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## BRICs Losing to Turkey in Stocks as Indonesia Swaps Beat Russia

By Michael Patterson - Aug 9, 2010

Indonesia and Turkey are beating the world's biggest emerging markets by almost any financial measure, even while they may be too small to join the BRICs. Indonesia's equity [index](#) climbed 22 percent this year and Turkey's rose 13 percent, both hitting all-time [highs](#) on July 29. Credit-market [rallies](#) sent yields on the nations' foreign-currency debt to the lowest levels on record, JPMorgan Chase & Co.'s EMBI Global gauges show. The [MSCI BRIC Index](#) of shares in Brazil, Russia, India and China is still 41 percent below its peak after losing 0.6 percent in 2010.

Less than two years after the global financial crisis prompted concern Indonesia and Turkey may default, investors are betting lower debt, growing populations and rising profit will spur economic expansions that led Goldman Sachs Group Inc.'s [Jim O'Neill](#) to promote the BRIC nations in 2001. While China's gross domestic product is about 4.2 times Turkey and Indonesia's combined, they lead the "Next 11" smaller emerging nations with the most potential to affect world growth, O'Neill says.

"There's a paradigm shift in the way both countries have been governed and in terms of economic performance," [Amer Bisat](#), the former senior economist at the International Monetary Fund who helps oversee more than \$1 billion as a money manager at hedge-fund firm Traxis Partners LLC in New York. They're "large, extremely systemically important and stable," he said. "The market is looking at them in a very different light."

### Biggest Bets

The largest emerging-market stock mutual fund [managers](#), which oversee about \$250 billion, boosted their holdings in Indonesia and Turkey to the top "overweight" positions among 21 markets in June on expectations the gains will continue, data compiled by Cambridge, Massachusetts-based EPFR Global and JPMorgan of New York show.

The fund managers are turning optimistic as [profit growth](#) outpaces share prices in both countries, leaving the Jakarta Composite Index and [ISE National 100 Index](#) trading at price-earnings ratios about 20 percent below their pre-crisis peaks, according to data compiled by Bloomberg.

The Jakarta gauge advanced 0.7 percent today, while the ISE National index rose 0.2 percent. The MSCI BRIC index climbed 0.6 percent at 10:55 a.m. in New York.

[Mark Mobius](#), who oversees about \$34 billion as the Singapore-based chairman of Templeton Asset Management Ltd., said last month by e-mail that he plans to increase holdings of stocks in Turkey, where the firm already has more than \$1 billion invested. In June, he wrote on his blog that Templeton has a "positive take on investment opportunities" in Indonesia, while [Antoine van Agtmael](#), chairman and chief investment officer of Emerging Markets Management LLC in Arlington, Virginia, said on Bloomberg Television that the country is the most attractive among Southeast Asian markets.

### Relative Valuations

The bullish bets are a turnaround from 2008, when investors shunned Indonesia and Turkey as the global economy fell into the worst recession since World War II. The Jakarta Composite

and ISE National both sank **more than** 50 percent, the nations' currencies weakened at least 15 percent versus the dollar and credit-default swap prices suggested a 66 percent chance of default for Indonesia and 52 percent odds for Turkey, data compiled by Bloomberg show. Indonesian stocks are becoming more expensive relative to other **developing markets**. The Jakarta gauge trades at 13.6 times analysts' estimates for earnings over the next 12 months, near the highest on record relative to the MSCI Emerging Markets Index, which is valued at 11.3 times, according to data compiled by Bloomberg since 2006. The MSCI BRIC gauge has a ratio of 11.

#### Political Risk

Turkey is unattractive for investors because political risks are rising, according to **Uri Landesman**, president of New York-based Platinum Management LLC.

The government voted in the United Nations Security Council against imposing new nuclear sanctions on Iran in June, and Prime Minister **Recep Tayyip Erdogan** recalled the nation's ambassador to Israel. Turkey invited leaders of Hamas, a group branded as terrorist by the U. S., for talks in Ankara. Turkey and Indonesia have predominantly Islamic populations and elected governments.

For Turkey, "if they continue on their current course, politically and culturally, I see them moving away from capitalism towards being the kind of nation that's very unattractive to invest in," said Landesman.

Turkey is committed to maintaining a secular state and the government's "improvement in relations" with neighbors such as Iran "does not affect our stance with regard to Europe," **Murat Mercan**, chief of the Turkish parliament's foreign relations committee, said in an Aug. 4 interview.

#### 'Good Momentum'

Turkish stock **valuations** factor in the nation's political risks, while Indonesian companies have shown they can surpass analysts' earnings projections, according to **Martial Godet**, who helps oversee more than \$60 billion as the Paris-based head of emerging markets investments at BNP Paribas Investment Partners.

The ISE National index is valued at 9.6 times analysts' profit forecasts for the next 12 months, a 15 percent discount to the **MSCI emerging index**, according to data compiled by Bloomberg.

Companies in Indonesia's Jakarta Composite gauge beat analysts' profit projections during the past five quarters, data compiled by Bloomberg show.

"The momentum is good for both markets," said Godet. "They are not mainstream investments so people will continue to add money. In both cases we have populated countries that are growing very well."

#### Rupiah Rally

Indonesian President **Susilo Bambang Yudhoyono** oversaw economic expansion of at least 4 percent throughout the global recession. That helped the Jakarta Composite gauge jump 177 percent from its 2008 low to 3,082.59 today, about 0.5 percent below the all-time closing high of 3,096.82.

Indonesia's \$540 billion economy may grow 6 percent this year, fueled in part by rising consumer spending among the nation's 240 million people, according to estimates from the Washington-based IMF.

The rupiah has surged about 41 percent from its 2008 low and is trading near the strongest level versus the dollar since June 2007, according to data compiled by Bloomberg. Brazil's real advanced 32 percent during the period and is still about 11 percent weaker than its pre-crisis peak in 2008.

Credit default swaps linked to Indonesia's government debt dropped 1,101 basis points, or 11.01 percentage points, from the 2008 high to 155.47 on Aug. 6, CMA prices show. That compares with a 961 basis point drop to 155.51 for swaps tied to Russia, which is rated BBB at

Standard & Poor's, three steps higher than Indonesia's BB rating. The yield on JPMorgan's [EMBI Global Index](#) of Indonesian debt fell to a record 4.77 percent on Aug. 3 and was at 4.9 percent on Aug. 6.

'Next 11'

Indonesia's gross government debt will amount to 31 percent of GDP this year, compared with an average of 80 percent for the Group of 20 nations and 66 percent for Brazil, according to IMF forecasts.

In Turkey, where the IMF predicts gross government debt will total about 50 percent of GDP this year, the lira has strengthened 21 percent since March 2009, almost double the 12 percent gain in India's rupee. The ISE National gauge of [shares](#) rallied 160 percent during the period to 59,885.66, about 1.4 percent below the record closing high of 60,737.28.

Turkey credit default swaps dropped 689 basis points from their 2008 high to 160, while the yield on the nation's EMBI Global index of bonds, rated BB at S&P, declined to an all-time low of 5.2 percent on Aug. 6. Credit default swaps pay the buyer face value in exchange for the underlying securities or the cash equivalent should a government or company fail to adhere to its debt agreements.

Turkey's \$617 billion economy, home to about 80 million people, may expand 6.25 percent this year, IMF estimates show.

BRIC Footsteps

Turkey and Indonesia "are definitely the leaders of the Next 11," which also includes South Korea, Mexico, Iran, Nigeria, Egypt, the Philippines, Pakistan, Vietnam and Bangladesh, O'Neill, the London-based chief global economist at Goldman who coined the BRIC moniker in 2001, said in an e-mailed response to questions. "I don't see them as being 'BRIC like' though, as they are simply starting at a lower base."

Armored Wolf LLC's [Ronald Solberg](#) recommends Turkish equities, the foreign-currency bonds of Indonesian coal miners and Turkish banks including Istanbul-based [Turkiye Garanti Bankasi AS](#), along with local-currency government debt of Indonesia due in five and 20 years.

"In terms of structural reforms, macroeconomic mix of policies and debt management, both countries have been doing the right things and are obviously seen in an improving light by foreign investors," said Solberg, who helps oversee more than \$160 million as a managing director at Aliso Viejo, California-based hedge fund firm Armored Wolf. "They are following in the footsteps of the BRICs."

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