EQUITY RESEARCH REPORT DECEMBER 2019

WARWICK EMERGING MARKETS

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ABOUT THE SOCIETY

WHO WE ARE

Founded in 2011, the purpose of our society is to present the rise of Emerging Markets (EMs) to the student community at the University of Warwick by addressing various themes and topical issues such as economics, politics, finance, business, investment, society and development. We aim to describe the features of the EM upsurge and to explain its implications for the rest of the world.

WHAT WE DO

Our objective is achieved through the organisation of regular and diverse events such as speaker events and panel discussions to educate and inform individuals with an interest in EMs – we provide a platform to express their views and opinions in matters of the changing global landscape. We also utilise our social media platforms to post about current EM news. Our recently-formed Equity Research team have launched their first report, which is included later in this proposal.

EQUITY RESEARCH

The Equity Research team is comprised of <n> dedicated students from multiple backgrounds and degrees at the University of Warwick. Three teams comprising of Industrial, Technology and Consumer/Commodities provide insightful and detailed analysis on the Emerging Markets Equities Market; with the aim to educate the general student population on the potential of the international markets and investment opportunities.

The Divisions provide reports on a monthly basis providing ER team members with the opportunity to showcase their talent, knowledge and work experience in the financial world by applying them to real world events and interpret them from the standpoint of investors, traders and policymakers. By synthesising and compiling data from sources such as Macro Hive, Bloomberg, Financial Times as well as Investment Banks' Equity Reports, the ER team combine raw data and news into valuable, commodifiable, and strategic information.

The team goes through rigorous analysis involving Fundamental Analysis, Valuations and compare them with historical market caps to deliver the best possible speculations in a stimulated business scenario. WEMS's growth is based on its consideration of information as a strategic asset; therefore, the division also provide students to participate in relevant Emerging Markets panel discussions and weekly WFS market discussions where students present their findings to the other student societies; sourcing for new ideas and enhancing stock pitching skills.

The division is built on support of the internal team members with internship experiences in the financial world as well as growth opportunities from external parties where professional training maintains our analysts' visibility and resilience.

NOVEMBER 2019

BRIC NATIONS

The BRICs consist of Brazil, Russia, India, China and South Africa. They bring together five major emerging economies comprising 42% of the world's population, having 23% of the global GDP and around 17% of the share in world trade.The five nations account for 50% of the world economic growth, 42.58% of the world population, 26.6% of the world land area and 13.24% of World Bank voting power [1]. In this report we will be looking at 3 of these countries in greater depth, namely; India, China and Brazil.

TECHNOLOGY IN EMERGING MARKETS

INDIA

India’s IT & ITeS industry grew to US$181 billion in 2018-19. Exports from the industry increased to US$137 billion in FY19 while domestic revenues (including hardware) advanced to US$44 billion. Revenue from digital segment is expected to comprise 38% of the forecasted US$ 350 billion industry revenue by 2025. India has the largest growing electronics market in the world and is expected to grow to 41% CAGR from 2017-2020 [2]. The Indian government's higher spending on the Digital India and Smart Cities initiatives, and the increased adoption of next-gen technologies by organizations is driving growth in the IT services market.

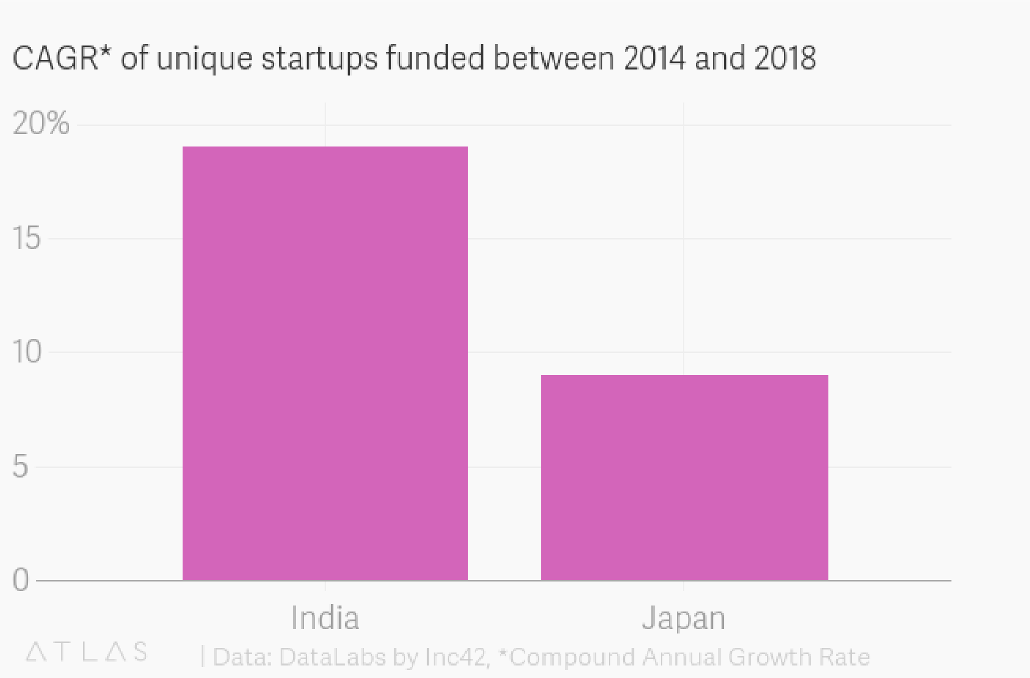
India’s tech market a target market for global investors

The crop of emerging global digital companies are investing in technology in India. TikTok owner ByteDance plans to invest US$1 billion in India in technology hardware and services. Boloro Global, a US-based security company, interestingly sees a bigger market for its products and services in India than in the US. State-run Bharat Sanchar Nigam is its first customer in India and it hosts the service using Amazon Web Services.

[1] https://www.dw.com/en/have-the-brics-hit-a-wall/a-51182058
[2] Economic Times - India IT & business services market to reach $14.3 billion by 2020: IDC

Karl Peter Kilb III, CEO of Boloro Global says, "Boloro is a US company that is seeing its greatest immediate opportunity outside the US." He elaborates that America is still a credit card-based society and the rest of the world is leapfrogging from being dependent on cash to the mobile and digital platforms, skipping the credit card mindset. "You have a situation where there is such a concentration of mobiles in markets like India, which makes it better for fraudsters to attack. When you see a market that wants to replace cash, wants to be digital, wants to promote transparency and financial inclusion, that is an ideal market for us to push."

At a time when economic activity in Japan has been sluggish—the country's GDP growth rate hovers around 1.3%—in the face of low capital infusions and global headwinds like the Sino-US trade war, India, the world's second-fastest growing major economy with a GDP growth rate of 6%, has emerged as a prime investing destination. SoftBank is one of the 50-plus active Japanese investors in India, and leads the pack with over $12 billion invested capital so far. Its portfolio is diverse and impressive with unicorns like ride-hailing startup Ola, housing group OYO, and digital payments company Paytm in its kitty.



Animation industry

Finally, the animation sector has also been experiencing major growth in recent years. The film industry has been focusing on this sector for a while now and there have been promising strides made over the years. With 3D technology becoming accessible to more people, the industry that will continue to be attractive in the economy. There is already a demand for animated TV shows, movies and commercials in the country. The industry is thus creating employment for more people and the trend is not about to change. A little government support will definitely drive this industry high up in the chain.

Road Ahead

India is the topmost offshoring destination for IT companies across the world. Having proven its capabilities in delivering both onshore and offshore services to global clients, emerging technologies now offer an entire new gamut of opportunities for top IT firms in India. Export revenue of the industry is expected to grow 7-9% year-on-year to US$135-137 billion in FY19. The industry is expected to grow to US$ 350 billion by 2025 and BPM is expected to account for US$50-55 billion out of the total revenue. India's large English-speaking population and technology-savvy firms such as Infosys Technologies have been moulding India into an emerging market. The largest India ETFs include:

- iShares MSCI India ETF (INDA)
- WisdomTree India Earnings Fund (EPI)
- iShares India 50 ETF (INDY)

Indian Tech Industry Challenges

While the market looks promising now, billing rates continue to be lower in India, "often 50% lower than international markets," says Chawla of Bain & Company. Margins are also lower (more like 12-16% in India compared with 21-26% in US/Europe). So “India will be significant to companies that can build lean cost structures or cross-subsidise through international markets,” adds Chawla. Time taken to close contracts has improved across India Inc, but for the government business, it still takes long — often more than a year. And the current environment is not really helping accelerate things. Indications of macroeconomic slowdown in several sectors, including banking, telco, automotive and realty, could lead to spending constraints.

The irony of the situation is that clients need to transform to get back to growth but are constrained by the spend restrictions in face of these economic indicators," says IBM’s Mohapatra. For India to be able to reach the $5 trillion economy target by 2024, these difficulties will need to be negotiated.

Other tech-enabled industries in India

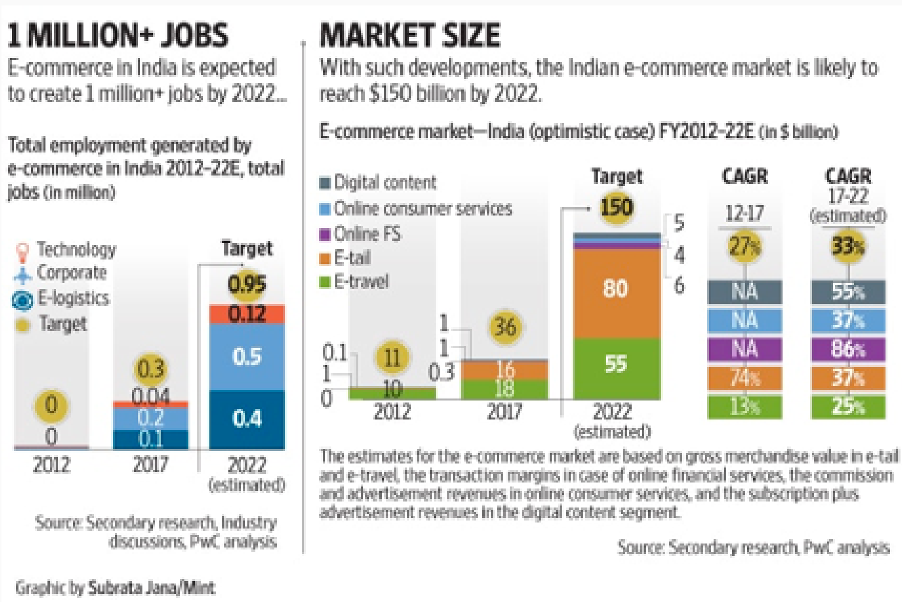
Food processing

Another sector that is booming is the food processing sector. The industry has recently received a lot of support from the government. With more investments being made by the government, the industry is definitely set for taking off. There has been more emphasis on reorganising the sector so that it can operate to its maximum potential. The food processing sector has not only received a boost from the government, but it has also been attracting individual investors. With profits margin growing in this industry, foreign and local investors have become more involved in the market. The industry is also projected to continue growing in both value and quality. With the incorporation of technology, the food processing sector will be one of the top industries in the country.

E-Commerce Industry

Reliance Retail has data of 350 million Indian shoppers. With Jio, it has accumulated data of 300 million telecom consumers. There are at least two cost-centres which the existing FDI-based e-commerce leaders in the country are burdened with, that Reliance's New Commerce will escape from:

1. Amazon & Flipkart cannot own or keep inventory, nor can they influence pricing to give discounts or cash back offers (this does not apply to Reliance, given that it is an Indian company).
2. The other major cost saving could result from the packing and delivery charges if the delivery is to be made through the offline retailers located close to the customers. On the global e-commerce readiness index, India at 10% ranks behind countries such as Brazil, China and Russia. India's e-commerce industry is expected to contribute 4% of GDP by 2022, according to the report by PwC India. [3]



[3] Livemint: India's e-commerce market to grow fourfold to $150 billion by 2022

BRAZIL

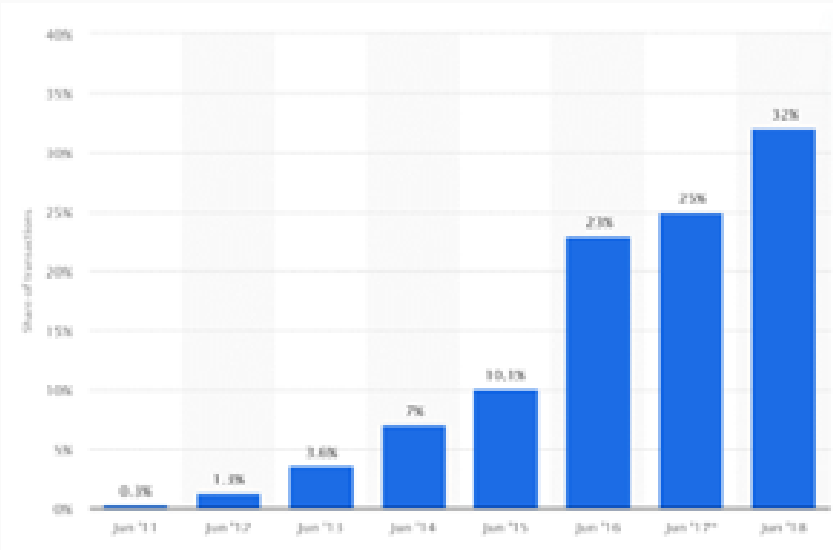
Brazil is embarking upon a digital transformation driven by high mobile and internet usage in the country. Brazil has the 5th largest number of mobile phone and Internet users in the world. According to an article written by Claudionor Coelho in the EE Times, there are 189 million mobile phone users, 200 million tech-savvy consumers, and an exploding demand for PCs, leading to an increase in Internet usage in Brazil. Technology and the internet can significantly reduce operating and transaction costs, in turn providing better products and services to a much broader reach. Evidently, this is the reason why the region has seen mass investments from firms such as Google and Intel along with the fact that the technology market in Brazil is yet to mature.

Brazil's E-Commerce Market

The E-Commerce Market has caught the attention of large, globally recognised brands from across the globe with Alibaba, Walmart, and Amazon ramping up their operations in conjunction with the development of Brazil's tech industry in order to serve Brazil's growing number of Internet users. As a result of this, the market is growing fast and is expected to increase by 39% by 2022. Brazil represents 42% of all business to consumer, e-commerce transactions in Latin America. Furthermore, the rapid adoption of eWallets is a leading factor fuelling e-commerce growth in the country and currently, eWallet usage in Brazil is growing at an annual rate of 27% [4]. Online consumerism has risen in line with the increasing number of internet users. Government tariffs has made It cheaper for Brazilian consumers to buy from international websites rather than to buy imported goods from merchants directly within Brazil as they then need to charge their customers more because of high taxation costs imposed on them by government. This has led to globally recognised firms such as Apple creating factories in Brazil to avoid a 30% import cost on products to keep costs lower. It is clear from this that Brazil is using its hot tech industry to lure in foreign investments into the country in order to bolster their economy [5].

[4] https://www.statista.com/statistics/289746/e-commerce-revenue-forecast-in-brazil/
[5] https://www.statista.com/statistics/254739/most-popular-online-retailers-in-brazil/

As Brazils E-Commerce market grows we will see home-grown Brazilian e-commerce platforms expand globally, competing with other established globally platforms from developed markets. Funding from VC funds has flooded into Brazil in recently; Softbank's $5 billion VC fund has showered start-ups in the region. Specifically, Softbank has just backed VTEX, with a $140 million investment which VTEX will use to facilitate their expansion worldwide. We will see investments such as this will be a continual pattern as the market continues to grow [6].



Brazil caught up in the US-China Trade War Rising tensions between China and the US has resulted in BRICS members forming closer ties. This has seen China invest $100 billion in trade with Brazil in recent years and at the recent BRICS summit China agreed to invest a further $100 billion. The Brazilian population is facing an unemployment rate of 12%, leaving the economy in desperate need for an injection of cash, leading President Bolsanaro to change his once opposed stance on China involvement.

[6] https://www.contxto.com/en/brazil/softbank-investment-vtex-global-expansion/

This is evidenced by Brazil ignoring repeated warnings from President Trump, who has been pressuring President Bolsonaro to ban Huawei from supplying equipment to facilitate the development of a 5G network in Brazil due to his fears of potential espionage from the Chinese. This is due to Brazil's dependency of Chinese investments and exports [7].

As ties between Brazil and China have grown closer this has seen Chinese based firms begin to gain a foot hold on the Brazilian tech market. The increased cooperation between the two nations has seen Chinese tech firms expand to Brazil. This expansion has benefited both parties; the Chinese expansion to Brazil has allowed for growth of the tech market and Chinese companies have benefited through increased revenues and a gained influence in the region. This is corroborated by the fact that as of 2019 Alibaba has become the most used online site of all non-Brazilian based firms, following its first expansion to the region in 2014. We should expect this trend to continue, as President Bolsonaro has made it clear China will be in Brazil's future, which we are beginning to see given Huawei's intentions to expand to the region [8].

Agriculture and Tech in Brazil

In recent history Brazil has become an agricultural powerhouse. In terms of exports, Brazil leads the pack in soybeans, beef, poultry, coffee, sugar, ethanol, orange juice and comes second in corn. It is clear that agricultural business is a key segment of the Brazilian economy, which is furthered by the fact that it accounts for roughly 50% of the country's exports and 23% of GDP.

[7]https://www.thehindu.com/news/international/brazil-is-caught-in-the-us-china-tech-war/article30062886.ece
[8] https://www.bloomberg.com/news/articles/2019-11-11/china-confident-huawei-will-build-brazil-s-5g-mobile-network

Despite popular belief it was not government initiatives that helped enhance the Brazilian agribusiness market but rather tech. The work of EMBRAPA (Brazilian Agricultural Research Corp) used tech to transform tropical soils and bring regions into agriculture use which were thought unsuitable for crops. I feel that continual tech developments will further fuel the agribusiness market through innovative solutions which will cut labour requirements, boost productivity and increase outputs. With Brexit looming in the UK fears of labour shortages on farms would strongly benefit from such technology.

According to an article written by Swisscam[9] Brazil, StartSe, have estimated that over 600 agritechs are operating in Brazil. Advancements driven by these agritech start-ups with innovative ideas I feal will drive continual growth of Brazil's agricultural market through boosting production outputs. I feel Brazil's agricultural sector could follow a similar one to that of Israel. At one time Israel too was a nation with an unsuitable agricultural environment, with only 20% of its land arable. Despite this Israeli investments made in agritech have allowed the nation to become an almost entirely food self-sufficient country as well as a market leader in agritech. If Brazil's agritech firms continue to raise on funding similar to Israeli agritech have done so then, Brazil will become both a market leader in agritech and an entirely food self-sufficient nation.[10]

China

China's information and communication technology (ICT) market is among the most dynamic sectors in the economy. By 2021, the market is projected to reach $8.1 trillion, representing 55% of China's GDP, according to information technology (IT) consulting firm IDC. China's ICT imports in 2017 totalled $528 billion, while its exports reached $781 billion. Competition from Chinese firms is strong, as the quality of domestic hardware, software, and services has continued to improve.

As China's ICT market develops, certain sub-sectors that have been driving growth (e.g., smart phones) are predicted to become saturated; future growth will be fuelled by integrating ICT technologies into, and transforming, traditional industries.

For international firms, big opportunities in China's ICT market are tempered by real challenges. Due to rapidly maturing domestic competition, foreign companies no longer have a dominant market share in many of China's ICT sub-sectors. Chinese firms have been adept at mastering technologies and shaking up markets, often by offering low prices. U.S. firms are increasingly partnering to stay in the market. As the market matures, there are fewer first-time buyers of ICT. China's cost advantages have also declined as production is increasingly moved elsewhere.

China's ICT policy environment presents a serious challenge. China views the sector through a commercial and national security lens. Policies intended to ensure security often appear to do so at the expense of foreign companies' interests. Issues related to China's dynamic policy landscape in the ICT market are discussed in greater detail below. Furthermore, despite stronger intellectual property protection, high levels of piracy remain.

[9] https://www.bloomberg.com/news/articles/2019-11-11/china-confident-huawei-will-build-brazil-s-5g-mobile-network https://swisscam.com.br/en/how-agritech-companies-lead-the-way-in-innovation-in-brazil/[1] Deloitte - Lessons-from-Israeli-AgriTech-Aug-2018[1] https://www.export.gov/article?id=China-Technology-and-ICT

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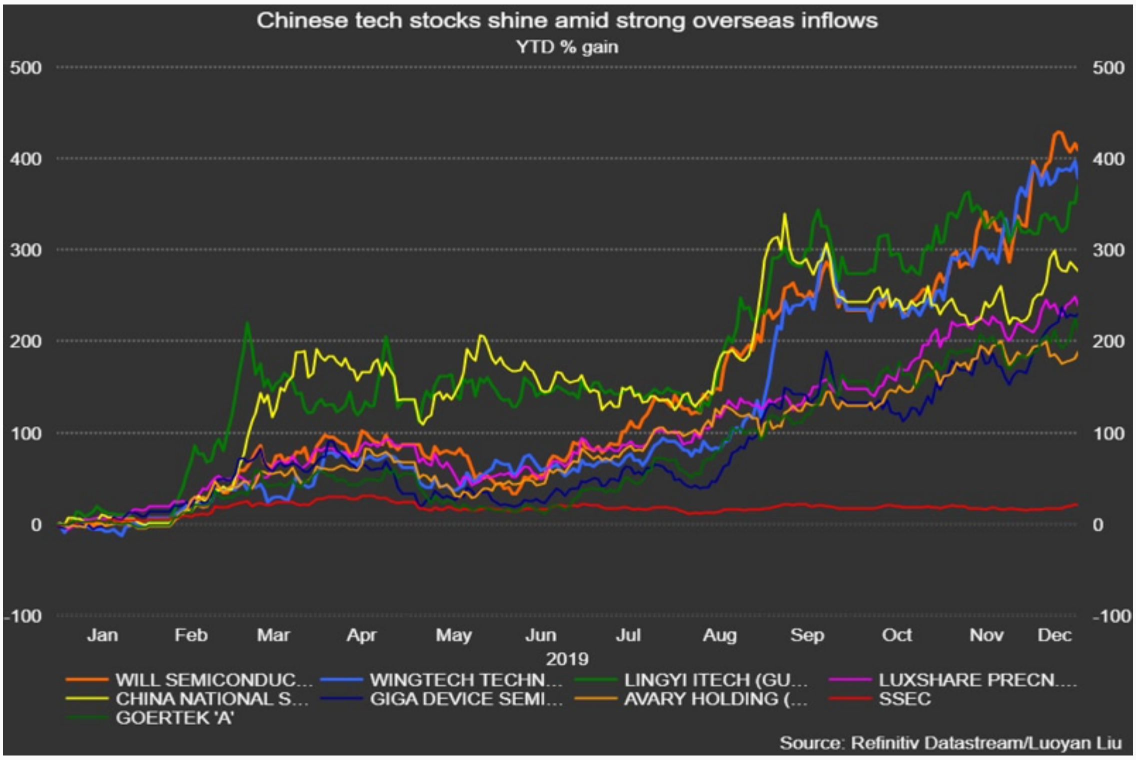

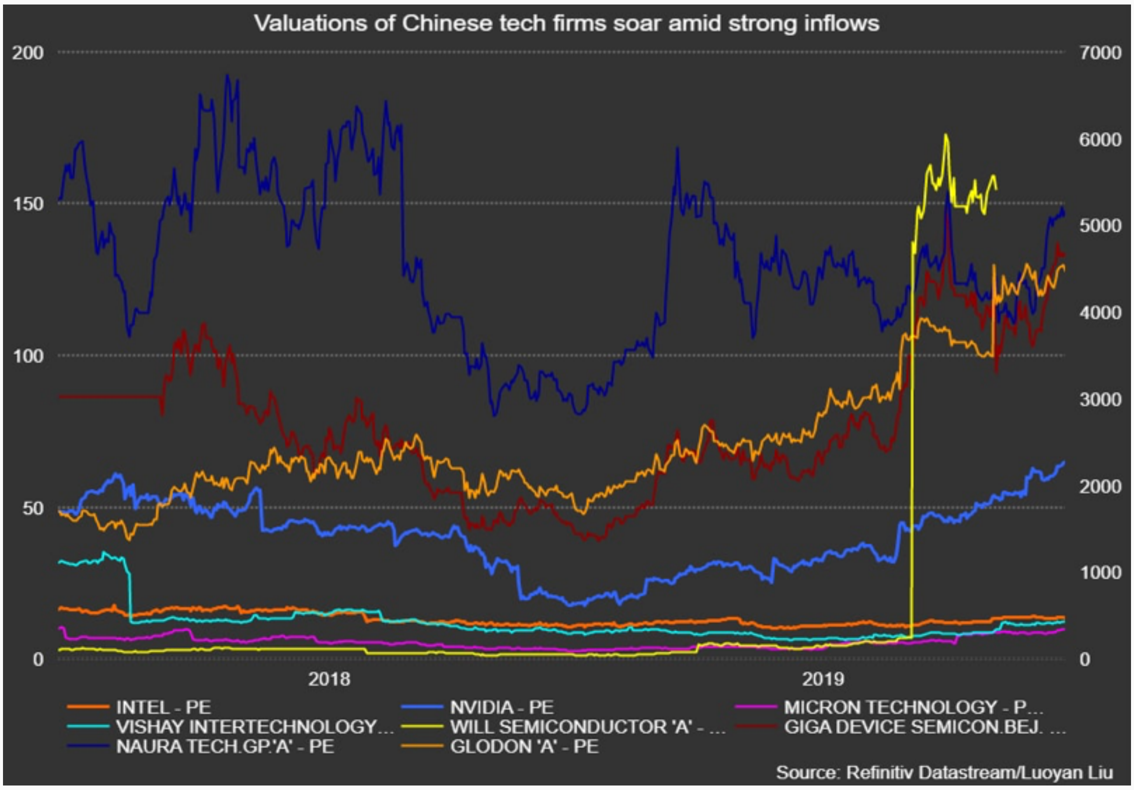

Implementation of the Cybersecurity Law

Data privacy is a critical component of the Cybersecurity Law and is an area where the Chinese government has been particularly active. In 2019, China's National Cybersecurity Standards Technical Committee (known as TC260), proposed modifications to the Personal Identification Information Specification. This specification, the first version of which went into effect in May 2018, defines what constitutes personal identification information under China's Cybersecurity Law. China's new data measures trends attracted significant industry concern due to inconsistencies with international practices on data transfer and data localization, which could heavily impact international businesses' operations

.

Emerging Technology Markets

Industrial big data and the industrial internet are two major efforts aligned with China's Made in China 2025 initiative. In 2019, there has been clear demand for these new technologies as China's industrial internet architecture is now in place. Internet of vehicles (IoV) and smart vehicles will be another emerging subsector with the development and integration of smart platform/vehicle operating system, artificial intelligence (AI), and 5G technologies. Virtual reality (VR), augmented reality (AR), and artificial intelligence (AI) are also emerging technology areas where China is focused.

Sectors fostered by technological applications and advances, such as advanced manufacturing, new energy, internet-plus and hi-tech services, contributed 16.1 per cent to China's GDP last year.[10]Players in China's highly competitive internet sector are continuously bringing up new business ideas, while the country has favourable market conditions for testing those ideas. For instance, the development of the sharing economy is dependent on the vast domestic market, strong infrastructure network and high population density in China

[10] https://www.telegraph.co.uk/china-watch/technology/new-economy-growth/

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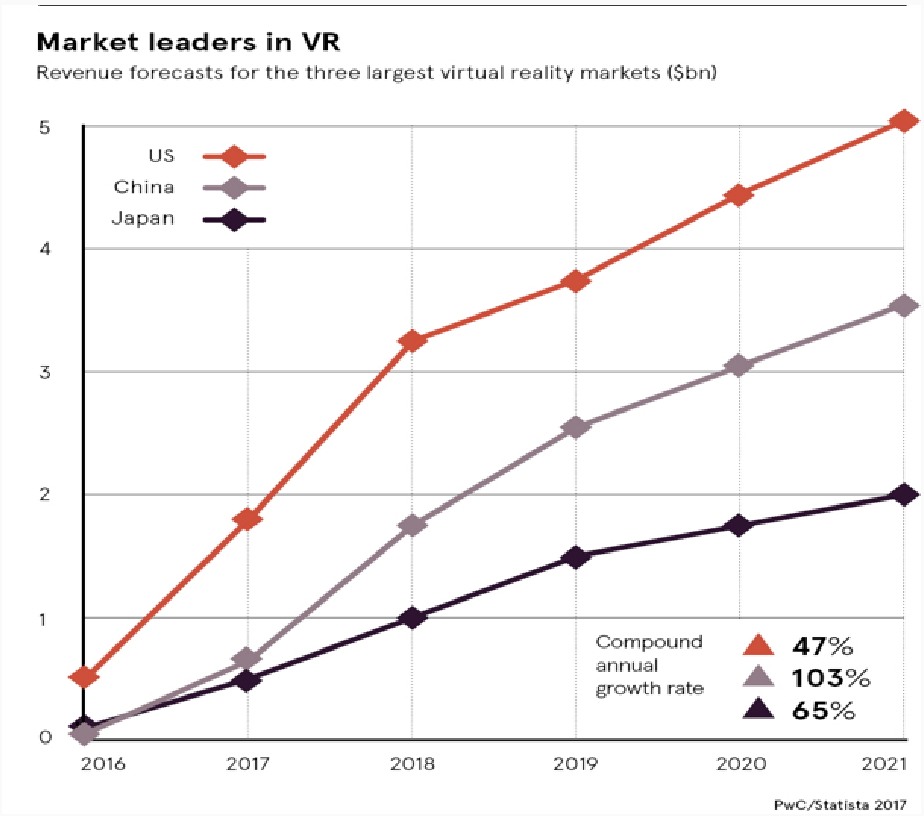
To deal with downside pressure, policymakers should also consider offering more support to revitalise traditional industries, especially privately owned manufacturing sectors, as the scale of new economy sectors is still limited at present



[11] https://www.telegraph.co.uk/china-watch/technology/new-economy-growth/

Leading Sub-Sectors

Semiconductors and Semiconductor Manufacturing Equipment

Over the past decade, China has consistently ranked as one of the largest and fastest growing country markets for U.S. semiconductors and semiconductor manufacturing equipment and will continue to do so in the near term. According to the Semiconductor Industry Association (SIA), China represents 50% ($168 billion) of the $336 billion global semiconductor market. Headwinds brought on by slowing global demand for ICT products, slowing transitions to smaller IC manufacturing nodes, and a strong dollar, however, will be exacerbated by China's opaque policies and unprecedented state-led investment to develop an indigenous semiconductor industry. China's policies, which are intended in part to reduce reliance on international semiconductor imports, create medium and long-term uncertainties for U.S. industry prospects in the Chinese market. While a gap remains between China's demand and production of semiconductors, with the support of the Chinese government – including significant state funding directed by state-guided investment funds – some Chinese semiconductor companies are looking to develop core technologies that allows China to bridge that gap. In recent years, many new 12-inch semiconductor fab projects have been announced in China, including projects in Xiamen, Hefei, Nanjing, Wuhan, and Chengdu.

Cloud Computing

Although China is a fast-growing, important market for global cloud computing, the country presents serious challenges for U.S. cloud providers. Regulatory restrictions, including strict requirements to operate with a local partner, some aspects of governmental decision-making, and local competition make China a problematic market for even large experienced U.S. providers. Operating in China therefore requires substantial resources, flexibility, and a long-term outlook.

Smart City Development in China

“Smart City” is a loosely-defined term applied to everything from urban design to higher education policy. But the most accepted definition is the use of information technology to solve urban problems including related to managing traffic, stabilizing electric grids, allocating and coordinating emergency services, and providing more city information to people and managers than has ever been available before.

US – China Trade War

Financial markets were cheered recently by the news that the US and China have reached a “phase one” deal to prevent further escalation of their bilateral trade war. But there is actually very little to cheer about. In exchange for China’s tentative commitment to buy more US agricultural (and some other) goods, and modest concessions on intellectual property rights and the yuan, the US agreed to withhold tariffs on another $160bn (£124bn) worth of Chinese exports, and to roll back some of the tariffs introduced on 1 September.[12]

The good news for investors is that the deal averted a new round of tariffs that could have tipped the US and the global economy into recession and crashed global stock markets. The bad news is that it represents just another temporary truce amid a much larger strategic rivalry encompassing trade, technology, investment, currency and geopolitical issues. Large-scale tariffs will remain in place and escalation may well resume if either side shirks its commitments.

The International Monetary Fund projects that GDP growth will slow each year over the next four years, falling to 5.5% in 2024. That’s in part due to US tariffs on Chinese exports.Markets may have “priced in” the de-escalation of the U.S.-China trade war as the phase one deal looks set to soften risks related to global growth, but one unpredictable factor remains: technological restrictions the U.S. may impose on China going forward. Non-tariff measures on technology are much more complicated and pose a greater risk of escalation, says S&P Global Ratings’ APAC chief economist Shaun Roache.[13]

[12] https://www.theguardian.com/business/2019/dec/23/trump-lack-of-strategic-vision-is-going-to-make-china-great-again
[13] CNBC Article 19/12/2019

China has been investing in U.S. technology companies. They have invested in Uber, Lyft, Magic Leap, Tesla and many other technology start-ups in the U.S. In the meantime, the U.S. has been funding Chinese start-ups. At the same time, we've seen a lot of collaboration and cooperation in Silicon Valley, where U.S. and China investors group together and go behind the start-up. However a disruption is beginning to arise in this long-time collaboration and cooperation, which I think is unfortunate because it will eventually slow down global innovation.

5G Technology

There are areas where the U.S. is behind China, such as the development of 5G. Huawei is the No. 1 telecom equipment operator, and the U.S. is not allowing Huawei equipment to be sold into the U.S. This is going to be an area that the U.S. needs to catch up in. Right now, the U.S. doesn't have a 5G player. The main players are Huawei and GTE from China, plus Nokia and Ericsson. China is outspending US on 5G wireless infrastructure and those towers that need to be built. So, 5G is coming very soon, and this is going to be one area to watch.The U.S. needs a policy that can address China's rise in technology. China has top-down government directives that are propelling the country forward in all kinds of technology sectors. The "Made in China 2025" has designated time periods where China is going to lead globally in certain sectors, and the U.S. really does not have anything that's the equivalent to that due to a completely different Government system.[14]

Chinese Start-ups attract high investments from Venture Capitalists

The spending of venture capitalists in China today is almost equal to the spending in the U.S. Alibaba was funded by some Silicon Valley investors, and they made a lot of money on that thus creating an example for future investors. The same thing with Baidu and some of the other original internet start-ups. That was the first generation. Now we're seeing a whole new group of newcomers coming up, such as Toutiao, the 15-second video app; Meituan, [an app connecting users to local takeout

[14] Wharton Article – What's pushing China's Tech Sector so far ahead

food and service providers]; DiDi in car-hailing or taxi-hailing; Xiaomi, the smartphone maker; and SenseTime in AI. [SenseTime in early October was banned by the Trump administration from operating in the U.S. because its face-recognition technology allegedly has been involved in human rights violations in some parts of China. The move threatened to upset a planned $1 billion IPO for the company, which is backed by Alibaba.] These companies are funded by venture capitalists in the West and also from other places such as Japan. SoftBank is a major player.

Investment opportunities in Chinese Tech Industry

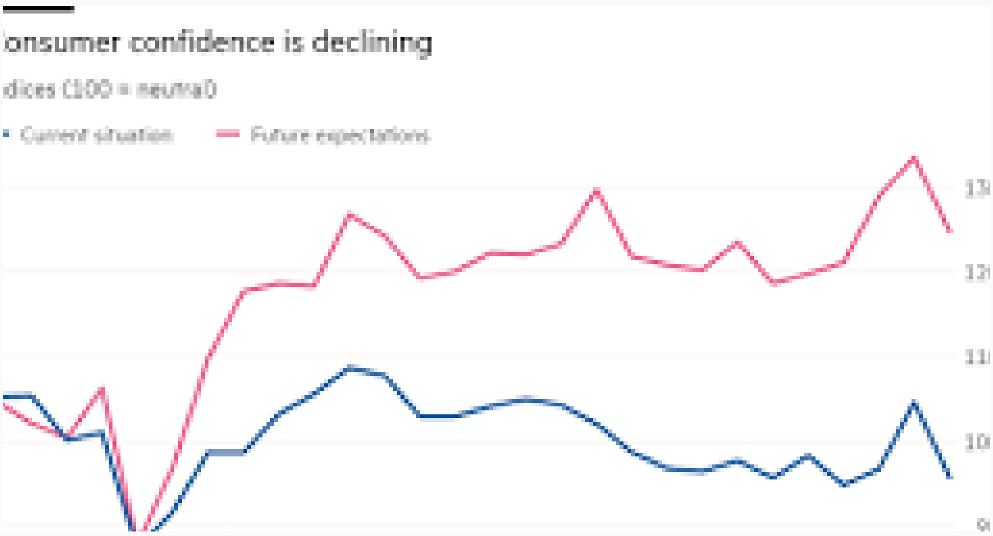
As per Morgan Stanley, IT/Internet-related and Transportation stocks will benefit the most from any de-escalation of trade tensions – IT and Internet due to their exposure to tariff impacts and technology bans, while Transportation stocks, especially Airlines, should benefit from an improved global trade outlook and strengthened CNY/USD.Top tech stocks included in their report were:Laptop maker Lenovo, with 31% exposure to U.S. revenues.Foxconn Industrial Internet, with 30% exposure.Apple supplier AAC Technologies, with 58% exposure.Other tech related firms mentioned were GigaDevice Semiconductor Beijing, SMIC, Jiangsu Changjiang Electronics Tech, Shenzhen Sunway Communication, FIT Hon Teng, Universal Scientific, Ningbo Joyson Electronic, Zhongji Innolight, Alpha Group, WuXi AppTec.[15]

[15 https://www.cnbc.com/2019/12/23/morgan-stanley-picks-chinese-stocks-likely-to-gain-from-phase-one-deal.html

Consumer Sector in Emerging Markets

India:

India’s consumer confidence dropped to a 6 year year low in October 2019, as commodities affected by the US-China trade war led to soaring prices for consumers. President Donald Trump scrapped preferential tariffs to $5.6 billion of previously duty-free Indian exports under the Generalized System of Preferences (GSP) in response to lack of access to the Indian market. In retaliation, India imposed tariffs on 28 US products, including almonds and apples. As the largest buyer of US almonds, the new duties, reaching as high as 70%, serve as a strong reprisal against tariff hikes on steel and aluminium. Although India's steel and aluminium exports are small in comparison to other countries, companies such as Tata Steel which operate in the European Union were affected by the tariffs as shares saw a slide of 3.9% in a single day after Trump threatened imposing a 20% tariff on all US imports of European Union-assembled cars.



[16]https://www.bloomberg.com/news/articles/2019-11-11/china-confident-huawei-will-build-brazil-s-5g-mobile-network1]https://swisscam.com.br/en/how-agritech-companies-lead-the-way-in-innovation-in-brazil/
[17] Deloitte - Lessons-from-Israeli-AgriTech-Aug-2018

Furthermore, food inflation and climate change led to worries about the production of onions, one of India’s most important vegetables. Extreme heat earlier this year followed by excess rainfall from the annual monsoon led to a drastic fall in production in India’s key growing areas. Wholesale onion prices in the capital, have spiked from August, when 25 rupees (£0.29) was worth a kilo, increasing to 80 rupees (£0.91) at the start of October. In response, the BJP government banned onion exports, in hopes of bringing down domestic prices; however, this strained trade relations between India and Bangladesh, which is among the top importers of onions. Since a large proportion of India’s population spends over 50 percent of household income on food, such price increases would anger a large block of voters including farmers, negatively affecting upcoming elections as it did in the past.

Further updates on commodities from recent data from the World Gold Council (WGC) suggests India's gold demand is expected to drop to its lowest level in three years since 2016, as domestic prices climb to a record against a backdrop of falling earnings in rural areas, a key source of custom for the precious metal. While the fall in consumption in the world's second-biggest market of the metal could break global prices, a drop in imports could help ease the country's trade deficit.

Brazil

The fifth largest and fifth most populous city in the world, Brazil, has witnessed an exponential growth in consumption for most of the past decade[17]. This had made the consumer market in Brazil a promising investment opportunity. However, this also involved a period of severe economic crisis in 2015-16 which was one of the five times Brazil witnessed recession in the past two decades. A major reason for the crisis in 2015-16 was the “fall in commodity prices" which slumped aggregate demand in the Brazilian economy.

[17] From Mc Kinsey’s June 2016 article on Brazil economy

This was followed by a sharp decline in private consumption and consumer confidence, which hampered the markets as investments saw a significant downturn. According to BBC, there is still no economic recovery foreseeable until 2020, however, recent GDP figures suggest otherwise. There was a 0.4 per cent quarter on quarter growth until June 2019 rendering the industry sector to a positive growth territory at 0.7 per cent. Looking at the other macroeconomic factors affecting the economy, there was a sharp decline in the trade surplus from 5.07 billion USD in September 2019 to 2.25 billion USD in September 2018. This is attributed to a colossal drop in exports of 11.6 per cent which in turn is explained by the lower sales of primary goods. This included massive declines in semi-manufactured goods namely iron, wood, copper and sugar. Subsequently Brazil's terms of trade decreased from 114.25 Index Points in August 2019 to 109.68 points in September 2019, according to Trading Economics[18].

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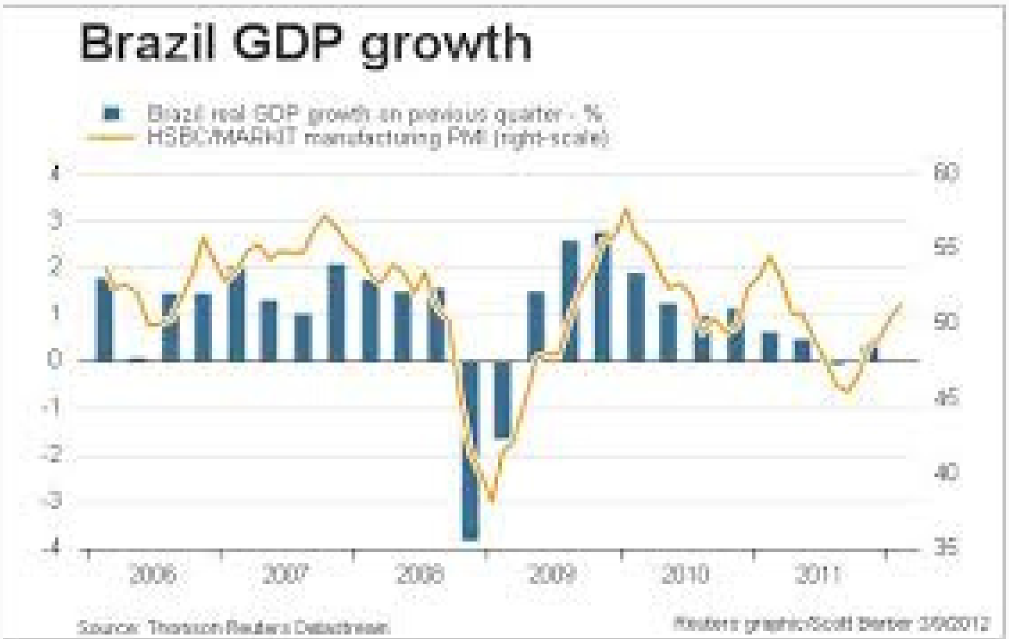


18] Trading
Economics is an online platform that provides historical data, economic forecasts, news, and trading recommendations.

The trade surplus was below the market expectations which further impinged business confidence and foreign direct investment into the economy. Nevertheless, amid this global economic slowdown, the Central Bank of Brazil revised the interest rates to attract investment. The economy also reported a sixteen-month low inflation in September with a "significant decline in the cost of food and non-alcoholic beverages in particular"[19]. The impact on the equity market for consumer goods and commodities has been fairly volatile but it still remains a great market opportunity due to its fast-growing e-commerce market. Commodities Market in Brazil has witnessed a significant change in its sales channel for consumer goods, particularly with the development of e-commerce and Brazilian retailers "hosting smaller companies' storefronts" through corporate ecommerce platforms[20].

Considering the global market scenario for consumer commodities in Brazil, it is quite fair to assume that the economy will experience an immense take-off by 2020 in terms of economic performance[21]. Although the stock performance has been dismal lately, equities are very attractively priced at current levels. According to Bloomberg, Brazil is the foremost investment target among the emerging markets. The presence of abundant resources and a vibrant industrial base renders Brazil enormous potential over long term in the commodities market, according to Seeking Alpha[22]. An insight into the political and economic landscape in Brazil over the past few years amid rampant corruption scandals have abruptly changed investor sentiment in the economy. A greater focus on a market-oriented political leadership will enhance the economic performance and from a middle-term outlook, the timing for investing in Brazil looks quite enthralling.

China

Across 2019, Chinese equity markets have been dominated by retail investors. Indeed, the extent to which China's largest stock exchange, the Shanghai Stock Exchange (SSE), is regulated by the government has caused multinational institutional investors to look elsewhere. As a result, there are a number of Chinese companies within the consumer sector (such as Alibaba, China's largest online retailer) listed instead on exchanges in New York and London. However, as of this summer, the central government of mainland China has adopted "capital market deregulation and integration into the wider world economy" as one of its objectives for financial policy. The abolishment of arbitrary trading rules, as well as the removal of laws prohibiting foreign investment, might see the Shanghai Stock Exchange increase in popularity among global institutional investors. In both the short and long term, the effect on equity markets in the consumer and commodities sector will be significant, especially during a time of optimism surrounding future US-China trade agreements. As the investor base shifts away from individuals and towards professional asset management firms, equity markets are likely to become a more stable destination for international capital, showing less "herding" behavior.

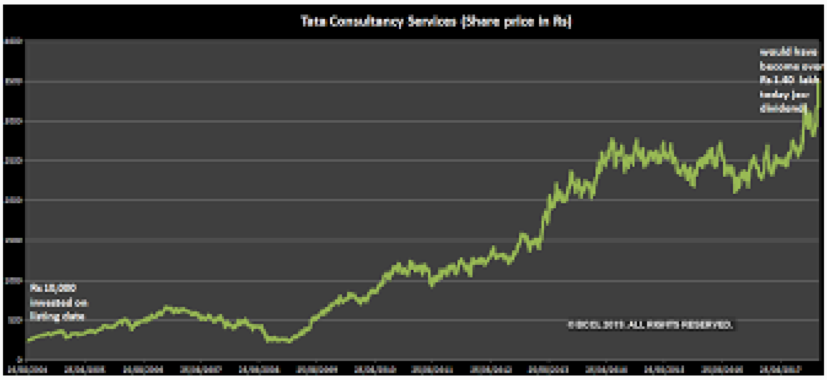
In particular, throughout 2018 and 2019, the Chinese construction sector has seen immense growth due to infrastructure projects associated with its Belt & Road Initiative (BRI), as well as surges in domestic demand for homes alongside stable increases in average wages. Growth in the sector is expected to remain at around 4.5% over the next five.

Therefore, within the consumer and commodities sector, potential growth in the medium-term stems from stock exchange deregulation and optimism about US-China relations. As Christmas approaches, retailers benefit from seasonal demand increases, yet China's largest retail companies are listed on foreign exchanges. Perhaps as the central government reduces its active involvement in capital markets, this will be an area to watch.

[19] Financial Times Forecast
[20] World Bank Market Insights
[21] Real Estate Brazil (2019)
[22] Seeking Alpha is a crowd-sourced content service for financial markets.
[23] Brown, A. (2019). China's
construction market growth to slow. [online]. Available at
https://www.khl.com/international-construction/chinas-construction-market-growth-to-slow/137183.article

Industrial Sector in Emerging Markets

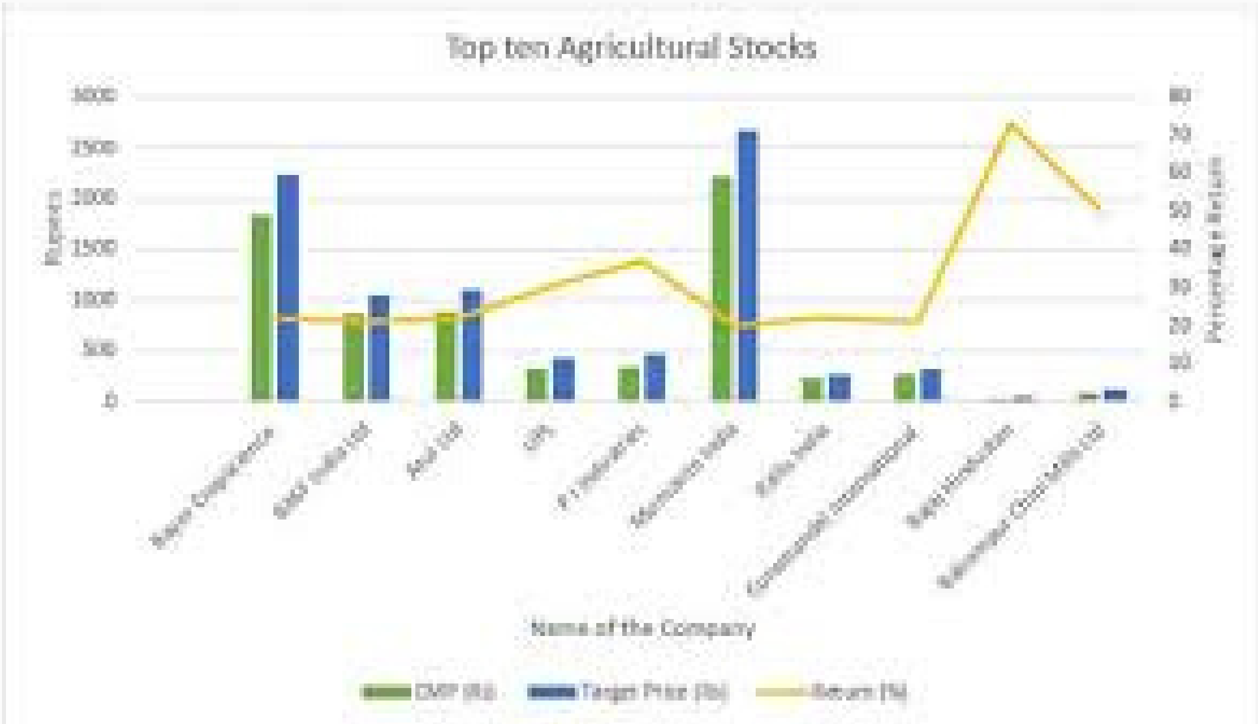
India:
Software Industry
Well-known for high rates of specialization in technology, with two of the top ten universities for coding located in India; the country continues its leading destination as the outsource for the multiple global sectors. However, focusing on Tata Consultancy Services Limited (part of Tata group) a solid technological industry benchmark given its high concentration; we see a very different pattern.



TCS's listing experienced a 4% jump in early November, reaching its all-time high of 2284.95 Rs as the software company announced its "long-term partnership with Phoenix Group, Europe's largest life and pensions consolidator"[1]. Were business proceed, shareholders of Indian software firms may see their listings competing against Western Europe and North America's shares. Given Softbank's major holdings in Flipkart and Didi, the market entrance seems limited.

Agricultural/Chemical Industry

India's agricultural market is as robust as ever, however despite President Modi's April electoral manifesto promise of doubling farmers' incomes and spending $360 million to develop rural plots;the agricultural industry has failed to take off in the way many external investors expected. However, as Sino-Indian relations improve between Xi Jing Ping and Modi there is a great opportunity for India to look Eastwards for opportunity. Indeed, investors viewed the this as a positive and shares of the nations' top ten agricultural firms had shown strong bullish trends. In the light of stronger relations; shares in major companies such as PI Industries are following a strong bullish trend, with the firm lifting its position in Asia following its acquisition of Isagro Asia Agrochemicals Private Limited; furthering the nation industry profile in the long run. However, crumbling infrastructure has meant the drive for more exports successful in the short run might face long term setbacks. Given the cruciality of rural vote to Modi; it is unlikely investors would see subsidies for water, seeds, electricity and fertiliser thus their demand being lessen any time soon.



Brazil

Oil Sector

In November, the greatest upheaval was experienced by the oil industry following the announcement of the auction of oil deposits off the Brazil's SE coast; estimated around 15 billion barrels of crude oil. In the light of the president's subsidy support in terms including licensing fees; production may more than double by 2030, making Brazil the fourth largest producer. Despite interest from 17 corporations including Exxon Mobil, Shell and Cnooc minimum offering from 18 to 27 percent profit oil; the early- November auction did not meet expectations as only two sites were selling short as economy push for global clean energy. This failure may scare investor concerning the liberalisation of the infamous protectionist Brazilian market however might stimulate.

Agriculture Sector

President Jair Bolsonaro's decision to allow Amazon sugarcane cultivation has seemed as an obstacle to the 2019 EU-Mercosur deal, as resistance against the trade has grown from European farmers worrying over large import quotas for Latin American produce. With deforestation rates rising to the highest level in more than a decade, the regime was harshly criticised by EU Comission officials. The decision motivated by the goal to increase of sugarcane ethanol's EU export by 20 times, while critics state unnecessary with the 44m ha of degraded land in place in Brazil. Despite the global environmental criticism, and the U-Mercosur deal in risk, the Brazilian government has defended its decision.

China

Real Estate, Commodities and Manufacturing

However, the CSI 300 Index[i] recorded a total drop of 124 points following a downward trend since the beginning of the month till the last day of trading. The most significant contribution was the 98-points drop from 19/11/2019 to 21/11/2019. During the turn of the event, the share price of ArtGo, an integrated marble producer that recently financed real estate deals via shorting shares lowered by almost 20%.
The company once perceived the best performing stock however crashed
after soaring 3,800%. This was followed after investors reaction to the MSCI's decision to no longer include the firm's stocks into its indexes "following further analysis and feedback from market participants on investability". The real estate property market certainly had witnessed the consequences of significant bubbles ever since the start of the month following the failure to finance deals of multiple property developers.
China lowers 2019 GDP growth target to 6-6.5 per cent range reflecting the in consumer confidence and inflation expectations. China's central bank its stimulus policy was stated to target specific sectors, rather than being "flood-like" easing of previous slowdowns.
More positively, China's factory activity unexpectedly returns to growth in November, the first time in seven months. With the separation of the 50-point mark, The Purchasing Managers' Index (PMI[i]) bounced back to 50.2 in November, its highest since March and almost 10 points increase from October. NBS data also shows that the PMI for China's non-manufacturing sector came in at 54.4 in November, the highest since April, up from 52.8 in October, indicating that the non-manufacturing industry maintained its overall expansion momentum. Overall, the china industrial picture may expect more upturns if the stimulus package is significant enough to keep China on track for growth

The CSI 300 is a capitalization-weighted stock market index designed to replicate the performance of top 300 stocks traded in the Shanghai and Shenzhen stock exchanges
25 The Purchasing Managers Index (PMI) is a measure of the prevailing direction of economic trends in manufacturing.

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