Global Macro, Asset Strategy

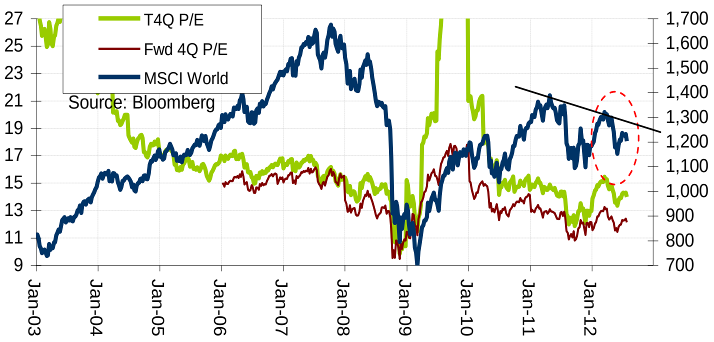
The global rush for yield

Joshua Tan & GMAS Analysts, 26 July 2012

Phillip Securities Research Pte Ltd

PhillipCapital
Your Partner In Finance

In our last Global Macro & Markets on the 12th April, we guided then that Equities were liable for a correction, yet would likely stage a rally before 4q12 on policy (or policy anticipation). We pretty much had this as global equities corrected on average ~11% in May only to have many markets rally +10% since June (8% MSCI World).



We said also in GMM 12th April that Equities will again find it challenging going into 2013. We still believe this and think absolute returns for equities <u>everywhere</u> will be under pressure. We are just Neutral at best on an absolute returns basis even for equity markets Overweighted for relative resilience. We are in a global economic slowdown, made worse by fiscal uncertainty in the US.

On a relative return basis – we continue to expect ASEAN equities (CIMB ASEAN40 ETF, QS0:SGX or M62:SGX) to outperform (Overweight) on domestic demand offsetting somewhat the weak external environment. Of note, in our Morning Commentary 19th July we formally included the Singapore market (ES3:SGX or G3B:SGX) – the STI & MSCI SG – in the ASEAN category as: (1) it has diverged significantly from NE Asian markets since June start, and (2) +60% of EPS comes from ASEAN-EM. The safe haven SGD and higher than average dividend yield also make it an attractive destination in the global search for yield. We are generally Marketweight NE Asia as the trade exposed region is vulnerable to the global economic slowdown. Having said that, we think China (2823.HK) itself should be Overweighted for those with a risk appetite and very long term horizon, as valuations are a gift, income and employment growth is high even as the economy rebalances itself. The policy bag is also full. US and Europe are an Underweight as we think the market has underestimated the rising recession risks for the US, made worse by the impending fiscal tightening. Europe itself also faces prolonged tightening under the New Fiscal Compact to probably render a recession like 2013. (See inside for ETF proxies)

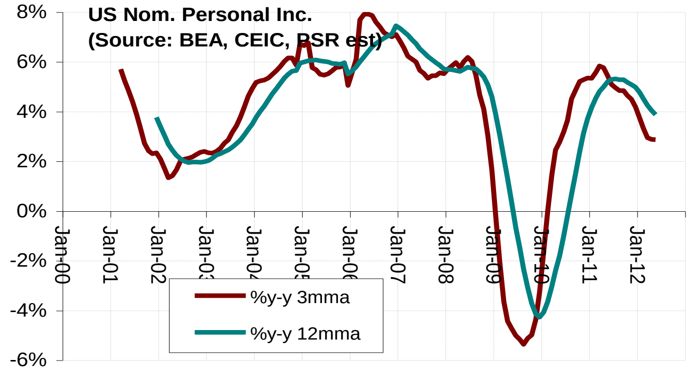
Given our macro outlook, we favour Bonds over Equities. We are Bullish absolute returns for Fixed Income over the next 6-9 months and we are Overweight longer dated US Treasuries (TLH:NYSE ; TLT:NYSE), longer dated US Corporates (LQD:NYSE ; VCLT:NYSE), US$ denominated EM Sovereigns (EMB:NYSE), US$ denominated Asian Sovereigns & Corporates (N6M:SGX ; O9P:SGX), while Marketweight Treasuries of <10yrs, and Marketweight Asian debt of local currency denomination.

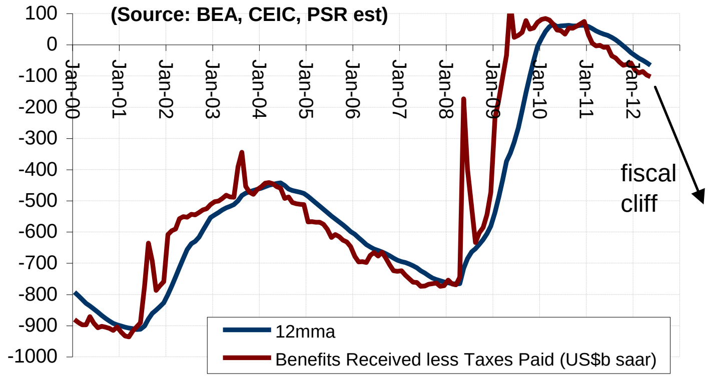
- ***Table summary of Asset Strategy Pg.12***
- ***PhillipETF recommended ETFs to trade the markets mentioned Pg.12***
- ***PhillipCFD has long/short for the FSSTI, HSI, KLCI, S&P500, Dow, US Tech***
- ***UT investors please contact your FA for Portfolio matters.***

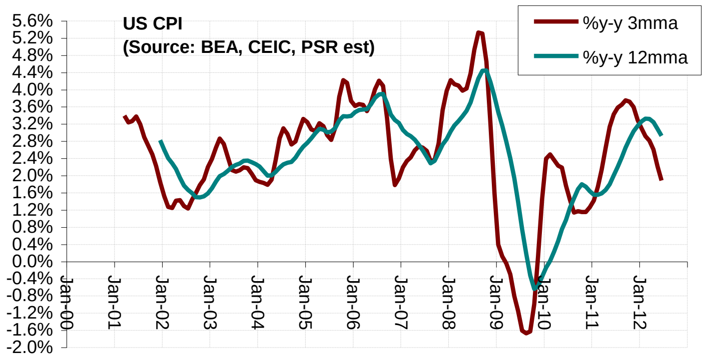
US – favour longer dated treasuries and corporate fixed income over stocks:

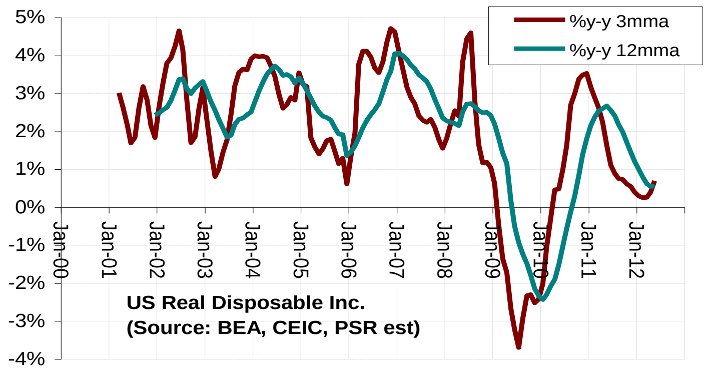
- We have made known since Strategy 27th Jan that the **US economy** was likely to disappoint in 2012 due to slowing incomes, progressive fiscal tightening and the 2013 fiscal cliff, and said that "*we just think the odds are stacked for full year growth consensus to be steadily shaved to something around 1.5%*". This pretty much has happened with consensus now at about 2.1% from 2.5% year start. We have no change to this view, except that as inflation has abated, the slowing of incomes in real terms has stabilised – but this is little comfort as <1% growth in real disposable incomes is unlikely to give us a +2% growth economy. **We forecast 1.6% real growth in 2012**.

Fig.1 US incomes under pressure from slowing headline growth, progressive fiscal tightening, and a possible lurch over the impending cliff! More than US$500b worth of tax reversions and spending cuts are scheduled to kick in on 1st Jan 13.



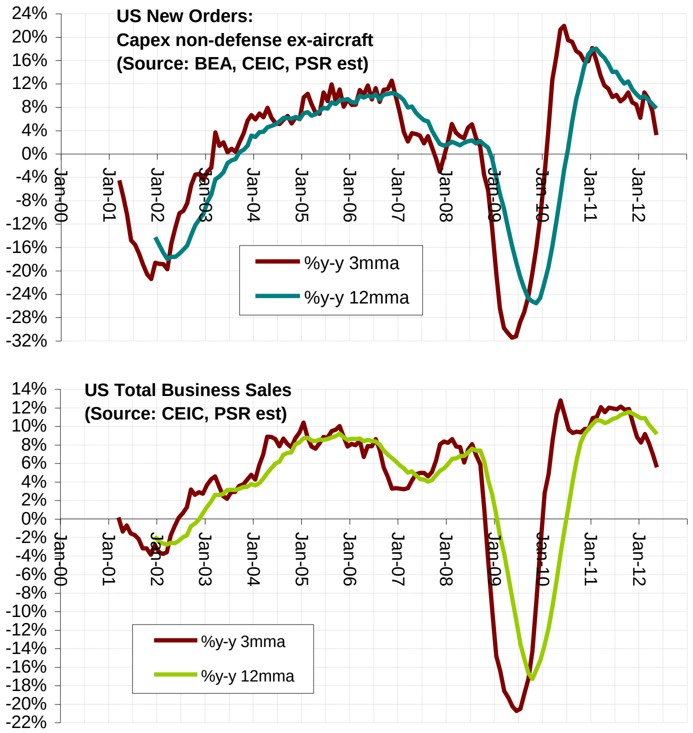






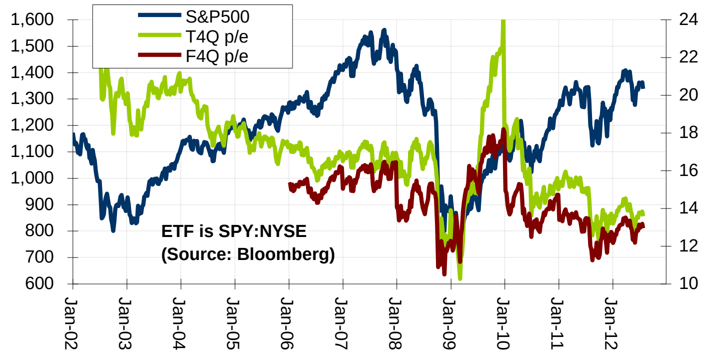
- We maintain our view that the US capex cycle is peaked out, and broader total business sales, which includes manufacturing, wholesale and retail, suggest the slowdown is at hand. Essentially, we think the economy is slowing already with or without the fiscal cliff. But the uncertainty regarding it, and the fact that Congress will unlikely settle the issue before the Nov12 Presidential Elections, will make the slowdown worse than it is, **raising the odds of a US recession in 1H13 to more than even in our view**.

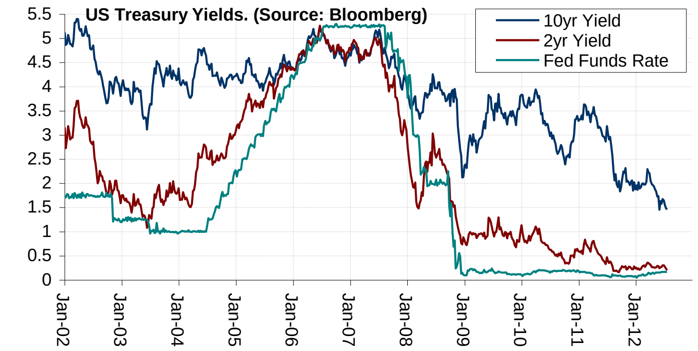
Fig.2 US capex cycle peaked out and falling, and total business sales has dropped substantially

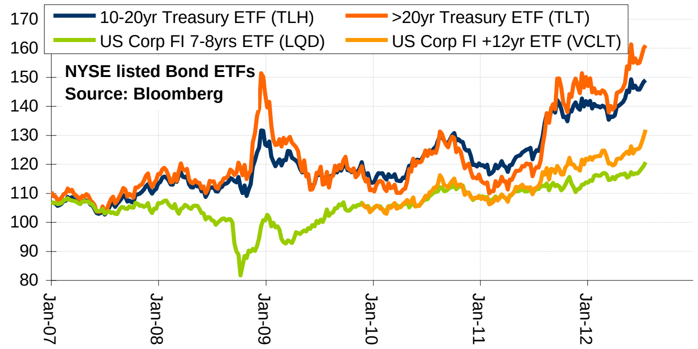


- As such we are **Bearish/Underweight** **(Absolute Return / Relative Return)** **the S&P500 (SPY:NYSE)**. While valuations are low, one should ask oneself: given that the US government has run a fiscal stimulus to the tune of US$800b a year for the last few years – will earnings take a strong beating if that stimulus gets withdrawn? So we are skeptical of US stocks at this point. At the same time if that stimulus gets withdrawn, the US fiscal position improves dramatically giving more reason to buy Treasuries. To be sure, **the US business cycle is ending with or without the fiscal cliff**, so rates and inflation will be low, and the chances of QE3 are high. As 10yr Treasuries are already expensive at 1.42% (price rise, low yield), the lack of yield will continue to push portfolio managers out into the Treasury curve (20yr) and also to add higher yielding Corporate Debt especially of the investment grade variety. **Thus we are Bullish/Overweight longer dated Treasuries (TLH and TLT:NYSE) and Corporate Debt (LQD and VCLT:NYSE), while Bullish/Marketweight below 10yr Treasuries**.

Fig.3 Prefer US treasuries and Corporate fixed income over stocks



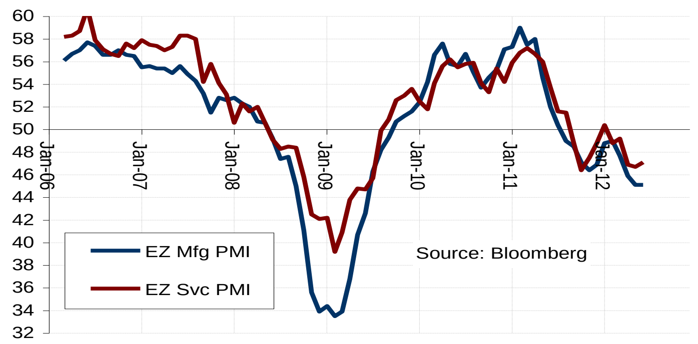


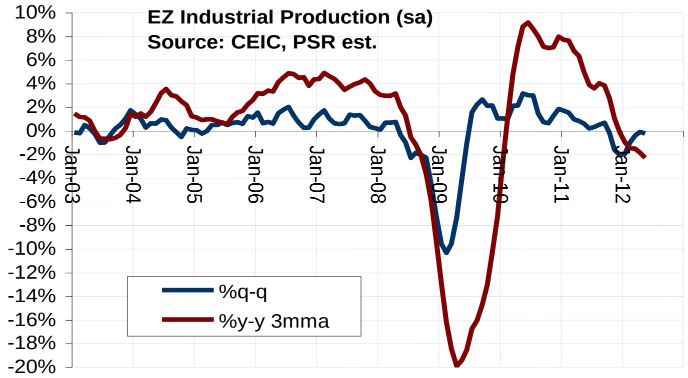


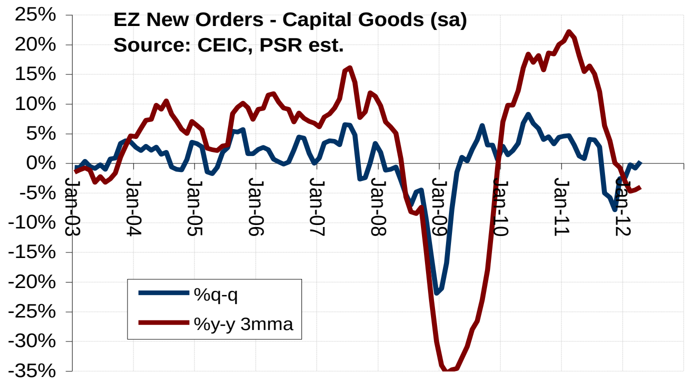
EUROZONE – prolonged recession, still a macro risk.

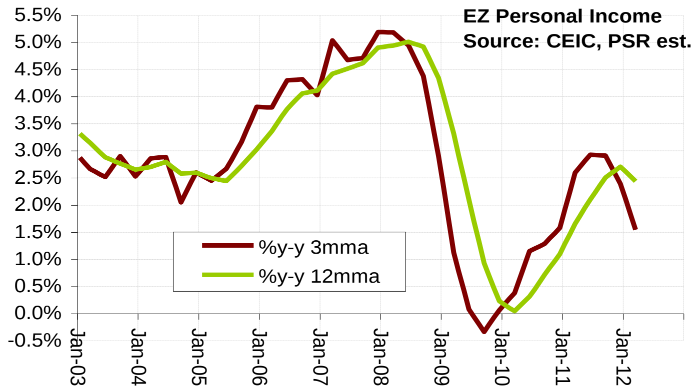
- Conditions in the **Eurozone** are still recessionary, as the PMIs, industrial production, new orders for capital goods, incomes, and exports all down-turning.

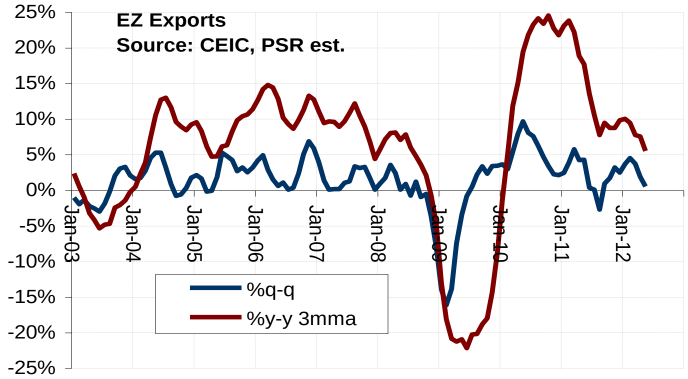
Fig.3 Eurozone is probably in recession already







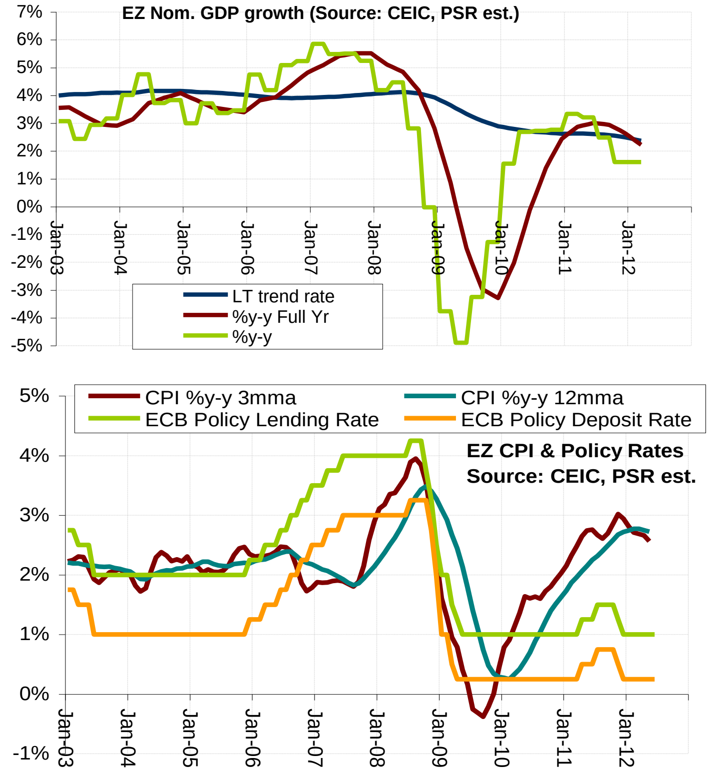




- At the same time, like the US, the Eurozone has prolonged fiscal tightening working against it under the New Fiscal Compact. Under the compact, members are trying to bring their deficits down to <3% GDP by 1st Jan 2013, and even if they do so, if they have Total Debt /

GDP ratios of >60%, they then have to reduce it at the following rate: (current debt / GDP – 60%) / 20. As the EZ as a whole has a deficit rate of 4.1%, then to meet the 3% target requires fiscal tightening of 1.1% of nominal GDP. The nominal trend rate of growth is 2.4% and dropping, with inflation running at more than that 2.7% combined with the fiscal headwind leaves growth somewhere in the range of -0.5% to -1%. **Our formal EZ forecast is 0.6% contraction for 2012**.

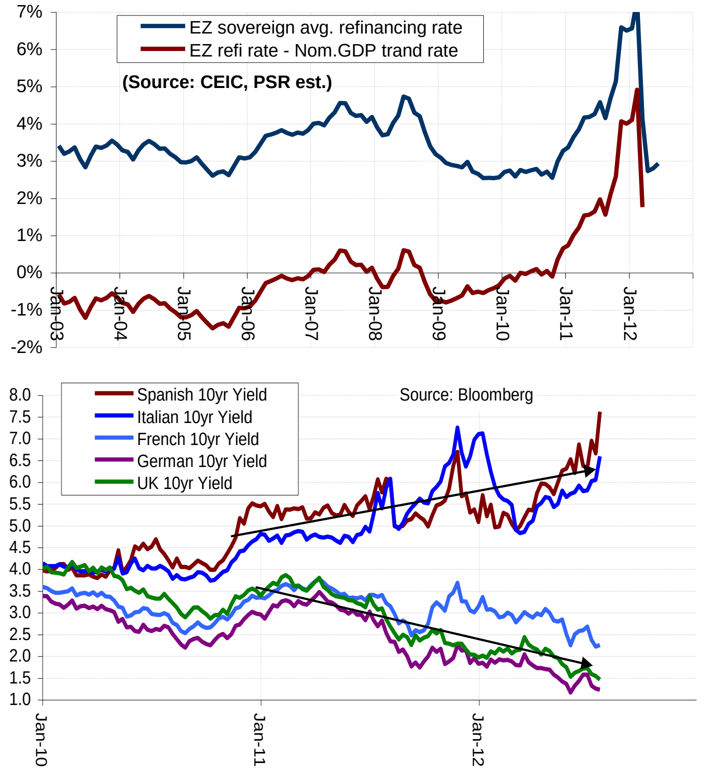
Fig.4 Eurozone in recession for 2012 most likely, while 2013 see the New Fiscal Compact continue to dampen the economy



- But as members will then have to grind down their collective debt to GDP at 87.4% even if they hit the 3% mark, the fiscal tightening required would work out to be 1.2% of nominal GDP. Thus the same story this year will likely spillover into 2013.

- Looking out over the long haul, with the trend growth rate at 2.4% and declining, and the average refinancing rate for EZ sovereigns at close to 3%, means that debt is compounding at a faster rate than nominal GDP. The present dynamic requires the EZ to boost its trend rate for nominal growth to about 3% to consistently grow out of its debt, otherwise, periodic bouts of bond market panic are to be expected. **Thus fat tail event risks from Europe still remains**. Suffices to say, although the European Summit "broke" the link between bank bailouts and deteriorating sovereign fiscal positions by allowing the ESM to bailout the banks directly, the fact remains that unless Europe finds a growth solution, a potentially explosive situation remains. The current lull in the situation by no means implies that bouts of panic will not resurface.

Fig.5 EZ's sovereign debt is compounding at a faster rate than nom.GDP. This crisis is NOT over.



- So how is it going to get this kind of growth? For one thing, **structural reform** needs to be implemented faster, which has stalled at the labour markets of Spain and Italy. Failing that, as Germany has suggested, is a **fiscal union backed by a political union**. Under a fiscal union with oversight over member budgets, the EZ might then be able to implement a stimulus investment program and at the same time back it with debt mutualised Eurobonds, the ECB could then depress the yields thru QE and further reduce the re-financing rate. **We do not discount this from happening as fiscal union is the only way to put this crisis away (please see Strategy 29th Nov 2011 for a discussion)**. In the event of this, it would mark a major positive turn of events for the global economy and markets. *When* this would happen though, is anyone's guess.

- Our position for **European equities is Bearish/Underweight** as valuations are still not yet compelling enough and Europe lacks a solid growth plan.

Fig.6 Europe still not a compelling buy after all that selling

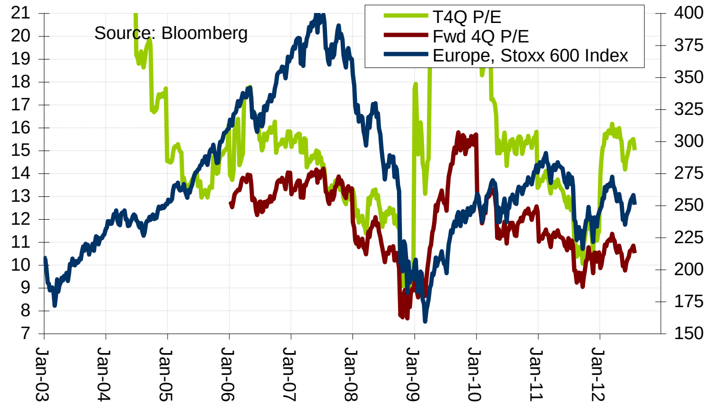
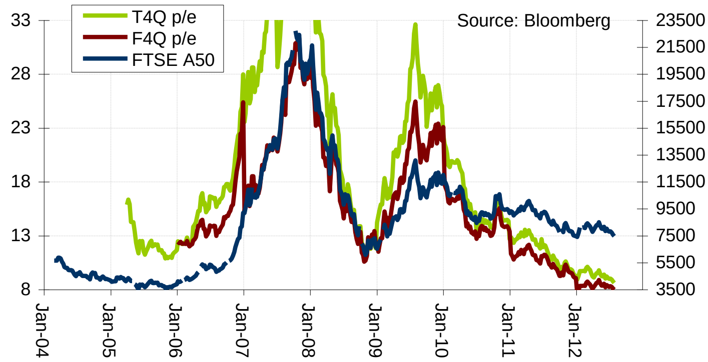


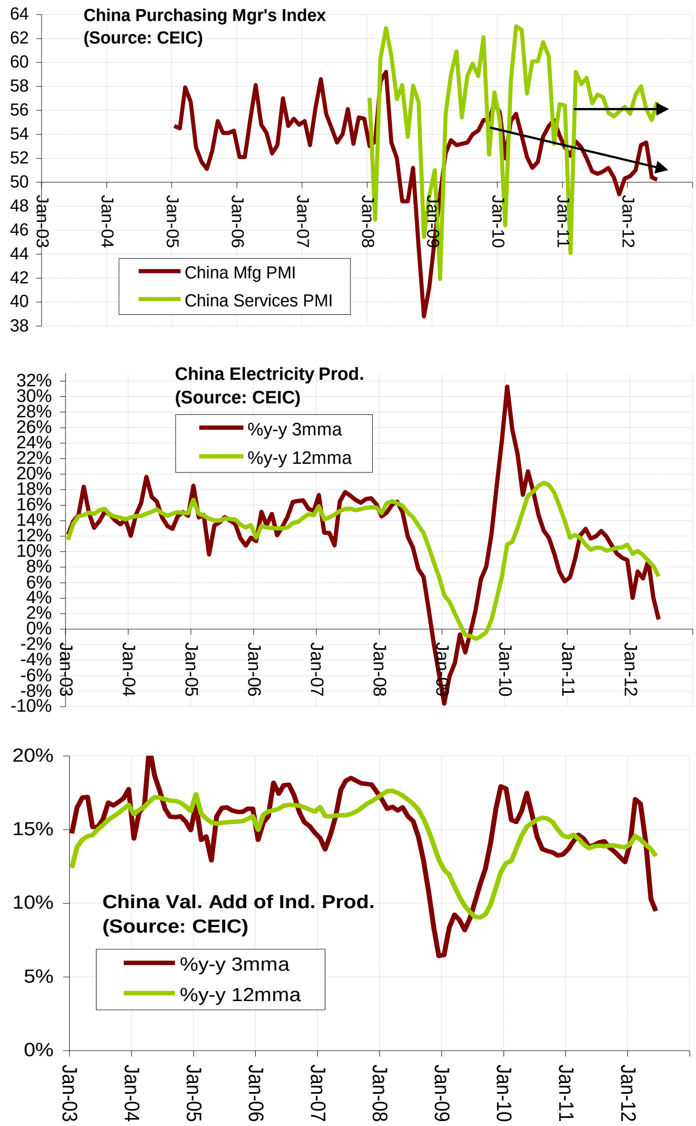
Fig.7 China A-shares valuations are a gift at ~8.5x trailing, and the market is challenging the absolute low of this bear market. If it puts in a double bottom, that's a very good sign!

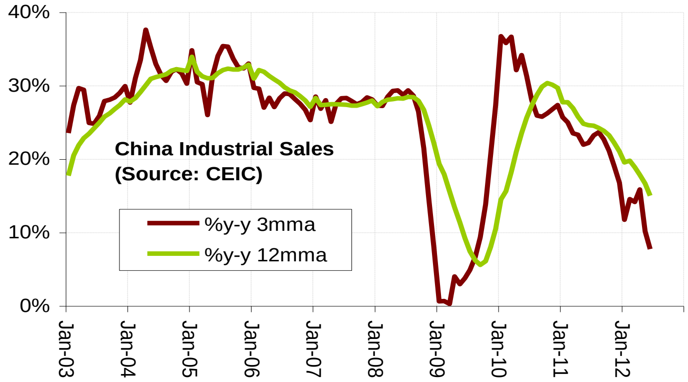


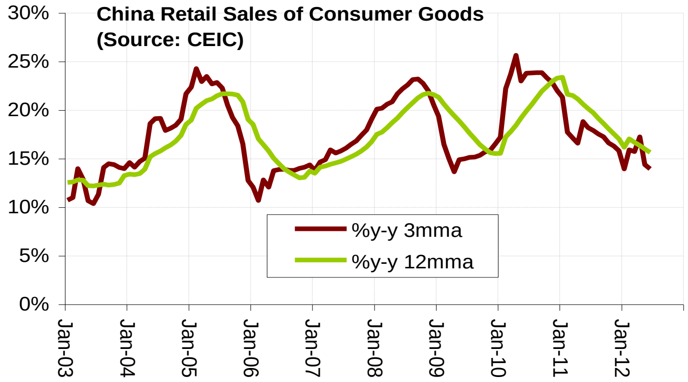
CHINA – get used to this rebalancing slowdown, dive in if you a long horizon and strong stomach

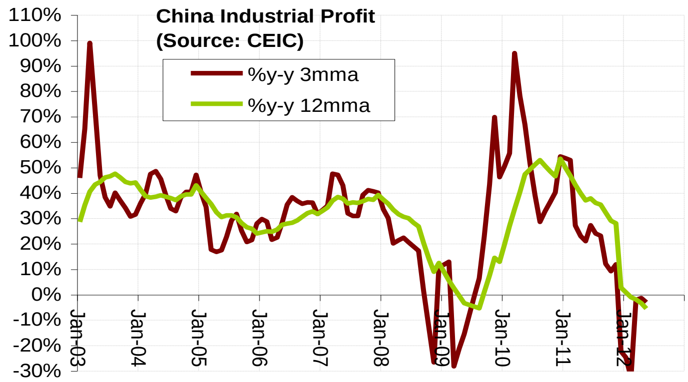
- **Chinese** stocks **(China A50 ETF – 2823.HK**) are challenging the absolute low of this bear market. The economy's rebalancing slowdown is seen in the odd situation of manufacturing slowing while services hold steady according to the official PMIs. Falling industrial production, sales & profit, are offset by employment, incomes, retail sales, while not blistering, are holding their own. It's a picture of the economy redeploying resources, albeit a bad time to do it during a global slowdown. Along with low inflation and positive real interest rates, the policy bag is full, so we aren't pencilling in a hard landing, fingers crossed. Don't be underestimate the extent of this slowdown, don't overestimate a rebound. **Our forecast, as with our Regional Strategy – China report (24th May) is still 8% growth this year**. In our opinion, its hard to see Chinese stocks rising or falling hard from here, but are inclined to think that with valuations at historical lows at 8x p/e, those with a long horizon, and able to stomach the see-saw ride can consider it a long term investing point of entry. **As such we are Neutral for absolute return but Overweight as from a portfolio perspective**. The fact that the absolute low of this cycle is being challenged is actually a good sign, if it survives for a double bottom, we may reconsider our absolute rating if macro data is not deteriorating.

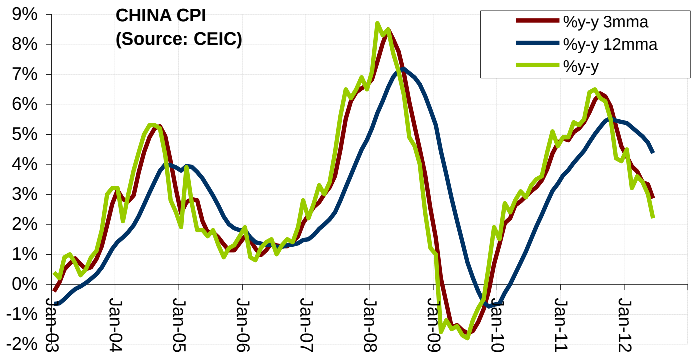
Fig.8 China's rebalancing act – steady does it... manufacturing slows while services holds steady. There's employment and income, and the room for monetary loosening.

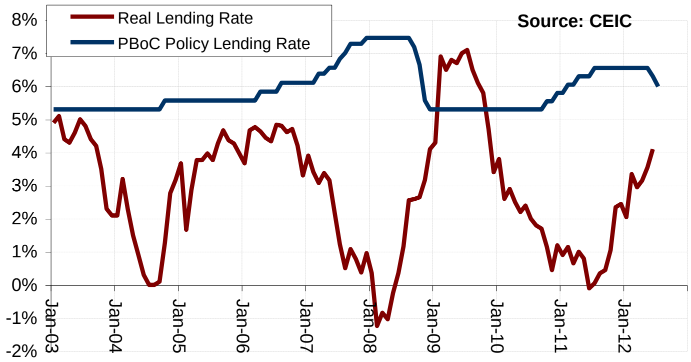


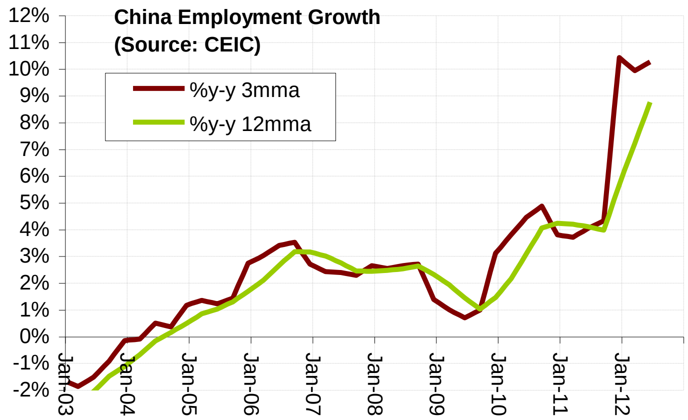

China Industrial Sales
(Source: CEIC)
%y-y 3mma
%y-y 12mma
40%
30%
20%
10%
0%
Jan-03
Jan-04
Jan-05
Jan-06
Jan-07
Jan-08
Jan-09
Jan-10
Jan-11
Jan-12

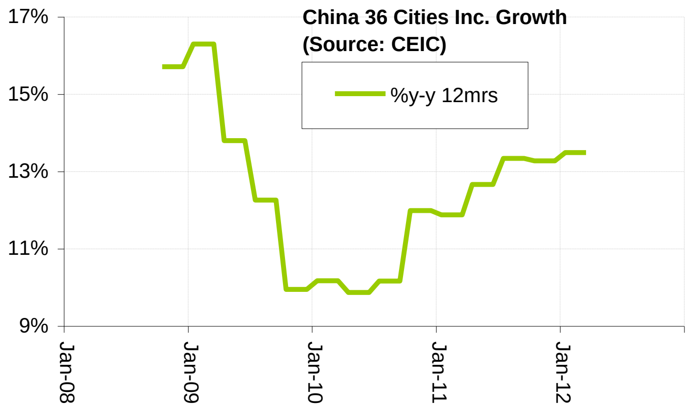

China Retail Sales of Consumer Goods
(Source: CEIC)
%y-y 3mma
%y-y 12mma
30%
25%
20%
15%
10%
5%
0%
Jan-03
Jan-04
Jan-05
Jan-06
Jan-07
Jan-08
Jan-09
Jan-10
Jan-11
Jan-12


China Industrial Profit
(Source: CEIC)
%y-y 3mma
%y-y 12mma
110%
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
-10%
-20%
-30%
Jan-03
Jan-04
Jan-05
Jan-06
Jan-07
Jan-08
Jan-09
Jan-10
Jan-11
Jan-12


CHINA CPI
(Source: CEIC)
%y-y 3mma
%y-y 12mma
%y-y
9%
8%
7%
6%
5%
4%
3%
2%
1%
0%
-1%
-2%
Jan-03
Jan-04
Jan-05
Jan-06
Jan-07
Jan-08
Jan-09
Jan-10
Jan-11
Jan-12


Real Lending Rate
PBoC Policy Lending Rate
Source: CEIC
8%
7%
6%
5%
4%
3%
2%
1%
0%
-1%
-2%
Jan-03
Jan-04
Jan-05
Jan-06
Jan-07
Jan-08
Jan-09
Jan-10
Jan-11
Jan-12

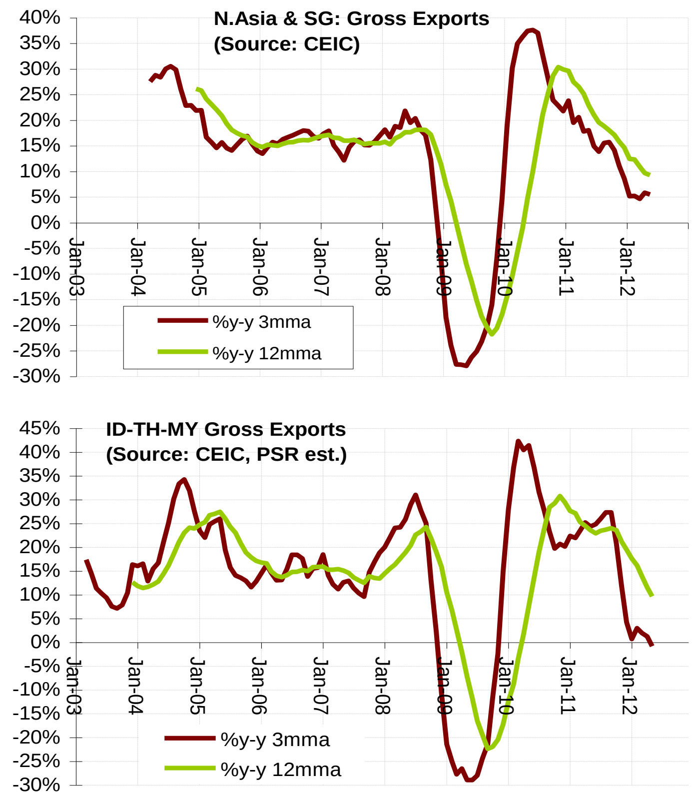

China Employment Growth
(Source: CEIC)
%y-y 3mma
%y-y 12mma
12%
11%
10%
9%
8%
7%
6%
5%
4%
3%
2%
1%
0%
-1%
-2%
Jan-03
Jan-04
Jan-05
Jan-06
Jan-07
Jan-08
Jan-09
Jan-10
Jan-11
Jan-12


China 36 Cities Inc. Growth
(Source: CEIC)
%y-y 12mrs
17%
15%
13%
11%
9%
Jan-08
Jan-09
Jan-10
Jan-11
Jan-12

Slowing Global Economy:

- So we have a slowing US with recession risk rising, a EZ in prolonged recession, and China slowing as well, that's ~63% of the world economy. Both Industrial Asia – JP, SK, TW, SG, CN – and ASEAN3 – ID, TH, MY – reflect this slowdown as export growths are steady decline.

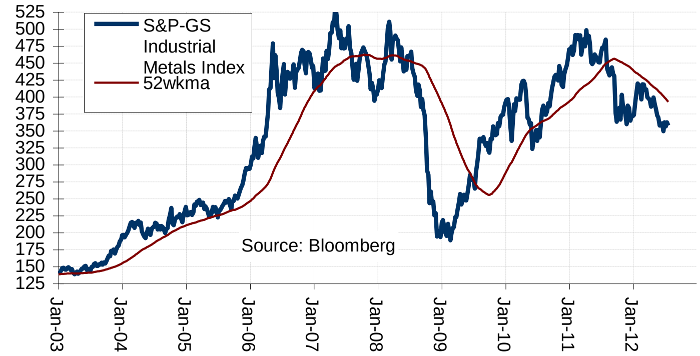
Fig.9 Industrial Asia's exports, and ASEAN3 exports slowing too.

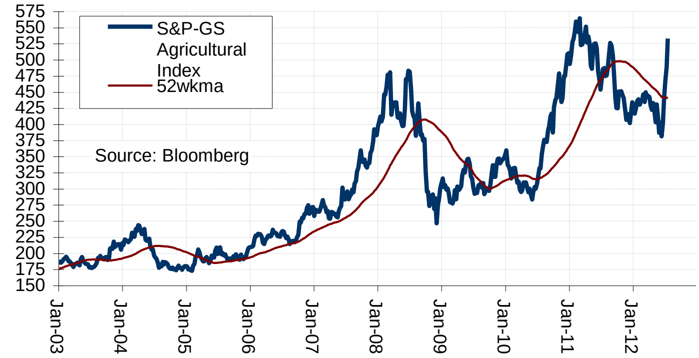


- **When do we expect recovery? 2q13 or 3q13 we think.** Because the US slowdown has not hit yet. Eurozone's current recession is also underestimated in terms of timeframe. And China's slowdown is to some extent rather underestimated (maybe even by ourselves!). The implications are that this slowdown has some legs to play out yet and we think recovery could be in 2H13. **In the meantime, the inter-market picture confirms risk-off:**

  1. **We have seen in the MSCI World that the overall trend for stocks is down (Pg.1)**
  2. **While in Fig.3 and Fig.5, safe haven sovereigns – Treasuries, Bunds, Gilts, French – are rising (price rise, yield fall).**
  3. **We also witness the US Dollar Index rising (below)…**
  4. **As well as Commodities in a bear market (below).** For commodities it is important to note that Industrials refuse to rally along with Crude, and that the recent spike in Agris is due to drought in the US. Industrials non-confirmation is a sign that the growth outlook is still weak.

Fig.10 USD rallies while the recent rally in Commodities we see as technical due to non-confirmation in Industrials





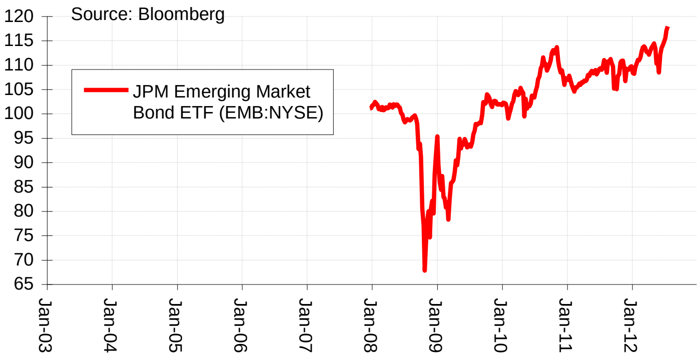
ASSET STRATEGY (Summary Table Pg.12):

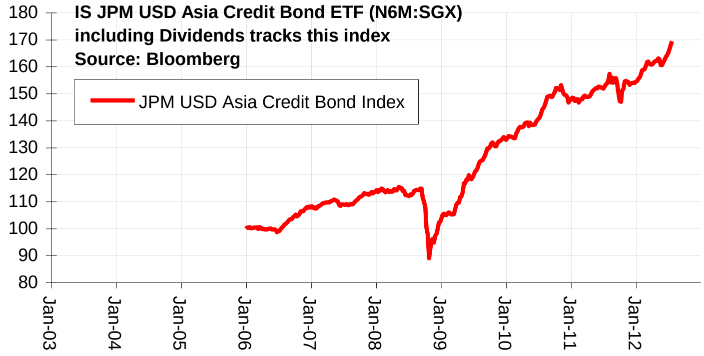
- For the record, for the Broad Asset strategy we are till further notice:

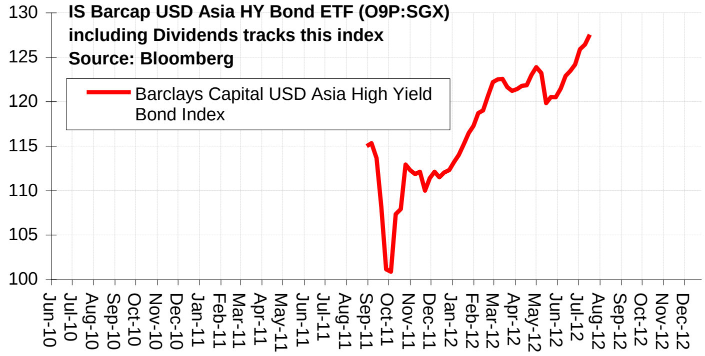
  Asset – Absolute Return / Relative Return:
  1. Bonds – Bullish/Overweight
  2. Equities – Bearish-Neutral/Marketweight
  3. Commodities – Bearish/Underweight
  4. Cash – Overweight

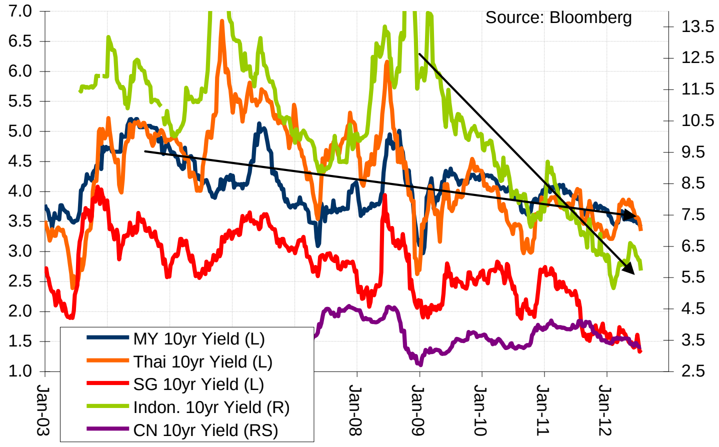
- In the Bond space we expect positive absolute returns and would overweight portfolios with them. Within the Bond space, we already noted that we are **Bullish/Overweight longer dated US Treasuries and Corporates while Bullish/Marketweight Treasuries below 10yrs** (please see earlier). The search for yield does not stop there, as safe havens – Treasuries, Bunds, Gilts, SGS – are yielding less than 1.5%. Pity the portfolio manager who has to find some yield somewhere! Beyond US debt we also see exploration into as Asian, Emerging Market sovereigns (stronger fiscal and growth outlook) and Asian Corporates, the more attractive if it is issued in USD (since the USD strengthens in risk-off). **We are Bullish/Overweight: USD denominated EM Sovereigns (EMB:NYSE), USD denominated Asian Sovereigns & Corporates (N6M:SGX), as well as the more high yield variety (O9P:SGX).** Asian Sovereigns of local currency denomination **(N6L:SGX)** are Bullish/Marketweight as although we expect them to appreciate as well, they are less attractive to international portfolios due to USD appreciation during risk-off.

Fig.11 These 3 ETFs proxy our Asia and EM bonds calls. The fourth chart shows that ASEAN bond yields are falling.









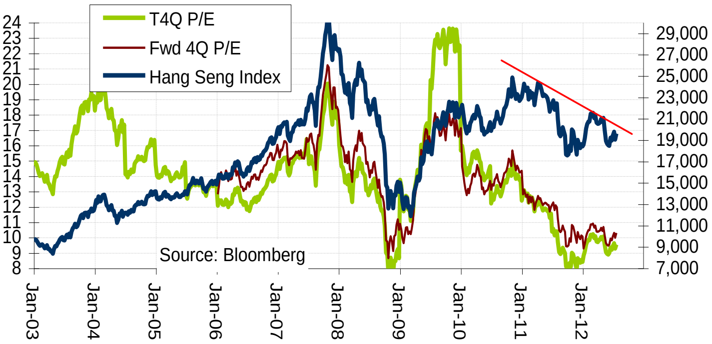
- In the **Equities** space, we expect **absolute returns over the next 6 months or so to be a challenge**, and are mostly bearish, neutral at best depending on the market. As such they are a marketweight for us as some equities may hold their own or at least reward with dividends. Within the Equity Space, we mentioned that we are:

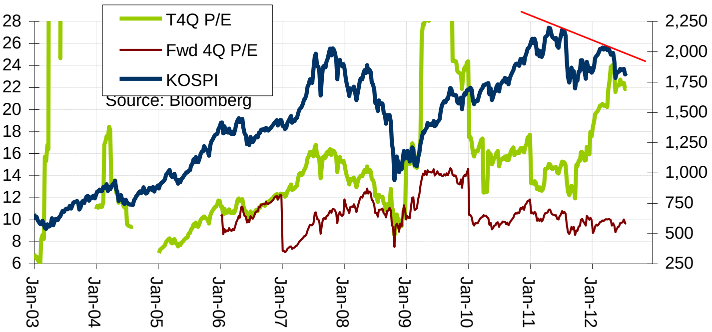
  1. **Bearish/Underweight both the US and Europe,** while **Neutral/Overweight China** (please see earlier).

  2. For **Hong Kong** we are **Neutral/Marketweight the Hang Seng Index (2800.HK)** as although valuations are a gift and the economy closely tied to China, unlike China, we remain unconvinced that HK property is not in a dangerous bubble that demands tightening down the line (**compare Regional Strategy Reports: HK 22nd June, and China 24th**

May). In addition, like most North East Asian markets, the trend is still decidedly down – not unsurprising given global trade exposures of Korea and Taiwan. Singapore however, has broken free.

Fig.12 NE Asian markets are still in a bear trend, we are actually more optimistic on China as an investment (see earlier).





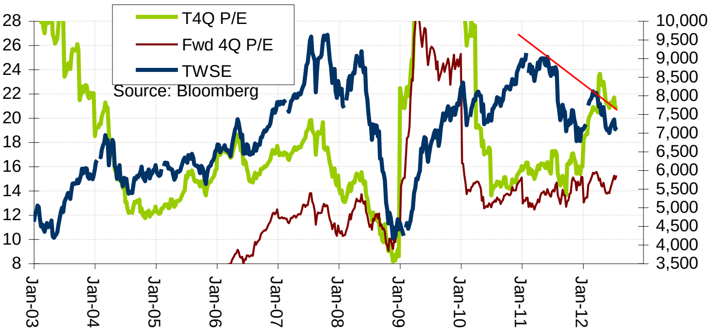
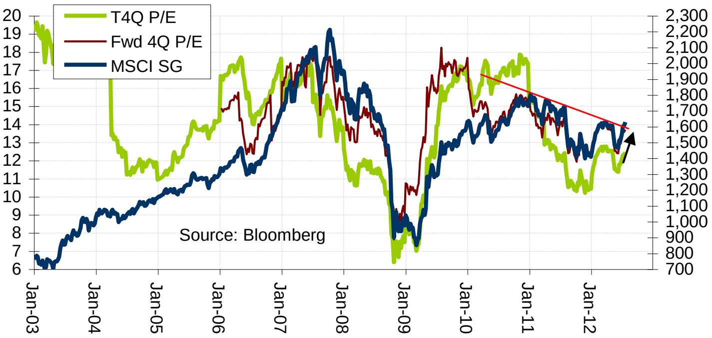
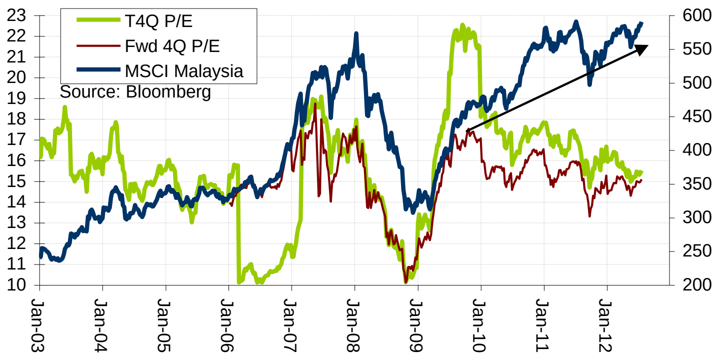


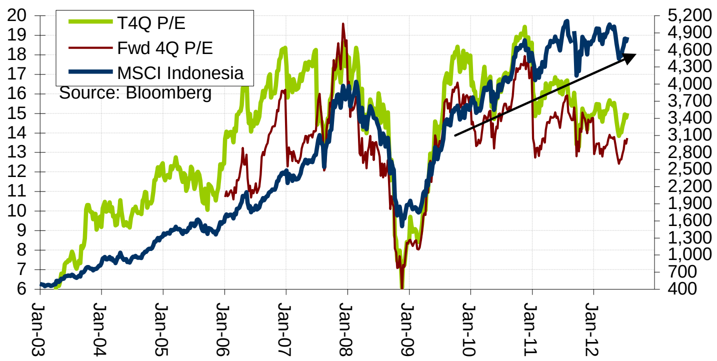
Fig.13 Singapore breaks free from N.Asia! Rallied hard against the downward trend line, while N.Asia did not even try. We add the STI/MSCI SG to ASEAN markets as +60% of EPS is derived from ASEAN-EM economies

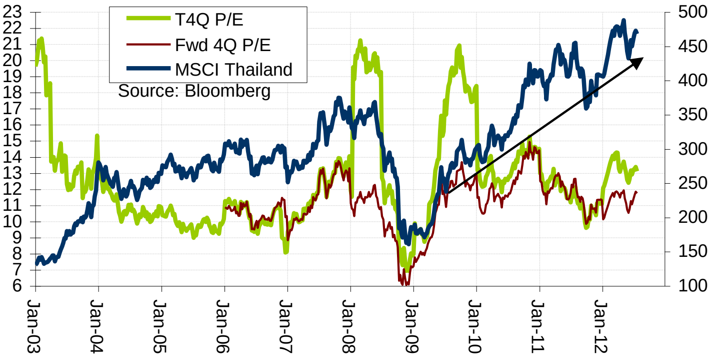


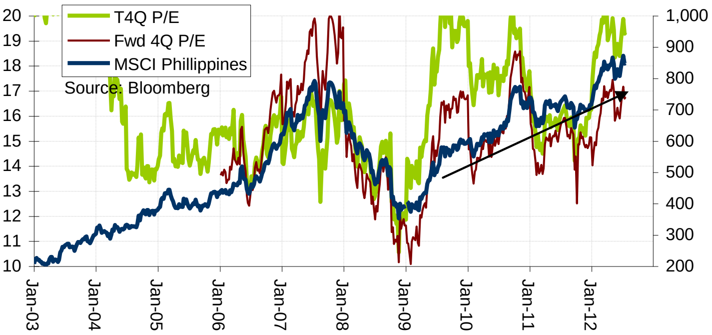
3. **Neutral/Overweight Singapore. (ES3:SGX or G3B:SGX)** We had generally classified Singapore together with its NE Asian cousins due to its export exposure. But if you have been following our Morning Commentaries, over the 16th – 19th July we investigated that the STI had ceased to trade in line with NE Asia since June/July. As such, we found that **+60% of STI earnings is ASEAN-EM derived**, a significant chunk. Also, the MSCI Singapore indicates a **dividend yield that is about 50-100bp higher than other indices**. This high yield of >3% and up to 5% at times, for companies which generally have defensible business moats – Singtel, Starhub, SIAEC, SATS, STE, DBS, UOB, OCBC, Keppel, SCI, SMM – is proving an attractive option in this yield starved world. **Indeed, the world of yield repression is re-rating Singapore**. Final point, the SGD is a relative safe haven against the regional currencies, making it an attractive place to store wealth. While we don't believe that global headwinds will not prove to be a challenge for the STI, buying it will at least pay while you wait. If it's more resilient on the downside, that's a bonus. We formally added the STI to ASEAN on 19th July, Morning Commentary. This is a significant re-categorization of the STI, as you can see from Fig.14, ASEAN markets have been much more resilient than NE Asian markets, keeping their uptrends intact.

Fig.14: Unlike NE Asia, ASEAN markets have kept their uptrends unbroken – a combination of domestic dependence and government policy





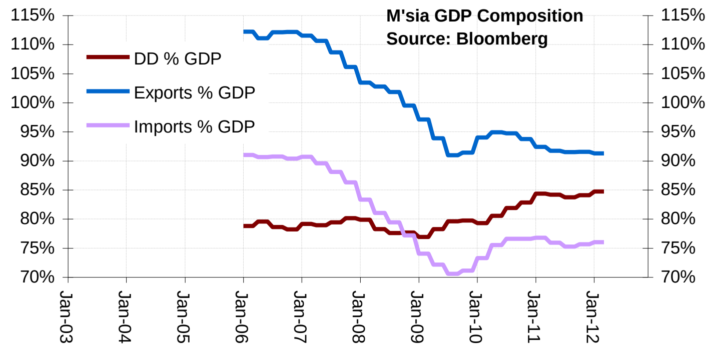




4. **ASEAN** is in general a **Neutral/Overweight (CIMB ASEAN40 ETF, QS0:SGX or M62:SGX)** as **Malaysia, Thailand, Indonesia, Philippines** have strong domestic demand in the form of young demographics, private consumption, growing incomes, as well as gross fixed capital formation as infrastructure demand is high from both the private and public sector. Better education levels than other EM countries also means jobs will migrate there in a globalised world. **Although strong domestic fundamentals offset somewhat a weak external environment, we caution that as economic headwinds posed by our big 3 are considerable, absolute returns will be difficult to come by if at all, our rating their reflects relative resilience in what will be an overall tough environment for stocks**. Furthermore, ASEAN is by no means cheap, and **rich valuations are a downside risk going into a global slowdown**. Inflation has been generally well controlled by the ASEAN 4, and there is **scope for rate cuts to mitigate the downside**. Within ASEAN we are:

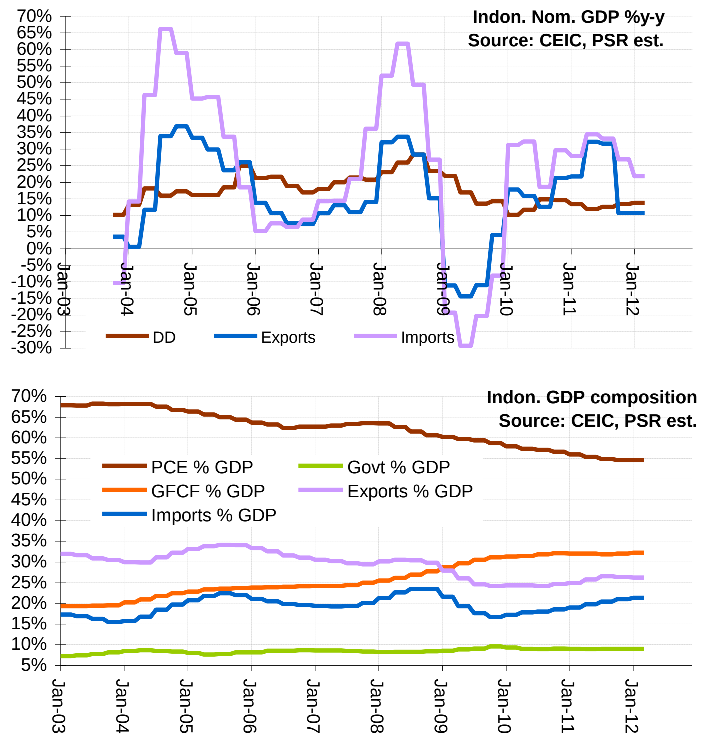
   a) **Neutral/Marketweight Malaysia (LG6:SGX)** due to the upcoming elections, failure to win a strong mandate by the incumbent BN would dampen investment expectations from the ETP and GTP programmes, which have accelerated domestic demand. Gains have been made as domestic demand (DD) rises as a percentage of GDP while Exports fall. The nonetheless relatively high export exposure is a significant risk, so a lot depends on the continuance of ETP and GTP. **See Regional Strategy – Malaysia 30th May** for more details.

Fig.15: M'sia reliance on domestic demand rises as a proportion of GDP while exports fall.



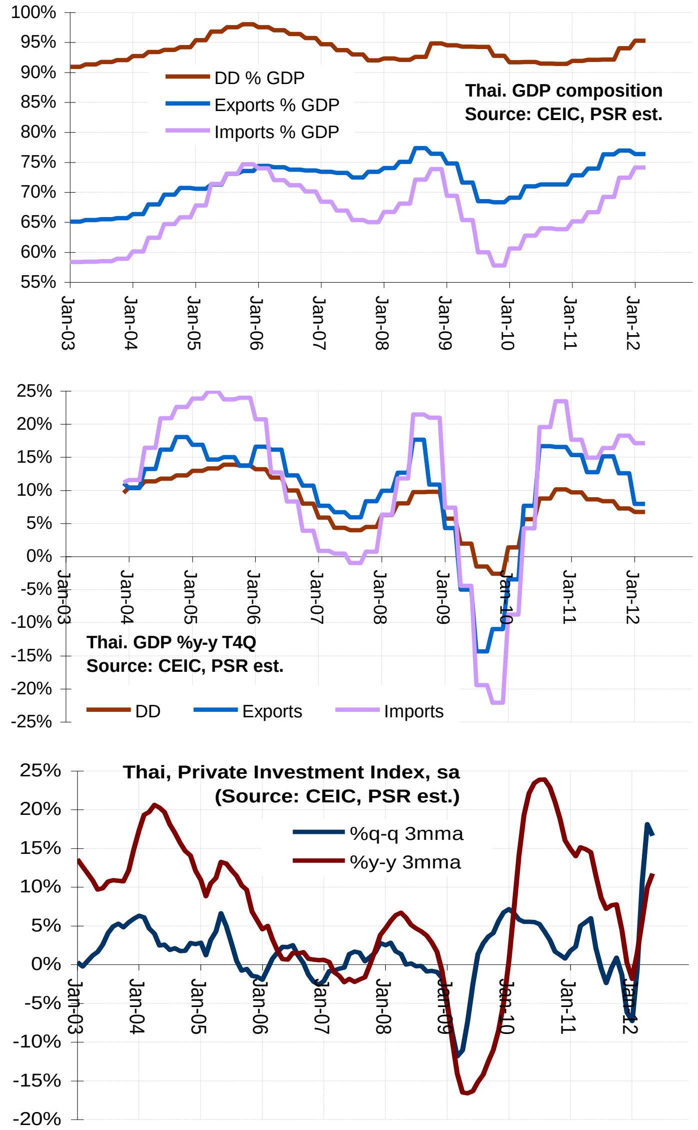
   b) **Neutral/Overweight Indonesia (KJ7:SGX)** as domestic demand has historically proven to remain steady even as external demand drops off. Other less well known fact is that Fixed Asset formation has been steadily rising as a share of GDP, from 20% in 2003 to 32% today, as infrastructure demands boost investment. The recent 2011 MP3EI program aimed at strengthening the connectivity of the country, will help speed up the vast infrastructure network required. Export dependency has also dropped from 35% to 25% GDP over the period. On the minus side, negative overall balance on the balance of payments implies Rupiah depreciation which will no doubt hold back equities there. **See Regional Strategy – Indonesia 17th July** for more details.

Fig.16: Indonesia's resilient domestic demand (positive in 2009). GFCF has risen dramatically since 2003.



c) **Neutral/Overweight Thailand (LG7:SGX)**. Like Indonesia, Thailand has about 95% of GDP dependent on domestic demand. However its export dependency is however about 3x larger at 75% GDP, so the external risk remains. Last year's flood has however provoked a large scale investment boom for rebuild by both the public and private sector. Normalisation of the labour market and government assistance (wage hikes) are also expected to help mitigate the external downside. **See Regional Strategy – Thailand 18th June and 4th May.**

Fig.16 Thailand's domestic demand is high as a percentage of GDP, but it is highly correlated with exports. Fortunately a large scale investment boom is compensating



Global Macro, Asset Strategy Team, Phillip Securities Research

MACRO OUTLOOK:

- Global Economy: growth slowing, inflation coming off, recession risks rising. Basically, global business cycle ending
- Mon. Policy: Most Asian CBs have room to cut, ECB room to cut. But judging from last market reaction, loosening likely to be seen as behind the growth curve
- Fiscal Policy: EU no bullets. US could rollover tax cuts but not change US biz cycle which is ending. We're lucky if we get something big from China.
- Tail Risks: … are still FAT. Spain's debt compounding faster than Nom. GDP, this can be seen in its yields refusing to fall

INTER-MARKET PICTURE: Risk-Off

- Bonds: Safe Havens rallying (yield repression). US$ denominated EM bonds, Asian Gov Bonds, Asian Corp bonds rallying.
- Currencies: USD and SGD appreciation versus Regionals, which tends to be bad for stocks (portfolio flight). PHP exception.
- Commodities: Bearish (ex-agris due to US drought). Industrials do not signal end of commodities bear market.
- Equities: Will struggle for absolute returns 6-9mths till business cycle turns

Broad Asset	Absolute Return / Relative Return *	Sub-Asset	Rating		ETF
Bonds	Bullish / Overweight	Safe Havens	BL/MW, Bu/OW +10yr		10-20yr Treasuries (TLH:NYSE) / +20yr Treasuries (TLT:NYSE)
		EM Govt	BL/OW US$ denominated		EMB:NYSE
		US Corp	BL/OW		VCLT:NYSE / LQD:NYSE
		Asian Govt & Corp	BL/OW, US$ denominated		iShares J.P. Morgan USD Asia Credit Bond Index ETF (N6M:SGX)
		Asian Corp HY	BL/OW, US$ denominated		iShares Barclays Capital USD Asia High Yield Bond Index ETF (O9P:SGX)
		Asian 1-3 yr Govt & Corp	BL/MW, LC donominated		iShares Barclays Asia Local Currency 1-3 Year Bond Index ETF (N6L:SGX)
Equities	Bearish-Neutral / Marketweight	US	BR/UW		SPDR S&P 500 (SPY:NYSE)
		Europe	BR/UW		SPDR Stoxx 50 (FEU:NYSE)
		India	BR/UW		iShares MSCI India (I98:SGX)
		China	N/OW		iShares FTSE A50 China (2823.HK)
		HK	N/MW		Tracker Fund of Hong Kong (2800.HK)
		S.Korea	N/MW		DBXT - MSCI Korea (IH2:SGX)
		Taiwan	N/MW		DBXT - MSCI Taiwan (HD7:SGX)
		Singapore	N/OW	**CIMB ASEAN40 ETF (QS0:SGX or M62:SGX)**	SPDR STI (ES3:SGX) / Nikko AM STI (G3B:SGX)
		Malaysia	N/MW		DBXT - MSCI Malaysia (LG6:SGX)
		Thailand	N/OW		DBXT - MSCI Thailand TRN (LG7:SGX)
		Indonesia	N/OW		DBXT - MSCI Indonesia (KJ7:SGX)
		Phillippines	N/OW		DBXT - MSCI Philippines (N2E:SGX)
		Vietnam	N/MW		DBXT - FTSE Vietnam (HD9:SGX)
Commodities	Bearish / Underweight				Lyxor Commodity 10$US (A0W:SGX)
Cash	Overweight		In USD or SGD. For opportunities as Equities look bearish overall		
Gold	Neutral-Bearish / Marketweight		Diminishing marginal benefit of QE makes QE3 less enticing / SPDR Gold ETF (O87:SGX or GLD:NYSE)		

*** Absolute Return: BL = Bullish ; N = Neutral ; BR = Bearish**
*** Relative Return: OW = Overweight ; MW = Neutralweight ; UW = Underweight**

Important Information

This publication is prepared by Phillip Securities Research Pte Ltd., 250 North Bridge Road, #06-00, Raffles City Tower, Singapore 179101 (Registration Number: 198803136N), which is regulated by the Monetary Authority of Singapore ("Phillip Securities Research"). By receiving or reading this publication, you agree to be bound by the terms and limitations set out below.

This publication has been provided to you for personal use only and shall not be reproduced, distributed or published by you in whole or in part, for any purpose. If you have received this document by mistake, please delete or destroy it, and notify the sender immediately. Phillip Securities Research shall not be liable for any direct or consequential loss arising from any use of material contained in this publication.

The information contained in this publication has been obtained from public sources, which Phillip Securities Research has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions (collectively, the "Research") contained in this publication are based on such information and are expressions of belief of the individual author or the indicated source (as applicable) only. Phillip Securities Research has not verified this information and no representation or warranty, express or implied, is made that such information or Research is accurate, complete, appropriate or verified or should be relied upon as such. Any such information or Research contained in this publication is subject to change, and Phillip Securities Research shall not have any responsibility to maintain or update the information or Research made available or to supply any corrections, updates or releases in connection therewith. In no event will Phillip Securities Research or persons associated with or connected to Phillip Securities Research, including but not limited its officers, directors, employees or persons involved in the preparation or issuance of this report, (i) be liable in any manner whatsoever for any consequences (including but not limited to any special, direct, indirect, incidental or consequential losses, loss of profits and damages) of any reliance or usage of this publication or (ii) accept any legal responsibility from any person who receives this publication, even if it has been advised of the possibility of such damages. You must make the final investment decision and accept all responsibility for your investment decision, including, but not limited to your reliance on the information, data and/or other materials presented in this publication.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this material are as of the date indicated and are subject to change at any time without prior notice.

Past performance of any product referred to in this publication is not indicative of future results.

This report does not constitute, and should not be used as a substitute for, tax, legal or investment advice. This publication should not be relied upon exclusively or as authoritative, without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this publication has been made available constitutes neither a recommendation to enter into a particular transaction, nor a representation that any product described in this material is suitable or appropriate for the recipient. Recipients should be aware that many of the products, which may be described in this publication involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made, unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of any product. Any decision to purchase any product mentioned in this research should take into account existing public information, including any registered prospectus in respect of such product.

Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, may provide an array of financial services to a large number of corporations in Singapore and worldwide, including but not limited to commercial / investment banking activities (including sponsorship, financial advisory or underwriting activities), brokerage or securities trading activities. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, may have participated in or invested in transactions with the issuer(s) of the securities mentioned in this publication, and may have performed services for or solicited business from such issuers. Additionally, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, may have provided advice or investment services to such companies and investments or related investments, as may be mentioned in this publication.

Phillip Securities Research or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report may, from time to time maintain a long or short position in securities referred to herein, or in related futures or options, purchase or sell, make a market in, or engage in any other transaction involving such securities, and earn brokerage or other compensation in respect of the foregoing. Investments will be denominated in various currencies including US dollars and Euro and thus will be subject to any fluctuation in exchange rates between US dollars and Euro or foreign currencies and the currency of your own jurisdiction. Such fluctuations may have an adverse effect on the value, price or income return of the investment.

To the extent permitted by law, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, may at any time engage in any of the above activities as set out above or otherwise hold a interest, whether material or not, in respect of companies and investments or related investments, which may be mentioned in this publication. Accordingly, information may be available to Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, which is not reflected in this material, and Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, may, to the extent permitted by law, have acted upon or used the information prior to or immediately following its publication. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited its officers, directors, employees or persons involved in the preparation or issuance of this report, may have issued other material that is inconsistent with, or reach different conclusions from, the contents of this material.

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities Research to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

Section 27 of the Financial Advisers Act (Cap. 110) of Singapore and the MAS Notice on Recommendations on Investment Products (FAA-N01) do not apply in respect of this publication.

This material is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this material may not be suitable for all investors and a person receiving or reading this material should seek advice from a professional and financial adviser regarding the legal, business, financial, tax and other aspects including the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

Please contact Phillip Securities Research at [65 65311240] in respect of any matters arising from, or in connection with, this document.

This report is only for the purpose of distribution in Singapore.

Contact Information (Singapore Research Team)

Chan Wai Chee
CEO, Research
Special Opportunities
+65 6531 1231
yebo@phillip.com.sg

Lee Kok Joo, CFA
Head of Research
S-Chips, Sector Strategy
+65 6531 1685
leekj@phillip.com.sg

Joshua Tan
Macro Strategist
Global Macro, Asset Strategy
+65 6531 1249
joshuatan@phillip.com.sg

Magdalene Choong
Investment Analyst
Gaming, US
+65 6531 1791
magdalenechoongss@phillip.com.sg

Go Choon Koay, Bryan
Investment Analyst
Property
+65 6531 1792
gock@phillip.com.sg

Derrick Heng
Investment Analyst
Transportation, O&M
+65 6531 1221
derrickhengch@phillip.com.sg

Ken Ang
Investment Analyst
Financials, Telcos
+65 6531 1793
kenangwy@phillip.com.sg

Travis Seah
Investment Analyst
REITS
+65 6531 1229
travisseahhk@phillip.com.sg

Ng Weiwen
Macro Analyst
Global Macro, Asset Strategy
+65 6531 1735
ngww@phillip.com.sg

Research Assistant
General Enquiries
+65 6531 1240 (Phone)
+65 6336 7607 (Fax)
research@phillip.com.sg

Contact Information (Regional Member Companies)

SINGAPORE
Phillip Securities Pte Ltd
Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel : (65) 6533 6001
Fax : (65) 6535 6631
Website: www.poems.com.sg

MALAYSIA
Phillip Capital Management Sdn Bhd
B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel (603) 21628841
Fax (603) 21665099
Website: www.poems.com.my

HONG KONG
Phillip Securities (HK) Ltd
Exchange Participant of the Stock Exchange of Hong Kong
11/F United Centre 95 Queensway
Hong Kong
Tel (852) 22776600
Fax (852) 28685307
Websites: www.phillip.com.hk

JAPAN
Phillip Securities Japan, Ltd.
4-2 Nihonbashi Kabuto-cho Chuo-ku,
Tokyo 103-0026
Tel: (81-3) 3666-2101
Fax: (81-3) 3666-6090
Website:www.phillip.co.jp

INDONESIA
PT Phillip Securities Indonesia
ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel (62-21) 57900800
Fax (62-21) 57900809
Website: www.phillip.co.id

CHINA
Phillip Financial Advisory (Shanghai) Co. Ltd
No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel (86-21) 51699200
Fax (86-21) 63512940
Website: www.phillip.com.cn

THAILAND
Phillip Securities (Thailand) Public Co. Ltd
15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel (66-2) 6351700 / 22680999
Fax (66-2) 22680921
Website www.phillip.co.th

FRANCE
King & Shaxson Capital Limited
3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel (33-1) 45633100
Fax (33-1) 45636017
Website: www.kingandshaxson.com

UNITED KINGDOM
King & Shaxson Capital Limited
6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel (44-20) 7426 5950
Fax (44-20) 7626 1757
Website: www.kingandshaxson.com

UNITED STATES
Phillip Futures Inc
141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1.312.356.9000
Fax +1.312.356.9005

AUSTRALIA
Octa Phillip Securities Ltd
Level 12, 15 William Street,
Melbourne, Victoria 3000, Australia
Tel (03) 9629 8288
Fax (03) 9629 8882
Website: www.octaphillip.com