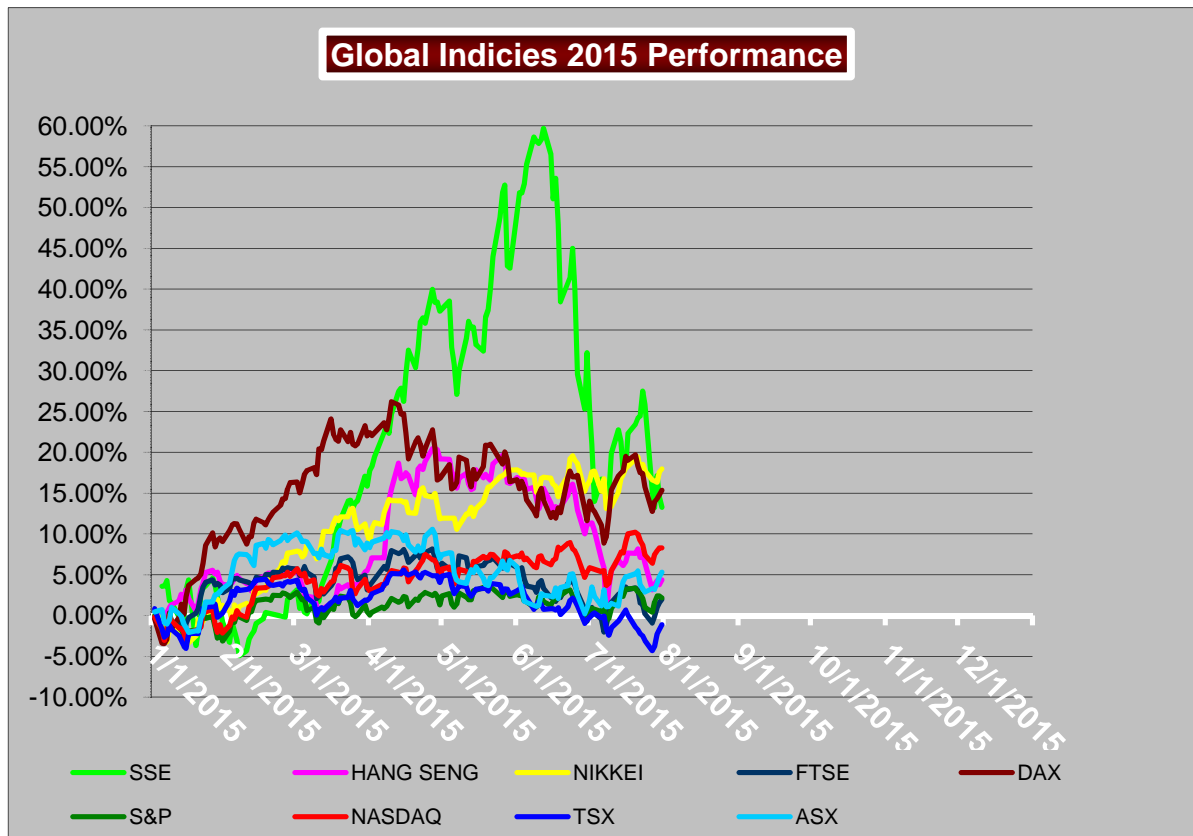


GDB August 2015 Newsletter

Monthly Market Summary:

2015 July Market Activity		
SSE COMPOSITE	3,663.73	-613.49 (-14.34%)
HANG SENG	24,636.28	-1,613.75 (-6.15%)
NIKKEI 225	20,585.24	+349.51 (+1.73%)
FTSE 100	6,696.30	+175.30 (+2.69%)
DAX	11,308.99	+364.02 (+3.33%)
DOW	17,689.86	+70.35 (+0.40%)
S&P 500	2,103.84	+40.73 (+1.97%)
NASDAQ COMPOSITE	5,128.28	+141.41 (+2.84%)
ASX 200	5,699.20	+240.20 (+4.40%)
TSX COMPOSITE	14,468.70	-84.60 (-0.58%)



Investment Themes:

In August, the Chinese policy makers introduced further measures to counter the slowing economy in China. On August 11, the Chinese central bank devalued the Chinese Yuan by 2% by adjusting the daily reference rate to 6.3975 Yuan to 1 USD (0.156 USD to 1 yuan). As a result, this triggered the biggest one day drop in the Yuan since 1994.

China Devalues the Yuan by Most in Two Decades

The move signals policy makers are bolstering efforts to support exporters and boost the role of market pricing. The People's Bank of China called it a one-time adjustment.



The decision to devalue the currency came after the release of significantly weak export number for July over the previous weekend. Chinese export tumbled 8.3% in July; their biggest drop in four months and far worse than expected. Demand from China's biggest trading partners the EU, Japan, and the US dropped 12.3%, 13% and 1.3% respectively. Import also dropped 8.1% but largely from lower commodity prices and was in line with expectations.

One of the areas where the Yuan devaluation will cause the most pain is for Chinese firms that are earning Yuan but having debts that are denominated in USD. Dollar credit to Chinese borrowers has grown rapidly since the global financial crisis and now stands at USD 1.1 trillion (includes offshore bond issuances by financial subsidiaries outside of China). Almost a quarter of all Chinese corporate debt is dollar-denominated, but only 8.5% of corporate earnings are. With the devaluation of Yuan, the currency mismatch these Chinese companies face will translate into

higher debt servicing costs. More Yuan will be needed to exchange for the greenback to meet interest payments. Morgan Stanley estimates that 5% of Chinese firms are holding 50% of the dollar-denominated debt. Much of this dollar credit is extended to firms in the real estate sector in China. Property development companies like Evergrande, China Vanke and Wanda are some of the big participants in the off-shore bond market and are most vulnerable. The impact from higher debt servicing costs will erode these companies' earnings, further compounding the problem they have been facing from declining property prices.

A much more significant shock from the Yuan devaluation may be the pressure it puts on other emerging markets. The Yuan's fall may initiate a series of competitive devaluations with other exporting economies from the emerging markets that will be racing to weaken their exchange rates in order to stay competitive. Even if this does not happen, currency trader may choose to strike preemptively and front-run the policy makers by selling these emerging market currencies. Unlike China, these emerging economies do not have a war chest of USD 3.8 trillion in foreign-currency reserve to defend their currencies against the USD, making it difficult to bail out firms in those countries that are lacking the greenback. Therefore, the rise in USD and the anticipated rate lift-off later this year will have a much more profound impact on the emerging economies.

There are now numerous headwinds stacked against China and emerging markets: low commodity prices, faltering stock markets, slowing exports, and now the Yuan devaluation. With tightening credit conditions in these economies, growth could evaporate rapidly and their economies come to a screeching halt. The second half of this year may see further risk re-pricing in the assets from these regions.