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As another year comes to an end, we have enjoyed no respite from the constant excitement and dynamic changes in emerging and frontier market investment. We are firmly in a post-BRIC world with the culmination of Chinese slowdown have a global effect, Russia's headline risk proving difficult, and Brazil still battling corruption with grave economic results. India has emerged at the head of this pack, but with attention waning for the former darlings of the developing world, we are seeing exposure and opportunities in other regions.

This month marks a much awaited regime change as Argentina's Cristina Kirchner will step down, however it is most likely that her successor will not be the avatar of change investors were hoping for. Despite the dire looking state of many of our favorite markets, a silver lining exists in the fact that many markets are bottoming out; if investors can get past misperceptions and fear, buying opportunities exist in Nigeria, Russia, Ukraine, and Argentina. Now is the time to seek out these undervalued regions who have been struggling of late, and lock-in before they

In EMIA news we are pleased to announce the launch of our new website, offering greater benefits to both our members and audience in the form of greater content, more premium content, discounts to services and events as well as the re-launch of our webinar series, the first to discuss Frontier versus Emerging market investment on the 12th of November.



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Small Farming, Big Tech Challenge in India

 **Garrett Baldwin, Global AgInvesting**

In his first year as prime minister of India, Narendra Modi aimed to attract private investment. Following the Bharatiya Janata Party's (Indian People's Party) decisive victory at the polls in 2014, Modi's government maintains an advantage that no other political party has held in three decades in India.

Modi's goals center on boosting infrastructure, increasing urbanization, and reducing bureaucracy, which are much-needed goals for a nation ranking 179th when it comes to ease of opening a business. Agricultural investors are hoping that these actions foster a boost to agricultural production, particularly at a time when drought has produced its third continuous year of poor weather.

Still, populist backlash has recently centered on a controversial land bill that has pitted Congress leader Rahul Gandhi against the nation's elected leader, with charges of obstruction and oppression being heaved at the Modi government.

The law is a sample of Modi's goal of reducing bureaucracy throughout the nation. Modi, who already implemented the industry-single win-

dow clearance to improve licensing procedures, has said the land acquisition law will make it easier for businesses to purchase land.

But opposition—which has framed this law as anti-farmer and potentially damaging to the rural parts of the nation—has delayed hundreds of billions of dollars in infrastructure projects and investment, which are ultimately expected to form

Modi's vision of industrial corridors and business cities cropping up across the nation.

"Investment dollars are pouring in. The business environment is much friendlier," says Sahil Kini, vice president of venture capital firm Aspada Investment Advisors, which provides early-stage risk capital to India-based entrepreneurs in the agricultural supply chain. "The government has done the work, but the trust [required] has come within the industry."

Across India, execution remains the government's biggest barrier to addressing challenges in the agricultural sector and to creating a more business-friendly environment. On a macro-scale, infrastructure projects will ultimately move forward. This infrastructure, critical to the nation's agricultural sector, includes a boost in storage facilities and transportation networks. Small farming villages require roads that connect to market cities.

Still, a key challenge to the sector appears to center on a more equal adoption and dissemination of technology for rural farms.

India's agricultural sector requires innovations and technology to boost farming efficiency and yields. That process is underway as the nation attempts to adopt best practices from agricultural centers around the globe.



Boosting India's Farming Sector

Roughly 80% of all Indian farmers own and operate land holdings of fewer than two hectares, a vast contrast to the large-scale operations of domestic farmers in the United States.

And with a wide variance of crop efficiency, the nation is working hard to adopt new technologies in order to boost crop yields and promote higher incomes among its class of farmers.

“Currently, there is a lot of talk about obtaining better seeds and issues like crop protection. The objective is to encourage more private partnerships,” Kini says. “Adopting new ag technology, genomics, and better decision services is critical because the yield gap is so significant. There is a three-times to five-times jump in inefficiency, depending on the crop you are examining.”

Kini points to the gap in mechanization due to the fragmented landholdings across the rural nation.

“There is a 35% to 40% loss in the supply chain due to logistical challenges,” he says. “With such significant problems, they’re thinking about agricultural technology. The conversation is happening all across America about best practices. In India, it’s key to find a struc-

ture where best practices can be implemented across small farms. Even the smallest movement can lead to disproportionate jumps in how farmers improve, whether it’s using better quality seeds or just gaining a better understanding of agronomy.”

Technology Implementation

Currently, four large companies work with thousands of farmers that sell farm inputs and, in some scenarios, provide insurance to the sector. “They support them through the growing season,” Kini says. “Then they buy the crops back in aggregate. Most are handling the marketing as well.”

But the challenge remains locked in how it is possible to bring new technologies up to scale across thousands of small farms stretched across the nation.

Kini says that big data is going to be critical in both the implementation and adoption of new technologies designed to promote better irrigation, improve farming operations, and optimize crop quality.

“By collecting data from these farms, there will be an opportunity to share that data and eventually even sell it to input makers,” Kini says. “That sort of market has value due to fragmentation on the ground.

It is both sensible and cost efficient. Data could be a very powerful proposition—not just for farming but also for government and fertilizer companies.”

That is a critical observation, as evidenced in technological development in the United States where companies have been able to test new platforms on smaller farms to identify a variety of different inputs and operational efficiencies. By collecting an immense amount of data for the purposes of analysis, companies can identify trends in the data and employ certain technologies or best practices depending on the similarities in conditions across small farming tracts in the region.

Two farms, sharing similar topographic compositions, water challenges, and soil quality can quickly be analyzed, and each could be deployed a specific technology or best practice in order to maximize its crop efficiency.

In India, Modi’s government must move forward with the big infrastructure projects and aims to boost the required midstream operations required to effectively bring products to market. But political will across the states will remain a challenge, in addition to improving an immediate need this crop season: water access.

About the Author

Garrett Baldwin writes for Global AgInvesting and has a decade of leadership experience in financial publishing, competitive and market intelligence, corporate advocacy, and financial planning. He is a graduate of the Medill School of Journalism at Northwestern University, where he was a member of the investigative team at the renowned Medill Innocence Project. He has a Master's Degree in economic policy from Purdue University and is finishing his MBA in finance from Indiana University.



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OPEC oil prices hit lowest level since 2009 in August

 Ricard Torné, Senior Economist at FocusEconomics

Oil prices have taken another nosedive in recent months due to a variety of factors that are at play, and on August 25, the average price of the Organization of Petroleum Exporting Countries (OPEC) oil basket stood at 40.5USD per barrel. The reading marked a 22.3% decline over the same day of the previous month and marked the lowest price since February 2009. On an annual basis, oil prices were down by 59.2%. In the following days, oil prices recovered some of the ground lost and traded at 47.8USD per barrel on September 1.

Oil prices had begun to recover at the outset of the year following the plunge observed since mid-2014, which drove prices to tumble from 110USD per barrel to less than 50USD per barrel, yet crude costs began plummeting again in July. A series of factors contributed to the oil-price plunge seen in July and August. Expectations of a sharp in-

crease in oil supply following the successful nuclear deal between Iran and international powers put downward pressure on oil prices.

This situation was exacerbated by fears that the Chinese economy was slowing at a faster pace than previously thought, as the world's second-largest economy experienced high volatility in the equity mar-

kets, decided to devalue the yuan, and posted weak economic indicators. Moreover, key OPEC players were pumping oil at record levels, thereby contributing to the global glut.

In the very last days of August, oil prices moved upward amid rumors that OPEC was willing to talk about reducing crude output and that the



U.S. shale boom was fading. Nevertheless, the overall picture suggests that global crude markets remain oversupplied due to faltering demand and high-production levels.

OPEC pumped 31.51 million barrels per day (mbpd) in July, despite the fact that the oil cartel had decided to maintain its oil production quotas at 30 mbpd, according to the latest OPEC Monthly Oil Market Report. The rise reflected stronger production in Angola, Iran, Iraq, Saudi Arabia, and the United Arab Emirates. Saudi Arabia's oil production reached 10.35 mbpd in July, which was up from the 10.31 mbpd tallied in June.

FocusEconomics Consensus Forecast panelists expect oil production to reach 10.01 mbpd this year. In 2016, the panel sees crude output broadly stable at 10.00 mbpd.

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About the Author

FocusEconomics is a leading provider of economic data, forecasts and analysis on the most important macroeconomic indicators for emerging and frontier markets. The company's research covers 127 key countries in the Middle East, Asia, Europe, Sub-Saharan Africa and the Americas, accounting for 97% of world GDP. FocusEconomics reliable, unbiased and timely information helps companies make sound business decisions. The company's extensive global network of economists, coupled with its position as an industry leader, are indications of its solid reputation as a reliable source for business intelligence among the world's major financial institutions, multinational companies and government agencies. FocusEconomics is pleased to be a partner of EMIA and offers a 10% discount on all yearly subscriptions exclusively to EMIA Members. For more information, please contact us.

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250,000 time series covering Indonesia through:

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- 10 industries covered
- Regional data covers 33 provinces

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- 13 industries
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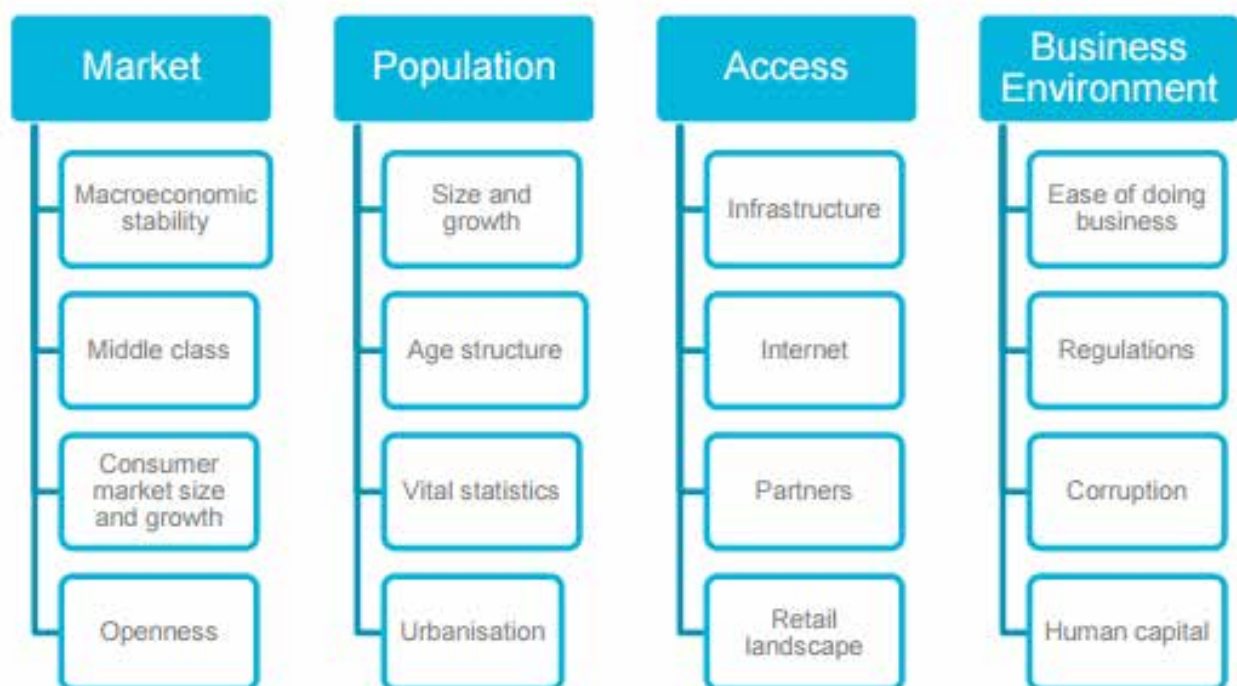
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How to Succeed in Emerging Markets

 **Sarah Boumphrey, Head of Strategic, Economic and Consumer Insight at Euromonitor International**

All markets are not the same. Each has unique challenges and opportunities. The first and most important step to successfully launch a product or service is to pick the market or markets that are right for your business. Too many companies fail to do their due diligence regarding pre-market entry and then pay the price in poor sales and unforeseen complications and costs. Euromonitor International has developed a four-pillar model to bring methodological clarity to selecting new emerging markets.



Market

Macroeconomic stability

Middle class

Consumer market size and growth

Openness

An emerging market strategy is a long-term one, and step one on the path to success is to choose wisely.

The first pillar, market, is perhaps the most fundamental. It incorporates macroeconomic stability, the middle class, consumer market size and growth, and openness. These elements are essential concerns of any emerging market strategy. Is the country sizeable and stable enough to do business in? Are consumers well off enough to buy my products and services? Are the potential growth rates of the market attractive enough to offset any risk? And are the conditions for foreign businesses right?

How to Succeed in Emerging Markets

A packaged food company was looking to expand its Asian operations beyond China. Our four pillar model offered methodological clarity to the process of market selection. The business was able to compare a range of countries in a systematic fashion. Due to its scale, Indonesia had cropped up in board room discussions as a potential market of interest. A thorough analysis revealed that whilst Indonesia does indeed represent an interesting opportunity for the business, strategies would be needed to overcome challenges in the business environment. Our model enabled the business to go into the market with its eyes open.

EURO MONITOR INTERNATIONAL

SARAH BOUMPHREY
Head of Strategic, Economic & Consumer Insight

euromonitorinternational.com

White Paper: How to Succeed in Emerging Markets

Market

Macro-economic Stability

Is the country sizeable and stable enough to do business in?

8th

Indonesia is the world's 8th largest economy (in PPP terms) and growth has averaged 5.7% per year since 2009.

Middle Class

Are consumers well off enough to buy my products and services?



A middle income household devotes more than half of its budget to the essentials of food and housing.

Consumer Market Size Growth

Is the potential growth of the market attractive enough to offset any risk?



Consumer expenditure in Indonesia will more than double in real terms by 2030.

Openness

Are the conditions for foreign businesses right?



At 105th in the Heritage Foundation's Index of Economic Freedom, Indonesia ranks as "mostly unfree".

Population

Size and Growth

Where do my target consumers live and where will they live in the future?



Indonesia has the world's 4th largest population and will add 30 million inhabitants to 2030.

Age Structure

Which age segment offers most opportunities?



All age segments under 35 years will actually fall in number between 2015 and 2030; whereas those aged 50+ will increase by 65%.

Vital Statistics

Is my target audience growing and will it continue to do so?



In Indonesia fertility rates have nearly halved in the past 30 years.

Urbanisation

Are my potential consumers geographically dispersed or concentrated in a few large cities?



Just one in four of the urban population lives in Indonesia's ten largest cities.

Access

Infrastructure

Will it be difficult to run my operation?



Electricity production is very low—less than half of the average per capita in emerging and developing Asia.

Internet

Is the population online and tech-savvy?



There are 40 million internet users in Indonesia, representing 16% of the population.

Partners

Would a local partner facilitate market entry?



Retail stores in Indonesia will have to sell a minimum of 80% of local products (made in Indonesia) by June 2016.

Retail Landscape

Is the retail landscape modern or traditional?

7%

The top 5 retailers in Indonesia account for just 7% of retail sales.

Business Environment

Ease of Doing Business

How friendly is the business environment?



It takes 52.5 days to start a business in Indonesia, compared to 5.5 days in Malaysia—emerging Asia's best-performing economy.

Regulations

Do regulations promote private sector development?



Indonesia fares well in the World Economic Forum's ranking of the burden of government regulation—placed at 23rd out of 144 countries. It ranks higher than the Netherlands and the UK.

Corruption

Is the rule of law sufficient?

107th

Corruption is a considerable challenge in Indonesia with the country ranked at 107th out of 175 countries in Transparency International's Corruption Perceptions Index 2014.

Human Capital

How can the business recruit and retain talent?



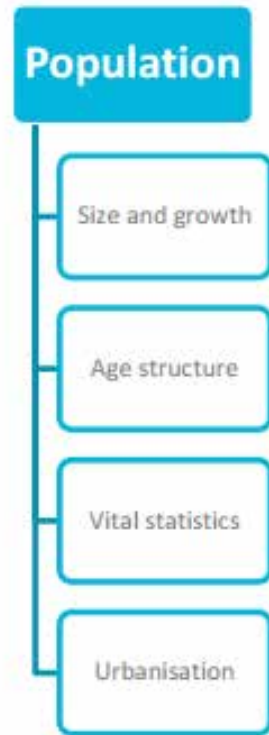
The proportion of the population with a higher education is small (6% in 2014) but is growing at twice the rate of the total population.

The second pillar, population, incorporates size and growth, age structure, vital statistics, and urbanisation. Many of the most important decisions planners must make should be shaped by the demographic realities on the ground. Demographics provide the backdrop for all consumer markets and enable an understanding of how the market fits into the demographic landscape and population trends also help to envisage the future shape and direction of the market.

Understanding and being able to harness population trends enables new market entrants to maximize their profitability by targeting the right people in the right place at the right time. Marketers and strategic planners should be posing questions such as:

- Where do my target consumers live? Where will they live in the future?
- Which age segment offers the most opportunities?
- What are the opportunities and challenges that lie ahead?
- Is my target audience growing, and will it continue to do so?
- Is it geographically dispersed or concentrated?

The third pillar, access, incorporates infrastructure, Internet, partners, and the retail landscape. The practicalities of market entry are key in getting products to market and on to the end consumers.



- How accessible is the country?
- Will it be difficult to get your products to market?
- Are consumers easily accessible for both direct sales and marketing and promotional activities?
- Would a local partner facilitate market entry? Or is a local partner even a prerequisite?
- Is the retail landscape modern or traditional?

The fourth pillar, business environment, incorporates the ease of doing business, regulations, corruption, and human capital. Better understanding the environment within a market provides an enhanced context for what business will really be like within the selected region or country.

Businesses can thrive in countries where these factors are not favourable, but a carefully thought-out strategy is a must.

- Is there a level playing field between domestic and foreign investors?
- Is the rule of law sufficient?
- How can the business beat corruption?
- How can the business recruit and retain talent?



These factors are more or less relevant to any business in any sector, but there are also sector-specific and business-specific factors that should be added to this matrix. In addition, the importance assigned



to each of our 16 factors will differ according to industry sector and company profile. For some, human capital may be the primary concern, whereas for others it could be middle class. Our matrix is therefore a useful starting point that can be

tailored to suit any business. The primary concern is to undertake a thorough analysis of all markets of interest before creating a shortlist

of potential winners. A failure to do this could lead to missed opportunities or an embarrassing and costly mistake.

About the Author



This article is an extract from "Succeed in Emerging Markets: Selection, Strategy and First Steps" white paper written and compiled by Sarah Boumphrey, Head of Strategic, Economic and Consumer Insight at Euromonitor International. To download your free copy, [click here](#)

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Ruble Suffers Major Hit in August

Weak Russian Currency is Here to Stay

 **Ricardo Aceves, Senior Economist at FocusEconomics**

The Russian ruble hit a historic low in late August following more than a year of volatility. The value of the ruble first began to fall in early 2014 after several years of an exchange rate of roughly 30 RUB per USD, as the country was acutely affected by weak economic growth, high geopolitical risks following the annexation of Crimea, and the outbreak of war in Ukraine. However, it was with the collapse of oil prices at the end of 2014 when the ruble's value could not defy gravity and thus began its free fall against the U.S. dollar, with the currency bottoming out at 68.5 RUB per USD on December 16th.

The beginning of 2015 saw strong volatility in the foreign exchange market, but the Russian currency stabilized within a corridor of 50 to 60 RUB per USD at the end of the first half of this year. There was another episode of strong volatility at the outset of second half of the year,

and, on August 24, the Russian currency closed the trading day at 70.9 RUB per USD, which was even lower than the aforementioned low point of the December 2014 ruble crash and represented a new all-time low.

The sharp drop in August was pri-

marily a response to falling oil prices and rising fears regarding the effects that the shockwave caused by China's stock-market crash could have on the global economy. Although the ruble has recovered some of the ground lost in recent days, the currency is still significantly weaker than the 50



to 60 RUB per USD corridor observed in previous months.

The renewed weakening of the ruble will likely put further pressure on banks and push up inflation, which is not welcome news to Russian monetary policy makers. Consequently, a delay in further interest rate cuts in the coming months is on the cards. Moreover, Russia's Central Bank recently announced that it had adopted a fully floating exchange rate regime, though suspicion persists that the Bank is informally intervening in the exchange rate market to support the ruble.

The fall in oil prices has not been declared over, and prices are expected to remain low for the rest of the year. Fluctuations of the Russian ruble are largely driven by the price of oil, which, along with gas, is Russia's main commodity export. Should the price of oil remain low throughout the remainder of 2015, a weak Russian ruble is here to stay.

FocusEconomics Consensus Forecast panelists see the Russian ruble trading at RUB 63.7 per USD

at the end of 2015, and the panel projects an exchange rate of RUB 61.1 per USD at the end of 2016.

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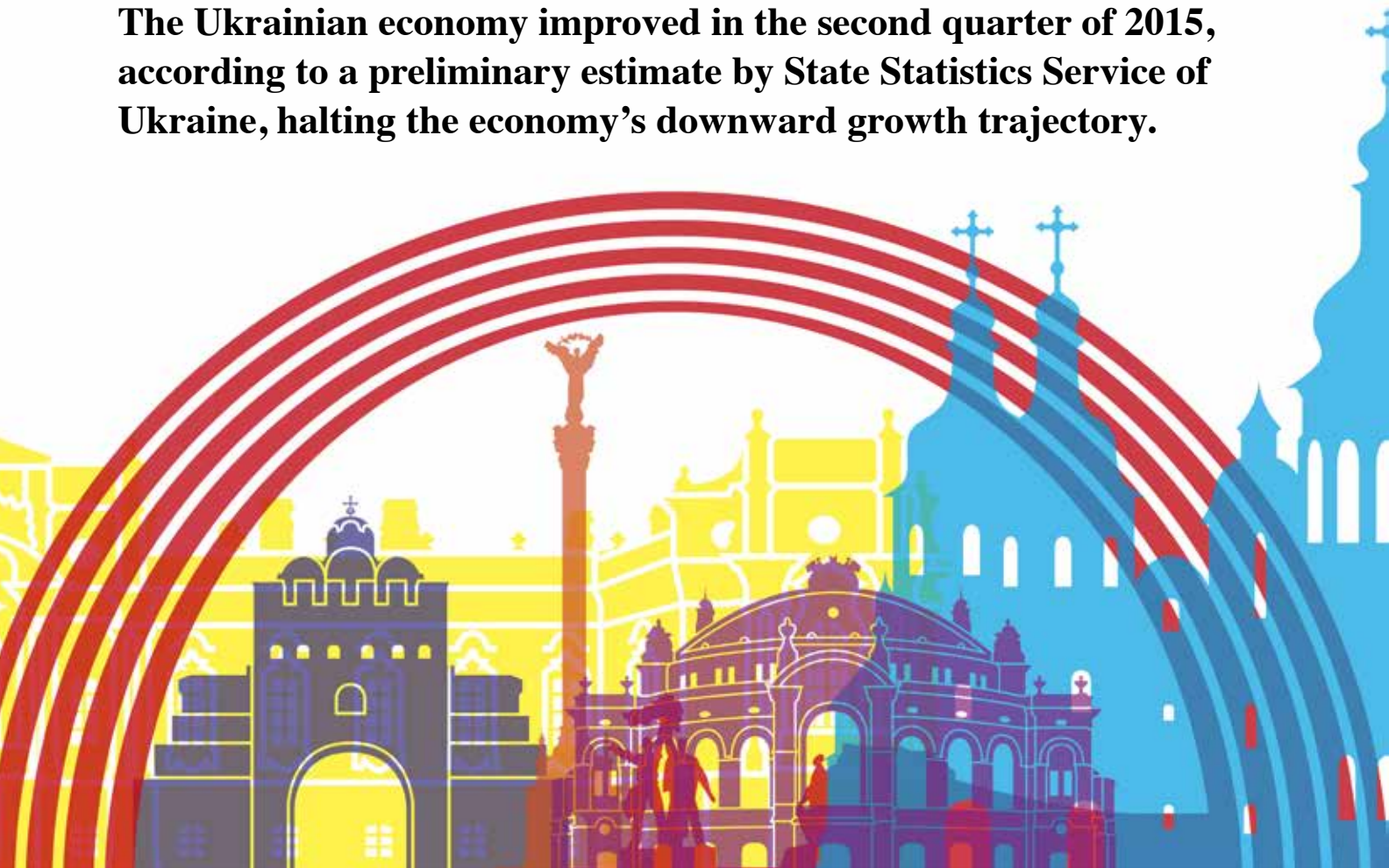
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Ukraine: Pace of contraction slows in the second quarter.

Ukraine reaches key debt restructuring deal.

 **Angela Bouzanis, Economist at FocusEconomics**

The Ukrainian economy improved in the second quarter of 2015, according to a preliminary estimate by State Statistics Service of Ukraine, halting the economy's downward growth trajectory.



The economy contracted 14.7% over the same period last year in Q2, which was a more moderate drop compared to the first quarter's notable 17.2% fall. While the result still marked a deep contraction, the figure suggests that the country's downward spiral driven that has been by the military conflict in the east may have bottomed out. In addition, other positive news has begun to emerge from crisis-hit Ukraine. In July, the contraction in industrial production moderated for the third month in a row, and inflation eased to the lowest level in one year. Moreover, after months of negotiating, the Ukrainian government reached an agreement on debt restructuring with its private creditors on August 27, plugging part of the country's financing gap.

The deal restructures 18USD billion of Ukraine's debt and satisfies a key condition of the International Monetary Fund's (IMF) bailout agreement. While the deal is not expected to be finalized until the end of October, the initial agreement entails a 20% nominal haircut and postpones payments until 2019. In addition, GDP warrants will be issued, linking payments to economic growth and shielding the government from having to pay if GDP growth is below 3.0%. While the deal has largely been seen as positive for the debt-ridden economy, a few potential hiccups remain. First, the agreement still needs to be supported by the 75% of bondholders, which is not guaranteed. In addition, Russia is the second-largest holder of Ukrainian debt and seems likely to not accept the deal. Russian Finance Minister Anton Siluanov has publicly rejected the agreement and the Ukrainian government has refused to give Russia preferential terms, which could set the stage for conflict in the upcoming months. As well, the agreement increases Ukraine's debt burden in the long term, especially from 2019–2025, when the country's initial payments to the IMF are due.

Despite the positive news that has begun to emerge from Ukraine, the country's outlook is grim. The ceasefire agreement continues to be violated, and political tensions have risen in recent weeks. A parliamentary vote to grant separatist regions greater autonomy, a condition of the ceasefire agreement, was met with large protests on August 31, and the government's pop-

ularity has begun to erode. Moreover, it is unlikely that the economy will recover without a lasting resolution to the conflict in the east of the country, and only shaky progress has been made toward a deal so far.

Against this backdrop, FocusEconomics panelists downgraded Ukraine's 2015 economic outlook for the 14th consecutive month. Panelists now expect GDP to plummet 10.4% in 2015, which is down 1.1 percentage points from last month's forecast. For 2016, panelists expect the economy to rebound to a 1.6% expansion.

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Spreading the Word on Frontier Market Opportunities



In the following article, EMIA speaks with Clifford Quisenberry, the chief investment officer of Caravan Capital Management, a “manager of strategies dedicated to frontier and emerging markets,” as well as a published author, sought-after speaker, and experienced frontier emerging markets investor.

Mr. Quisenberry's combined expertise in the investment management industry amounts to more than two decades of hard work. His specialization became emerging market equities when he was put in charge of managing such portfolios early in his career. His approach combines diversification with the pursuit of opportunities among the next-generation of emerging markets. As of September 30, 2015, Caravan's pan-frontier portfolio invests in 84 companies across 32 countries.

A Rough Start

Caravan took shape in 2008, amidst the world financial crisis. Not one to be easily deterred, Mr. Quisenberry plowed through and held on for a late June 2009 launch of their flagship fund, the Emerging Frontiers Fund that brought a focus on frontier market opportunities. "I wanted to get that going because I could see that turn in March, from risk-avoidance," he acknowledges. "It was hard to get people into frontier markets, since these markets were perceived to be very risky. But the reality is that they're not as risky as investors assume when managed in a diversified portfolio." By mid-2010, Caravan received its first institutional investor and now includes organizations like the Templeton Foundation and the Kenneth Rainin Foundation among its two live investment strategies.

Leaving his previous cushy executive position at a large organization to fly solo was no easy feat, but he now appreciates, "the freedom to have a wide-angle look at the opportunities in frontier markets, not constrained by marketing or the bureaucracies of a larger organization," he says. He gladly accepted the drop in compensation in order to devote himself to his passion: building his own firm dedicated to frontier and emerging market investing.

His efforts are focused on spreading the word about frontier market investments, since they have an unwarranted reputation of being risky. For example, the volatility of his fund's returns for the six years since in-

ception through September has been slightly less than that of the S&P 500 index fund*. His demonstrated ability to generate alpha** inspires confidence in investors, and Quisenberry admits that the required skill for understanding frontier markets is being hands on, combined with the importance of years of experience in these unique markets. Mr. Quisenberry has been investing in such frontier countries as Botswana and Romania since as far back as 1997. The recovery from the financial crisis helped improve sentiment among his future clientele. "Coming out of the depths of the financial crisis when no one wanted to invest in anything perceived as risky, generally, the trend has been that people are much more willing to accept risky opportunities in pursuit of compelling returns," he conveys, adding that low correlations among frontier markets relative to emerging markets helps maintain the lower than expected volatility found in diversified frontier market strategies. "There's more and more interest," he offers.

Strategy

With 32 country allocations in a truly pan-frontier portfolio, Caravan's Emerging Frontier's strategy could be summed up as: Don't put all your eggs in one basket. But it is just a tad more complex than that. When it comes to risk, there's no way around unpredictability. "No matter how much skill you have, at the end of the day, these markets are unpredictable," Mr. Quisenberry says. "And that's risk."

The strategy is simple: By not focusing on a region, you avoid regional- or country-based risk. A recent example was the triangle between Russia, Ukraine, and Crimea. There is safety in diversification, he claims, and Caravan has a healthy take on frontier markets, which is perhaps the key to their success: "We focus on regions, countries, and sectors, then on the bottom-up, but we're not purely bottom-up driven."

What's more, to keep risk at bay, they spread things out in every sense—the highest allocation they would have

to any one country in their Emerging Frontiers Fund is 10% and the highest weight held in any individual holding is typically not more than 5%—quite low for today’s standards. So where’s the alpha? Simple: They push those allocations heavier for those bets for which they have higher conviction based upon compelling valuations, catalysts for earnings growth or improvement in the long-run investment environment of that company or country. In addition, Caravan seeks to take profits when investments have hit established targets or reinvests in bets if markets have taken them down without a change in our longer-term investment thesis.

To ensure their investments go well, they do not hesitate to roll up their sleeves and get their hands dirty. Their second and latest product helps focuses on investing in companies in frontier and small emerging markets where they see an opportunity to guide management on corporate governance, reporting, and investor relations strategy which they describe as “friendly activism.” “We actively help unlock their potential by encouraging management to increase disclosure and improve alignment with minority shareholders,” he adds.

Emerging vs. Frontier

There is certainly a cyclical component among emerging and frontier markets. While some countries may rise to the top of relative performance rankings, others drop the bottom—on and on again. Take a fall in commodity prices for example: commodity exporters would certainly be affected, but countries that import commodities, such as Bangladesh and Sri Lanka, thrive while their neighbors despair. “It’s a question of different opportunity sets,” Quisenberry asserts.

But the attractive factor of frontier markets, in particular, is that they are less affected by outside concerns. It’s quite the opposite, Quisenberry confirms. “The reality is that frontier markets are driven more by local, country-specific concerns, on average,” he explains, than even emerging markets where global factors are bigger drivers.

The emerging market slowdown has benefited some frontier markets. Lower-labor costs and cheaper resources in some frontier markets have attracted business away from emerging markets undergoing cyclical downturns. Nevertheless, he warns that the worst side of the cycle tends to deter FDI in general, “so all markets will be negatively impacted by that,” he offers.

Yet another benefit: the inefficiency of the frontier markets. For example, local investors can be focused exclusively on things such as dividend yields relative to local bond yields, and sometimes they even view the stock price as a meaningful measure of value. These kinds of local market behavioral inefficiencies can leave a plethora of opportunities ripe for the picking.

This may be a good time to look into frontier market opportunities. Investors may fare well to do so alongside the consolidated experience of companies such as Caravan Capital Management.

*Standard deviation for the Emerging Frontiers Fund since inception through September 30, 2015 was 12.2% vs. 13% for the S&P 500 Index.

** Emerging Frontiers Fund annualized Net of fees returns since inception (06/22/2009) through 09/30/2015 were 8.8% vs. 1.2% for the Frontier Benchmark. Fund returns reflect the aggregate return experienced by investors in the fund and may not represent the experience of any individual investor in the fund due to differences in fees, timing, and other factors. Fees were not charged to any investor prior to June 1, 2010. The Frontier Benchmark is comprised of the MSCI Frontier Market Index up to 03/31/2011, and the Russell Frontier Index thereafter.



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Robert Cowan, Utah Retirement Systems

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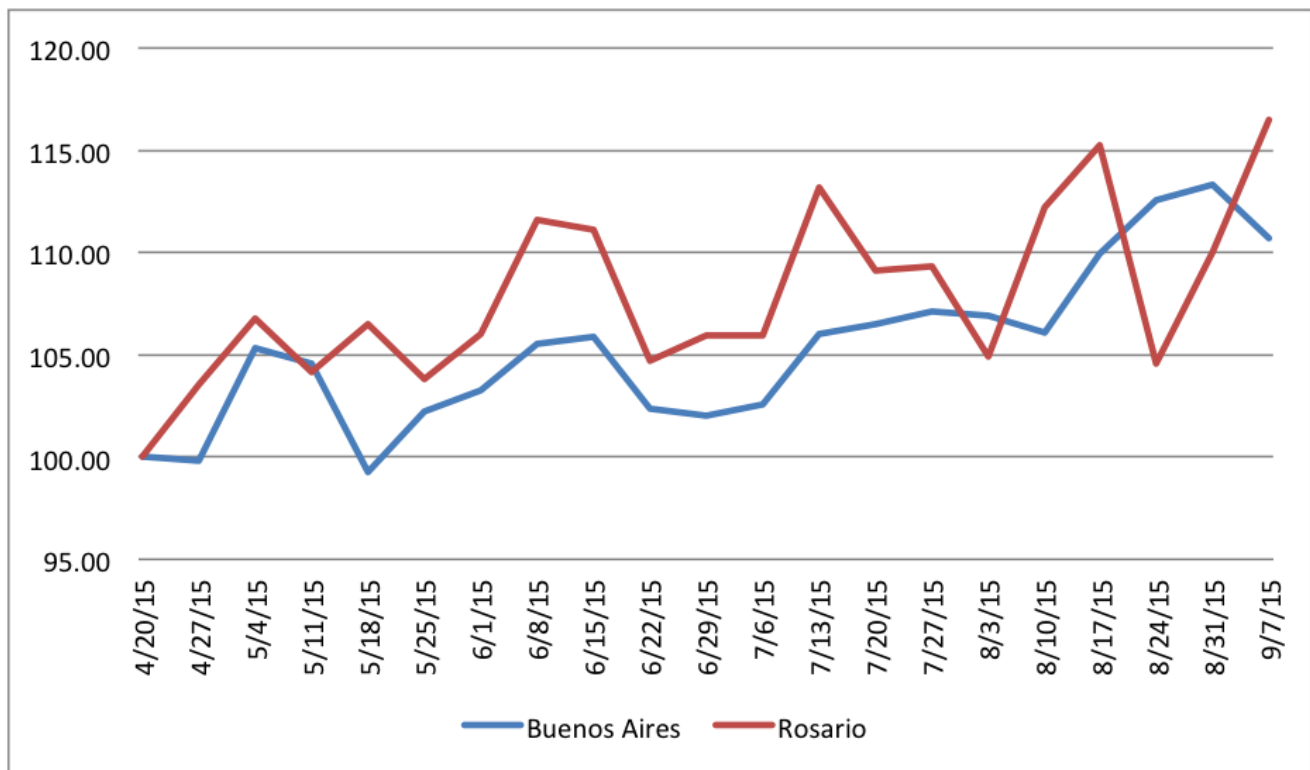
A View of Consumer Prices from Consumers' Perspectives

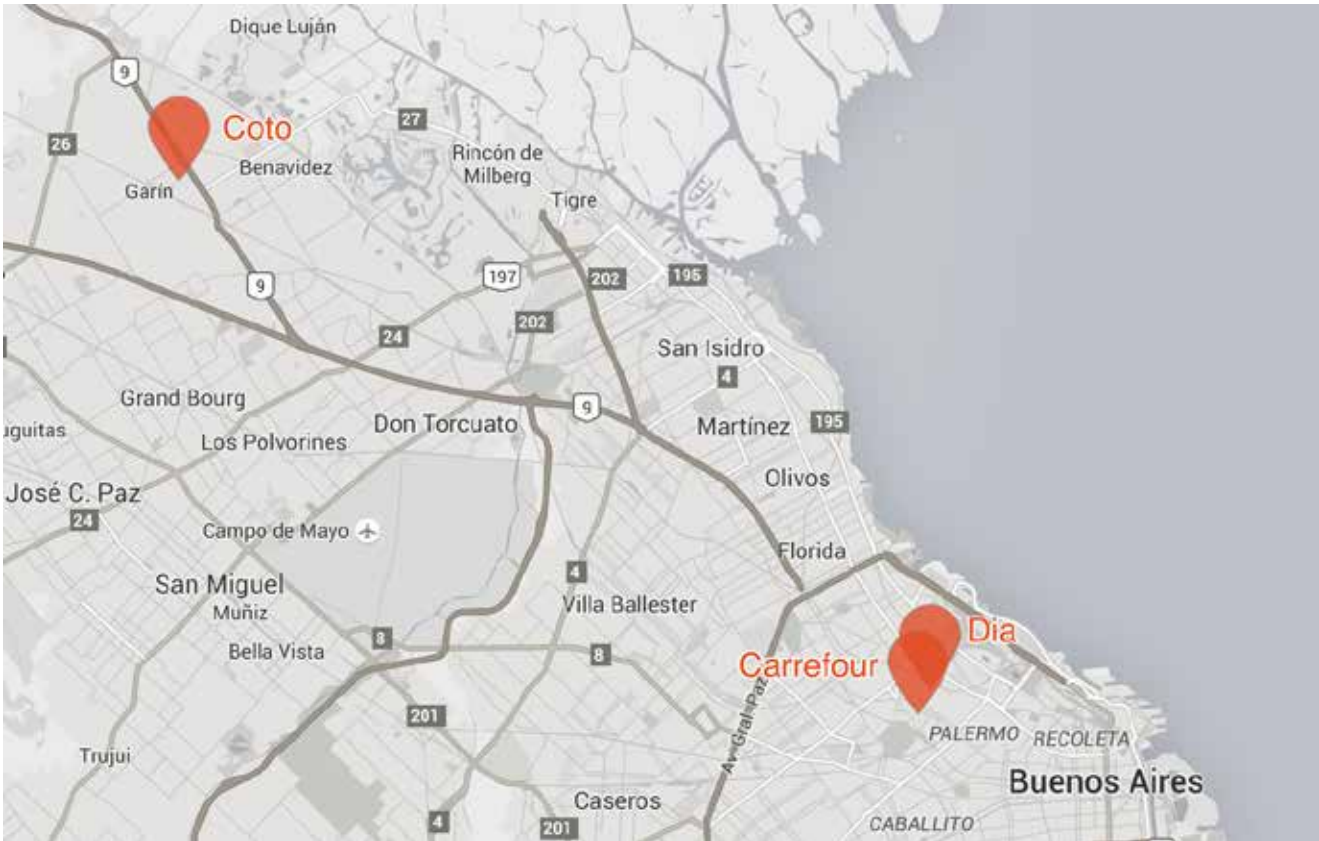
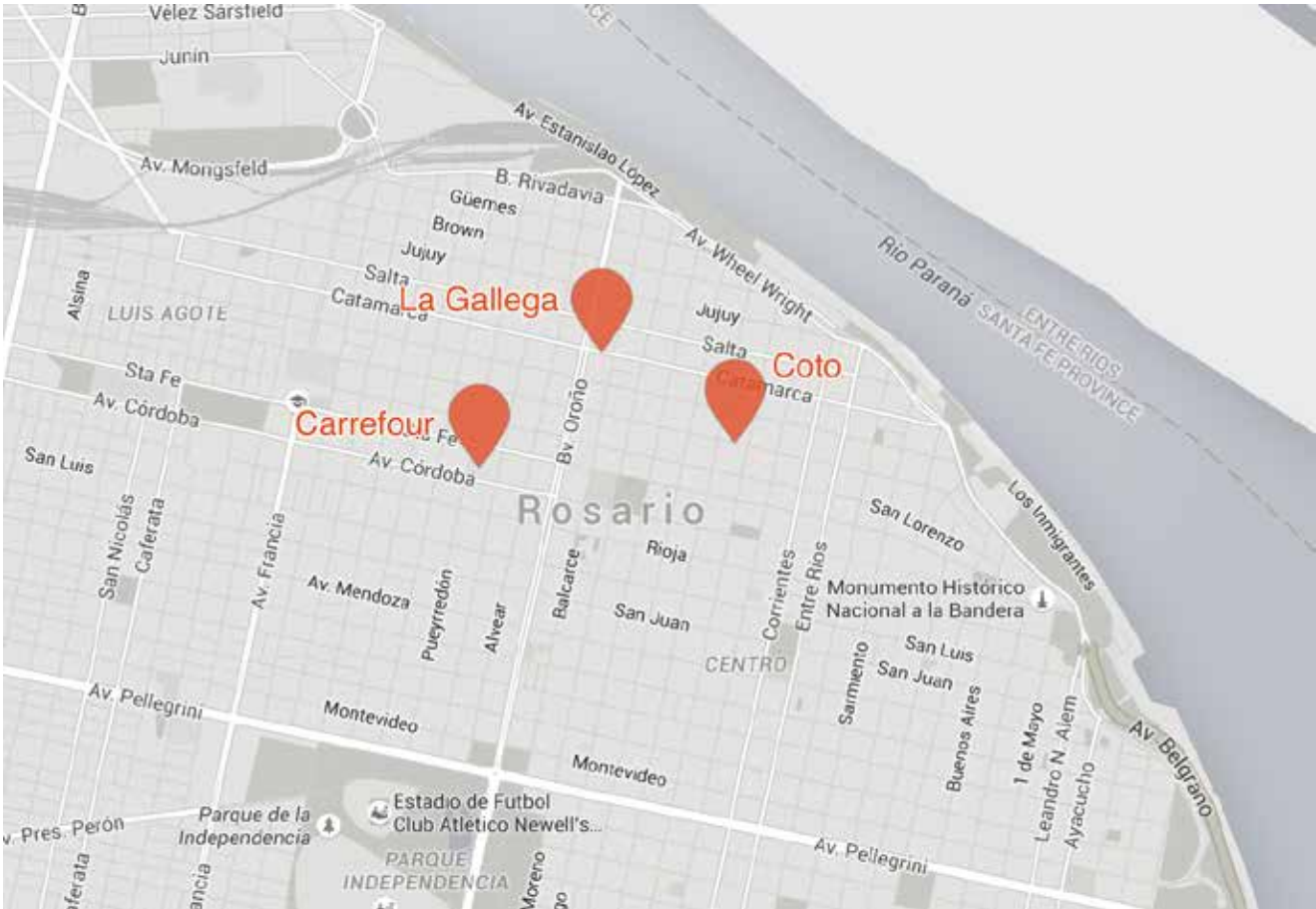
 Anthony Vinci

For countries undergoing economic and political upheaval, sourcing accurate, real-time consumer prices is tough.

Data from “official” reports or on-line posted documents are often suspect, and data directly from consumers themselves - authenticated

with visual evidence and first-hand accounts - is very expensive, if not impossible to come by.





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These capabilities are useful for anyone doing business or investing in emerging markets. Access to validated data directly from locals that is more timely than official forecasts will keep investors ahead of the curve.



About the Author

Anthony Vinci is the Founder and CEO of Findyr, the global marketplace for local information. Previously, Anthony co-founded Frontier Data Corp, a company focused on providing micro-economic data from frontier and emerging markets. He has spent over 15 years working in the technology and market research industries. Anthony obtained his PhD in International Relations from The London School of Economics, where he performed fieldwork throughout Africa and the Middle East.

www.findyr.com

The deterioration of Brazilians' purchasing power, combined with increased interest rates and the domestic credit crunch, has turned the Brazilian shopping mall industry into a hot spot for M&A activity. These factors are likely to lead the sector into a consolidation wave in months to come, according to sources interviewed by Mergermarket.

Brazil's economic slowdown likely to lead to consolidation of domestic shopping malls

From 2004 to 2013, total revenues generated by Brazilian shopping malls increased by 178% and amounted to BR 60bn (USD 18.2m), according to a study by GS&BW, a Sao Paulo-based consultancy firm specialized in shopping malls. In the same period,

the number of malls in operation jumped 40%, the survey revealed.

That period of growth was thanks to more positive drivers like growing income and low unemployment rates, which have since eroded, noted Marcell Portugal, partner at the

 **Thiago Barrozo**
in Sao Paulo

Sao Paulo-based M&A and corporate finance advisory firm JK Capital.

Apart from the economic challenges already highlighted, some players in the sector have also been struggling to cope with increased competition, as well as the over-

supply of shopping malls in cities where the consumption capacity has not grown at the same pace, Portugal said.

One of the players that has been seeking to take advantage of the unfavorable scenario to make buys and increase its footprint in Bra-

zil is Israel's Gazit-Globe (NYSE: GZT), Portugal pointed out. In the past 12 months, its local subsidiary Gazit Brasil has purchased three assets, including Mais Shopping, Shopping Light, and Top Center, which are all based in the city of Sao Paulo, the M&A advisor noted.



On the other hand, some players that have been selling out assets, Portugal noted, include the Brazilian companies BR Malls Participacoes (BZ: BRML3) and General Shopping Brasil (BZ: GSHP3), as well as Brookfield Brasil Shopping Centers, the mall management company controlled by the Canada, Toronto-based Brookfield Asset Management (NYSE: BAM).

BR Malls sold last November the Rio de Janeiro-based Fashion Mall to Saphyr for BRL 175m (USD 69.3m at the time). General Shopping sold two assets to Gazit in the past 12 months: Top Center for BRL 145m (USD 63.7m at the time) and Shopping Light for BRL 141.15m (USD 45.6m). Four months ago, the Brazilian antitrust agency CADE approved the sale of a majority stake in Mogi Shopping Center by Brookfield Brasil Shopping Centers to the real estate developer Helbor Empreendimentos (BZ: HBOR3) for an undisclosed sum.

According to Maximo Pinheiro Lima, founding partner of Hemisferio Sul Investimentos (HIS), the Sao Paulo-based real estate private equity firm owning a 49% stake in the shopping mall company Saphyr, the timing for buys is good because several players are either looking to reduce their leverage ratio through the sale of assets or are in need of a capital injection.

Lima highlighted that, in order to ensure good performance, a shop-

ping mall must have an occupancy rate of at least 90%, which should represent a good mix of anchor stores and smaller, satellite stores. He explained that while anchor stores are key to attract customers, blockbuster tenants have great bargaining power and provide malls

*...in order to ensure
good performance,
a shopping mall
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occupancy rate
of at least 90%,
which should
represent a good
mix of anchor
stores and smaller,
satellite stores.*

with tight profit margins. Satellite stores, on the other hand, are the ones who give profit to a shopping mall, he noted.

“There are a few players out there claiming that their occupancy rate

is at around 75%, 80% as if it was a good mark,” Lima said. “That should rather be a matter of concern.”

Lima, who is also a board member of Saphyr, noted that the shopping mall could make new opportunistic buys as the slowdown of the Brazilian economy has pushed asset prices down. Last November, Saphyr bought the Rio de Janeiro-based Fashion Mall from BR Malls Participacoes for BRL 175m (USD 58.4m at the time). In an interview to this news service earlier this year, Saphyr’s CEO Paulo Stewart noted that Fashion Mall was acquired for a better price than it would have been around two years ago.

A key point taken into account by Saphyr when analyzing potential acquisitions is the location of the asset, Stewart revealed at time. Potential targets must be based in urban areas with at least 400,000 inhabitants to show up on the company’s radar, he said.

Another shopping company willing to take advantage of the drop in asset prices is Tenco Shopping Centers, which is roughly 80% owned by the Sao Paulo-based PE firm Patria Investimentos. Tenco’s president and founder Eduardo Gribel told Mergermarket that he expects to spend BRL 300m to make two acquisitions by the end of the year.

The company, however, is struggling to complete its first planned acquisition in 2015 due to a dead-

lock over the value of the target, a mall based in Northern Brazil, he noted. The owner of the targeted shopping mall has been facing difficulties to handle a drop of roughly 20% in the value of the asset, Gribel pointed out.

Unlike Saphyr, Tenco seeks acquisition opportunities in smaller-size cities with around 200,000 inhabitants or fewer, an aggressive competition space. Its main geographical areas of interest include both Northern and Northeastern Brazil, Gribel said.



MERGERMARKET

About the Author

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Valuation Metrics

According to Marcell Portugal of JK Capital, there are several valuation metrics used when investors seek to measure the value of a shopping mall. Besides the Discounted Cash Flow (DCF) and the EV/EBITDA methodologies, another metric widely used in the sector is the Capitalization Rate, which is the ratio between the Net Operating Income (NOI) produced by an asset and the investor's opportunity cost, Portugal noted.

BR Malls Participacoes, Brookfield Brasil Shopping Centers, Gazit Brasil, and General Shopping Brasil did not return requests for comment.

Backward Colombian Fiscal Policy

 **Felix Villalba**

Colombia's short-term and medium-term (next 12 months to two years) macroeconomic growth prospects are dim. There are too many factors at play threatening the macro economy. Fiscal policy decisions are not tied to giving a boost to the economy. The executive branch has mismanaged the boom years by not saving enough for a rainy day. As a result, there will be increased taxes in a time when there should be tax relief.

The first steps at trying to keep an economy away from recession is to add government spending at difficult times while at the same time lowering taxes to help private industry. This tax relief to private industry usually softens the blow to unem-

ployment rates. Currently, Colombia's unemployment rate is on an improving trend, and as a result politicians believe that all is okay. However, the government does not seem to realize that soon after private industry starts feeling the effects of slower sales and increased taxes, the reaction will be layoffs. Colombia's economy is cooking a stew of increased unemployment with increased inflation, which will result in lower-than-expected GDP growth. Unfortunately, this is not yet visible, or if it is, many are in denial.

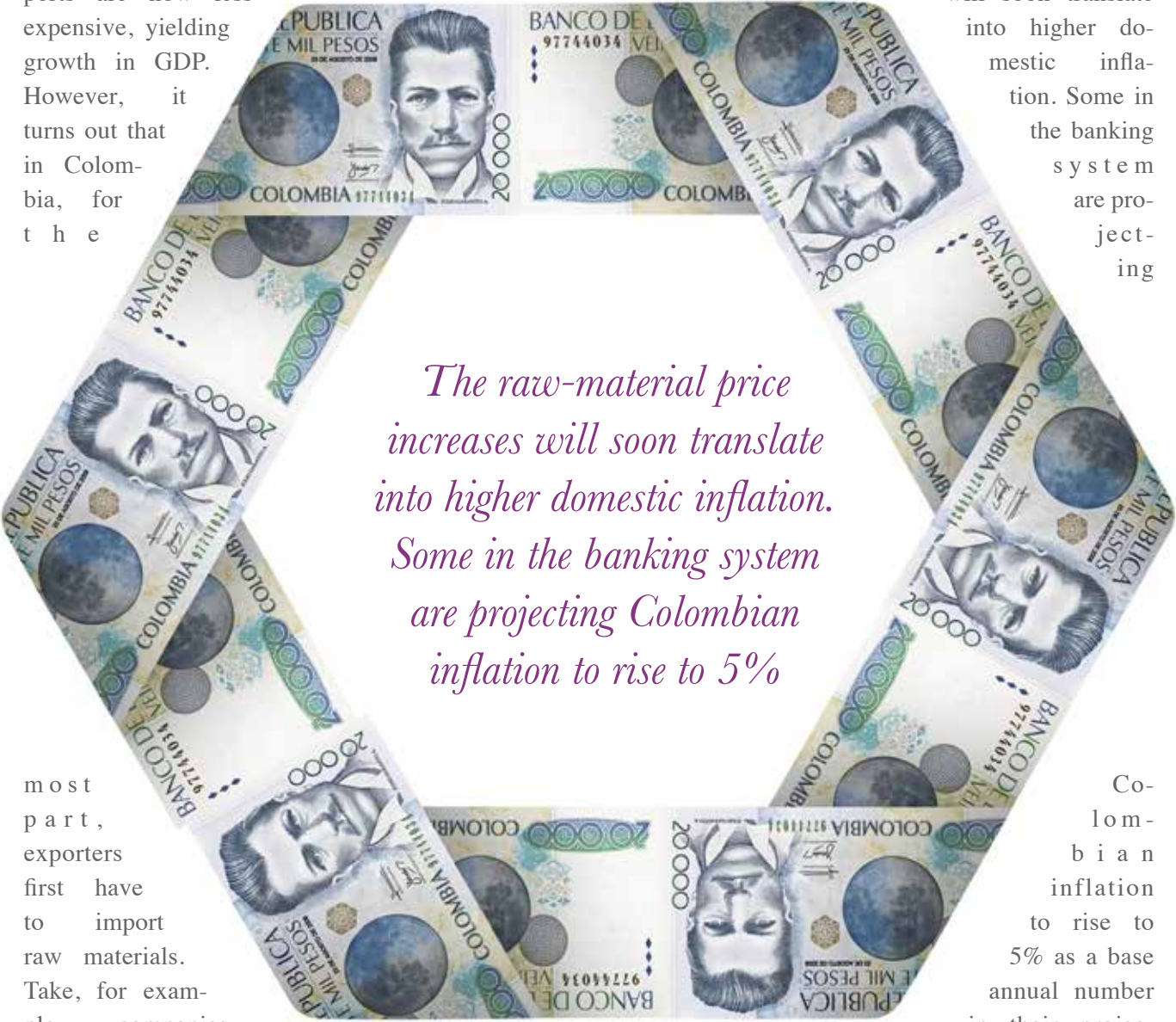
With respect to inflation, banks are already expecting the higher inflation due to the higher-priced dollar

leading to price adjustments even in basic goods. This more expensive dollar-peso exchange rate becomes a higher price for imports. The current naive government theory expects that exports are now less expensive, yielding growth in GDP. However, it turns out that in Colombia, for the

is pharmaceuticals. Both have to import raw materials that are now more expensive in order to export the finished product. The result is that they do have to increase their

tilizers will now increase the price of basic goods due to the higher-priced dollar. We are talking about increases north of 30% and 60% in some cases. The raw-ma-

terial price increases will soon translate into higher domestic inflation. Some in the banking system are projecting



The raw-material price increases will soon translate into higher domestic inflation. Some in the banking system are projecting Colombian inflation to rise to 5%

most part, exporters first have to import raw materials. Take, for example, companies such as Energia Solar and Procaps in the Caribbean coast of Colombia. Both are important employers and exporters in two different industries. One is window systems, and the other

export prices, which leads to lower-than-expected export demand. Alternatively, take agriculture, where imported machinery and fer-

of the above explanation and the large link in Colombia between imports, exports, and domestic production.

Colombian inflation to rise to 5% as a base annual number in their projections. That number seems low in light

Given that banks in Colombia are expecting higher inflation, they are already gearing up to raise rates. In fact, banks are now meeting with their clients and warning them of the upcoming raise in rates. The United States Federal Reserve

threatening to raise rates adds to the expectations, and so the Colombian businessperson will easily accept the new paradigm. The stew now has more components: higher dollar, higher inflation, slower economy, higher unemployment,

and higher interest rates. It's not the type of stew many would like to try, but it's certainly what is currently cooking on the Colombian economic stove—all thanks to ill-timed fiscal policy.

About the Author



Felix has over 15 years of experience on both the operating side and the investment side of business transactions. After his MBA, Felix worked for captive financial services companies at Dell and Whirlpool, and later spent over five years as CFO with two venture backed technology companies. Dell's successful effort to start Dell Financial Services marked Felix's official involvement in the venture industry in 1997. It was after that when he joined an Austin Ventures backed company that later led to his joining Pacesetter Capital Group. At Pacesetter, Private Equity firm, he was Vice President and served as Portfolio Manager for several inherited deals, some of which required intervention strategies. In 2009, Felix formed his own Private Equity management firm, Accordo LLC and raised Accordo Fund 1 and 2 placing investments in residential and hospitality developments in Colombia.

Felix is a graduate of the University of Notre Dame with three degrees, a Masters in Business Administration, a B.S. in Civil Engineering, and a B.A. in Economics. He successfully completed the Harvard Business School's Executive Management Development Program.

South African Reserve Bank Raises Rates in Difficult Times

 **Petar Chavdarov in Bulgaria**
CEIC Analyst

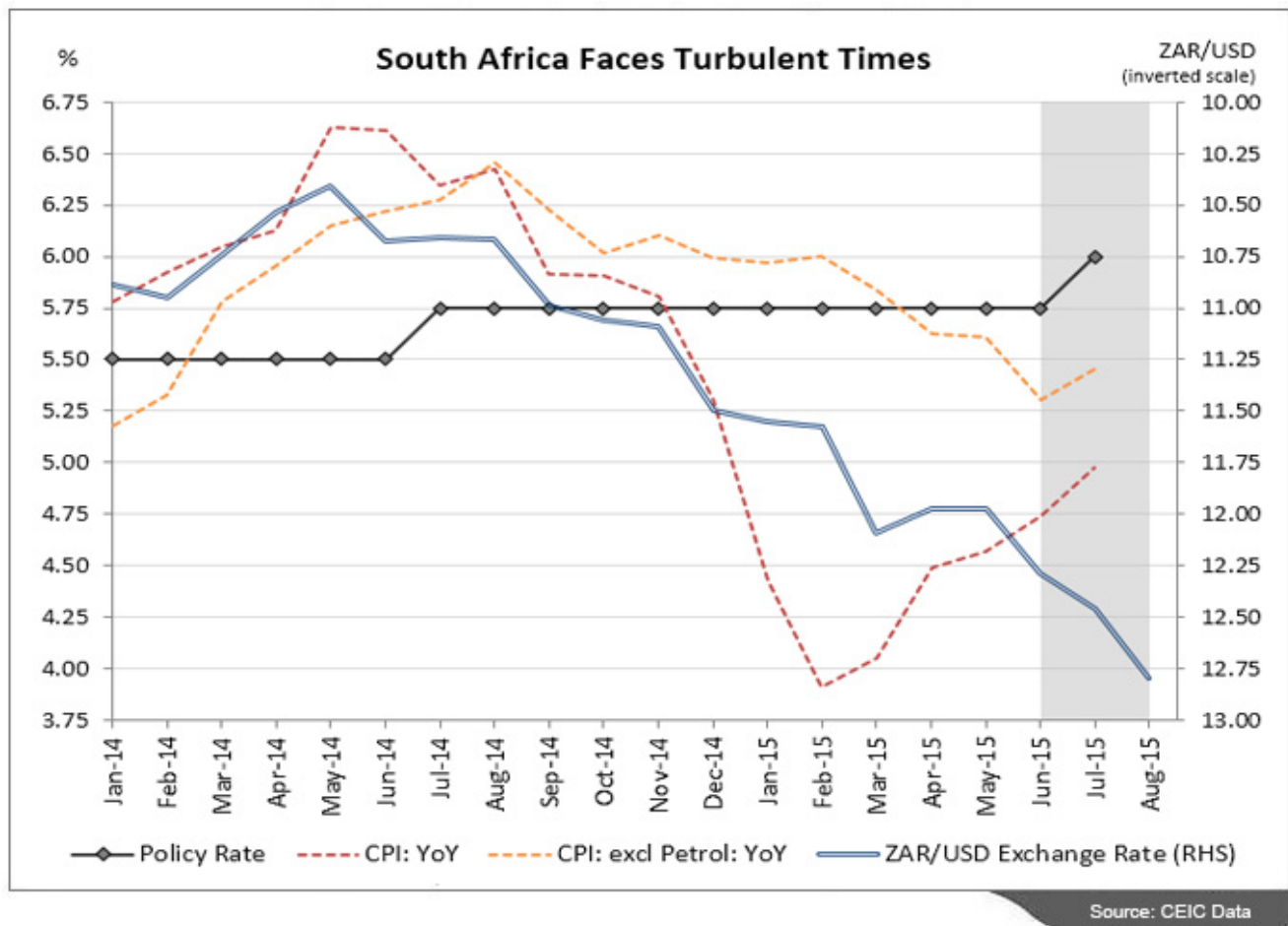
On July 23, the South African Reserve Bank (SARB, the central bank) increased its main policy interest rate by 25bps, from 5.75% to 6.00%. The move was largely anticipated by analysts due to the increasing inflation rate and global events posing uncertainty to the South African economy.

The Consumer Price Index (CPI) for all urban areas reached 4.97% in July 2015, increasing from 3.91% in February 2015. The surge in prices started in March 2015 after the sharp decline that had occurred

in the previous eight months. The main drivers of the increase were the transport industry, alcoholic beverages and tobacco, and health products and services. The SARB traditionally tries to keep year-on-year (YoY) inflation between 3% and 6%, but the recent revisions to its forecasts now suggest that inflation at the end of this year will reach 5% and will climb to 6.1% in the first quarter of 2016. In an attempt to curb these anticipated inflationary pressures, the authorities decided to tighten the monetary stance sooner than later, leaving room for small increases in the future rather

than a larger rate hike, as seen in Turkey at the beginning of 2014.

One of the reasons for the policy rate increase is the depreciating South African rand. The currency dropped by 2.6% in August 2015 compared to the previous month and by 20% on an annual basis. The depreciation is being driven by weak commodity prices and by the widely expected increase in the US Federal Reserve's policy interest rates, as well as the Greek debt crisis and the volatility in the Chinese equity markets. As one of the most liquid and traded emerging



markets, South Africa has proven to be highly vulnerable to these global risk factors.

Even though the move by the SARB is justified by the worsened fundamentals and the increasing external risks facing the economy,

in times of a deteriorating economic outlook, a rate hike might not be the best solution. Real GDP increased by 1.5% YoY in the second quarter of 2015, constrained largely by the disruptions to electricity supply and weakened consumer spending and business activity, among other is-

sues. Slow economic growth, a very high unemployment rate of 25% in Q2 2015, and falling consumer and business confidence are issues that need to be addressed and are likely to be worsened rather than resolved by monetary tightening.

Colombia's Current Account Deficit Continues to Widen

 **Emmanuel Penetrante in Philippines**
CEIC Analyst

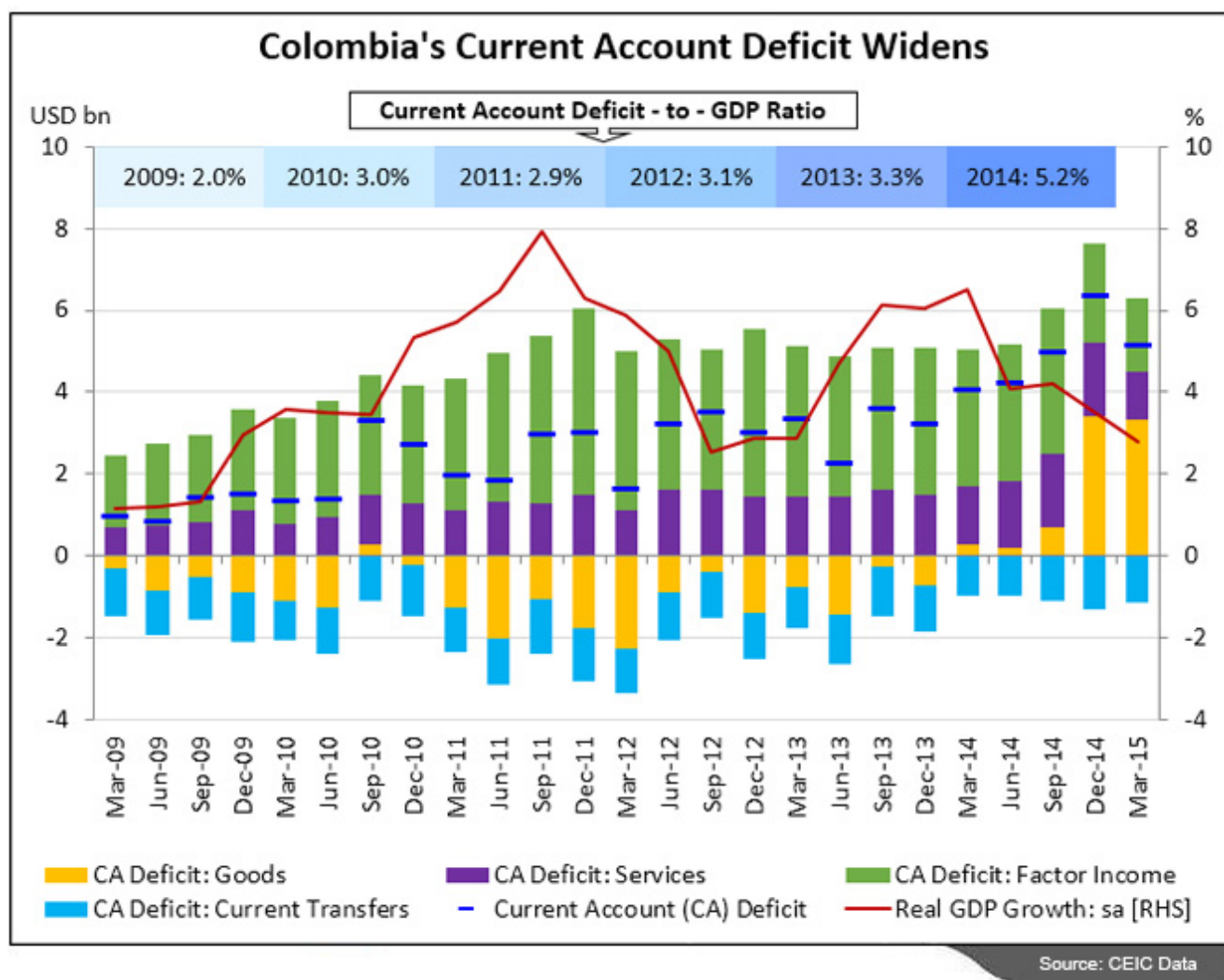
Colombia's current account deficit-to-GDP ratio rose sharply to 5.2% in 2014, its highest since 2000, from 3.3% in the previous year. The country's large current account gap was mainly propelled by its highest quarterly deficit to date of 6.3USD billion during the last quarter of 2014 (Q4 2014). That was almost double the 3.2USD billion recorded in the same quarter of the previous year. The larger current account deficit can be attributed to the weaker

flow of merchandise (goods) export earnings due to the drop in oil prices and mining exports. The merchandise trade balance was in deficit in all quarters since Q1 2014 and rose steeply to 3.4USD billion

in Q4 2014, in sharp contrast to the surplus of 723.4USD million in Q4 2013.

Nevertheless, real GDP has decelerated to 2.8% year-on-year (YoY)

in Q1 2015 from 6.5% YoY in Q1 2014. The weaker economic growth may help dampen the demand for imported goods, thus correcting the adverse current account trend.



Colombia > Balance of Payments > Table: Balance of Payments: BPM6
 Global Economic Monitor > National Accounts > Table: Real GDP: Y-o-Y Growth: North and South America
 Global Economic Monitor > Balance of Payments > Table: Current Account Balance: % of Nominal GDP: North and South America
 Series ID: 276042002; 215337602; 356280657; 356280717; 356280747; 356280777; 356280807

Rapid Rise in E-Commerce Sales in South Korea

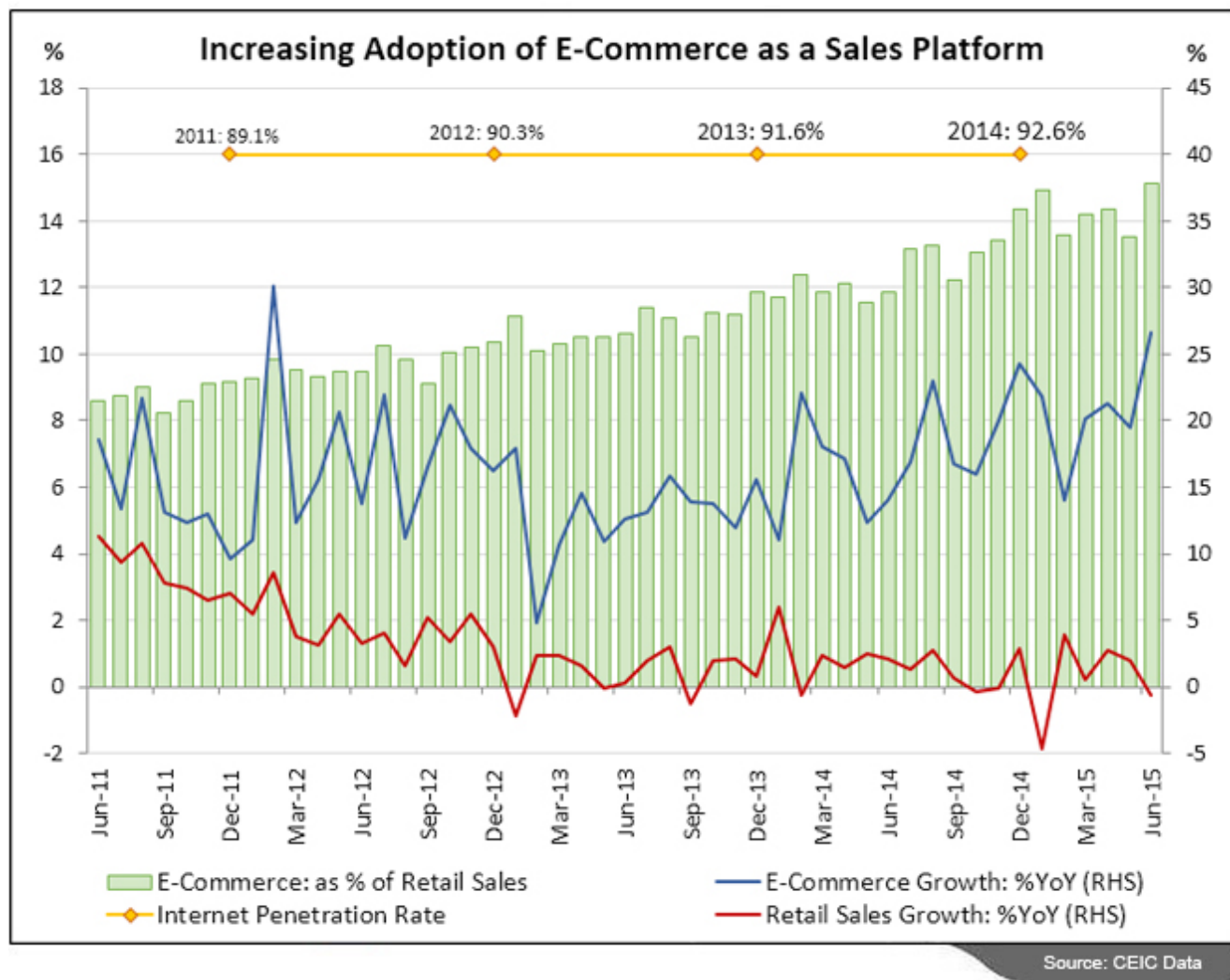
 **Eunjee Kim in Hong Kong**
CEIC Analyst

E-commerce sales in South Korea have been enjoying double-digit growth since the records began in 2002, most recently growing by 17.7% year on year (YoY) to KRW 45.3 trillion in 2014, which is more than double the KRW 20.6 trillion sales recorded in 2009. Despite the per-

petual low sentiment in the economy, e-commerce has continued to flourish even as overall retail sales growth has waned. Retail sales grew by only 1.7% in 2014, down from 9.4% growth in 2011.

The rapid rise of e-commerce can be attributed to the widespread

availability and commonality of Internet services that have provided the platform for mushrooming sales online. The number of Internet subscribers in South Korea rose to 19.2 million in 2014 from 16.3 million in 2009 out of a total population of just more than 50 million. Assuming one Internet subscriber



Source: CEIC Global Database
 Korea > Domestic Trade and Household Survey > Table: Retail Sales: By Goods
 Korea > Domestic Trade and Household Survey > Table: Electronic Commerce
 Survey: Cyber Shopping Mall
 Korea > Domestic Trade and Household Survey > Table: Number of Households (Annual)
 Korea > Transport and Telecommunications > Table: Communication Statistics
 Series ID: 351850002; 29250501; 81017601; 30569801

for each household, approximately 92.6% of total households had a subscription to Internet services in 2014. The convenience afforded by e-commerce was apparent when the

Middle East Respiratory Syndrome hit the country during June 2015. E-commerce sales grew by 26.6% YoY as people stayed at home, while retail sales declined by 0.6%

YoY in June 2015. As such, e-commerce sales propelled to 15.1% of total retail sales during that month, the highest on record.

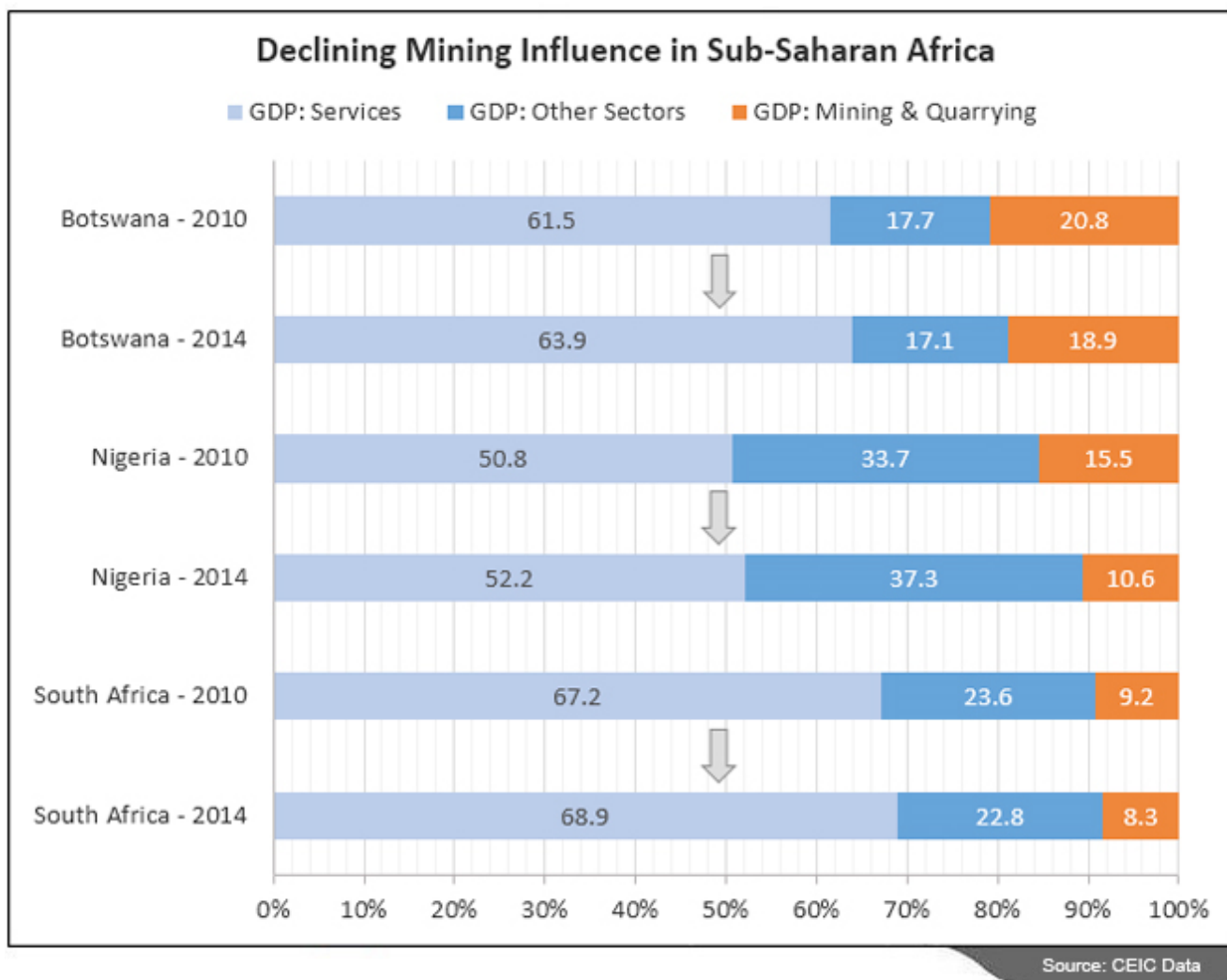
Sub-Saharan Africa Diversifying Away From Commodities

 **Veleslav Maslarov**
in Bulgaria
CEIC Analyst

Continuously falling commodity prices during the past few years have been pivotal in urging African governments to seek growth through diversification away from the mining and quarrying industry and to put efforts into other areas, such as the manufacturing and services sectors.

Throughout 2014, Sub-Saharan countries, such as Botswana, Kenya, Nigeria, and South Africa continued to register considerable year-on-year (YoY) combined value-added growth in these sectors: 4.6%, 6.1%, 8.3%, and 1.9%, respectively. The services sector has expanded most notably in the

region and has been one of the main contributors to the Sub-Saharan GDP growth. This favorable trend of economic diversification is largely due to the increase in Foreign Direct Investment (FDI) into the region in recent years. In 2013, South Africa enjoyed an FDI inflow of 8.2USD billion, almost double



Source: CEIC Global Database

Botswana > National Accounts > Table: GDP: by Industry: 2006 Price: Annual

Nigeria > National Accounts > Table: GDP: by Industry: 2010 Price: Annual

South Africa > National Accounts > Table: SNA 2008: GDP: by Industry: 2010 Price:

Annual

Series ID: 281191503; 281192603; 359382637; 359382237; 354326957; 354327017

the amount received in 2012, and a further 5.7USD billion in 2014. In 2011, Nigeria reached the high point of its FDI receipts—8.9USD billion. Kenya's FDI receipts have doubled every year since 2012, to

reach a little more than 1USD billion in 2014.

Overall, despite the impact of the falls in commodity prices, real GDP growth for the Sub-Saharan

region in 2014 was still a steady 5%, and projections are reasonably favorable for 2015 (4.4%) and 2016 (5.1%). Total investment as a share of GDP is also expected to rise in 2015, reaching 20.4%.

Turkish Lira Slumps to Record Lows Amid Political Uncertainties

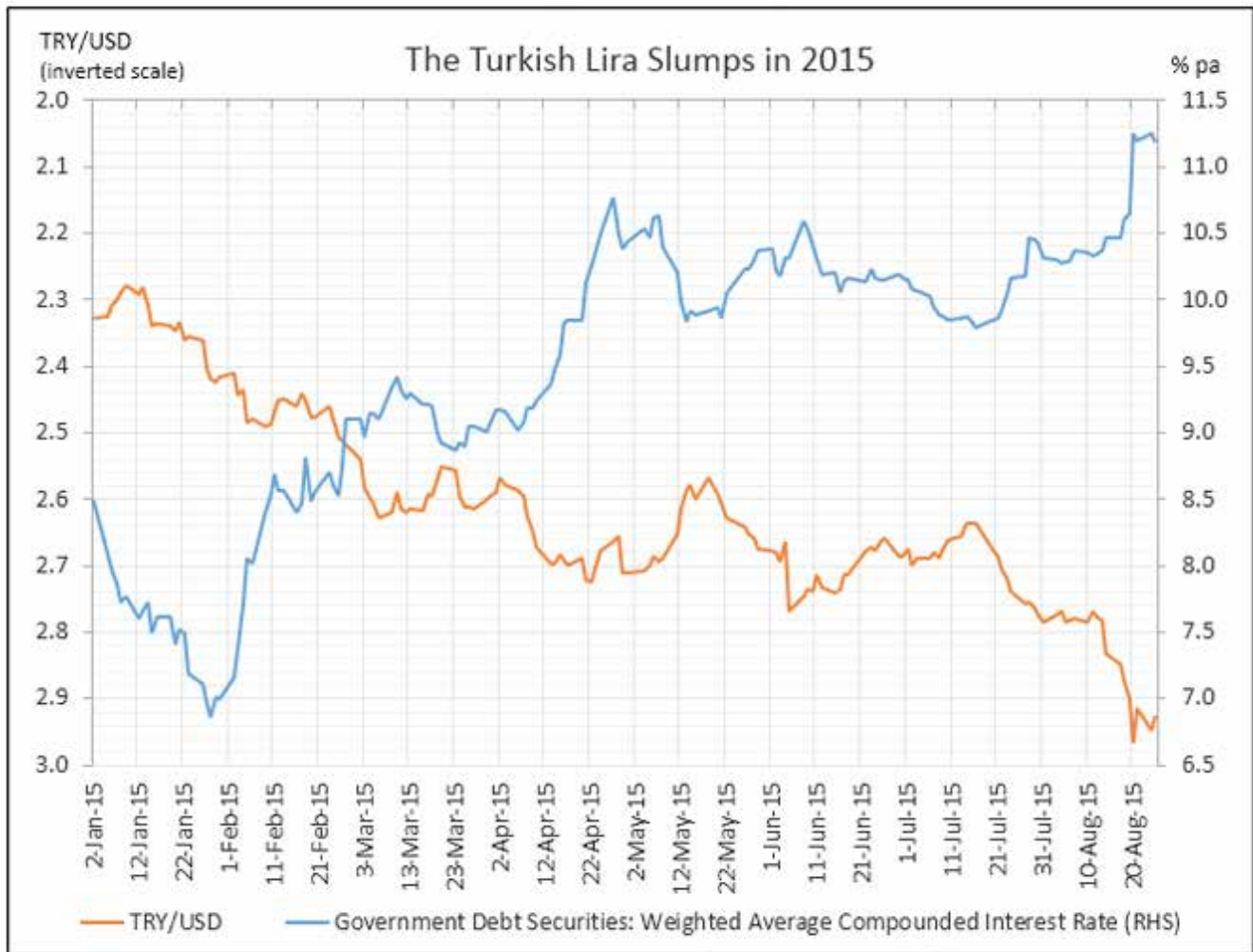
 **Kamen Parushev in Bulgaria**
CEIC Analyst

The Turkish lira hit a record low of TRY 2.87 per US dollar in August amid rapidly rising political chaos in the country. By August 19, the lira had fallen by 3.6% against the USD during the

month, by 23.9% since the beginning of the year, and by 32.5% in the past 12 months. Meanwhile, the benchmark weighted average compounded interest rate on the government debt securities market surged

to 10.6%, increasing by more than two percentage points since the beginning of the year.

Like most emerging market currencies, the lira has been dragged



Source: CEIC Data

Source: CEIC Daily Database
 Foreign Exchange Rates > Turkey > Table: Foreign Exchange Spot Rate: Central Bank of the Republic of Turkey
 Government & Other Securities > Turkey > Table: Borsa Istanbul (BIST): Government Debt Securities Market
 Series ID: 51270401; 246690503

down by the US dollar run ahead of the anticipated interest rate hike from the US Federal Reserve. The Turkish currency has also been hit by the failure to establish a coal-

ition government, which could lead to early elections and therefore challenge the nation's economic growth. So far, the central bank has left its benchmark interest rate un-

changed at 7.5%, as the decline of food and energy prices has eased inflationary pressures.



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About the Author

Founded in 1992 by a team of expert economists and analysts, CEIC Data www.ceicdata.com provides the most expansive and accurate data insights into both emerging and developed economies around the world. A product of Euromoney Institutional Investor, we are now the service of choice for economic and investment research by economists, analysts, investors, corporations, and universities around the world.

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