

M'sia to see biggest relative gains from TPPA – study

KINIBIZ ONLINE

July 6, 2015

By REUTERS

Buy Japan. Buy Vietnam. Buy US media stocks. Buy Mexican food stocks. Sell China.

For investors wanting to take advantage of the Pacific Rim free trade pact that appears to be nearing completion, that's what a savvy stock strategy might look like.

The 12 nations of the Trans-Pacific Partnership (TPP) could wrap up an agreement in coming weeks, after the pact cleared a major US hurdle with Congress's decision to give broad negotiating authority to President Barack Obama.

The deal, which covers 40% of the global economy and is expected to deliver US\$295 billion (RM1.1 trillion) in annual global economic gains, will have long-term implications for Pacific Rim companies, and for competitors in countries that are late to the party or don't join.

Although details of the deal are still under wraps and full implementation is years down the track, fund managers are starting to look at the implications for long-term positioning.

According to an analysis by the Peterson Institute for International Economics and the East-West Centre, the US and Japan – the bloc's economic heavyweights – are likely to win the most in US dollar terms, with big boosts to Japanese car and chemical exports and US services.

"It's definitely on our radar," said Geoffrey Pazzanese, who oversees non-US equity assets for Federated Investors, which has more than US\$350 billion in assets under management. "We have a very large overweight in Japan and to me the biggest winner, country-wise, will be Japan."

In Japan, textiles and transport equipment are among the expected winners. Japanese exports of transport equipment are seen rising 24% by 2025, according to projections in the Peterson study.

Still, diffuse global supply chains muddy the benefits, and costs. Seventy percent of Japanese-branded cars sold in the US are built in North America, with Japanese

makers such as Nissan Motor Co and Toyota Motor Corp ramping up investment in Mexico.

Mexico, Chile, and Peru had already benefited from past trade deals and could do even better with the TPP since it goes beyond traditional tariff-cutting pacts to set common standards in areas like intellectual property, said Stacy Steimel, Latin America managing director and investment strategist for PineBridge Investments.

“These countries have been able to increase their potential gross development product growth on the basis of the wide range of trade agreements that they have negotiated and pursued. This one, because it goes even further, could bring even more benefits,” Steimel said.

Opportunity knocks

The study suggests that Southeast Asian nations Vietnam and Malaysia will see the biggest relative gains, both economy-wide and by sector.

The biggest winner within low-wage Vietnam is expected to be clothing and footwear, with the study showing value-added output up 44.6% in 2025 and exports up US\$52 billion.

Potential beneficiaries in the sector, which ships 60% of its output to TPP countries, include Thanh Cong Textile Garment Investment Trading Co and Northern Textiles and Garments.

Meanwhile, the US\$57 billion US yarn and textile industry is hoping US negotiators win protections for a sector that is rebounding from a decade-long slump and sustains more than 1.5 million regional jobs.

Vietnam’s stock market offers limited investment options, however. Although the Ho Chi Minh Stock Exchange’s market capitalisation rose 15% between 2012 and 2014, it is still just 1% of Tokyo’s and 10% of Kuala Lumpur’s.

In Malaysia, machinery and electrical equipment are seen by the study as big beneficiaries, getting a combined US\$26 billion export boost for products such as those made by Muhibbah Engineering, Sime Darby Industrial, Favelle Favco, and Khind Holdings

HSBC economists wrote in a research note that stronger protection for intellectual property under the TPP would encourage foreign investment in Malaysia's electronics sector, which makes up 20% of total exports and has 60% of value added from overseas.

Mexico's deputy trade minister has said the country hopes to double agriculture exports to Japan to about US\$2 billion a year, while exports of personal hygiene products and other cosmetics to Japan would also increase.

That could help Kimberly-Clark de Mexico, which makes personal care and household hygiene products, and Genomma Lab Internacional, a maker of personal care products.

Mexican food companies Gruma and Grupo Bimbo could be in line to benefit from stronger farm exports.

Other major winners could include dairy giant Fonterra, if New Zealand gets the access to dairy markets in the US, Canada, and Japan that it is seeking. Air freight companies United Parcel Service and FedEx Corp stand to gain from increased shipping demand.

Pazzanese said an expected strengthening of intellectual property rights under the TPP would be a boon for US tech, biotech, and media stocks such as Walt Disney Co.

Overall, if the TPP was the only factor affecting stocks, his trading strategy would be to buy Mexico, Japan, and US agriculture, tech, media, and telecommunications; and avoid countries sitting out at least the first round, like Indonesia, the Philippines, and China.

"What I would be short is short China, short (Asean) markets that didn't make the cut," he said.

— **By Krista Hughes**

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Source: <http://www.kinibiz.com/story/economics/176783/msia-to-see-biggest-relative-gains-from-tpa-%E2%80%93-study.html>