Oil — Fueling Growth in the Emerging Markets

MIRAE ASSET
Global Investments

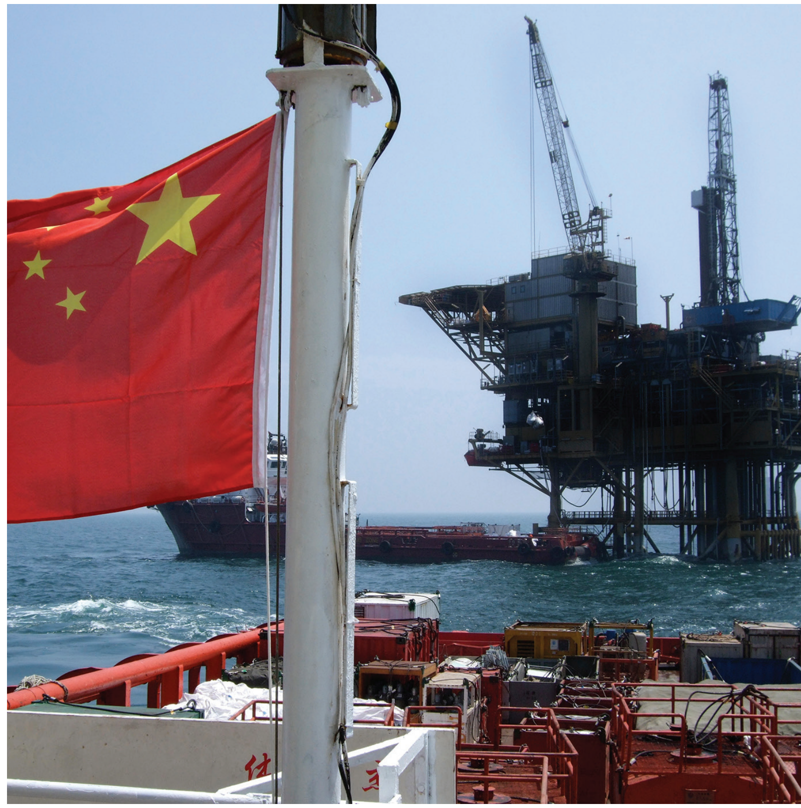
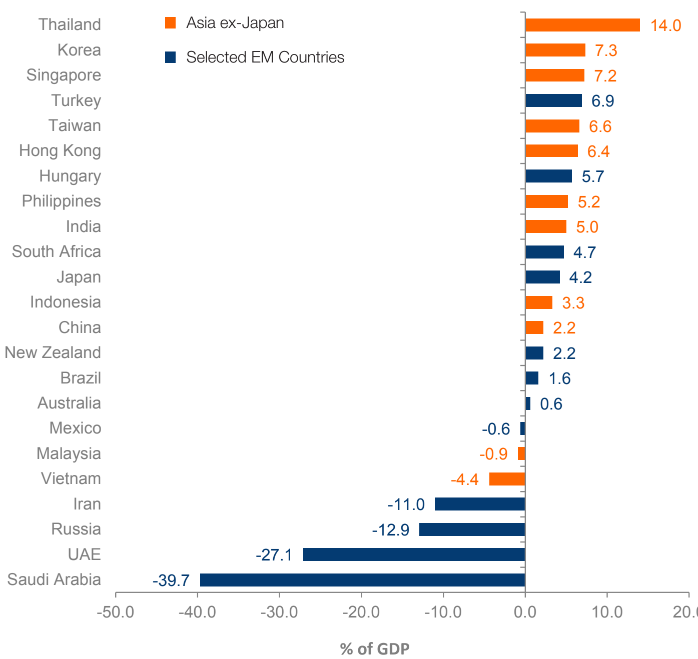


CHART 1: NET OIL IMPORTS ACROSS SELECT EMERGING MARKETS
(Imports Minus Exports, 2014 IMF Estimates)



Source: FactSet, IMF (2014), J.P. Morgan Guide to the Markets - Asia 1Q 2016

One major positive factor helping many emerging market companies now is the historically low price of oil. Although the volatility of the past few months has caused many investors to grow concerned about emerging markets, lower oil prices are a tailwind for many companies, and an active investor can target a range of resulting opportunities in this space.

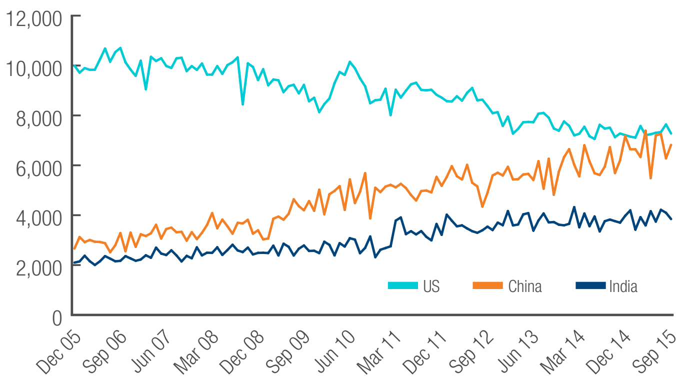
Oil's impact on emerging markets is complex and does not apply evenly to every global market. Low-priced oil has historically had a negative impact on equities in Russia, Mexico and some frontier markets (particularly OPEC[1] members), but investing in emerging market equities today requires an understanding of the nuances among the global markets and a single factor may be a negative in some emerging markets and a positive in others (see chart 1).

A look at China and India, two of the world's largest emerging markets, reveals how lower-priced oil has the potential to be a positive catalyst for these two countries over both the short- and long-term.

China: Boosting Consumer Demand

China is the world's second largest consumer and importer of oil (see chart 2). In China, oil accounts for 20% for all energy consumed.[2] Therefore, price changes in oil will have an impact on the Chinese economy and falling oil prices provide a welcome boost to the Chinese consumer.

CHART 2: TOP THREE CRUDE OIL IMPORTING COUNTRIES
(thousand barrels per day)

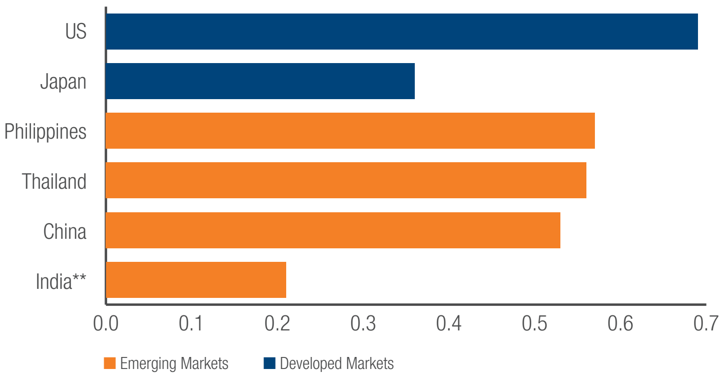


Source: Joint Organisations Data Initiative (JODI) Oil, data through September 2015.

As the Chinese consumer pays less at the gas pump, they will have more disposable income to spend on other discretionary items.

Just as in the developed markets, in the emerging markets lower-priced oil means lower energy expenses, lower fuel costs and, indirectly, lower priced goods. In China, the decline of world oil prices led to gasoline prices falling by 53% (see chart 3). This directly benefits Chinese households since China has the world's largest car market with 23 million vehicles.[3] As the Chinese consumer pays less at the gas pump, they will have more disposable income to spend on other discretionary items.

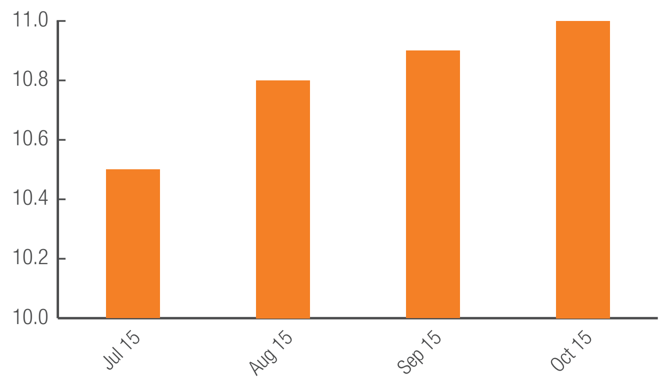
CHART 3: RELATIVE GASOLINE* PRICE DECLINE BASED ON WORLD OIL PRICES



*Gasoline refers to low-grade fuel. **India–Low-grade fuel data not available, diesel fuel is shown instead.
Source: Asian Development Bank Outlook 2015.

Consumption in China is the silver lining for the Chinese economy as consumer spending, driven by wage growth, continues to experience solid growth. Retail sales grew from 10.5% in July to 11.0% in October (see chart 4). As an anecdotal illustration of the strength of the Chinese consumer, "Singles Day" in 2015 (similar to Cyber Monday in the US) saw a large Chinese online retailer make a record-breaking $14.3 billion in sales, up from $9.3 billion the year before.[4]

CHART 4: CHINA RETAIL SALES
(year-over-year growth percentage)



Source: Bloomberg.

As lower oil prices are increasing the disposable income of the Chinese consumer, China's collective spending power will be a driving force of growth for the country's economy and domestic demand. We believe that as China's economy continues to restructure and rebalance away from an investment and export growth-model and towards consumption-led growth, robust consumer spending will have a significant positive effect on select, high-quality Chinese companies.

India: Stimulating the Economic Engine

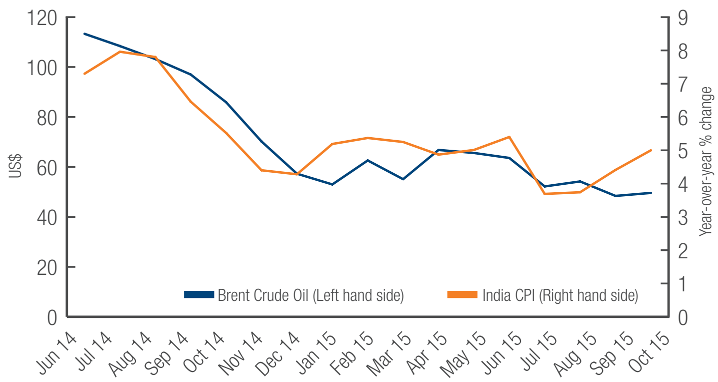
India is one of the world's largest importers of oil, importing almost 79% of its oil.[5] According to the International Energy Agency, India's oil import dependency will increase to over 90% by 2040.[6] Since India is such a heavy importer of oil, a lower global crude oil price is a key factor in supporting the market by lowering inflation and reducing its current account deficit.

In India, falling oil prices have taken pressure off consumer prices which has helped contain, even lower, inflation. Since oil prices peaked in June 2014, inflation in India, as measured by the consumer price index (CPI), has also trended downwards (see chart 5). Lower inflation opens up the possibility for India to lower interest rates (India's current benchmark policy rate is 6.75%[7]), leading to higher investments which should help stimulate the country's growth.

Cheaper oil will also be instrumental in reducing India's current account deficit. Every dollar drop in oil prices may help reduce India's burden of subsidy payments by $1 billion.[8] In the quarter ending June 2015, India's current account deficit narrowed to US$6.2 billion, down from US$7.8 billion for the same period in 2014.[9] Both lower inflation and stable debt are supportive of India's policy reforms to modernize the country and grow its economy.

As India is a major beneficiary of lower oil prices, economic growth in the country is forecasted to be strong. The International Monetary Fund (IMF) predicts growth of 7.5% for 2016 and 7.7% in 2020, placing India as one of the world's fastest-growing large economies (see table below).[10] We believe this can create a favorable environment for many Indian companies.

CHART 5: OIL PRICE VS INFLATION IN INDIA



Source: Bloomberg

YEAR-OVER-YEAR GROSS DOMESTIC PRODUCT (GDP) PROJECTIONS

	2015	2016	2020
World	3.1%	3.6%	4.0%
Developed Markets	2.0%	2.2%	1.9%
Emerging Markets	4.0%	4.5%	5.3%
India	7.3%	7.5%	7.7%

Source: IMF, World Economic Outlook (October 2015)

Challenges and Opportunities

While the decline in oil prices sets a favorable environment for many emerging market economies, it is not a ubiquitous benefit. For example, China and India will likely experience a net positive outcome but Russia and Malaysia probably will not. The impact of lower-priced oil in the emerging markets is one of many conditions that create opportunities for active managers to discover attractive investments.

At Mirae Asset Global Investments, our unique emerging markets heritage and rooted on-the-ground research, has resulted in recognition as one of the world's largest emerging market investment managers.[11] We focus on actively-managed, high-conviction emerging market portfolios.

"Asia, being a large commodity consumer, is a beneficiary of weak commodity prices and we expect to see this positive catalyst play out in coming quarters as consumer demand rebounds." *Rahul Chadha, Co-Chief Investment Officer of Mirae Asset Global Investments (HK)*

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DEFINITIONS AND IMPORTANT INFORMATION

Consumer Price Index (CPI) measures changes in the price level of a market basket of consumer goods and services purchased by households.

Gross Domestic Product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.

Investing in an index is not possible.

Past performance is no guarantee of future results.

Sources

[1] OPEC: Organization of Petroleum Exporting Countries.
[2] U.S. Energy Information Administration, data as of 2012.
[3] 2014 car sales in China, BBC Jan 2015.
[4] Bloomberg Business, November 2015.
[5] Business Standard, August 2013.
[6] International Energy Agency, India Energy Outlook (November 2015)
[7] Reserve Bank of India, December 1, 2015.
[8] WSJ, January 2015.
[9] Reserve Bank of India.
[10] IMF, World economic Outlook, October 2015.
[11] Investments & Pensions Europe, January 2014.

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