool down. Recent reports have also predicted major corrections to the real estate price line.

Moreover, with the prevailing undercurrent of slowdowns in several economies, most experts advise caution with regard to property investments for the long term. However, for the near term, it still is a good sector to park your funds.

Ramachandran says for the discerning investor one strategy would be to partly invest in the local GCC markets (specially mutual funds) which could give good returns in the medium term. This can also insulate the investor from the "weak dollar" scenario and benefit him in case of the "strong dollar".

The other option is to look favourably at the good investment opportunities in the "emerging market" space, he adds.