BY THOMAS MANNING

Investing like demented reef fish

Former New Zealand Prime Minister David Lange aptly likened the behaviour of investment markets to "demented reef fish", whose skittish behaviour is driven by a combination of greed, fear and panic.

Lange's view was recently affirmed, as foreign investors, lured by rising interest rates in the US, pulled their money out of Argentina, India, Indonesia, Mexico, South Africa and Turkey and caused these currencies to nosedive.

Leading the currency rout by far is Argentina, which the bond markets now rate as the second riskiest sovereign borrower in the world after Venezuela, whose currency is worthless.

While Argentina is bearing the brunt of a fickle market's flight to US Treasury bonds, this is not the case with Venezuela where financial chaos stems not from reef fish - they have long since fled - but from sharks within, as the rule of intractably corrupt and incompetent socialist ideologues has engineered a dystopian hell.

In Argentina, 12 years of incorrigibly populist rule by the Kirchner family, characterised by massive transport and energy subsidies, generous social welfare and profligate public works financed by printing presses and massive deficits, ended with the presidential election of business tycoon Mauricio Macri in 2015.

President Macri's government has sought to eliminate the obscene fiscal deficit inherited from the Kirchners, by reducing subsidies, eliminating government waste and actively seeking foreign investment and financing for public works.

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Direct foreign investment has been very slow coming. But the reef fish have been frenzy-feeding on Argentine bonds, as these offered the best returns compared to the interest rates which dropped to near zero in the West after the Global Financial Crisis of 2008.

Severe economic crisis conditions

The whiff of higher interest rates in the US sent the reef fish dashing away from Argentina and the country is consequently grappling with its severest economic crisis since 2001. At that time, an economic meltdown led to a currency crash, pushed millions into poverty, and caused deadly civil unrest and looting and ultimately, a default.

In the past six months alone the Argentine peso has fallen more than 50 per cent against the US dollar to around 40 pesos to the dollar (as of this writing). This fall makes it all the more likely this third largest economy in Latin America that is already hit by drought, low commodity prices and 40 per cent inflation, is in danger of default again.

Despite Argentina's having interest rates of 60 per cent (the world's highest) and Central Bank intervention, its currency troubles have worsened so badly the International Monetary Fund (IMF) has granted Argentina a US$50 billion financial rescue package to stave-off default.

The rescue package comes at the price of the imposition of new taxes and increased austerity, which are going over like a lead balloon with the Argentine people, who almost universally blame the IMF for the 2001 crisis.

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When Macri announced the financial rescue package he acknowledged new IMF-mandated economic policies will shrink GDP by 2.4 per cent and leave more than 40 per cent of the population in poverty.

Macri's term ends in 2019 and if he makes it to the next election, which is not necessarily a given if social unrest grows, he will likely face off against ex-president Cristina Kirchner. She remains popular with the poor and lower middle classes, although her candidature will depend on surmounting the five indictments for bribe-taking in office that she's currently facing.

The jury is out on whether the Argentine people have the stomach for more IMF-led austerity or whether the delusional siren call of Kirchner populism will once again bewitch and bedazzle.

Thomas Manning is governing director of Manning Group and Transpacific Business Tours, and publisher of the *Transpacific Business Digest*. Visit www.manninggrouplimited.com