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# BUSINESS



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## Fed's shift gives Asian markets surprise boost

**Grace Leong**

News that United States interest rates will rise only at a moderate pace sent investors rushing into riskier assets yesterday, pushing Asian currencies, gold and oil prices higher and the greenback down.

The spark came after the US Federal Open Market Committee said they now expect to raise the benchmark rate just twice this year, down from the four hikes they previously predicted.

Remisier Alvin Yong said yesterday: "The markets were taken by surprise."

It proved a pleasant surprise:

Hong Kong and Shanghai rose 1.2 per cent, Shenzhen jumped 3.6 per cent, Taiwan was up 0.4 per cent and Malaysia up 0.6 per cent.

The Straits Times Index soared as much as 1.4 per cent to 2,883.39 at the opening bell, but the downgrades of Singapore's gross domestic product growth just a week before the Budget reined in the rally.

But the STI still closed up 1.26 per cent or 35.96 points at 2,880.17.

Private economists polled by the Monetary Authority of Singapore tip GDP growth at 1.9 per cent this year, down from a forecast of 2.2 per cent in December and below last year's 2 per cent.

"That's partly why (the STI

hasn't) hit 3,000 yet," Mr Yong said.

The Fed's dovish shift reflect the difficulties many economies face amid a slowing China and the uneven American recovery.

Singapore is facing growth challenges after deeper-than-expected manufacturing contraction and a slowdown in the finance and insurance fields.

"The slowdown in China is structural in nature and the chance of a near-term improvement is low," DBS senior economist Irvin Seah said. "Singapore's manufacturing sector is already in recession, while its services sector is losing steam. A forecast of 1.5 per cent for the year implies at least one quarter of contraction. And the risk of a technical recession should not be discounted."

Nonetheless, Dr Ernest Kan, chief of operations for clients and markets at Deloitte Singapore, called the Fed's move "responsible" as it helps lend stability to the global economy at a time of market volatility.

An immediate effect has been to send the greenback down against a range of Asian currencies and gold

up to about US\$1,269 an ounce from US\$1,233 on Wednesday.

"Most central banks in Asia, including China, would welcome the weaker dollar, as it gives them further space to cut rates without corresponding negative impact on the currency," said Credit Suisse economist Michael Wan. "For Singapore, it will help support the economy and consumer demand by reducing the pace of Sibur hikes. However, a more dovish Fed, if sustained over the rest of this year, will likely lower the probability of property cooling measures being removed."

The interest rates that affect business loans and mortgages here have been sliding in the wake of the declining greenback.

The three-month swap offer rate slipped to 1.18441 on Tuesday, down nearly 33 per cent from a high of 1.76235 per cent on Jan 13. The three-month Singapore interbank offered rate (Sibor) is down at 1.24088 per cent yesterday, from a recent high of 1.2540 per cent on Jan 19.

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GRIM OUTLOOK

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**DBS SENIOR ECONOMIST IRVIN SEAH**, on the challenges Singapore faces

## Water fund aims to help S'pore firms with liquidity

It is looking at companies involved in water, waste-water treatment, as well treating sludge and converting bio-gas

**Jeremy Koh**

A new fund focusing on water and waste-water treatment firms is looking for smaller Singapore companies to add to its portfolio.

Tigris Water Fund, which also looks at companies treating sludge and converting bio-gas to usable forms, is aiming to invest at least 85 per cent of its capital in Asia.

Launched in January, it is seeking to raise US\$300 million (S\$414 million) to US\$400 million. It received commitments of around US\$110 million in January from investors including Macquarie Capital and Eastspring Investments.

Mr Saud Siddique, executive chairman at Odyssey Capital, which sponsors the fund, said local firms in these sectors have an edge over regional ones.

Singapore firms design more efficient treatment systems and have more access to the kind of advanced solutions developed by local universities and companies, he said.

Principal partner Daniel Yeung added that the firms also enjoy Singapore's reputation for reliability and quality.

Mr Siddique said over 90 per cent of the approximately 140 local firms in these sectors are small and medium-sized enterprises (SMEs).

These firms generally do not have access to long-term bank funding to build their own treatment plants. They lack the assets that can serve as collateral for such bank loans.

Such companies typically have annual revenue of between \$10 million and \$20 million and have usually been in business for five to 15 years. They have remained small mainly because they provide services instead of owning plants and

**Building a plant and operating it normally involves a contract that allows the firm to run the facility for up to 30 years, allowing the business to recover its capital and earn profits. Tigris provides advice on how to develop such projects – which are new to many SMEs – manage risks and structure sound agreements on operating the plant.**



Mr Siddique (left) and Mr Yeung (far left) are looking for smaller Singapore companies to add to the Tigris Water Fund's portfolio.  
 ST PHOTO: TAMARA CRAIU

operating them for the long term.

Tigris would help provide these companies with the capital for such projects, Mr Siddique said.

"Once you start to own the assets, your revenues and size really go up by a lot."

Building a plant and operating it usually involves a contract that allows the firm to run the facility for up to 30 years, allowing the business to recover its capital and earn profits.

Tigris provides advice on how to develop such projects – which are new to many SMEs – manage risks and structure sound agreements on operating the plant. The fund has

not set a target on how much it would invest in Singapore companies, but is ready to put funds in local firms with viable solutions.

For local firms, the investable opportunities outside Singapore in emerging economies in Asia alone are in the "tens of billions of dollars", said Mr Siddique.

An estimated 60 per cent of Asian households do not have access to clean water or sanitation. Also, only 22 per cent of waste water is treated in South Asia, and only 38 per cent in the case of South-east Asia.

During the last two years, Odyssey Capital helped a local water

treatment company secure funding for a project it was struggling raise finance for as it was too small.

As a result, the company was able to convince a financial institution to provide \$5 million of funds to build and operate its own water treatment facility in China.

The project turned out well and, because of cashflows generated, the company was able to seek more financing.

The company's annual revenues have grown by at least 50 per cent since the funding was secured.

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