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Iraq Debt Beats Treasuries for Templeton's Hasenstab (Update3)

By Michael Patterson - Jun 11, 2009

June 11 (Bloomberg) -- [Michael Hasenstab](#) is betting on Iraqi and Malaysian debt to boost returns for his top-ranked [Templeton Global Bond Fund](#), while shunning U.S. [Treasuries](#), U.K. gilts and Japanese bonds.

Hasenstab, whose \$13.4 billion fund beat more than 95 percent of its peers with 12 percent returns the past year, said he has no U.S., U.K. or Japanese government debt because yields are unattractive and the [dollar](#) will weaken. Instead he owns Iraqi bonds, which may extend a 64 percent advance this year as oil output rises and political tensions ease. Malaysian, South Korean and Indonesian currencies may post "double-digit" gains in the coming years, he said.

"The periphery is where some of the better value is," Hasenstab said in an interview in London yesterday. "We have fairly large exposure outside some of the core markets."

Iraq, which sold \$2.7 billion of bonds in 2006 to settle debt from [Saddam Hussein's](#) regime, has the world's third-largest oil reserves and plans to more than double output to 6 million barrels a day by 2015 from a postwar peak of 2.49 million. South Korea, Indonesia and Malaysia stand to benefit from China's economy, which Hasenstab predicts will expand by nearly 8 percent this year. The U.S., U.K. and Japan's economies will all shrink in 2009, the [International Monetary Fund](#) forecasts.

Iraq's bonds rose the most in almost two weeks today to the highest level since October. Prices increased to 67.7 cents on the dollar from 66.7 cents, lowering yields by 15 basis points to 9.55 percent, according to data compiled by Bloomberg.

'New World Order'

Hasenstab, whose fund invests in bonds issued by governments and companies worldwide, expects the dollar to weaken as Federal Reserve asset purchases increase the risk of inflation, while government intervention in the private sector reduces the economy's long-term growth prospects.

The U.S. government and the Fed have spent, lent or committed \$12.8 trillion to stem the longest recession since the 1930s, an amount that approaches the value of everything produced in the country last year.

Treasuries lost 4.3 percent this year, while gilts declined 3 percent and Japanese government bonds dropped 1.2 percent, according to Merrill Lynch & Co. indexes. Treasury yields climbed to the highest level since October yesterday as the U.S. sold \$19 billion of the securities and Russia and Brazil said they plan to switch some reserves from U.S. debt.

Russia's plan is "consistent with a new world order which is less dollar-centric," said Hasenstab, who oversees a total of \$35 billion for Franklin Templeton Investments.

Treasuries climbed today, reducing the yield on the 10-year note by 10 basis points to 3.85 percentage points as of 2:18 p.m. in New York.

Withdrawing Troops

The Bloomberg Active Index of 20 global bond funds returned 0.7 percent in the year through June 5, the last day prices were available. Hasenstab, who joined Templeton in 1995, has run the fund since June 2002.

U.S. troops are due to pull out of Iraq's cities by June 30 and the entire country by the end of 2011, and Iraqi officials have said the nation's security forces will be able to cope alone. A total of 260 Iraqi civilians were killed in March, compared with 3,500 in February 2007, according to data compiled by the Washington-based Brookings Institution.

"They are pumping 2 million barrels of oil a day, and they have been even when there were periods of political instability," Hasenstab said. "The potential for upside in terms of their production of oil is very large."

Value in Asia

Crude oil rose above \$72 a barrel for the first time in seven months today as the International Energy Agency raised its demand forecast and China's net imports jumped to a 14-month high.

China is a "cornerstone" of the global economy and the yuan will appreciate in coming years as more countries use the currency to trade with the Asian nation, said Hasenstab. He's using forwards contracts to bet the yuan will strengthen and he said currencies in the region excluding Japan may mirror the yuan's gains.

"The markets are more pessimistic about Asia than we would be," Hasenstab said.

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