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 From Phillip Securities Research

22nd Aug 2008

Macro Performance

Equities

Major equities rebounded from the month before. This is evident in Table 1. From the beginning of the month till 21st Aug, Dow Jones increased by 0.92 percent while S&P 500 registered a gain of 1.37 percent. UK rose as well. FTSE 100 advanced by 0.29 percent since the start of the month. However, the performance of Asian indices was disappointing. Nikkei 225 was down by approximately 2.61 percent while Hang Seng decreased 10.29 percent. Within this period, the best performing equity was the Ho Chi Minh Stock Index, which gained 21.19 percent. The worst performing index was the Amex Fro Settlement GS. This index fell by 16.71 percent. This is shown in figure 1.

Exchange Traded Funds (ETFs) listed on SGX did not follow the rebound seen in major equities. All ETFs were lower from the start of the month until 21st Aug. Lyxor ETF Hong Kong (HIS) (Lyxor Hang Seng 10 US\$) and Lyxor ETF China Enterprise (HSCEI) (Lyxor China H 10US\$) were the weakest performers. They declined by 10.34 and 14.63 percent respectively. (Performance of various ETF is shown in appendix.)

Commodities

Commodities prices have been on the decline. From a high of 473.52 points, the Reuters/Jefferies Commodity Research Bureau (CRB) index has declined by 14 percent, to settle at 405.92 points on 21st August.

Among agricultural products, wheat futures have fallen by 27 percent from its high, soybeans by 18 percent and corn by 22 percent. Similarly, gold has also dipped by approximately \$166 from its high of \$1002 seen in March. This is a decline of about 17 percent. It last traded at \$837 on 21st August. Oil price has been the focus of the commodities sector. The recent plunge has brought prices

Report Snapshot

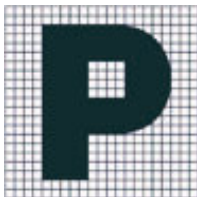
Equities: Major equities rebounded from the previous month. Dow Jones increased by 0.92 percent while S&P500 registered a gain of 1.37 percent. Asian indices was however disappointing. Nikkei 225 was down by approximately 2.61 percent while Hang Seng decreased 10.29 percent.

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ETF Recommendation

ETF on SGX	Trading Name	Recommendations
Lyxor ETF China Enterprise (HSCEI)	Lyxor China H 10 US\$	Overweight

For more details, kindly refer to the report.



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down by over \$20 from a record high of \$145.29. A barrel of light, sweet crude settled at \$121.18 on the New York Mercantile Exchange on 21st Aug.

In tandem with the performance of the commodity sector, SPDR® Gold Shares (GLD 10US\$) dipped by 7.90 percent for the first three weeks of August. Similarly, Lyxor ETF Commodities CRB (Lyxor Cmdty 10US\$) fell by 4.23 percent in the same period.

Recommended ETF

Our Macro view largely stems from the United States as we believe that the US economy models the world economy. As such, let's examine the performance of key economic indicators released in the month of August.

Fed rate - The Fed has left rates on hold at 2 percent on the 6th August. This decision hardly came as a surprise. With that, the Fed rate has been kept on hold for four consecutive months.

Consumer Price Index – Consumer price index rose to 5.6 percent in July. Month-on-Month (m-o-m), the index increased by 0.8 percent. This was largely attributed by further increases in the prices of food and energy in July. Energy increased by 4 percent m-o-m in July. Similarly, food prices grew 0.9 percent m-o-m. These figures are also shown in table 2. As mentioned earlier (under the commodities section), commodities prices have tumbled significantly from their peak. As such, we expect inflation to ease in the month of August. Despite so, the possibility of cutting interest rates to boost growth remains low.

Retail Sales – Retail sales data is an indicator of consumer spending on any major scale. It has declined by 0.1% m-o-m in July. The dip was accounted by a drop in motor vehicle sales. This is the first decline since Feb this year and it suggests that the boost from the tax stimulus injected by the government is fading. Moreover, with unemployment still on the rise (it climbed by 0.2 percent from June to July), further decline in retail sales in coming months should not be a surprise.

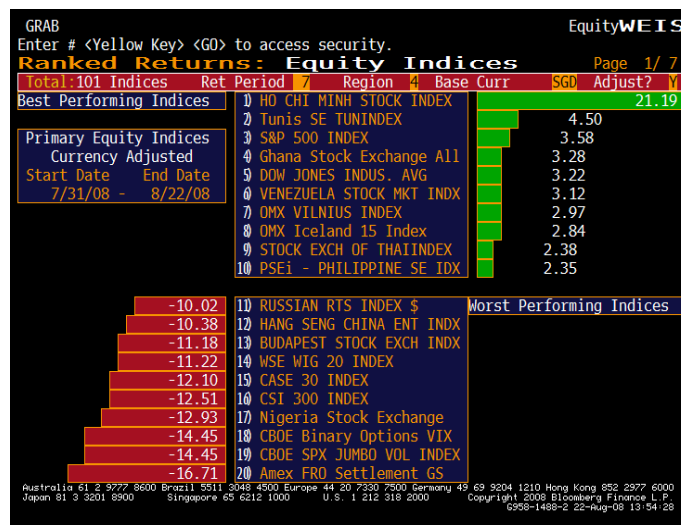
The latest concern for the financial market is that there may be a need for the US government to bail out mortgage financiers Fannie Mae and Freddie Mac. Such news reaffirmed the belief that the credit crisis has not bottomed out.

Table 1: Performance of major indexes

Index	% change	Closing (21 st Aug)
Dow Jones	0.92	11430.21
S&P 500	1.38	1277.72
FTSE 100	0.29	5370.2
Nikkei 225	-2.61	12752.21
Hang Seng	-10.29	20392.06

Source: Bloomberg, Phillip Securities Research

Figure 1: Best and Worst Performing Equity Indexes

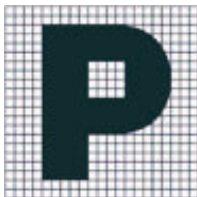


Source: Bloomberg

Table 2: Consumer Price Index

	All items		Ex Food & Energy		Energy	Food
	%mom	%yoy	%mom	%yoy	%mom	%mom
Jul	0.8	5.6	0.3	2.5	4.0	0.9
Jun	1.1	5.0	0.3	2.4	6.6	0.8
May	0.6	4.2	0.2	2.3	4.4	0.3
Apr	0.2	3.9	0.1	2.3	0.0	0.9
Mar	0.3	4	0.1	2.4	1.9	0.2
Feb	0.0	4	0.0	2.3	-0.5	0.4
Jan	0.4	4.3	0.3	2.5	0.7	0.7

Source: Bloomberg, Phillip Securities Research



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The above factors suggest that economic activities are still low and slow. Hence the economic prospect of the United States remains uncertain and gloomy for the rest of this year. As such it is in our view that the US economy is still in stagflation, where we see increasing price levels and declining growth. At this stage of the economic cycle, it is attractive to invest into value equities.

Lyxor ETF China Enterprise (HSCEI)

The Chinese market continues to be under selling pressure. From the beginning of this month till 20th Aug, the Shanghai Composite Index fell by approximately 10 percent.

Olympics - Many have hope that the Olympics will boost a downbeat equity market. Historically, it has not been proven that the Olympics will always improve the performance of equities. Although there were countries such as Republic of Korea which saw a booming market in the year they hosted Olympics, there were also examples of equities falling during the game. An example was the Olympics held in Sydney. Indeed, the Shanghai composite index continues to fall even as the four yearly International sports event unrolled. We feel that this is largely due to the ongoing global credit crisis which caused investors to remain cautious.

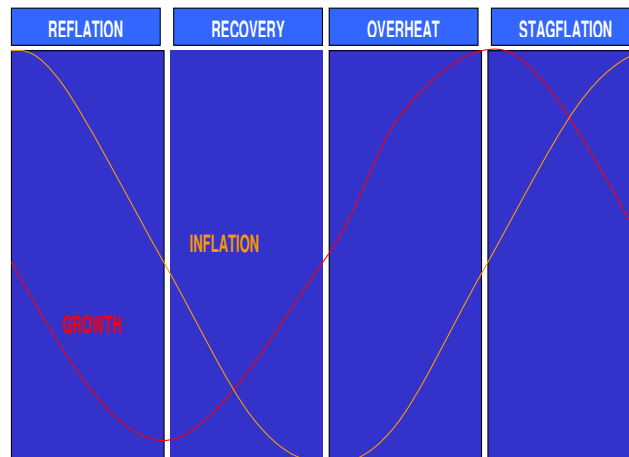
Economic conditions in China:

Consumption - Consumption in China remains strong. Retail sales rose 14 percent in real terms in the first seven months of 2008, with growth rising to a record 17 percent year-on-year (y-o-y). On the average, consumption accounts for 44 percent of China's GDP. Continuous growth in consumption is vital to the development of the country.

Inflation - Inflation in China continues to drop. The Consumer Price Index in July fell to 6.3 percent from 7.1 percent year-on-year. This marked the third consecutive decline. The decline was sharper than expected (Bloomberg consensus is expecting inflation to be at 7 percent for the third quarter of this year).

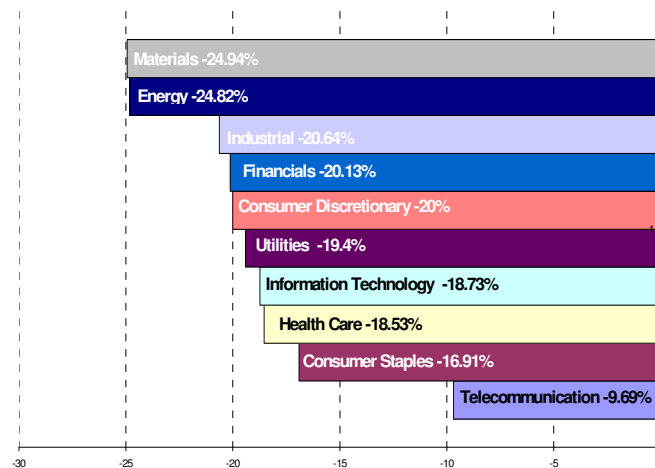
Although the inflation level has fallen, it did not lead to a reduction in the reserve requirement ratio. The ratio remains at 17.5 percent. This means that banks continue to hold a large amount of reserves in their vault. However, given that inflation conditions are improving, it allows the

Figure 3: Economic Cycle



Source: Phillip Securities Pte Ltd

Figure 4: Performance of sectors China



Source: Bloomberg, Phillip Securities Research



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government to concentrate on the growth of the economy.

Money supply - The amount of money in the system remains healthy. Month on month, the amount of money in the system is still growing. Based on the latest available data, M1 grew by 0.98 percent from May to June. This is deemed as a healthy sign as money is essential for the growth of the economy.

Potential economic stimulus – There are speculations that the China's leaders are carefully considering an economic stimulus package of at least 200-400 billion Yuan (US\$29-58 billion). The potential stimulus package would be equivalent to 1.0 to 1.5 percent of GDP. This package is said to be in addition to projected spending for Sichuan rebuilding fund. In the event that such a package is implemented, it would be a positive catalyst for the economy.

One can gain exposure to the China market via Lyxor ETF China Enterprise (HSCEI) (Lyxor China H 10 US\$). This ETF tracks the performance of the Hang Seng China Enterprises Index. As of 31st July 2008, this index largely overweighs the banks. Approximately 38.55 percent of the index is allocated to the banking sector. The other sectors which are weighted include the oil and gas sector, the basic resources sector as well as the insurance sector. Percentages allocated to these areas are 16.21 percent, 12.64 percent and 13.43 percent respectively. Performances of the major sectors are shown in figure 4.

Figure 5: Performance of Lyxor China H 10 US\$



Source: Bloomberg, Phillip Securities Research



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Appendix

Table 1: ETF performance for June

ETF on SGX	Trading Name	1 st Aug (US\$)	21 st Aug (US\$)	% Change
CIMB FTSE ASEAN 40 ETF	CIMBASEAN 40 100US\$	8.33	7.90	(5.44)
SPDR® Gold Shares*	GLS 10US\$	89.45	82.38	(7.90)
iShares MSCI India ETF	IS MSCI India 100US\$	6.30	5.92	(6.03)
Lyxor ETF MSCI AC Asia-Pacific Ex Japan	Lyxor Asia 10US\$	4.14	3.86	(6.76)
Lyxor ETF China Enterprise (HSCEI)	Lyxor China H 10US\$	16.20	13.83	(14.63)
Lyxor ETF Commodities CRB	Lyxor Cmdty 10US\$	4.02	3.85	(4.23)
Lyxor ETF Hong Kong (HIS)	Lyxor Hang Seng 10US\$	2.90	2.60	(10.34)
Lyxor ETF India (S&P CNX Nifty)	Lyxor India Nifty	14.70	13.80	(6.12)
Lyxor ETF Japan (Topix®)	Lyxor Japan 10US\$	1.19	1.16	(2.52)
Lyxor ETF MSCI Korea	Lyxor Korea 10US\$	4.13	4.04	(2.18)
Lyxor ETF MSCI Taiwan	Lyxor Taiwan 10US\$	0.90	0.88	(2.22)
streetTracks® Straits Times Index Fund	STI ETF	2.96	2.78	(6.08)

Figures in bracket are negative

From 1st Aug 2008 to 21st August 2008.

Base on the last traded price within the period

Source: Bloomberg, Phillip Securities Research



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