

M is for Madagascar, Minerva and... Missiles

...who is the April fool?

April 2009 - Author: Adrian Cowell, Fund Manager

March Madness on the Peninsula

At the end of the first quarter, 2009, there is possibly a sense of QoQ déjà vu... or is there? A quarter of circular motion remorselessly draining away... or a projectile breakout to blue skies (or ocean depths) and green shoots, so to speak?

The exchange rate finished 2008 at W1,259.50 to the US\$1.00, up from its low November 15th low of W1,508.00, a near miraculous recovery of W248 over six weeks. Alas, it was but a short remission. Two months into the first quarter of this year, the wax holding the currency feathers apparently melted away, and we collapsed even lower to W1,572 on the 2nd of March - the currency phoenix failed to rise. Meow...thud! The chattering econo-strategic predictions zealously exceeded each other in their frenzied calls for more and more of the same wobbly won to the US dollar!

But no, four weeks later, and almost at the end of March, the re-wax-feathered currency was back, "whiting" at W1,330! A movement of W240, underpinned by a US\$3.7bn current account surplus in February (deficit of US\$1.6bn in January) and an anticipated March surplus of a smidgeon more! Cheap oil even cheaper than collapsing exports which fell 34% YoY in January, another 18% YoY in February, and a possible 21% YoY in March. You can "KIKO into touch" billions off those open position foreign exchange valuation and translation losses... again... at the end of the first quarter 2009 reporting period.

As Japanese tourists in particular flood in-bound (apparently a record 2m visitors dropped by in the first quarter 2009, and not for the weather) to snap up luxury bargains at department stores (that will do nicely Miss Suzuki), the share prices of two small cap out-bound wholesale travel agencies, Hana Tour and Mode Tour, bounced rather oddly in celebration of the newly re-discovered purchasing power of the Won!

The KOSPI index ended 2008 at 1,124.47, and near the end of March, peaked at 1,243.80, up 10.6% YTD, before slipping to 1,206.26 for the quarter end, up 7.3% YTD. The quarter low was also recorded on the 2nd of March at 1,018.81. The currency finished the quarter at W1,383.50 to the US dollar. Foreigners were net sellers of W56.9bn on the KSE and W565.7bn on Kosdaq on the quarter, but buyers of W48bn on the KSE in March, a figure distorted downwards by the block sale of the stake held by Philips in LG Display which was worth W1.3tr. There was W184bn of selling on Kosdaq in March.

Bank of Korea interest rates remain at 2% (accumulated cuts of 3.25%) and a host of stimulus packages totalling as much as W57tr have been announced, representing 5.7% of GDP. Government debt is a relatively low 32.5% of GDP – it is the household debt that tops the lot at W800tr or 80% of GDP. Government bonds will have to be issued and money supplied... and in June, a new high denomination bank note for W50,000 will finally debut... *ossosoyo!* The Bank of Korea has resisted this for decades, offering W10,000 (US\$7.50) as its largest denomination and requiring the gap to meaningful cash in the wallet to be bridged by the commercial banks issuing bearer cheques (*supyo*) as proxies accepted by retailers with a countersignature, just one of the banks' many costly civic duties.

Meanwhile, first quarter GDP came in at positive 0.1% QoQ, though negative 4.3% YoY. All that liquidity, stimulus and front loading of government spending seems to be shooting green. Build it and GDP will come!

Commercial bank supyo for W100,000



Source: www.lifeinkorea.com

The Bank of Korea's W50,000 spanker



Source: www.koreatimes.co.kr

Madagascar



Source: <http://news.bbc.co.uk/cbbcnews>

The recent coup d'etat in Madagascar, toppling President Mark Ravalomanana and replacing him with former disc jockey Andry Rajoelina, aged 34, was in part caused by, and has apparently now brought to an end, the much commented upon Daewoo Logistics super-farming adventure on the island. One of the new leader's first acts was to cancel the mammoth project. The "land for free" project (actually an area half the size of Belgium) had provoked international outrage and allegations of neo-colonialism.

Politically, it provided a coalescing cause bringing the disaffected elite together with urban and rural poor in opposition to the former dairy magnate President. Months of ferment, demonstration and casualties, led to the coup d'etat.

Daewoo Logistics is a spin-off of the Daewoo Group, formerly under the disgraced leadership of WC Kim, a model of rampant denial, excessive capacity and truly monumental balance sheet gearing in the run up to the Asian crisis of ten years ago. The Group is Korea's most spectacular corporate bankruptcy.

Daewoo Logistics is a very, very small unlisted company. It had "somehow" negotiated for no payment, but in return for funding infrastructure, a 99 year lease on 1.3m hectares of land mainly in western Madagascar, with a view of planting 1m hectares with maize, to ensure food security for South Korea, and 0.3m hectares with palm oil. The erstwhile project consists of more than half of the arable land in Madagascar and represents a lot of popcorn for Korea, a country with a fair number of cinemas but with rice as the staple.

Madagascar relies on foreign aid for 70% of its budget and has per capita income of less than US\$400 per annum. Daewoo claimed that in time it was going to invest US\$6bn. Pie in the sky. Daewoo Logistics' resources simply do not match up, regardless of any credit crunch. Snap, crackle and pop!

The unbearable clumsiness of Daewoo Logistics (we like to move it move it) notwithstanding, food security in South Korea remains an emotive issue, with mountainous and essentially infertile land and a high population density. Much of the population remembers the years after the Korean War when rice was a luxury and food was in short supply. As a point of comparison, the food situation today in the Democratic Peoples' Republic of Korea (DPRK) has some similarities with that in the Republic of Korea (RoK) a couple of generations ago. South Koreans will view this situation rather differently from the outraged international media. In the words of the penguins (in the film), "just smile and wave"!

Minerva... and the Internet



RoK is, “broadly speaking”, simultaneously near completely wired and almost utterly wireless with the creation of an information super highway having been a national priority of the ‘90’s. Mobile phone penetration is at an almost inconceivable “official rate” of 95.1% of the 48.6m population (some double counting but...). Broadband subscribers now number 15.6m out of 16.673m households nationwide. Voice over Internet Protocol (VoIP) is established with over 3 million subscribers at the end of March (expected to surge with number portability) and Internet Protocol TV (IPTV) is a recent launch. With this sort of density, the southern half of the Korean peninsula is simultaneously one of the most wired and wireless places in the world!

Source: <http://www.loc.gov>

The internet first played a significant role in politics in the 2002 election of the previous President, Roh Moo-Hyun, a populist outsider with youth/student appeal and strong anti-establishment credentials. The “Rohsammo” (*Roh wind*), an internet phenomenon, was an important feature in his campaign momentum and ultimately his election success. With their man in, a second consecutive left-leaning and distributive President, the traditional left-inclined students and union protesters of yore ended up being more or less quiet for ten years, and the tear gas was put away.

The current President, Lee Myung-Bak (MB Lee), is a chip off an older block from the right wing business friendly political party (*Hanaradang*), back in government after ten years in opposition. MB Lee is from a more established background, having built a rapid-rising career as the youngest President of Hyundai Engineering & Construction after catching the eye of hard man RoK President Park Chung-Hee whilst a student leader, and so inevitably, by extension, that of Hyundai Group founder Chung Ju-Yong. MB Lee served a term as a super-action Mayor of Seoul, where perhaps his most visible achievement was the restoration of the Chongnyechon stream through the centre of the city. His nickname “bulldozer”, as a result of his image of getting things done and reputation as a doer, accounted for, in part, his landslide victory in the Presidential elections and the strong showing for his party in the National Assembly elections a few months later.

Immediately after the National Assembly election, MB Lee was in the United States and one of his first attempts to do something was to agree, rather hastily and without necessary consultation, to sign a Free Trade Agreement that had been pending for some time – a stumbling block being the importation of American beef into Korea. The on-line world, or ‘netizens’, sprung into action, ably assisted by activists, and in no time at all, an on-line community called the “Agorians” et al had helped to whip up support for over 100 candle-lit rallies in central Seoul - attended at their height by up to 20,000 - to protest the renewed threat of imported mad cow disease. MB Lee’s popularity precipitously plummeted to around 10%, the lowest level ever. After several weeks, the vigils eventually petered out.

The nation was gripped from late summer by the prognostications of an anonymous blogger called Minerva (the Roman name for the Greek goddess of wisdom, Athena), who posted articles critical of the MB Lee government through the same “Agora” bulletin board. His correct prediction of the collapse of Lehman Brothers one week before the event and of won weakness against the US dollar, endowed Minerva with near-mythical status (traditional fortune tellers are very widely consulted in Korea about almost anything...just in case), and there was much speculation as to his identity, whether single or multiple, and his educational and professional background. A single or a group of well-educated industry insiders...?

The alleged Minerva was arrested in January on charges of damaging the public interest by spreading false financial rumours through the Agora bulletin board. He was charged under Article 47 of the Telecommunications Act. It is alleged that he wrote over 100 postings critical of the MB Lee government and their handling of the economy. Specific fault was found with two postings; 30th July and 29th December. In the 29th December posting, Minerva claimed that the government had requested “major financial firms and exporters to stop purchasing dollars”. The BoK apparently spent US\$2bn at this time to prop up the currency

after Minerva's posting. It turned out that this Minerva was a largely self-educated, unemployed man aged 30 called Park Dae-Sung. Prior to his arrest, the Finance Minister of the time, Kang Man-Soo, had suggested a "face to face down to earth talk" with Minerva. The minister has since also become unemployed.

Despite the enthusiasm of the Prosecutor's Office for the case, demanding an 18 month custodial sentence and the denial of bail by the Seoul Central District Court, Minerva has been found not guilty by the same Seoul Central District Court, and has been released after three months of detention. And it was confirmed shortly after the arrest in January that the Ministry had actually pressured foreign currency dealers not to buy US dollars! This farce may appear to be coming to an end, except that the Prosecution is appealing the verdict to a higher court...

Another presidential nickname is "two megabytes" (2 MB – a play on his last name and initials, Lee/Yi also means two). Web tolerance is on the wane, perhaps driven by a presidential understanding of and preference for bulldozing real highways over logging on to virtual ones.

Logic suggests that this tale should be over but politics might provide another twist or two!

Missiles



DPRK Rodong 1 missiles...

Source: <http://news.bbc.co.uk>



...USA's Rodham 1...

Source: www.koreatimes.co.kr



... the latest real deal!

Source: <http://news.bbc.co.uk>

So after much pouting, rattling and threats from all interested parties, it finally happened... yet again... on Sunday the 5th of April at 1130hrs! The Rattle-2 was thrown out of the DPRK's self-reliant pram, and this time the baby Kim got some distance! The rehab from his reported stroke and brain surgery of last autumn must be going well, and of course, the launch is millions of scarce dollars well spent!

In July 2006, the first Rattle-2 plopped harmlessly back into the sea within seconds of leaving the pram, but was followed three months later by an eye-watering nuclear test. International cacophony ensued.

This time, in an act of blatant defiance of UN Security Council Resolution 1718 (adopted in October 2006 after the first Rattle-2 ex-perambulation) which prohibits the DPRK from engaging in ballistic missile development, the DPRK launched a Taepodong-2 missile, err satellite; the rocket's first stage fell into the East Sea and the second and third stages with the "payload" arced over Japan before splashing into the Pacific 2,100 kilometres to the east. That will serve the world right for ignoring the DPRK, being distracted by a mere global economic crisis of once in a life time proportions, and more specifically, a G20 meeting of leaders!

The Dearminator, Dear Leader Kim Jong-II, is back offering on-the-spot reminders to one and all!

The Korean Central News Agency (KCNA) claimed that the Kwangmyongsong-2 satellite (*Bright Shining Star*) was successfully in orbit transmitting “immortal revolutionary songs”, “the Song of General Kim Il-Sung” and “the Song of General Kim Jong-Il” – presumably perennial top two hits now being played for the exclusive ears of the mid-Pacific fish! Perhaps an I-pod of dolphins contracted to the US Navy? The satellite could also carry the Robbie Williams song at the end of that film when Nemo was found... “Somewhere beyond the sea, somewhere waiting for me...” Those blooming *Kimilsungia* orchids and *Kimjonilia* begonias will no doubt have spontaneously burst into flower to honour this singular achievement, a 21st century version of Handel’s Water Music and a right Royal Firework!

More to the point, there are reports suggesting that the DPRK has, over time, exported “more than 1,000 scud missiles” principally to the Middle East, earning US\$1.5bn annually, though exports are thought to have dwindled after the July 2006 plop. Now after the bigger and further mid-pacific splash, sales may just start to pick up again! A shoot, if not a very welcome one.

Just south of the De-militarised Zone (DMZ), on Monday the 6th of April, the day after the launch and aquatic broadcast, the KOSPI stock market index rose by 14 points or 1.1% to 1,297.85 and the Won strengthened 2.31% against the US dollar to W1,309.5. As we approach the end of April, both remain distinctly unimpressed.

Now the DPRK has said it is withdrawing from the 6 Party Talks to end its nuclear programme, has demanded that UN inspectors leave (they had been in and around the DPRK since shortly after the February 2007 supposed agreement to close down the DPRK’s nuclear facility at Yangbyon) and intends to reactivate its nuclear facilities.

The RoKy Horror Picture Show’s “Let’s do the Time Warp Again” continues with “...jump to the left... and then a step to the right... with your hand on your hips... bring your knees in tight... but it’s the pelvic thrust... they really drive you insane”.

With the Dearminator’s restoring health, the loop looks set to continue for some time yet, and Korea Telecom’s dream call centre in waiting will remain a dream!