

PHILLIP SECURITIES PTE LTD

Exchange Traded Funds

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 From Phillip Securities Research

4th May 2009

ETF Review

Various ETFs listed on SGX have registered some hefty gains in April. The better performance was in line with the massive advancement in equities.

The best performer was iShares MSCI India ETF. It posted a gain of approximately 23 percent in April. On the other hand, Db x-trackers S&P 500 Short ETF remains the worst performer. It declined by almost 11 percent in April. This is hardly a surprise as this ETF is an inverse ETF and is not expected to perform in a rising environment.

Please refer to the appendix section for performance of other ETFs.

Asset Class Performance Review

Equities – Equities extended its rally for a second month in April. Much of the excitement was centered on an economy that was performing less badly than expected. Banks such as Goldman Sachs, JP Morgan and Citi have all reported better-than-expected earnings. Fortunes of banking shares have largely dictated the stock market's direction.

Figure 1: Best and Worst Equity Indexes

Ranked Returns: Equity Indices		Page 1/6
Total: 90 Indices	Ret Period 7	Region 4
Base Curr	USD	Adjust? Y
Best Performing Indices		
1) PFTS Index		43.99
2) JAKARTA COMPOSITE INDEX	30.87	
3) Kazakhstan KASE Stock Ex	30.66	
4) SOFIX INDEX	30.35	
5) BUCHAREST BET INDEX	30.20	
6) ISE NATIONAL 100 INDEX	28.97	
7) BUDAPEST STOCK EXCH INDX	28.23	
8) WSE WIG 20 INDEX	27.31	
9) OMX HELSINKI 25 INDEX	27.02	
10) GENERAL MARKET INDEX CSE	24.84	
Worst Performing Indices		
11) BLOM STOCK INDEX	1.97	
12) OMX VILNIUS OMXV	1.96	
13) ADX GENERAL INDEX	1.73	
14) BOTSWANA GABORONE INDEX	1.60	
15) VENEZUELA STOCK MKT INDX	1.57	
16) JSE MARKET INDEX	.63	
17) BHSE ALL SHARE INDEX	.17	
18) EIASIA	n.a.	
19) Guayaquil Stock Exchange	n.a.	
20) Ghana Stock Exchange All	-5.00	

Source: Bloomberg

Report Snapshot

ETF Performance Review:

Best Performer: iShares MSCI India ETF

Worst Performer: Db x-trackers S&P 500 Short ETF

Equities: Much of the excitement in equities in the month was centered on an economy that was performing less badly than expected.

Commodities: Commodities as measured by the Commodities Research Bureau index declined marginally by 0.39 percent month-to-date. Among the various forms of commodities, metals continued to grow by the most as measured by the DJ-AIG industrial index.

ETF Recommendation

ETF on SGX	Trading Name
Lyxor Commodities CRB ETF	Lyxor Cmdty 10US\$

For more details, kindly refer to the report.



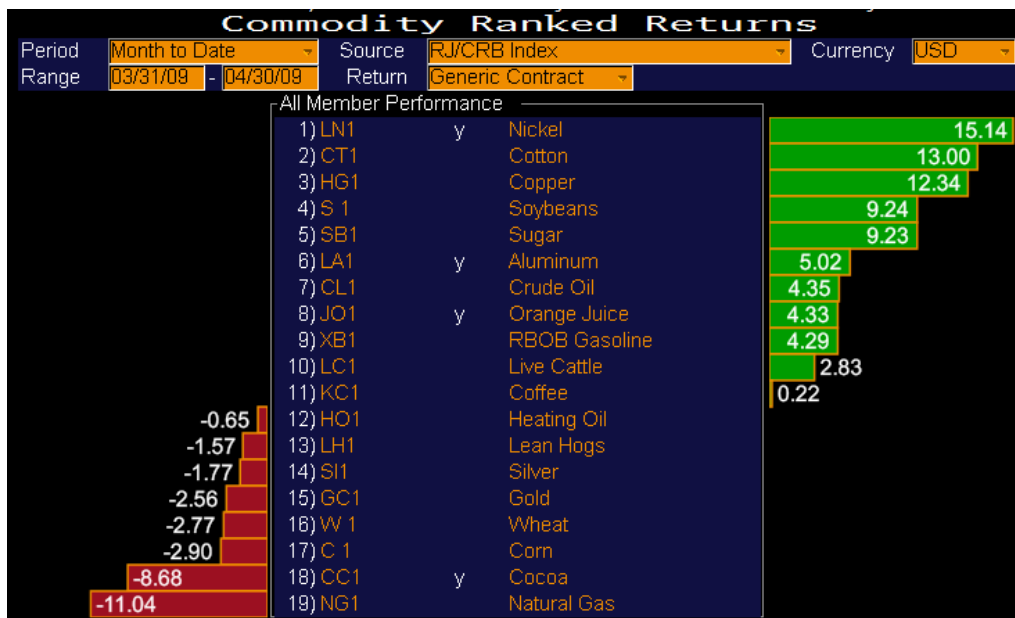
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Month-to-date, majority of the major indices have registered positive return. Dow gained approximately 7 percent, while Japan's Nikkei rose by almost 9 percent. Hong Kong's Hang Seng too gained. It advanced by approximately 14 percent. The local bourse grew as much as 13 percent. (For performance of other indices, kindly refer to the appendix.) Year-to-date, China continues to be the best performing market. It had gained as much as 36 percent since the beginning of 2009.

Commodities – Commodities as measured by the Commodities Research Bureau index rose marginally by 0.9 percent in April. Among the various forms of commodities, metals continued to grow by the most as measured by the DJ-AIG industrial index. It gained by about 9.6 percent in the month. Energy experienced a decline of about 6 percent, the gain registered in the month before. Soft commodities on the other hand increased by approximately 4.9 percent.

Figure 2: Best and Worst Performing Commodities Indexes



Source: Bloomberg

Copper performance slide slightly from the previous month as there was renewed concern that the global recession will further cut demand for metal used in construction and cars. Indeed, General Motors Corp said it will idle 13 assembly plants in the country for multiple weeks to trim inventory.

Crude oil also declined as the global recession reduced demand for fuels and OPEC slowed the rate of cuts to its production.



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Fixed Income – Sovereign Yields have come under pressure lately because of depletion of risk aversion in the market as investors return back to the equity market and an increasing amount of bonds issued. Even foreign central banks are cutting their holdings on US Treasuries. According to Reuters on a report released from the US central bank on 23 Apr 09, treasuries held by overseas central banks fell \$4.612 billion to \$1.838 trillion in the week ending 22 April 09. The market is expecting that the US Treasury will issue more bonds in the weeks to come as they have already embarked on a \$300 billion quantitative easing effort in order to keep borrowing rates from rising. Bond yields in the UK also came under pressure. Furthermore, Moody's and Standard and Poor's are reviewing the UK's AAA rating in light of the UK Chancellor's revelation that the national debt in the UK will reach 1.4 trillion pounds in the next 5 years, as the money has been used to help save the financial system. The pound had come under selling pressure after the UK Chancellor released the statement.

High Yields on the other hand did better. According to AMG Data Services, there were six straight weeks of strong inflows into high yield bonds from the 3rd week of April 09. The inflows totaled \$3.38 billion for the six weeks. The Merrill Lynch High Yield Master II Index is higher by 11.87% in year to date (23 Apr 09). If we look at the performance of various sector bonds taking proxies from various unit trusts, high yields have outperformed the rest of the bond funds.

Figure 3: Bond funds' performance YTD



As of 22nd Apr 2009
Source: Bloomberg



Macro Outlook

We are certainly more optimistic on the economic conditions in the States as data is pointing towards a moderation in the rate of contraction. Indeed, we continue to see improvements in indicators such as the ISM manufacturing index and US ECRI leading indicator.

However, although numbers have improved, there remain several challenges ahead of the US economy, including a huge loss of wealth via stocks and housing. As such, we think that the path of recovery will most likely be a gradual process.

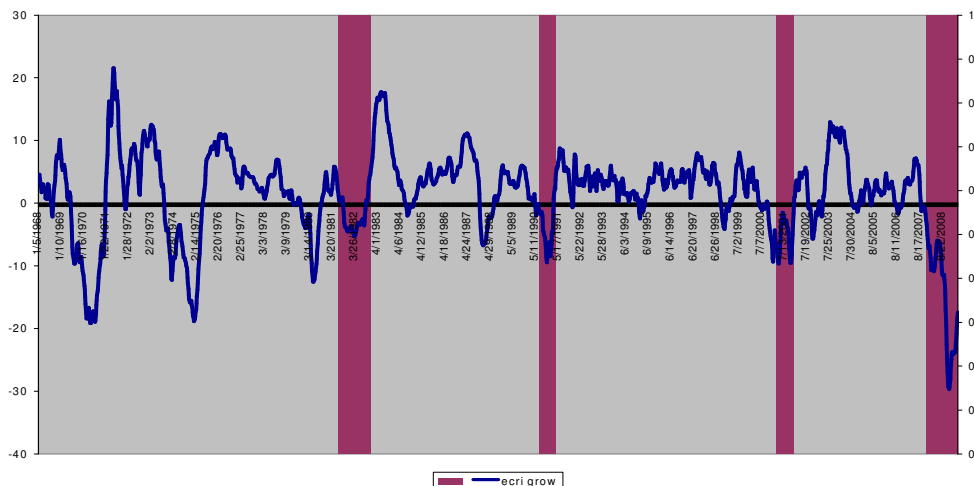
Data released in the United States

Among the indicators that gave us much to cheer about include improvement in the US ECRI weekly indicator, ISM manufacturing index and retail sales numbers.

US ECRI weekly leading indicator growth rate: This indicator has a good record of predicting turns in the business cycle and this is illustrated in figure 4. Periods of recessions are indicated by the purple bars in the diagram. As shown, when the indicator starts to turn and move upwards, it is signaling an economy that is on its path of recovery.

With respect to the current crisis, the index hit a low of -29.7 percent on 5th December 2008 and has since recovered. For the week ending 24th April 2009 the index rose to -17.6 percent. This can be seen as an indication that things are beginning to improve. Indeed, in an article in The Financial Times on 1st May 2009, it was reported that the research institute commented that “enough of its key gauges had turned upwards to indicate that a recovery is coming”.

Figure 4: Growth rate of US ECRI Weekly Leading Indicator



Source: Bloomberg, Phillip Securities Research Pte Ltd

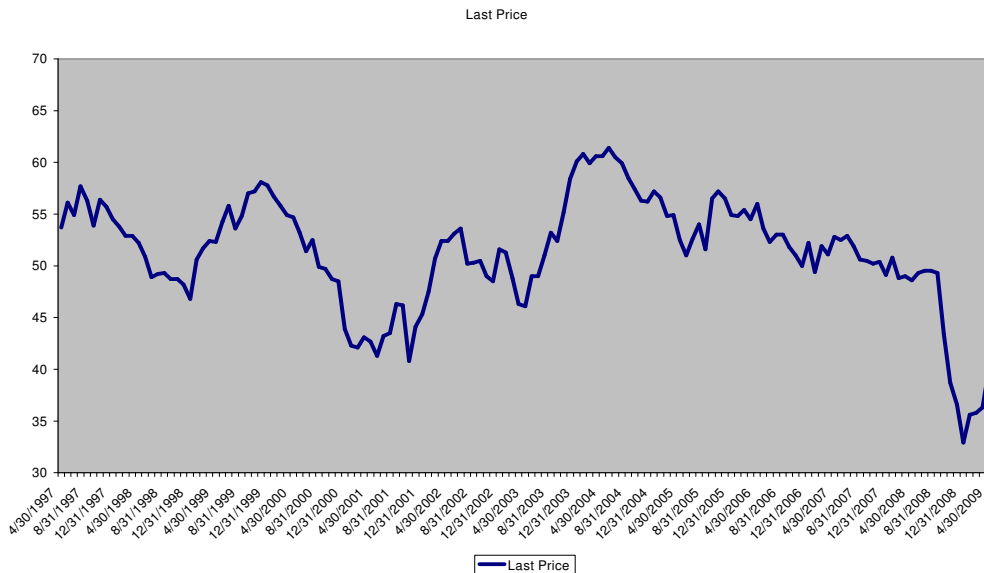


ISM Manufacturing Index: This is another indicator which is signaling a recovery in the economy. This index has edged higher for the fourth consecutive month in April. The index now stands at 40.1 percent, which is significantly higher than March by 3.8 percentage point. Despite the improvement, the manufacturing sector continues to contract for the 15th month as the reading came in below 50 percent.

Overall economy is also contracting as the index is below 41.2 percent. For the overall economy to expand, the reading must be in excess of 41.2 percent, over a period of time.

Nonetheless, although the manufacturing sector and overall economy is still contracting, it is encouraging to know that the pace of decline is slower.

Figure 5: ISM Manufacturing Index



Source: Bloomberg, Phillip Securities Research Pte Ltd

Readings of most sub indices have once again improved or declined at a slower pace. For instance, readings of new orders grew 6 percentage points to stand at 47.2 percent in April. Production index also improved. It registered 40.4 percent in April, an increase of 4.0 percentage point from March's reading of 36.4 percent. ISM's Employment index picked up as well. This index registered 34.4 percent, which is 6.3 percentage points higher than the 28.1 percent in the previous month.



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Table 1: Manufacturing at a glance April 2009

Index	Series Index Apr	Series Index Mar	% pt chg	Direction	Trend* (Mths)
PMI	40.1	36.3	+3.8	Contract	15
New Orders	47.2	41.2	+6.0	Contract	17
Production	40.4	36.4	+4.0	Contract	
Employment	34.4	28.1	+6.3	Contract	9
Supplier Deliveries	44.9	43.6	+1.3	Faster	7
Inventories	33.6	32.2	+1.4	Contract	36
Customers' Inventories	49.5	54.0	-4.5	Too low	1
Prices	32.0	31.0	+1.0	Decrease	7
Backlog of orders	40.5	35.5	+5.0	Contract	12
Exports	44.0	39.0	+5.0	Contract	7
Imports	42.0	33.0	+9.0	Contract	15
Overall Economy				Contract	7
Manufacturing Sector				Contract	15

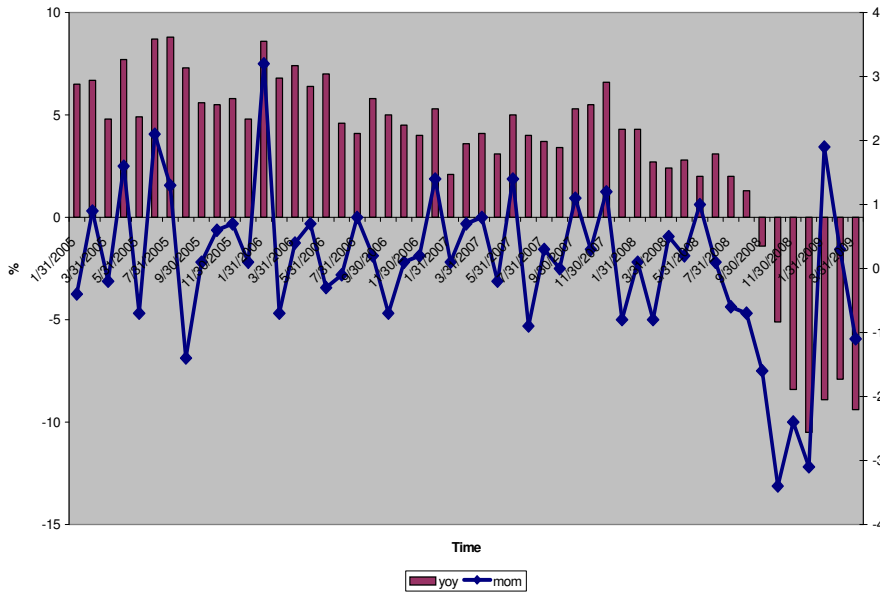
Source: Institute for supply management

Retail sales declined: U.S. retail and food services sales for March, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, were \$344.4 billion, a decline of 1.1 percent from the previous month and 9.4 percent below March 2008.

The January 2009 to February 2009 percent change was revised from -0.1 percent to 0.3 percent. Total sales for the January through March 2009 period were down 8.8 percent from the same period last year.



Figure 6: Retail sales MoM and YoY % change

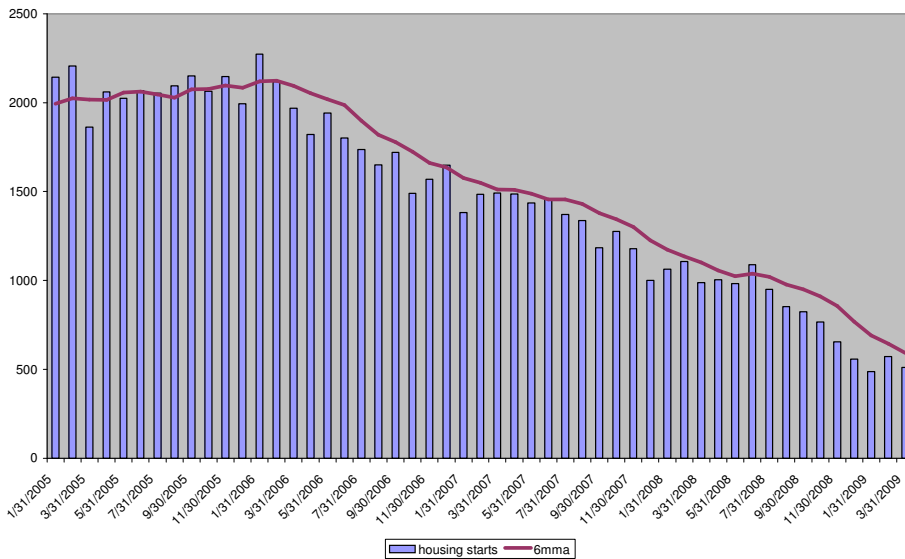




While the above indicators and data have suggested that things are improving, there is probably still a distance before activities really start to expand again. This is so as the housing market and the banking sector are still weak. Hence, we reiterate that recovery is not going to be quick and sharp. Instead, it is most likely going to be a gradual process.

Housing starts: In March, housing starts posted a sharp decline. It fell by 10.8 percent to 0.510 million units. This followed a 17.2 percent rebound the month before. On a y-o-y basis, housing starts is down by approximately 48 percent. The latest numbers are significantly below the consensus forecast for 0.570 million units.

Figure 7: Housing Starts



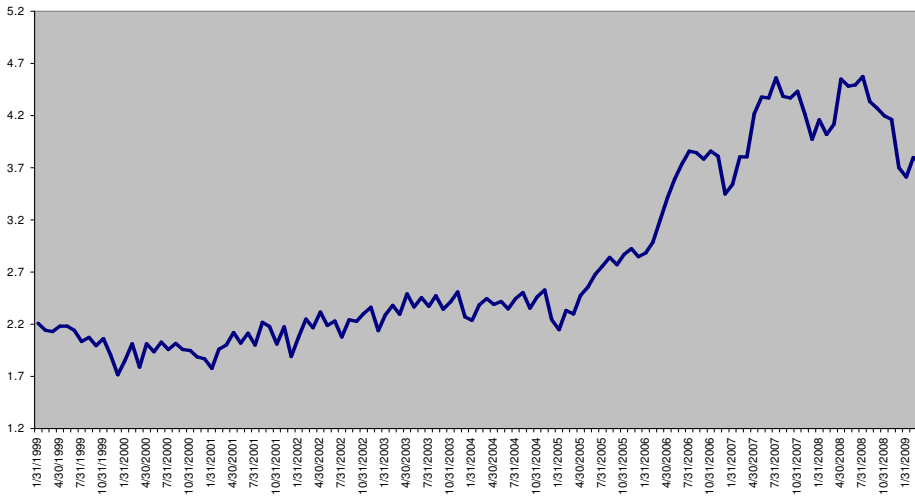
Source: Bloomberg, Phillip Securities Research Pte Ltd

As monthly figures are usually volatile and also according to the Commerce Department, it takes approximately six months for total housing starts to establish a trend, hence we have compared the monthly figures to the 6 months moving average (6mma) data. The 6mma is still pointing towards a downward trend for housing starts and thus shows that this sector remains under pressure from excess supply of unsold homes.

Indeed, with reference to figure 8, the current level of housing inventory is still relatively high from a historical standpoint although it has declined slightly in March. Total housing inventory at the end of March fell 1.6 percent to 3.74 million existing homes available for sale.



Figure 8: Housing Inventory



Million of units

Source: Bloomberg, Phillip Securities Research Pte Ltd

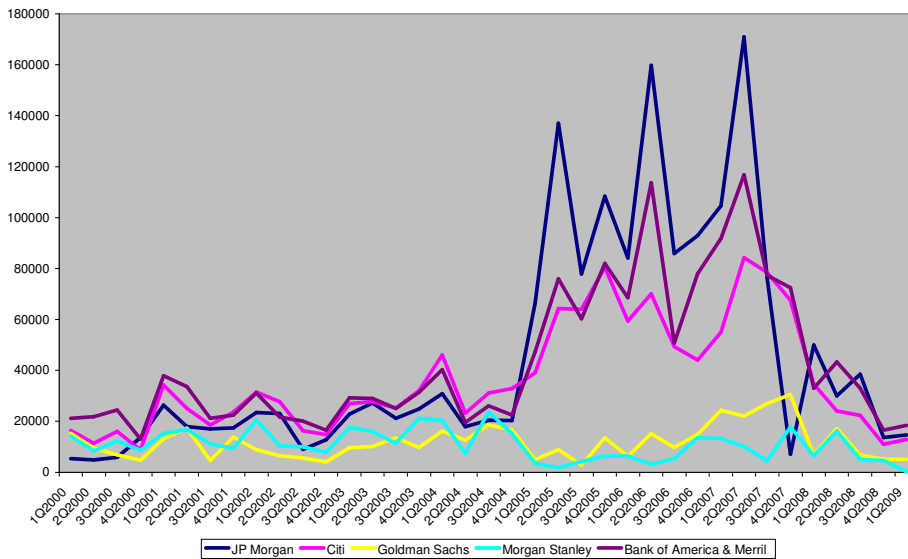
Conditions of the banking sector in the States: Several of the major banks such as Goldman Sachs, JP Morgan as well as Citi Bank have all reported better-than-expected earnings. We feel that there is probably not too much to be overjoyed about. The following are the reasons as to why we say so.

Firstly, expectations of the latest bank earnings were low to begin with. Hence, any slight improvement would be considered as an improvement and thus be better than expected.

Secondly, these companies generally benefited during the quarter from unusually strong bond trading. In other words, the bulk of the earnings were not generated from the banks' core activity which is lending. Indeed, the amount of loans generated by the various banks remains low and this is depicted in figure 7. This shows that although the Ted spread continues to remain at approximately 1 percent, which shows that banks are willing to loan to each other, there is simply no demand for them.



Figure 9: Bank loans



Source: Bloomberg, Phillip Securities Research Pte Ltd

Therefore, the current sources of earnings are easily reversible and not sustainable.

Thirdly, banks such as Bank of America have taken a \$13.4 billion provision for credit losses during the first three months of the year. This shows that the first-quarter profit of \$2.81 billion is insufficient to cover its provision for bad debts.

Due to the above mentioned factors, we remain negative on the banking sector.

Conclusion: Every recovery has to start somewhere and it's not possible to expect all sectors to recover simultaneously. As such, although there are still areas that remain weak, it is certainly encouraging to know that the rate of economic contraction is easing.

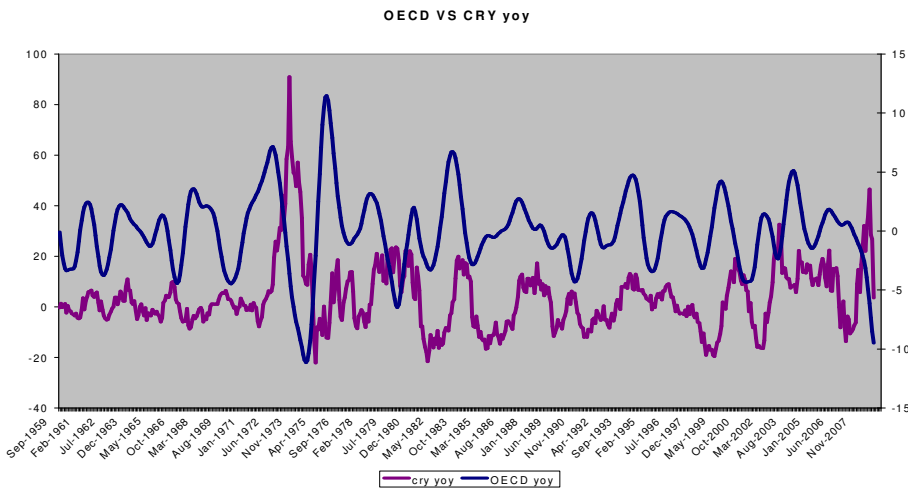


Recommended ETF

A necessary prerequisite for a resumption of growth is a moderation in economic shrinkage and we have found this condition in recent month's data.

An asset class that will benefit from a recovery in economic activities is the commodities sector. This is so as we believe that commodities are primarily driven by demand factors. This is illustrated in the diagram below.

Figure 10: OECD (CLI) Vs CRB Y-O-Y



Source: OECD, Bloomberg, Phillip Securities Research Pte Ltd

In figure 10, we showed the relationship between OECD composite leading indicator (CLI) and the CRB index. It is shown that commodities fall (rise) as the OECD CLI declines (increase).

This happens because OECD CLI provides early signals of future economic activity level and thus signals the level of demand for commodities. For instance, when the indicator declines, it would imply that activities will be slowing and hence there will be lesser demand for raw materials.

It is true to a large extent that supply too can dictate commodity prices. This is so as supply can be disrupted by depletion of arable land and oil mines, geo-political tension, adverse weather conditions and etc. However, we would argue that these are long term disruptions and should not dictate the near term trend of stable supply. In other words, in the short run, there is sufficient supply to meet demand. The same cannot be said for the long run.

Table 3 shows global supply and demand for various commodities. It is depicted that production is greater than consumption for most of the commodities.



Table 3: Global Supply & Demand Balance

Commodity	Production	Consumption
Corn (1000 Metric Tons)	739,815	723,816
Wheat (1000 Metric Tons)	664,125	600,202
Soybean (1000 Metric Tons)	233,532	230,331

Source: Bloomberg. As of 4th May 2009

Therefore, given that supply is relatively stable in the short run, we would argue that the prime driver of higher commodity prices is demand.

Given that contraction in economic activities is easing (as explained earlier), we believe that demand for commodities will start to improve. Therefore, we prefer Lyxor Commodities CRB ETF.

The Lyxor Commodities CRB ETF tracks the performance of the Reuters/Jefferies CRB Index and from a technical perspective the underlying has recently broke its key resistance level. As shown in the diagram below, the CRB index broke its resistance at 231 and the next resistance level is seen at 244.

Figure 11: CRB index



As of 4th May 2009
Source: Bloomberg

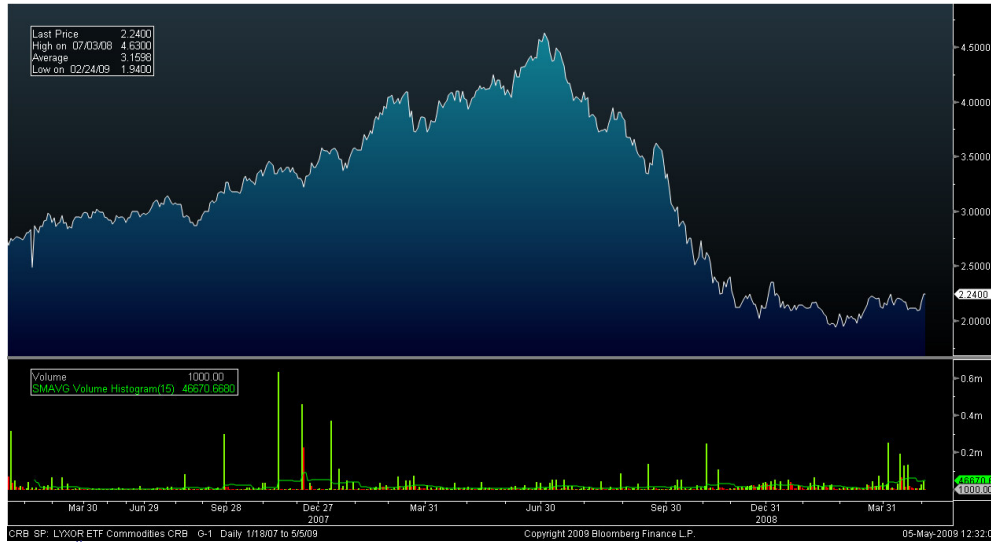
With regards to the ETF, it hit a low of US\$1.91 in December and the 52 week high was at US\$4.64. For the month of April, the ETF gained approximately 2 percent.



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Figure 12: Trading volume and price performance of Lyxor Commodities CRB ETF

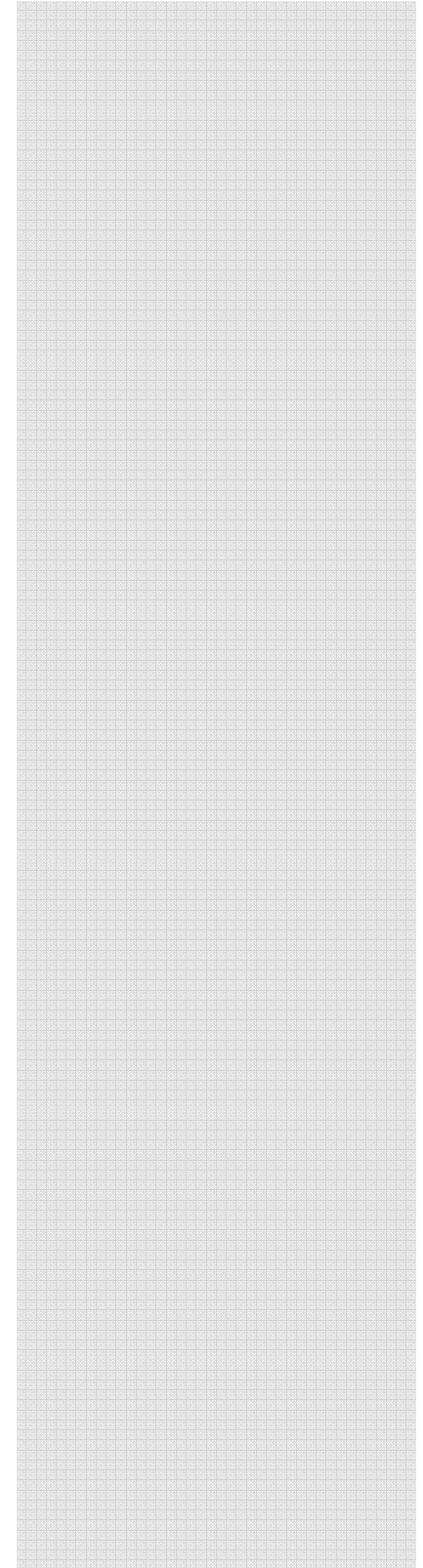


As of 4th May 2009
 Source: Bloomberg

Fast facts on Lyxor Commodities CRB ETF

NAV	\$2.14			
Expense Ratio	N.A			
Management Fee	0.350			
52 Week Hi	\$4.64			
52 Week Lo	\$1.91			
Market Cap (mil)	\$82.88			
Total Return %	1 Mth	3 Mth	YTD	1 Yr
	2.84	1.40	2.84	-46.02

As of 4th May 2009
 Source: Bloomberg





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Appendix

Appendix 1: Performance of major equity indexes

Index	Month-to-Date % Chg	Year-to-Date % Chg	% Chg from Peak	Close
MSCI World	10.90	(2.96)	(46.92)	893.02
Dow Jones	7.35	(6.93)	(42.33)	8168.12
S&P500	9.39	(3.37)	(44.23)	872.81
FTSE First 100	8.09	(4.30)	--	4243.71
FTSE Euro First 300	14.69	(2.95)	--	2375.34
Nikkei 225	8.86	(0.35)	--	8828.26
Hang Seng	14.33	7.88	(50.94)	15220.99
Shanghai Composite	4.40	36.07	(59.33)	2477.569
Taiwan Taiex	15.00	30.52	--	5992.57
KOSPI	13.52	21.78	(33.68)	1369.36
Sensex	17.46	18.20	(45.37)	11403.25
FSSTI	12.96	9.01	(49.88)	1920.28

Figures in bracket are negative.

As of 30th Apr 2009.

Source: Bloomberg, Phillip Securities Research



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Appendix 3: ETF performance for March

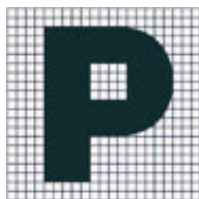
ETF on SGX	Trading Name	31 st Mar (US\$)	30 th Apr (US\$)	% Change
CIMB FTSE ASEAN 40 ETF	CIMBASEAN 40 100US\$	4.79	5.47	14.20
DBS Singapore STI ETF	DBS STI 100	1.71	1.90	11.11
Db x-trackers FTSE/Xinhua China 25 ETF	DBXT FTChina 25 10US\$	20.48	21.98	7.32
Db x-trackers MSCI Taiwan TRN Index ETF	DBXT MSTaiwan 10US\$	10.26	12.50	21.83
Db x-trackers S&P 500 Short ETF	S&P 500 Inverse Index	80.68	71.69	(11.14)
Db x-tracker S&P CNX Nifty ETF	S&P CNX Nifty Index	60.78	73.18	20.40
SPDR® Gold Shares	GLS 10US\$	90.60	88.50	(2.32)
iShares MSCI India ETF	IS MSCI India 100US\$	3.39	4.17	23.01
Lyxor MSCI AC Asia-Pacific Ex Japan	Lyxor Asia 10US\$	2.55	2.95	15.69
Lyxor China Enterprise (HSCEI)	Lyxor China H 10US\$	10.43	11.94	14.48
Lyxor Commodities CRB	Lyxor Cmdty 10US\$	2.11	2.17	2.84
Lyxor Hong Kong (HSI)	Lyxor Hang Seng 10US\$	1.78	2.04	14.61
Lyxor India (S&P CNX Nifty)	Lyxor India Nifty	8.97	10.70	19.29
Lyxor Japan (Topix®)	Lyxor Japan 10US\$	0.812	0.872	7.39
Lyxor ETF MSCI Korea	Lyxor Korea 10US\$	2.43	2.90	19.34
Lyxor ETF MSCI Taiwan	Lyxor Taiwan 10US\$	0.607	0.745	22.73
StreetTracks® Straits Times Index Fund	STI ETF	1.72	1.93	12.21
Lyxor MSCI India	Lyxor MS India 10US\$	7.71	8.69	12.71
Lyxor Commodities CRB Non Energy ETF	LyxorCRBNonEng 10US\$	1.83	1.86	1.64

Figures in bracket are negative

Month to Date 30th April 2009.

Base on the first and last traded price within the period

Source: Bloomberg, Phillip Securities Research



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