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 From Phillip Securities Research

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Macro Performance

Equities review

Equities were once again in the red as investors' confidence gets hit and shaken by a series of heart wrenching events – Lehman filed for Chapter 11, Merrill Lynch bought over by Bank of America and Federal Reserve has to lend \$85 billion to AIG, the largest insurer.

From the beginning of the month till the 29th, we saw Dow Jones shed as much as 10 percent (1178 points) while S&P 500 declined by 13 percent (176 points). Regional bourses largely follow suit. STI fell 13 percent (378 points) while Hang Seng dipped 15 percent (3381 points). On another hand, Nikkei 225 dropped 10 percent (1329 points). (Kindly refer to table 1 for performance of other indexes). Many of the indexes have either broken their psychological support level or are currently testing it.

Compared to its high, Dow has already declined by 26 percent and S&P by 29 percent. Meanwhile, Asian bourses such as STI have come off 38 percent and Hang Seng by 43 percent. (Please refer to table 2 for other indexes).

If historical data is of any guide, it has been observed that indexes largely fall by 50 percent from its peak during economic crisis before recovering. Despite so, one should not be in despair as the bear tends to be shorter than the bull and the bull usually comes back stronger.

Commodities review

Commodities have historically been resilient to economic downturns. As shown in figure 1, commodities do not go through the same momentum swings that we see in equities. However, we see that this asset class is moving in tandem with equities recently.

Report Snapshot

Equities:

Equities were once again in the red as investors' confidence gets hit and shaken by a series of heart wrenching events.

Commodities:

Commodities too fell although this asset class has historically been resilient to economic downturn.

ETF Recommendation

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

For more details, kindly refer to the report.



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Exchange Traded Funds

Commodities had a strong run earlier this year and after reaching a peak sometime in early July, it has since been on the decline. Till date, the CRB index has dropped by approximately 27 percent from the high. As of 29th Sep, the index is at 343.22 points.

From a high of US\$1000, gold has fallen by 9 percent (US\$93). The decline was initially more significant. However, with Lehman, AIG and Merrill running into problems, we saw investors flocking from equities to safe haven assets like gold and this helped pushed gold prices higher.

Another highly tracked commodity oil, has also fallen from its high. It has dipped by 33 percent (US\$48). Although supply remains tight, with many countries running the risk of entering into recession, we expect demand to come off by a greater amount and this should help crude prices to ease further.

On the other hand, other popular commodities like corn, soybean and wheat are still on the decline. Details are shown in table 3.

The best performing commodity contract between till 29th Sep is gold. It gained 8.85 percent. On the other hand, the worst performing contract for the same period is orange juice. It fell by 22.51 percent.

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 to the States in the month of September.

A series of heart wrenching events pervaded the financial industry. Firstly, Lehman Brothers, with 158-years of history, announced on 15th Sep that it is filing for Chapter 11 bankruptcy after failed attempts to seek for buyers. Refusal by the Federal Reserve to provide sweeteners to ease the takeover deal caused many potential buyers to walk away. The latest development is that Barclay PLC, the third largest British bank has agreed to pay US\$1.75 billion for some of the bank's prime US assets. **Secondly**, Merrill Lynch is sold to the Bank of America for \$50 billion in an all-stock deal. **Thirdly**, Federal Reserve is giving a two-year, \$85 billion loan to AIG in exchange for a nearly 80 percent stake in the company, which lost billions in the risky business of insuring against bond defaults.

Table 1: Performance of major indexes for the month

Index	% change	Closing
Dow Jones	(10.2)	10365.45
S&P 500	(13.8)	1106.39
FTSE 100	(14.5)	4818.77
FTSE Euro First 300	(12.4)	1047.04
Nikkei 225	(10.2)	11743.61
Hang Seng	(15.9)	17880.68
STI	(13.8)	2361.34
Sensex	(13.5)	12595.75
Shanghai Composite	(4.3)	2293.784

As of 29th Sep 2008

Source: Bloomberg, Phillip Securities Research

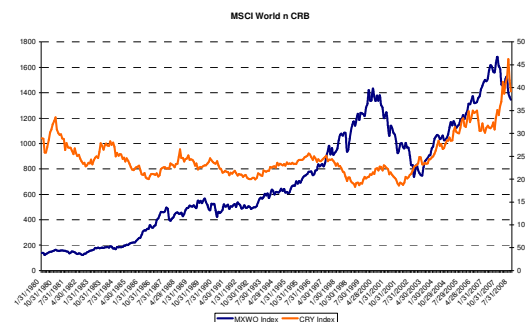
Table 2: Percentage Decline from the peak

Index	% change	Change
Dow Jones	(26.8)	(3799.08)
S&P 500	(29.3)	(458.76)
Hang Seng	(43.5)	(13757.5)
STI	(38.4)	(1469.85)
Sensex	(39.7)	(8277.58)
Shanghai Composite	(62.3)	(3798.27)

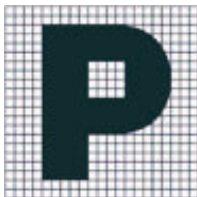
Correct as of 29th Sep 2008

Source: Bloomberg, Phillip Securities Research

Figure 1: MSCI World and CRB Index



Source: Bloomberg, Phillip Securities Research



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Although authorities and major central banks came together to provide liquidity to each other, relief only arrived when there was news that the federal government may create an entity to absorb banks' bad debt. However, hopes were soon dashed as the House of Representatives rejected the bailout plan last night.

The Fed kept rates on hold at 2 percent. The Fed, acknowledging strains upon the financial markets, reminded investors that it has taken steps to inject more cash into the banking system. They have mentioned that those moves and earlier rate cuts should foster moderate economic growth over time.

Economic data is still pointing towards a weak economy. Firstly, **unemployment rate** in the States has reached a new high. Unemployment rate for Aug was 6.1%. With the fallout of major financial institutions, unemployment rate will inevitably trend higher. Secondly, **retail sales** continue to decline. On a month-on-month (m-o-m) basis, it dipped by 0.49 percent in July. This is the first decline since Feb this year and it suggests that the boost from the tax stimulus injected by the government earlier this year has faded. The latest data showed that Aug retail sales fell by 0.27 percent from July. Although it is an improvement from the previous month, it shows that consumption power is still weak.

We largely believe that economic conditions and outlook in the States remain weak. Downside risks remain. As such, we feel that it is still too early to sound the all clear for equities.

Table 3: Percentage Decline from the peak

Index	% change	Change US\$
Gold	(9.3)	(93.5)
Crude	(33.7)	(48.9)
Soybean	(32.9)	(537)
Corn	(34.9)	(275)
Wheat	(46.9)	(589.5)

Correct as of 29th Sep 2008

Source: Bloomberg, Phillip Securities Research

Figure 2: Best and Worse Performing Commodity Contracts



Source: Bloomberg. Correct as of 29th Sep 2008.

Table 4: 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	382.19	(0.49)
Aug	381.169	(0.27)

Source: Bloomberg, Phillip Securities Research



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Exchange Traded Funds

Recommended ETF

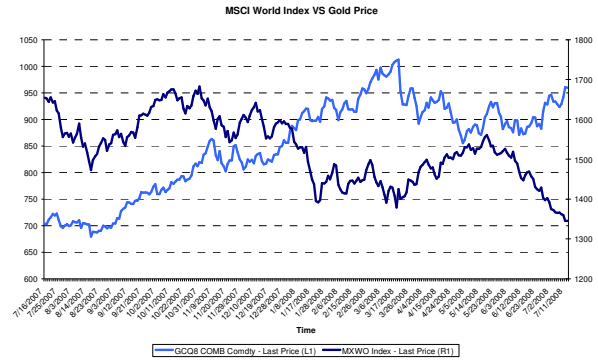
As mentioned earlier, we feel that it is still rather early to sound the all clear for equities and hence we prefer defensive sectors or assets that are negatively correlated to equities. Based on the list of exchange traded funds available on SGX, the SPDR Gold Shares (Gld 10 US\$) fits this criteria.

Gold serves as a hedge against falling equities. As shown in figure 3, 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.¹

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

Figure 3: Negative correlation between Gold and Equities



Source: Bloomberg, Phillip Securities Research

Fast facts on SPDR Gold shares

NAV	US\$89.12			
INAV	US\$89.46			
52 Week Hi	US\$101.04		(3/17/08)	
52 Week Lo	US\$ 71.8		(10/4/07)	
Market Cap (mil)	US\$21024.85			
Total Return %	1 Mth	3 Mth	YTD	1 Yr
	4.14	-5.66	4.01	17.75

Information correct as of 29th Sep 2008

Source: Bloomberg

1. Jastram, Roy. The Golden Constant: The English and American Experience 1560-1976. New York, New York: John Wiley & Sons, 1977.



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Exchange Traded Funds

Appendix

Table 1: ETF performance for Sep

ETF on SGX	Trading Name	1 st Sep (US\$)	29th Sep (US\$)	% Change
CIMB FTSE ASEAN 40 ETF	CIMBASEAN 40 100US\$	7.93	6.95	(12.4)
SPDR® Gold Shares*	GLS 10US\$	81.98	85.96	4.1
iShares MSCI India ETF	IS MSCI India 100US\$	5.95	4.78	(20.6)
Lyxor ETF MSCI AC Asia-Pacific Ex Japan	Lyxor Asia 10US\$	3.86	3.45	(12.7)
Lyxor ETF China Enterprise (HSCEI)	Lyxor China H 10US\$	14.72	11.64	(30.7)
Lyxor ETF Commodities CRB	Lyxor Cmdty 10US\$	3.83	3.48	(9.8)
Lyxor ETF Hong Kong (HSI)	Lyxor Hang Seng 10US\$	2.71	2.37	(13.8)
Lyxor ETF India (S&P CNX Nifty)	Lyxor India Nifty	13.88	11.5	(18.5)
Lyxor ETF Japan (Topix®)	Lyxor Japan 10US\$	1.14	1.1	(3.5)
Lyxor ETF MSCI Korea	Lyxor Korea 10US\$	3.53	3.51	(6.6)
Lyxor ETF MSCI Taiwan	Lyxor Taiwan 10US\$	0.86	0.74	(17.8)
StreetTracks® Straits Times Index Fund	STI ETF	2.84	2.49	(12.3)

Figures in bracket are negative

Month to Date 29th September 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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