

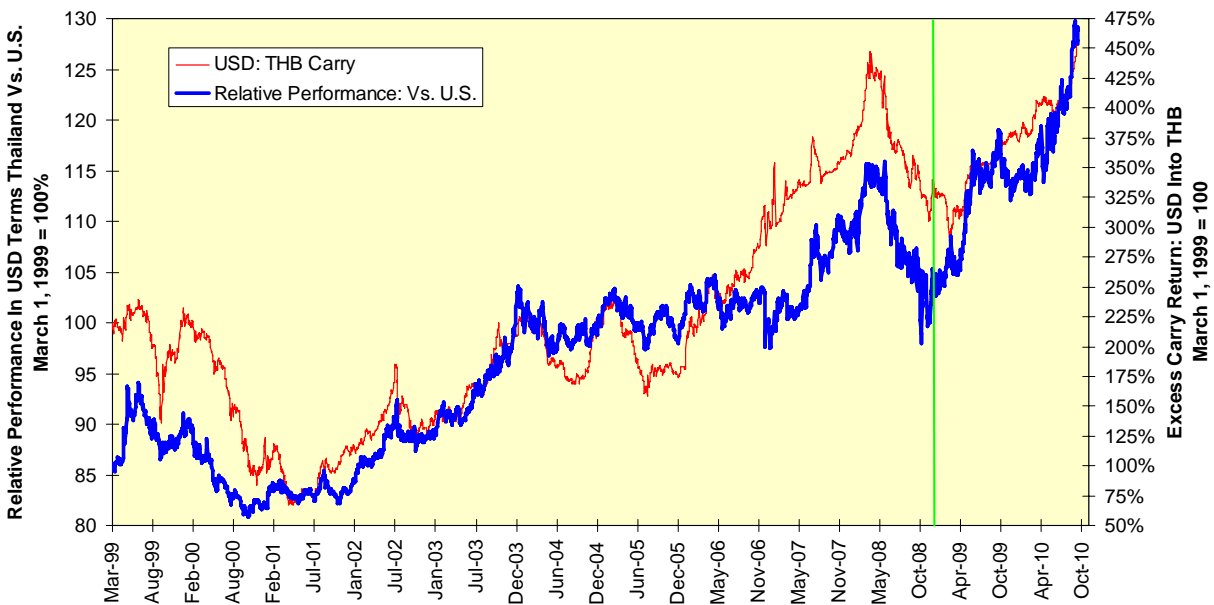
## U.S. Credit Turbocharging Emerging Asia

Of all the negative aspects of getting older, the loss of shared memories is one of the worst. Take the 1987 Crash, please; I thought at the time this would be the signal market event for the rest of my life. But that is getting almost a quarter-century in the rearview mirror and many traders today have no first-hand recollection.

Or take the 1997 Asian crisis; thirteen years ago, the Thai baht (THB) became all the rage when it went down the tubes and eventually carried the Indonesian rupiah, Philippine peso (PHP) and others with it. Part of that crisis originated with huge extensions of Japanese credit to these economies and their use of the yen carry trade. When the bill came due, Thailand had one of those “uh-oh” moments.

Well, as Santayana said something or other about forgetting history, the dollar carry trade has replaced the yen carry trade in a reprise of “To The Moon, Alice!” starring Ben Bernanke as Ralph Kramden. Let’s map the relative performance of Thai stocks measured in U.S. dollars to the U.S. market against the excess carry return of borrowing three-month USD and lending three-month THB. The December 16, 2008 date when the U.S. went to its version of zero interest rate policy is marked with a green line.

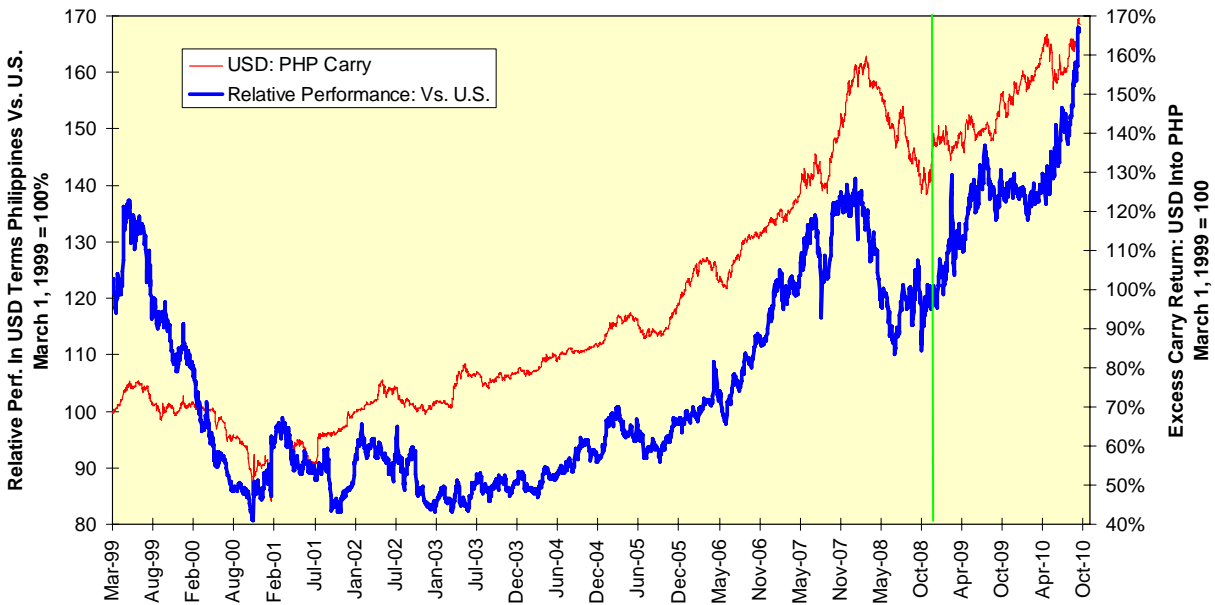
**USD Carry Into Baht Parallels Relative Stock Performance**



If it seems like the cheap dollar is propelling Thai stocks higher relative to U.S. stocks, it is. Now let’s duplicate the exercise with another one of 1997’s chalk outlines on the pavement, the Philippines.

The song remains the same: Filipino stocks have been feasting on cheap dollars; just borrow the USD, lend the PHP, rinse and repeat. The Philippines actually get a two-fer for our policies as the stimulus increases demand for Filipino expatriate workers throughout the region; their remittances are one of the top sources of export earnings for the nation.

### USD Carry Into Peso Parallels Relative Stock Performance



It seems as if our magicians in Washington are doing an outstanding job of stimulating market speculation in South Asia without doing much for the U.S. economy other than depriving American savers of the opportunity to make a return on cash.

For those of you who wish to join the party after it has been going on for a couple of years – and who does not wish to chase performance? It ranks behind only baseball and football as a national sport – you can buy the Thai market with the iShares Thailand index fund. The Filipino market is accessible mostly through open-end mutual funds such as the Templeton Pacific Growth Fund.