Nod expected for three-exchange IPO

By Chris Wright

The world's first [illegible] three-exchange IPO is expected to be confirmed [illegible] from an unlikely quarter – a Mongolian [illegible]. The listing of Erdenes Tavan Tolgoi, which [illegible] the vast Tavan Tolgoi mine, could boost the [illegible] development of the resource in coming years [illegible] potentially transform the Mongolian economy. [illegible] bookrunners and bankers of the IPO, which is expected to raise $[illegible] billion or more, have been [illegible] between the exchanges of Mongolia, [illegible] and London for the listing.

[illegible] understands that after presentations by the three exchanges in Ulaan Baatar on Friday, the company is set to announce a role for all of them. The only question to be resolved is whether London will play host to a primary listing or a global depositary receipt issue.

"It's not decided yet," a source close to the deal said. "But it would be very surprising if any of the exchanges were excluded now."

The listing, likely to take place later this year or the first quarter of 2012, will cast light on global appetite for emerging Asian capital. In the past year Asia has been a magnet for international debt and equity flows, then appeared to repel them again at the turn of the year, and more recently has attracted them again.

If a single-asset frontier market coal listing can att[illegible] billions of dollars across three exchanges, it will clearly demonstrate that risk appetite remains.

Further barometers of Asia sentiment will appear in the coming days. Last night Renren, the Chinese social networking platform, was due to price an IPO on the New York Stock Exchange of up to US$743.20 million, having considerably increased its planned listing size despite having recorded a US$64 million net loss in 2010 and no profit in 2009 either.

It should also become clearer how much money Shanghai Pharmaceuticals is likely to raise in a Hong Kong IPO expected to price on 12 May. This deal, being roadshowed by global coordinators Credit Suisse and Goldman Sachs, has already attracted cornerstone investments from Pfizer, Temasek, Guoco and BOCGI, and based on initial guidance could raise as much as $2.22 billion.

While those deals appear to show positive momentum on Asian equities, an alternative view is suggested by Yuanda China Holdings, which designs curtain walls of buildings such as Beijing's Watercube Olympic swimming facility. This IPO was due to price in Hong Kong last Friday, but the company has instead said it plans to alter the terms, and may reduce both the size and the price.

On the debt side, last Thursday's US$2.5 billion 10-year global bond from the Republic of Indonesia suggested great appetite for Asian sovereign paper. The bond – half of which was sold to US investors, according to sources, and almost a quarter to Europe – epitomizes global demand for Indonesian debt which has led to foreigners holding more than 30% of government bonds.

Probably the most striking new debt deal to move forward this week will be a planned US$500 million exchangeable from the Pakistan state, which will convert into shares of state-owned oil and gas company OGDC.

Japan supply chain havoc mounts

By Anthony Rowley

The impact of Japan's tsunami and nuclear crisis on supply chains and production networks worldwide – especially in the auto and electronics sectors – is mounting.

The "just in time" production system will have to be rethought, Standard Chartered chief economist Gerard Lyons told *Emerging Markets* yesterday.

"The supply chain reaction across Asia has been very apparent." South Korea and Taiwan, which have partly filled supply chain gaps left by Japan, "have been beneficiaries".

With "completely interlinked" supply chains there is "no redundancy in the system. This is an issue for not just companies but countries going ahead," Lyons added.

"What we have seen in recent years is the desire to run everything close to the wire. 'Just in time' has been the issue. In future it will need to be more 'just in need' or 'just in case'." Better inventories and better "shock absorbers" are needed.

Michael Buchanan, Goldman Sachs chief Asia economist, said: "This is a serious issue for some sectors. And we don't know what happens after inventories run out after around two months." Even with a relatively small value-added component there can be a relatively big impact, such as with semiconductors for the auto industry.

Switching suppliers may not be feasible, especially for vehicle manufacturers that have to take safety-related factors into account, Buchanan added. "Auto companies will be sensive to fast-tracking a change of input."

ADB chief economist Changyong Rhee said it would probably take up to "two years" to put together a database cataloguing how supply chain linkages between Asian countries and industry sectors operate. The IMF and the World Bank, along with the OECD, are working on their own versions of such an anatomy.

Lyons: rethink "just in time"

The Japanese disaster has severely impacted output at car makers including Toyota, Nissan and Honda, and electronics majors including Panasonic, Canon and Sony. Toyota is unable to source some 150 parts and does not expect to resume full production until the year end; Panasonic blames the disruption in part for its decision to slash its global workforce by 350,000 over the next two years.

In China, joint ventures with Japanese partners – such as FAW Xiali Automobile's with Toyota and and Dongfeng Motors's with Honda and Nissan – are suffering from delays in imports of engines and transmission from Japan.

Electronics firms such as Lenovo and ZTE are sourcing components from Korea and Taiwan to make up for shortfalls from Japan.

Thailand's industry minister has said that car production there will plunge by around 50% in the second quarter.

Global production of cars is forecast by some analysts to drop by around one third and in the USA, Ford has reduced output of some vehicles because of lack of parts from Japan.

ADB president Haruhiko Kuroda told *Emerging Markets* that supply chains were only as strong as their weakest link. Companies should examine the feasibility of having alternative supply sources to fall back on, in cases of disasters of the type that have hit Japan, he said.

Donna Kwok, economist at HSBC in Taipei, said: "Supply disruptions from Japan are starting to feed through, but there is an unexpected silver lining: orders are being switched from Japan to Taiwan."

Vietnam's anti-inflation measures 'will take time' to bite

By Chris Wright

Vietnamese policymakers insist they can tackle the country's alarming inflationary pressures, but have conceded that previous targets may be beyond them.

Vietnam's National Assembly had set a full-year target for inflation growth in 2011 of below 7%, which looks ambitious in the light of April's 17.5% year-on-year consumer price index (CPI) growth. Some analysts put food inflation as high as 24%.

"The targets have not been revised officially," said Nguyen Van Giau, Governor of the State Bank of Vietnam, the country's central bank. "However, I think that Vietnam, and other countries, are now facing difficulties in realizing the targets.

"They were set four or five months ago and new issues have arisen," he said, highlighting global commodity price increases, Middle East politics and the Japan tsunami.

Vietnam's minister of planning and investment, Vo Hong Phuc, said yesterday that "in 2011 our top priority is to combat against inflation". He conceded that the previous policy, that prioritised growth at all costs, had to be revised.

"The economic growth rate is no longer the number one priority," he said. "We will try to sustain rapid economic growth, but not at any cost." He said he hoped for 6.5% economic growth in 2011.

Plans to combat inflation and improve macroeconomic stability were set out in Decree 11 in February, which envisaged tighter monetary control, maximum credit growth of 15% in 2011, reduction of imports and changed pricing mechanisms.

Governor Giau told *Emerging Markets* of his "strong belief that Vietnam will be able to control inflation in future" through the measures – which have coincided with a drop in the value of Vietnam's currency, the dong.

Giau: strong belief

Ayumi Konishi, the ADB's country director for Vietnam, said the measures in Decree 11 were correct, but would need time to work. "Economic policies always take time to have an impact. It's not like poison: you don't see the result overnight.

"We hope the government will continue to be determined to follow this policy, and we hope the Vietnamese people will be patient," he added. "Controlling inflation means there will be some pain."

Some analysts see Vietnam as the architect of its own inflation problems. "Up until February this year, Vietnam still had a very clear policy objective: growth at all costs," Tai Hui, regional head of research for southeast Asia at Standard Chartered, said. "Last year inflation started to pick up but they refused to raise rates – in fact, cut rates to boost growth. It was an amazing response."

Hui said that the February measures, along with interest rate rises, were a "major turning point. […] The government and central bank are now aligned to fight inflation – but the key is execution."

He expects inflation to get worse before it gets better, probably hitting 18%.

Many feel problems have arisen because of a lack of independence of the central bank, but Governor Giau denied this. "Even though we are a member of the government, […] our law allows the State Bank of Vietnam […] a certain level of independence in exercising our monetary policy."