



# PHILLIP SECURITIES PTE LTD

## Exchange Traded Funds

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From Phillip Securities Research

29<sup>th</sup> May 2009

### ETF Review

Various ETFs listed on SGX continued to register some hefty gains in May. The better performance was in line with the advancement in equities.

The best performer was once again iShares MSCI India ETF. It posted a gain of approximately 41 percent in May. On the other hand, Db x-trackers S&P 500 Short ETF remained the worst performer. It declined by about 3.7 percent in May. 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** – Major equity indices continued to register positive returns in May. This marked the third straight monthly gain for most of the indices.

Asian markets once again led the pack in May. India's BSE Sensex index, Hong Kong's Hang Seng stock index and Singapore's FSST index have registered gains between 28 to 17 percent. (Please refer to the appendix section for performance of major indices).

### Figure 1: Best and Worst Equity Indexes

Ranked Returns: Equity Indices		Page 1/6
Total: 92 Indices	Ret Period 7	Region 4
Base Curr	USD	Adjust? Y
<b>Best Performing Indices</b>		
1) GENERAL MARKET INDEX CSE		53.78
2) CROATIA ZAGREB CROBEX		44.92
3) BELEX15 INDEX		43.31
4) Nigeria Stock Exchange		39.09
5) BSE SENSEX 30 INDEX		36.53
6) PFTS Index		34.60
7) PERU LIMA GENERAL INDEX		34.47
8) RUSSIAN RTS INDEX \$		30.58
9) Kazakhstan KASE Stock Ex		28.76
10) HO CHI MINH STOCK INDEX		28.04
<b>Worst Performing Indices</b>		
11) AMMAN SE GENERAL INDEX		n.a.
12) KUWAIT SE PRICE INDEX		n.a.
13) MSM30 Index		n.a.
14) TADAWUL ALL SHARE INDEX		n.a.
15) TEL AVIV 25 INDEX		n.a.
16) TAIWAN TAIEX INDEX		n.a.
17) DSE General Index DGEN		n.a.
18) Guayaquil Stock Exchange		n.a.
19) Ghana Stock Exchange All		n.a.
20) VENEZUELA STOCK MKT INDX		-2.52

Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000

Source: Bloomberg

### Report Snapshot

#### ETF Performance Review:

Best Performer: iShares MSCI India ETF

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

**Equities:** Major equity indices continued to register positive returns in May. This marked the third straight monthly gain for most of the indices.

**Commodities:** Commodities as measured by the Commodities Research Bureau index reversed the dip seen in the previous month to register a decent gain of 12.3 percent in May.

#### 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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**Commodities** – Commodities as measured by the Commodities Research Bureau index reversed the dip seen in the previous month to register a decent gain of 12.3 percent in May. Among the various forms of commodities, energy gained the most; largely boosted by a rebound in oil prices. The DJ-AIG energy index gained as much as 22.6 percent for the month. Soft commodities had some decent gains as well. The DJ-AIG agriculture index rose 11.5 percent. Although metals also gained, the advance was not as significant relative to the other two forms of commodities. It rose by approximately 5.7 percent.

**Figure 2: Best and Worst Performing Commodities Indexes**



Source: Bloomberg

Copper performance continued to slide for the second month while crude oil reversed previous month's losses to register some hefty gains of approximately 30 percent.

We continue to like this asset class in the near term as we believe that various economic stimulus plans will help to create demand for this asset class.

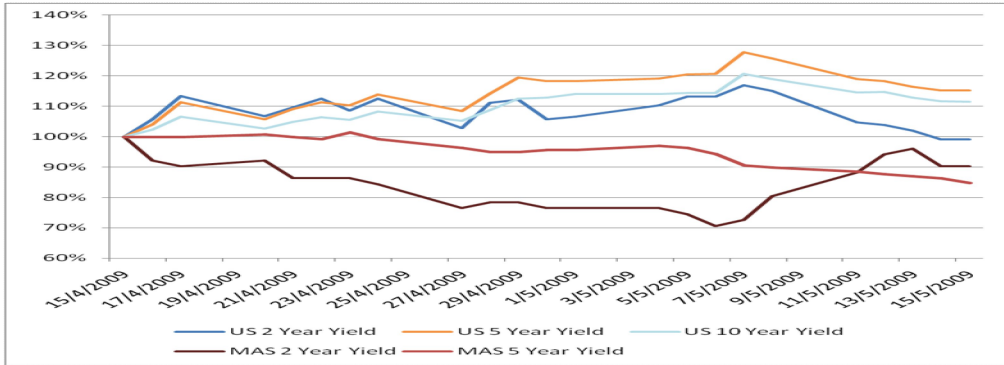
**Fixed Income** – The decreased risk aversion in the market saw most US sovereign yields head higher at the beginning of May 09. But as we approach the middle of the month, yields have slowly creped lower. This has happened on continued buying by the US Treasury in a bid to keep yields low for US homeowners to re finance and to maintain life support for the US financial system. Figure 3 shows the performance of the Singapore and US sovereign yields. It is interesting that the short end of the Singapore Sovereign yield curve is becoming steeper which could possibly indicate a more positive outlook for Singaporean assets in the short term.



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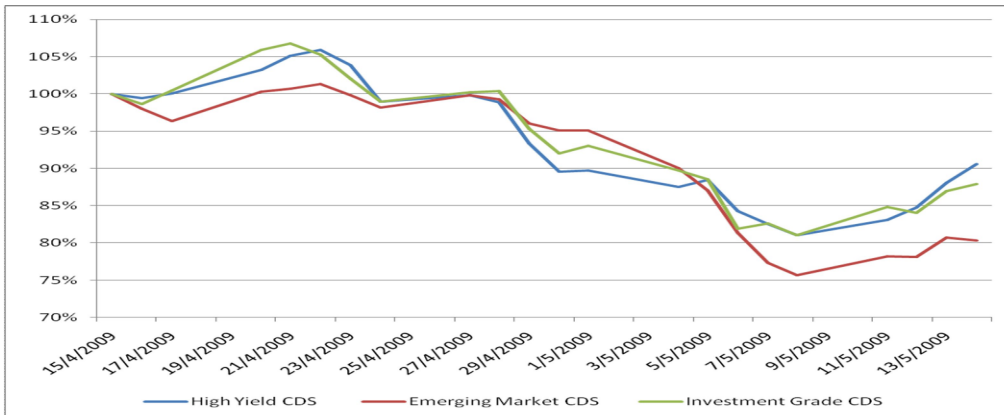
## Exchange Traded Funds

**Figure 3: Relative Performance of Sovereign Yields**



Source: Bloomberg, as of 14 May 09

**Figure 4: Relative Performance of Credit Default Swaps**



Source: Bloomberg, as of 14 May 09

Figure 4 shows the relative performance of credit default swaps. Most of the spreads have narrowed, with investment grade issues falling the most. This has happened on the back of a falling LIBOR, the London Inter Bank Offered Rate that measures the bank-to-bank funding costs. The LIBOR-OIS spread hit a 66 basis points reading, the lowest since June 2008 on 15 May 09.



### Macro Outlook

We have previously mentioned that data in the states has been pointing towards a moderation in the rate of contraction. While that is an improvement, expansion in economic activities is probably still a distance away.

For a meaningful and sustainable expansion to take place, consumption must pick up. To spur domestic consumption, the government could grant tax rebates. However, such a strategy is unsustainable and it will only add onto the growing budget deficit. For consumption to be self-sustaining, household wealth must improve. And, for household wealth to improve, housing prices must form a bottom. Also, to aid self sustaining consumption, there must be credit creation. Only with credit creation will jobs be created and thus generate income for consumers.

Base on the latest numbers, the two conditions are currently still lacking. As such, although green shoots are appearing, expansion in economic activities is still a distance away.

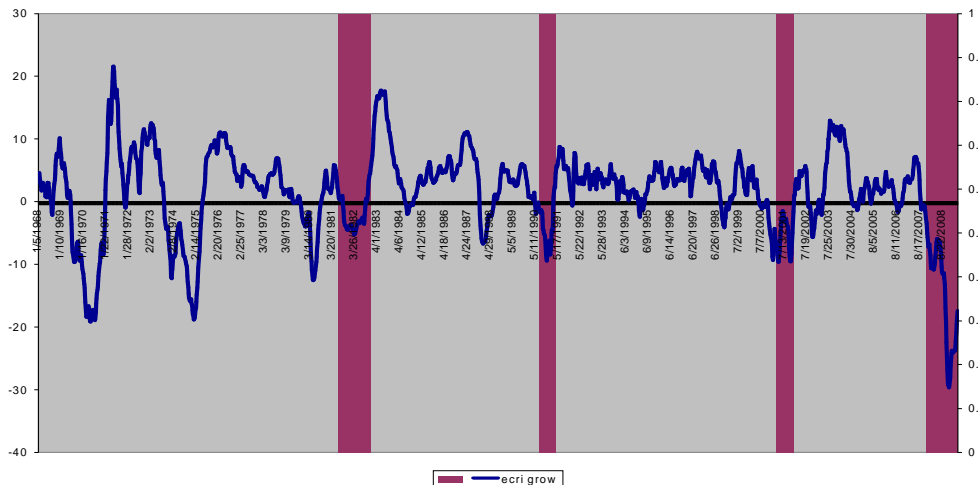
### Data released in the United States

Among the indicators that continue to give us much to cheer about includes improvement in the US ECRI weekly indicator and the ISM manufacturing index.

**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 5. 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.

As mentioned previously, the index hit a low of -29.7 percent on 5<sup>th</sup> December 2008 and has since recovered. It continues to improve. For the week ending 22<sup>nd</sup> May 2009 the index rose to -9.3 percent. This can be seen as an indication that things are continuing to improve.

**Figure 5: Growth rate of US ECRI Weekly Leading Indicator**



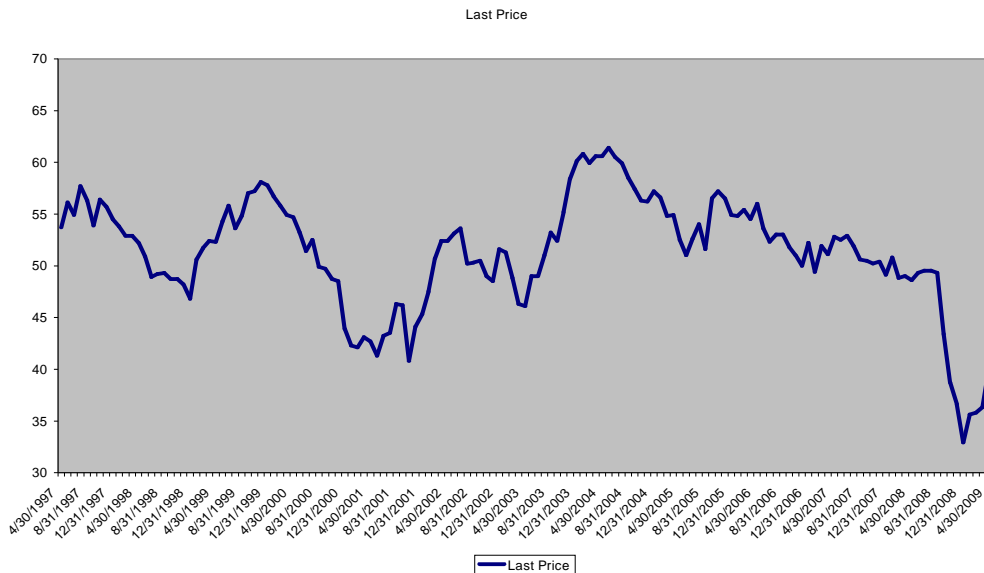


**ISM Manufacturing Index:** This is another indicator which is signaling a recovery in the economy. This index has edged higher for the fourth consecutive month in April. The index now stands at 40.1 percent, which is significantly higher than March by 3.8 percentage point. Despite the improvement, the manufacturing sector continues to contract for the 15<sup>th</sup> 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 6: 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.



**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

The above has shown that the economy is gradually recovering. However, as mentioned earlier, for expansion to take place, consumption must pick up. This is because consumption accounts for two-third of US's GDP.

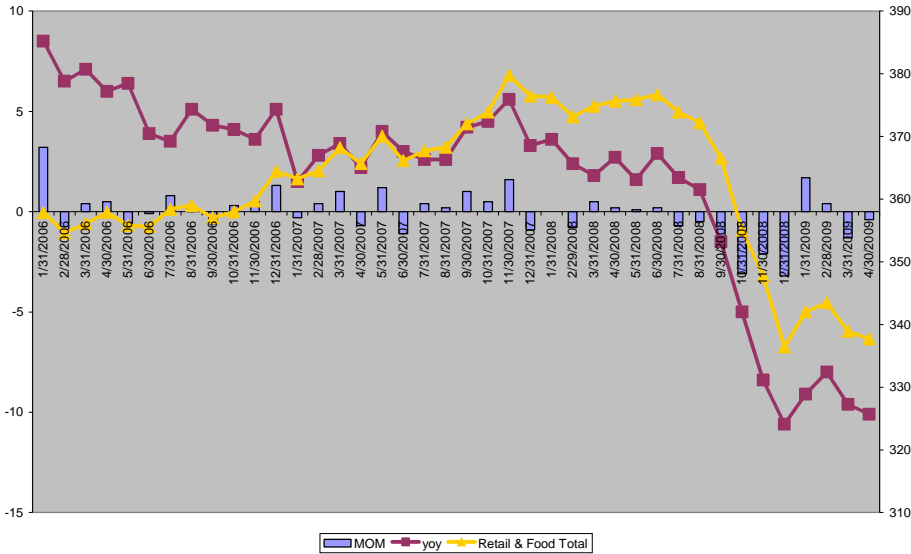
Retail sales number can be used as a forward looking indicator of consumption level and the latest number suggests that sustainable growth in consumption remains questionable.

**Retail sales declined:** The momentum in consumption seen at the beginning of the year seems to be fading as retail sales registered negative month-on-month growth for the second time. Advance estimates of U.S. retail and food services sales for April, adjusted for seasonal variation, were \$337.7 billion, a decline of 0.37 percent from the previous month and 10.1 percent below April 2008. The rate of monthly decline in April was lesser relative to March.

Excluding motor vehicles, retail sales declined 0.48 percent after a 1.18 percent decline in March. Excluding food, retail sales dipped by 0.44 percent. Excluding food and auto, retail sales slipped 0.58 percent after a 1.17 percent decrease in the month before.

Among the various forms of businesses, gasoline stations and electronics and appliance stores experienced the largest decline from the previous month. The former declined by 2.3 percent while the latter dipped by 2.8 percent. Performance of other businesses was mixed.

**Figure 7: Total Retail sales and MoM and YoY % change**



Source: Bloomberg, Phillip Securities Pte Ltd

Although consumer confidence of the economy is now higher, probability of it being translated to sales remains questionable. Given that households' wealth is still low, unemployment rate is still high and wages and salaries are still falling, sales will most likely remain weak in the months to come.

**We mentioned earlier that it is crucial that consumption improves so that the economy can start to expand once again. We have also stated that there are several ways to spur domestic consumption. One of which is for the government to grant tax rebates. However, such a strategy is not sustainable and it will only add onto the growing budget deficit. For consumption to be self sustaining, household wealth must improve. And, for household wealth to improve, housing prices must form a bottom. Also, there must be credit creation. Base on the latest numbers, the two are still lacking.**

**Credit Creation is still lacking:** The result of the stress test was released on the 7<sup>th</sup> of May 2009 and unsurprisingly after all the leaks, the 19 biggest banks have survived the test. 10 out of the 19 banks now require injections of new capital and they can do so either via the private sector or through the government. These options include sale of assets, new capital issues as well as conversion of other securities into common equity. Many have chose to raise fund privately, either by issuing equity or selling assets. Wells Fargo, Citigroup, Morgan Stanley and Regions Financial Corp have all announced plans to sell equity and debt in order to meet their capital requirement.



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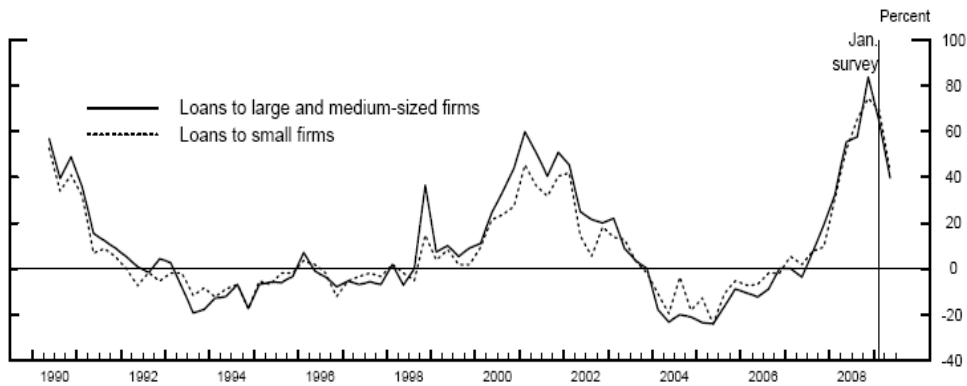
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The result of the stress test has helped to re-instill public's confidence into the banking sector and in turn, this has allowed banks to raise new capitals through the capital markets more easily. This is certainly a big change from the frozen credit market of the past 20 months.

However, it is one thing to rescue the banking system and another to engineer an economic expansion. To engineer an economic expansion, a necessary condition is credit creation. In other words, banks must be willing to lend and the public must be willing to borrow. We need the multiplier to do its job to spur economic recovery.

Based on the release of the April 2009 Senior Loan Officer Opinion Survey on Bank Lending Practices, it showed that banks have eased their lending standards slightly from the last survey. In the latest report, about 40 percent of domestic respondents, compared with around 65 percent in the January survey, reported having tightened their credit standards on commercial and industrial loans to firms of all sizes over the last three months. The percentage of respondents that have indicated that they had tightened lending standards on consumer lending has however remained about the same proportion as in the January survey at 60 percent.

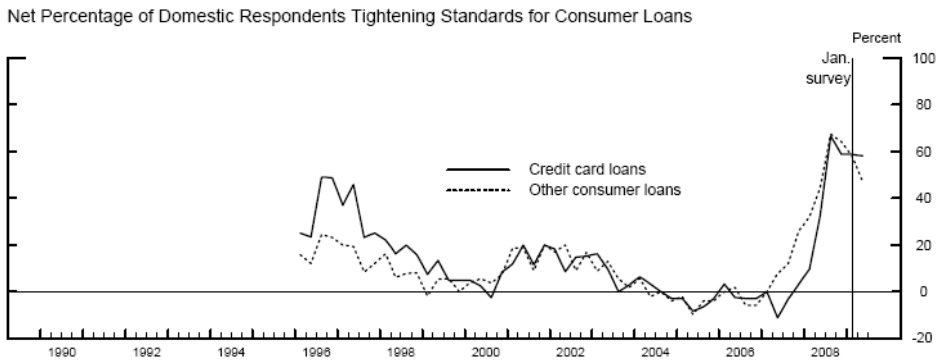
**Figure 8: Net Percentage of Domestic Respondents Tightening Standards for Commercial and Industrial loans**



Source: The Federal Reserve Board



**Figure 9: Net Percentage of Domestic Respondents Tightening Standards for Consumer Loans**

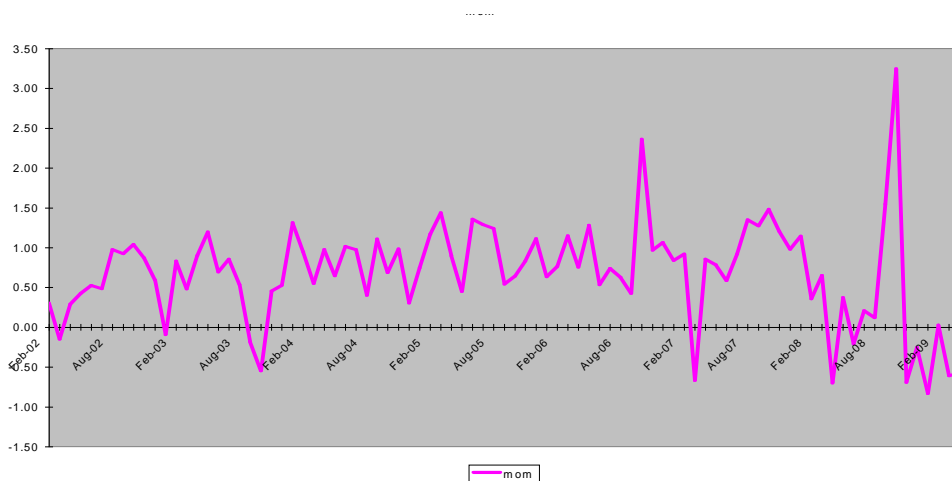


Source: *The Federal Reserve Board*

With regards to demand for loans, the latest survey has shown that in the last three months, about 60 percent of domestic banks reported a further weakening of demand for commercial and industrial loans from firms of all sizes over the previous three months, a proportion similar to that reported in the January survey. Weaker demand came as a result of a decline in customers' needs to finance inventories, account receivable, and mergers and acquisitions.

The survey has shown that although banks have eased their lending standards, there remains a lack in demand for loans. This can be further illustrated with the amount of commercial loans granted. Figure 10 shows the amount of commercial loans in the United States. On a m-o-m basis, the amount of loans remain at very low levels. In April, the amount of commercial loans declined 0.57 percent from the previous month.

**Figure 10: Commercial Loans Month-on-Month**



Source: *CEIC*



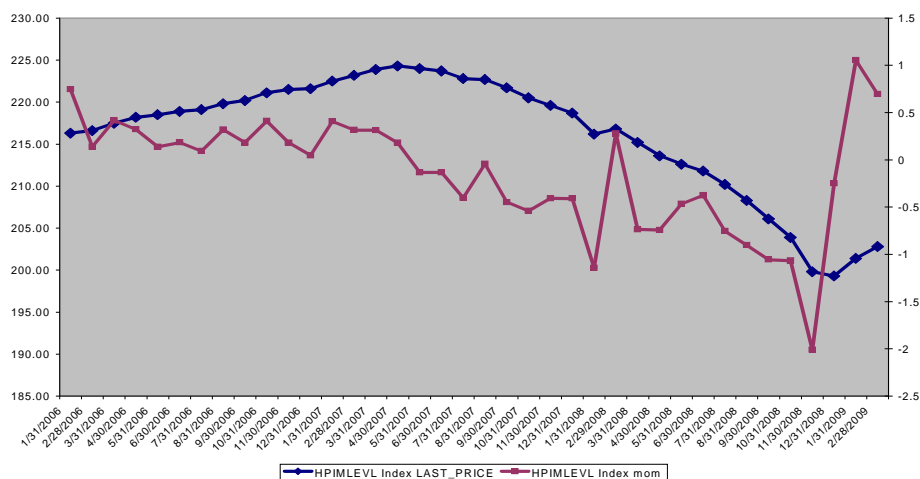
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The above has shown that although banks are now more willing to grant loans, earnings will be affected with the lack in demand.

**Housing prices:** As mentioned earlier, for consumption to be self sustaining, there is a need for housing prices to form a bottom. This is so as it will then contribute positively to household wealth.

**Figure 11: Housing Price Level and M-o-M% change**



Source: Bloomberg

Housing prices as measured by the FHFA house price index has risen for two months after falling for 20 straight months. The respective 1.0 percent and 0.7 percent monthly rises in the index in January and February are a marked change from the sharp falls over the past two years.

Does that then signal that the housing market downturn is over? This might not be so as there is still a high amount of inventory as illustrated in last month's report.

**Conclusion:** As we have mentioned in our previous report, every recovery has to start somewhere and it's not possible to expect all sectors to recover simultaneously. For expansion to take place, consumption must pick up. Unfortunately, circumstances are currently not supporting such a scenario.

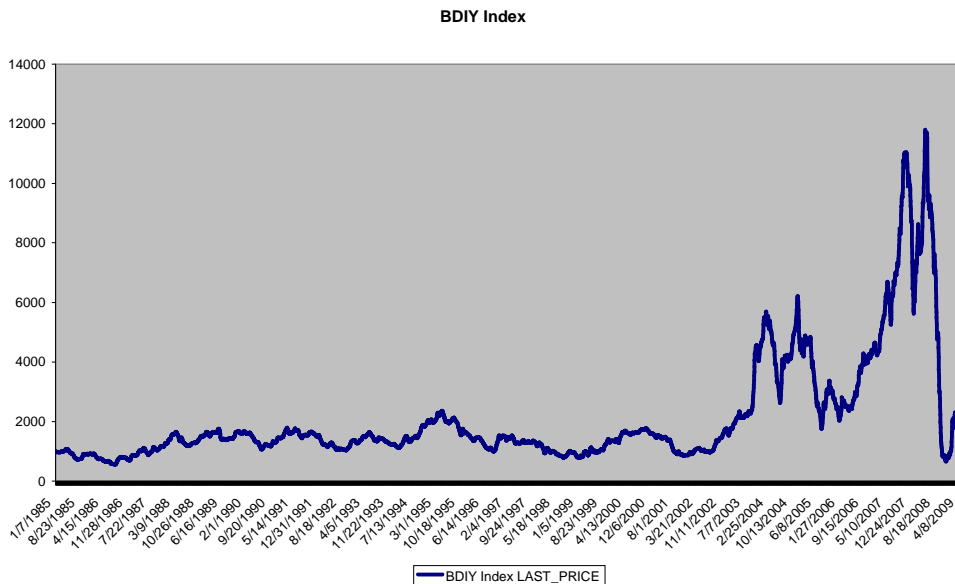


### Recommended ETF - Lyxor Commodities CRB ETF

We mentioned in last month's report that demand is the prime driver of higher commodity prices. Therefore, for commodities to pick up once again, a necessary pre-condition is that activities must pick up. Demand will only be generated with activity.

Economic data of various countries (although still below normal levels) continues to improve. This thus supports the case for commodities. The Baltic Dry index, which gives an assessment of, the price of moving major raw materials by sea, has also edged higher. This is an indication of increasing activity levels.

**Figure 12: The Baltic Dry Index**



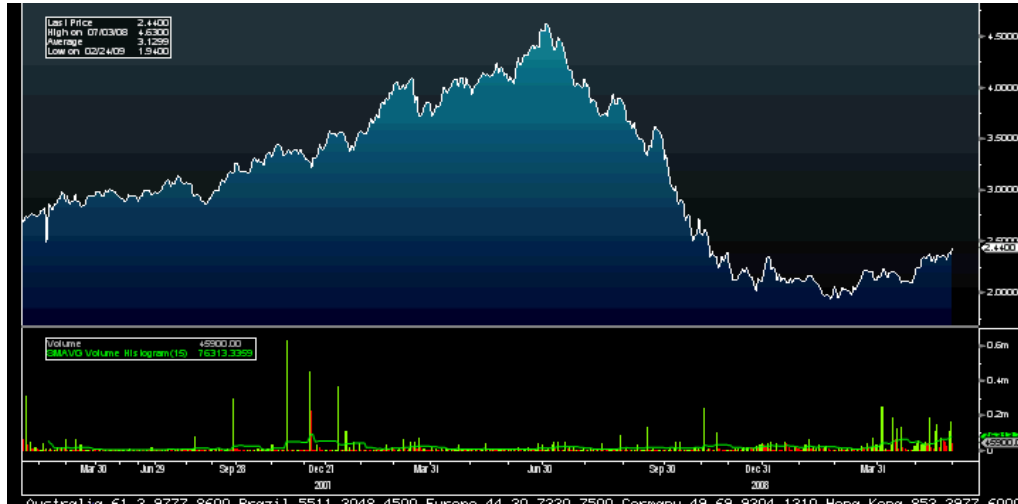
Source: Bloomberg

The index hit a bottom of 663 points in Dec 2008 and has since recovered by approximately 427 percent to stand at 3494 points as of 29<sup>h</sup> May 2009.

As such, in view of a gradually recovering global economy, we prefer Lyxor Commodities CRB ETF.



**Figure 13: Trading volume and price performance of Lyxor Commodities CRB ETF**



As of 29<sup>th</sup> May 2009  
Source: Bloomberg

**Fast facts on Lyxor Commodities CRB ETF**

<b>NAV</b>	2.42			
<b>Expense Ratio</b>	N.A			
<b>Management Fee</b>	0.350			
<b>52 Week Hi</b>	US\$ 4.64			
<b>52 Week Lo</b>	US\$ 1.91			
<b>Market Cap (mil)</b>	US\$90.28			
<b>Total Return %</b>	1 Mth	3 Mth	YTD	1 Yr
	12.44	18.45	15.64	-39.90

As of 29<sup>th</sup> 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	8.62	5.41	(42.34)	970
Dow Jones	4.07	(3.51)	(39.99)	8500.33
S&P500	5.31	1.76	(41.27)	919.14
FTSE First 100	4.11	(0.37)	--	4417.94
FTSE Euro First 300	3.20	0.15	--	2451.24
Nikkei 225	7.86	7.48	--	9522.5
Hang Seng	17.07	26.30	(42.57)	18171
Shanghai Composite	6.27	44.60	(56.78)	2632.93
Taiwan Taiex	14.98	50.08	--	6890.44
KOSPI	1.94	24.14	(32.40)	1395.89
Sensex	28.26	51.60	(29.93)	14625.25
FSSTI	21.29	32.22	(39.21)	2329.08

*Figures in bracket are negative.*

*As of 29<sup>th</sup> May 2009*

*Source: Bloomberg, Phillip Securities Research*



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### Appendix 3: ETF performance for March

ETF on SGX	Trading Name	30 <sup>th</sup> Apr (US\$)	29 <sup>th</sup> May (US\$)	% Change
ABF Singapore Bond Index Fund	ABF SG BOND ETF	1.08	1.09	0.93
CIMB FTSE ASEAN 40 ETF	CIMBASEAN 40 100US\$	5.47	6.19	13.16
DBS Singapore STI ETF	DBS STI 100	1.90	2.35	23.68
Db x-trackers MSCI Taiwan TRN Index ETF	DBXT MSTaiwan 10US\$	12.50	13.88	11.04
Db x-trackers S&P 500 Short ETF	S&P 500 Inverse Index	71.96	69.26	(3.75)
Db x-trackers S&P CNX Nifty ETF	S&P CNX Nifty Index	73.18	89.34	22.08
Db x-trackers FTSE Vietnam ETF	DBXT FTVietnam 10US\$	33.30	43.12	29.49
SPDR® Gold Shares	GLS 10US\$	88.50	95.42	7.82
iShares MSCI India ETF	IS MSCI India 100US\$	4.17	5.88	41.01
Lyxor MSCI AC Asia-Pacific Ex Japan	Lyxor Asia 10US\$	2.95	3.31	12.20
Lyxor China Enterprise (HSCEI)	Lyxor China H 10US\$	11.94	13.57	13.65
Lyxor Commodities CRB	Lyxor Cmdty 10US\$	2.17	2.44	12.44
Lyxor Hong Kong (HSI)	Lyxor Hang Seng 10US\$	2.04	2.35	15.20
Lyxor India (S&P CNX Nifty)	Lyxor India Nifty	10.70	13.73	28.32
Lyxor Japan (Topix®)	Lyxor Japan 10US\$	0.872	0.933	7.00
Lyxor ETF MSCI Korea	Lyxor Korea 10US\$	2.90	3.03	4.48
Lyxor ETF MSCI Taiwan	Lyxor Taiwan 10US\$	0.745	0.823	10.47
StreetTracks® Straits Times Index Fund	STI ETF	1.93	2.37	22.80
Lyxor MSCI India	Lyxor MS India 10US\$	8.69	12.14	39.70
Lyxor Commodities CRB Non Energy ETF	LyxorCRBNonEng 10US\$	1.86	2.03	9.14

Figures in bracket are negative

Month to Date 29<sup>th</sup> May 2009.

Base on the first and last traded price within the period

Source: Bloomberg, Phillip Securities Research



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