Interviewee: **Michael Shaoul**
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Company: **Marketfield Asset Management, LLC**

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Interviewer: **Zeb Eckert**

Zeb Eckert
My next guest is Michael Shaoul. He's Chairman of Marketfield Asset Management, and he joins us live today from New York. Michael, welcome to the program, and Happy New Year to you.

Michael Shaoul
Thank you.

Zeb Eckert
2011, of course, a difficult year for emerging markets, for these BRIC funds-- $15 billion in outflows. I'm curious what the trajectory is for this year.

Michael Shaoul
We've taken the view that most emerging markets saw their cycles peak in late 2010. And it is our belief the entire merging market complex is roughly one year into a down cycleð a bear market, if you would likeð which will probably last somewhere between 24 to 30 months. So we took a negative view in 2011, and we don't see any reason to change that negative view, simply because 2011 has become 2012.

Zeb Eckert
And as you look at what's driving this, these fund outflows, what are the fundamentals here? What's happening to cause investors to take their money out?

Michael Shaoul
In a sense it's surprising that the outflows have taken as long as they have. A number of emerging markets did extremely poorly in the first three quarters of 2011 without really sparking outflows. Outflows only really got going in the last two to three months. I simply think that the surprisingly poor performance of core markets and the underlying currencies really led investors to finally give up on what were very popular trades.

Zeb Eckert
Let's talk about the liquidity squeeze stemming from the European debt crisis. What impact has that had? Clearly, a large impact, I'm sure, on investor action here.

Michael Shaoul
I take the view it actually has had less impact than you would have thought. If you look at emerging markets and the sort of data, which has really disappointed, it's tended to be domestic demand, which has really come up with some shockingly poor numbers, whether you're looking at Brazilian car sales or, until recently, Indian car sales, or industrial production in most of these countries. It's not been a collapse of exports to Europeð or if you went back six months ago, people were concerned about exports to the United Statesð there's a problem domestically in emerging markets. And the liquidity squeeze, which you talked about, is much more to do with local monetary conditions, the inappropriately tight stance, which most emerging marketsôcentral banks have taken, rather than what's happening in the Italian sovereign credit market.

Zeb Eckert
Let's talk about India and get through some of these emerging markets. We'll begin with India. Obviously, we've been monitoring the rupee very closely over the past six months, and it's moved. What's your sense of that economy and how India will fare in 2012?

Michael Shaoul
Fairly badly, India has a massive trade imbalance, that really explains why the rupee has been as weak as it has. In 2010, the currency was buoyed by massive inflows into the equity market; the first half of this year, good inflows into credit markets. Once those flows came to an end, you really saw an underlying weakness come up in the currency. We would expect the SENSEX to be down significantly in 2012.

Zeb Eckert
Let's turn to China now. It's still waging the inflation fight, watching it very closely; [China is] in leadership transition this year; rising cost pressures. What's your sense of the Chinese markets?

Michael Shaoul
The Chinese market has been a pretty poor place for quite a long time now. That market peaked in 2009. I would say you are somewhat further through the bear market in equities in China, but much, much earlier in the bear market in the local real estate sector.

Zeb Eckert
How challenging is the real estate sector here? We hear a lot of talk about the shadow banking system, lending, municipal debt in China, a possible crash of the property market. Are those fears overblown?

Michael Shaoul
No, I doubt it. The Chinese property market looks to be a classic speculative market. It would seem that a very large amount of the excess credit created in 2009 and 2010 entered somehow into the Chinese property market. Once you have a down cycle in a speculative market fueled by credit, it tends to be a fairly ugly and long process of correcting that. I doubt the people's fears about China are exaggerated.

Zeb Eckert
A final question for you, Michael. HSBC's private bank is forecasting BRIC indices to fall another 20% this year. What is your view on the depths it will reach?

Michael Shaoul
I don't think that's a crazy number. I wouldn't really disagree with that. We may see some disparity of returns over the emerging market complex. They may not all go down in unison in the way that they did for the first 12 months of this bear market. If you have a two or three-year bear market in emerging markets you're looking for losses of somewhere between 50 to 60% from their peak values. So therefore, another 20% from here seems reasonable.

Zeb Eckert
Michael, thanks for your time. Michael Shaoul, Chairman of Marketfield Asset Management.