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From Phillip Securities Research

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## Macro Performance

### Equities review

**Equities** - Equities have performed better month-to-date (MTD) relative to the same period last month. At least, some indexes have registered a positive return. The better performance was largely due to China as they announced an economic stimulus package worth US\$ 586 billion. CSI 300 index gained 10.07 percent MTD. On the other hand, the worst performing index was the DFM General index which declined by 34.43 percent. MSCI World Index, an aggregate indicator of how shares around the world have performed, declined by 7.57 percent MTD and by approximately 44.31 percent year to date (YTD). (For more details on how major stock indexes have performed till date, please refer to appendix 1). We do not think that equities have bottomed out and expect further volatility in the coming months. This is because economies remain weak and companies' results will thus be affected. Eventually, that will affect stock prices.

### Commodities review

**Commodities** - Commodities declined as well. The Reuters-CRB Index declined 8.42 percent MTD. (For more details on how major commodities have performed till date, please refer to appendix 2). Concerns on how global economic conditions will affect demand largely resulted in the fall. Commodities should also likely to trade in a volatile fashion but the drawdown in commodities should be lesser than equities.

### Fixed Income review

**Fixed Income** – The Fed reduced interest rates by 50 basis points at the previous FOMC meeting, cutting the Fed Target rate to 1.00%. This brings the target rate to the same level as it was in 2003 (Figure 3). The fixed income markets had largely anticipated the move by the Fed and continued to rally on further weakness in the equity and commodity markets.

## Report Snapshot

**Equities:** Equities have performed better month-to-date (MTD) relative to the same period last month. At least, some indexes have registered a positive return.

**Commodities:** Commodities declined as well. The Reuters-CRB Index declined 7.7 percent MTD.

### ETF Recommendation

ETF on SGX	Trading Name
SPDR Gold Shares ETF	Gld 10 US\$

For more details, kindly refer to the report.

US 2 Year Bond Futures had gained approximately 0.86% within the month on the Fed cut. 10 Year Japanese Government Bond futures gained about 1.8% for the month on a 20 basis point cut by the Bank of Japan. Bund Futures posted a month on month gain of 3.48% on two successive rate cuts of 50 basis points each by the European Central Bank. The market is still expecting more interest rate cuts by the European Central Bank as the economy had displayed signs of negative economic growth.

While we agree with market expectations for more central bank interest rate cuts to come, we don't see a tremendous surge for fixed income in the near term. This is because the credit market is improving and the government is intervening in the markets to ensure that funding is readily available to companies. Nevertheless, we continue to recommend exposure to sovereign bonds given persistence of volatility in the equity market.

### Macro Outlook

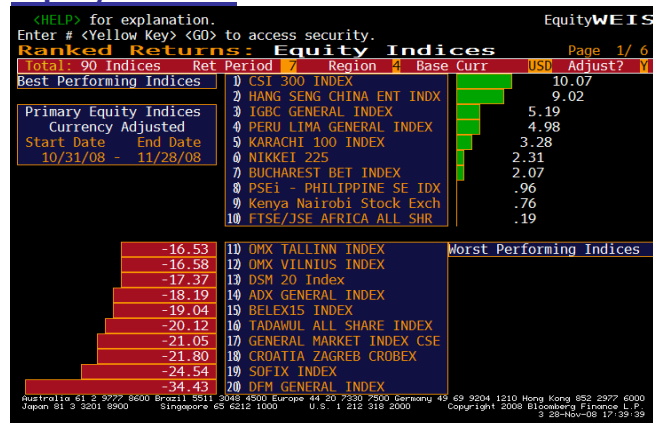
Our Macro view largely stems from the United States as we believe that the US economy models the world economy. As such, let's review what has happened in the States recently.

**Disposable income and Savings Rate:** Level of disposable income in the States has largely been the same over the years (Figure 2).

It has also been observed that savings rates in the states have historically been negative. However, there is an improvement recently. The level of savings in the country is increasing. This is shown in figure 3.

With a stable level of disposable income and an increasing level of savings, it shows that people in the states are reducing their consumption and looking at accumulating their wealth. This is not favourable to a country whose GDP is largely dependent on domestic consumption.

**Figure 1: Best and Worst Performing Equity Indexes**



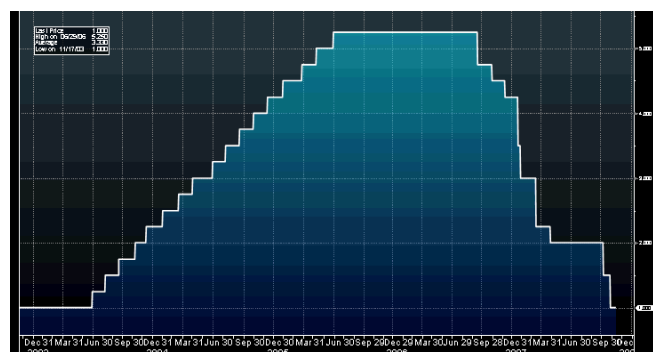
Source: Bloomberg

**Figure 2: Best and Worst Performing Commodity Contracts**



Source: Bloomberg

**Figure 3: US Fed Target Rate**



Source: Bloomberg



# PHILLIP SECURITIES PTE LTD

## Exchange Traded Funds

**Retail Sales:** Indeed, the reduction in consumption is reflected in the retail sales numbers. Retail sale is an advance leading indicator of the country's level of consumption. This indicator has been in negative territory on a month-on-month (m-o-m) basis for three consecutive months (Table 1). For October, it fell by 2.80 percent from September. This shows that another round of economic stimulus is crucial and much needed. Only with the stimulus, can retail sales hope to improve. Or else, there will probably not be any Christmas cheer. This festival is most likely going to be quiet, especially as US citizens are saving as mentioned earlier.

**Factory Orders:** Factory Order is another indicator which shows that demand is slowing. Figure 4 depicts total new factory orders on a M-O-M and Y-O-Y basis from Jan to Sep. On a M-O-M basis, new orders have fallen in August and September by 4.28 and 2.53 percent respectively. Although the data was positive between March and July, the better performance was during the same period as the implementation of the stimulus package. On a Y-O-Y basis, new factory order also experienced a stark decline. It fell from 7.29 percent in January to 1.55 percent in September.

**Unemployment Level:** On the 7<sup>th</sup> Nov, US reported its job numbers. Unemployment rate was at 6.5 percent, 14-year high. Indeed, the amount of jobless claims rose week after week. The initial jobless claims for the week ending 9<sup>th</sup> Nov rose to 516,000. With many more companies reducing production, reduction in manpower would be inevitable. Hence, we expect this data to trend higher in the months to come.

**Consumer Price Index:** On the bright side, inflation is gradually easing. It has fallen by 1.2 percent from 4.9 percent to 3.7 percent in October. This happened on the back of falling commodity prices. This thus gives the government greater room to focus on economic recovery.

We expect poor economic conditions in the States to continue to drag down the rest of the economies and especially those with a high dependency on trade. Hence we expect the world economy to slow in the months to come. As such, we will not sound the all clear for equities as yet.

**Figure 4: US 2 Year Bond Futures**



Source: Bloomberg

**Figure 5: 10 Year JGB Bond Futures**



Source: Bloomberg

**Figure 6: Bund Futures**



Source: Bloomberg



# PHILLIP SECURITIES PTE LTD

## Exchange Traded Funds

### Recommended ETF

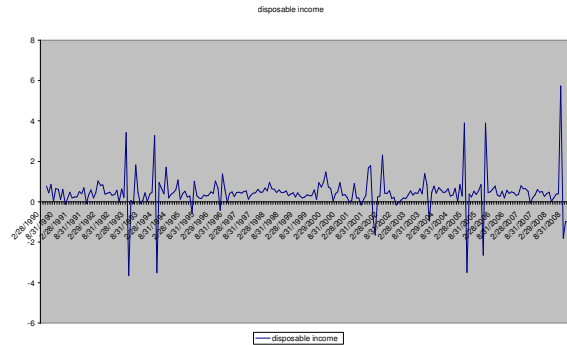
As there is probably still more downside for equities, hence we prefer defensive sectors or assets that are negatively correlated to equities. Based on the list of exchange traded funds available on SGX, the SPDR Gold Shares (Gld 10 US\$) fits this criteria.

Gold serves as a hedge against falling equities. Equities and gold moves in opposite direction. Historically, this asset class has shown to have low correlation with equities and other conventional assets. As such, when it is used in the construction of a diversified portfolio, gold can help to reduce overall risk and may help to protect investors' wealth.

Gold maintains purchasing power over time as well. Although the real value of gold may vary in the short run, it has consistently returned to its historic purchasing power parity with reference to other commodities in the long run.<sup>1</sup>

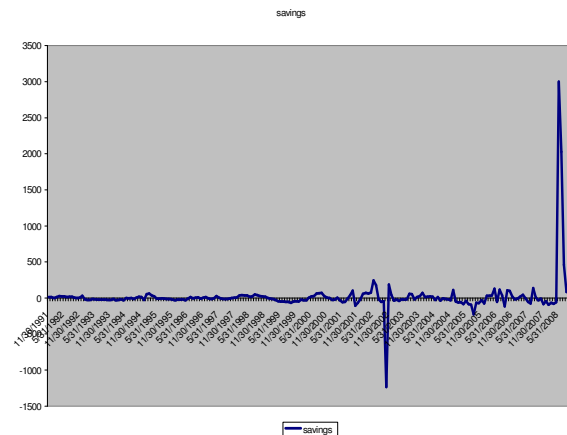
Hence in view of an unsettled equity market, we prefer SPDR Gold Shares (Gld 10 US\$)

**Figure 2: Disposable income in US**



Source: Bloomberg, Phillip Securities Research.

**Figure 3: Savings rate in US**



Source: Bloomberg, Phillip Securities Research

**Table 1: Retail Sales**

Month	Retail Sales	m-o-m %
Jan	380.019	(0.56)
Feb	378.106	(0.50)
Mar	380.02	0.51
Apr	380.788	0.20
May	383.769	0.78
June	384.069	0.08
July	381.578	(0.65)
Aug	379.876	(0.45)
Sep	375.473	(1.16)
Oct	363.696	(2.80)

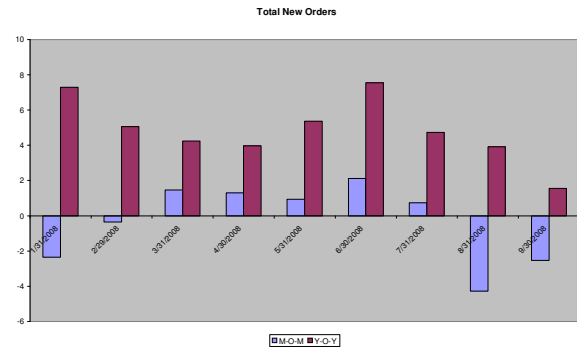
Source: Bloomberg, Phillip Securities Pte Ltd



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## Exchange Traded Funds

**Figure 4: Total New Factory Orders**



Source: Bloomberg, Phillip Securities Research.

### Fast facts on SPDR Gold shares

<b>NAV</b>	79.96			
<b>INAV</b>	80.06			
<b>Expense Ratio</b>	40 basis point p.a.			
<b>Management Fee</b>	0.4% p.a			
<b>52 Week Hi</b>	US\$101.04			
<b>52 Week Lo</b>	US\$ 68.48			
<b>Market Cap (mil)</b>	US\$19728.00			
<b>Total Return %</b>	1 Mth	3 Mth	YTD	1 Yr
	16.44	(2.14)	(2.84)	(1.47)

Information correct as of 26<sup>th</sup> Nov 008  
Source: Bloomberg



# PHILLIP SECURITIES PTE LTD

## Exchange Traded Funds

### Appendix

#### Appendix 1: Performance of major equity indexes

Index	Month-to-Date % Chg	Year-to-Date % Chg	% Chg from Peak	Close
MSCI World	(7.57)	(44.31)	(47.41)	884.74
Dow Jones	(6.42)	(34.21)	(38.39)	8726.61
S&P500	(8.37)	(39.55)	(43.28)	887.68
FTSE First 100	(3.46)	(34.55)	--	4226.1
FTSE Euro First 300	(6.32)	(44.82)	--	2427.97
Nikkei 225	(2.37)	(45.30)	--	8373.39
Hang Seng	(2.98)	(51.27)	(57.17)	13552.06
Shanghai Composite	10.94	(63.55)	(68.52)	1917.861
Taiwan Taipex	(8.56)	(47.64)	--	4453.75
KOSPI	(4.45)	(43.94)	(48.50)	1063.48
Sensex	(7.78)	(55.50)	(56.75)	9026.72
FSSTI	(4.66)	(50.64)	(55.35)	1710.52

Figures in bracket are negative. As of 27<sup>th</sup> Nov 2008.

Source: Bloomberg, Phillip Securities Research

#### Appendix 2: Performance of major commodities

Index	Month-to-Date % Chg	Year-to-Date % Chg	% Chg from Peak	Close
Reuters-CRB Index	(8.42)	(31.48)	(48.10)	245.78
Gold	16.44	(2.14)	(18.66)	815.83
Crude	(19.72)	(43.28)	(62.53)	54.44
Corn	(11.83)	(25.24)	(55.08)	354
Soy Bean	(5.89)	(22.13)	(46.62)	878
Wheat	(0.14)	(32.64)	(57.63)	535.5

Figures in bracket are negative. As of 27<sup>th</sup> Nov 2008.

Source: Bloomberg, Phillip Securities Research



# PHILLIP SECURITIES PTE LTD

## Exchange Traded Funds

### Appendix 3: ETF performance for Oct

ETF on SGX	Trading Name	31 <sup>st</sup> Oct (US\$)	27 <sup>th</sup> Nov(U\$)	% Change
ABF Singapore Bond Index Fund	ABF SG BOND ETF	1	1.03	3.0
CIMB FTSE ASEAN 40 ETF	CIMBASEAN 40 100US\$	5.32	4.75	(10.71)
SPDR® Gold Shares*	GLS 10US\$	71.94	80.3	11.62
iShares MSCI India ETF	IS MSCI India 100US\$	3.44	3.09	(10.17)
Lyxor ETF MSCI AC Asia-Pacific Ex Japan	Lyxor Asia 10US\$	2.46	2.27	(7.72)
Lyxor ETF China Enterprise (HSCEI)	Lyxor China H 10US\$	8.53	9.33	9.38
Lyxor ETF Commodities CRB	Lyxor Cmdty 10US\$	2.58	2.37	(8.14)
Lyxor ETF Hong Kong (HSI)	Lyxor Hang Seng 10US\$	1.81	1.81	0
Lyxor ETF India (S&P CNX Nifty)	Lyxor India Nifty	8.39	8.16	(2.74)
Lyxor ETF Japan (Topix®)	Lyxor Japan 10US\$	0.9	0.88	(2.22)
Lyxor ETF MSCI Korea	Lyxor Korea 10US\$	2.43	1.98	(18.52)
Lyxor ETF MSCI Taiwan	Lyxor Taiwan 10US\$	0.6	0.53	(11.67)
StreetTracks® Straits Times Index Fund	STI ETF	1.84	1.77	(3.80)
Lyxor ETF MSCI Asia APEX 50	Lyxor APEX 50 10US\$	2.38	2.12	(10.92)
Lyxor ETF MSCI Thailand	Lyxor Thailand 10US\$	2.87	2.67	(6.97)
Lyxor ETF MSCI Malaysia	Lyxor Malaysia 10US\$	4.88	4.54	(6.97)
Lyxor ETF MSCI India	Lyxor MS India 10US\$	9.24	6.78	(26.62)

Figures in bracket are negative

Month to Date 27<sup>th</sup> November 2008.

Base on the first and last traded price within the period

Source: Bloomberg, Phillip Securities Research



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## Exchange Traded Funds

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