NEWGATE
CAPITAL MANAGEMENT LLC

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FLASH REPORT

Thailand Abandons Currency Controls on Stock Investments

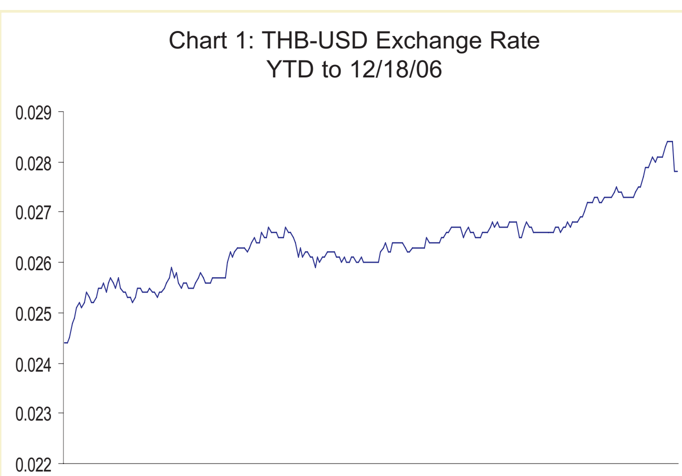
Yesterday, the interim government of Thailand announced a policy designed to limit further appreciation of the Thai baht, which had strengthened 12.4% this year and 1.8% during the past month (see Chart 1). These proposals would have imposed a penalty on 30% of foreign investors' capital withdrawn from the country in less than one year. Ironically, these capital controls caused a 2% decline in the value of the baht, but a 15% decline in Thailand's SET stock market index (see Chart 2). Other Asian markets experienced a modest sell-off attributable to this news.

In reaction to the decline in the stock market, the government of Thailand has announced that this policy will not apply to equity investments, effectively reversing the policy.

Newgate believes that the proposed and discarded currency control regime was an inappropriate measure coming from an interim administration that has yet to define its economic policy. A more prudent step in tackling foreign exchange pressures would be a reduction in short term interest rates.

There is no doubt this measure will achieve its intended goal of stemming further rapid appreciation of the baht. However, the cost for this action has been a loss of confidence for global investors. While the reversal of the policy is welcome, and should be reflected once Thailand's equity market opens, investor sentiment is likely to be negative.

It is our intention to reduce our holdings in Thailand in a reasonable, responsible manner. There is extreme value to be had in this market, but our macroeconomic views are not consistent with the Bank of Thailand's sudden shift in economic policy.



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