

# Macro Trader

Long China, Long Commodities  
Sell Gold (again), Sell Treasuries (again too)

By Joshua Tan (Research Assistant: Kenneth Koh)  
Products: ETF | CFD | SBL | UT

9 September 2013  
Phillip Securities Research Pte Ltd

Revised table summary of Asset Strategy (Pg.4), with ETF and CFD instruments to trade the outlook (Pg.5). Tactical trading without front-load sales charge is available with a Phillip UT WRAP account.

OW = Overweight; NW = Neutralweight; UW = Underweight  
Note: Neutralweight is equivalent to our previous rating of Marketweight

\* Register for our every Monday 11.15am Market Outlook Live Webinar by going to [www.poems.com.sg](http://www.poems.com.sg) > Weekly Webinar Market Call by Phillip Research

I suppose our title could not be more blunt.

**Long China** as the economy (i.e. growth) is picking up, inflation is subdued, valuations are rock bottom, and the main China A-share index, the CSI 300 has put in a double bottom in the weekly charts (please watch today's webinar\* as our technical analyst will go thru the charts in detail). We are maintaining our long term OW on Greater China and upgrading our short-term UW to OW to bring the call in line with improving near term fundamentals. Long China with **ETF 83188.HK**.

**Long the Commodity Index S&P GSCI** as G4 economies US, EZ, JP and CN are picking up. On the technical front, the significant downward sloping trendline has been breached which is a bullish sign (please watch today's webinar\* as our technical analyst will go thru the charts in detail). We are upgrading Commodities to an OW from NW. Long Commodities with **ETF GSG.US**.

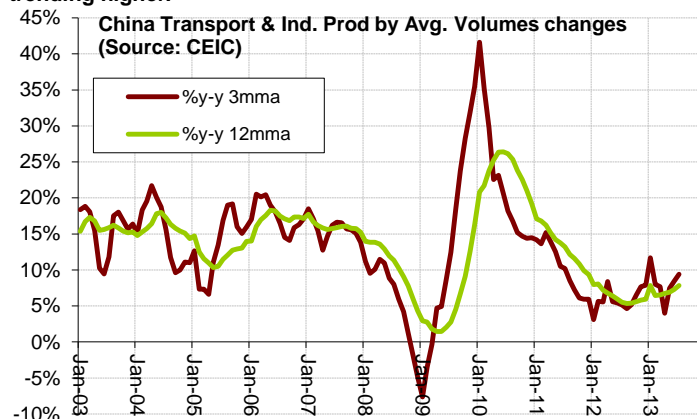
**Short Gold**, again... last 25<sup>th</sup> Oct12 we went UW Gold, the precious metal consequently sold off 34%, one of our best calls. Now that we have had a 19% rebound is this the end of the selling? Doubt it, we continue to hold the view that the US economy is improving, its trade deficit is narrowing (manufacturing returning, shale gas), and the budget deficit is also normalising, hence the US\$ is on a strengthening path. Thus the macro conditions for a resilient Gold rebound are weak, throw in QE tapering and the dollar will strengthen even more – sell Gold if you have still have it, short it if you don't. Maintain UW. (**Short the SPDR Gold ETF O87.SGX via Shares Borrowing and Lending, Call your TR or SBL Direct: +65 65315454 for procedures and risks**).

**Short US Treasuries**, again... we have been UW US Treasuries since year start 4<sup>th</sup> Jan13 (-11.4% ytd) and we still think the case is on to keep selling treasuries. An improving US economy should favour stocks over bonds, and QE tapering is likely to have a worse off effect on bonds than on stocks as ultimately, tapering signifies a strengthening economy. Shorting US treasuries can be done through **ETF TBT.US**. Maintain UW on US Treasuries.

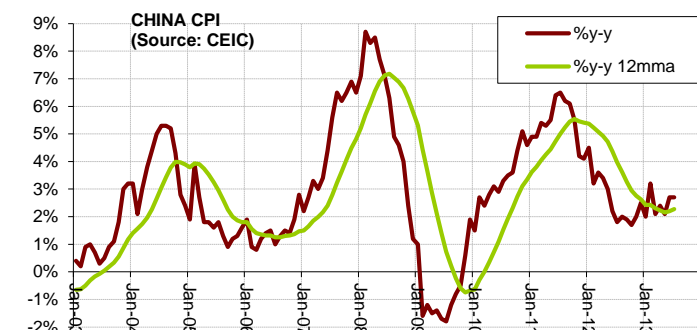
*The above represents our best effort analysis and is not a crystal ball, keep your stops tight and bailout if it does not work.*

## Long China:- ETF 83188.HK

Our proprietary indicator of average changes in volumes shipped in China by transport and industrial production indicates a steady trending higher.



## Inflation in China is not an issue – no need to raise interest rates

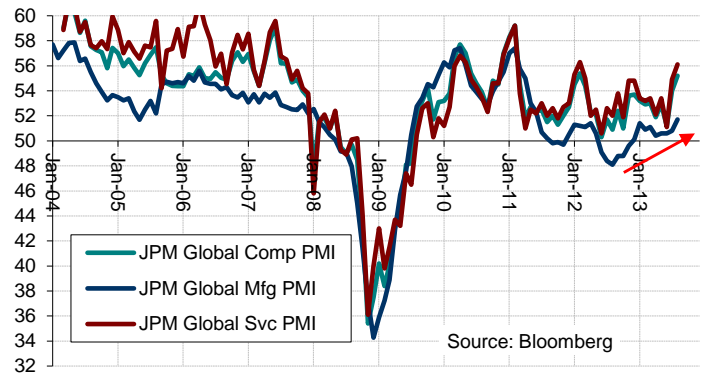
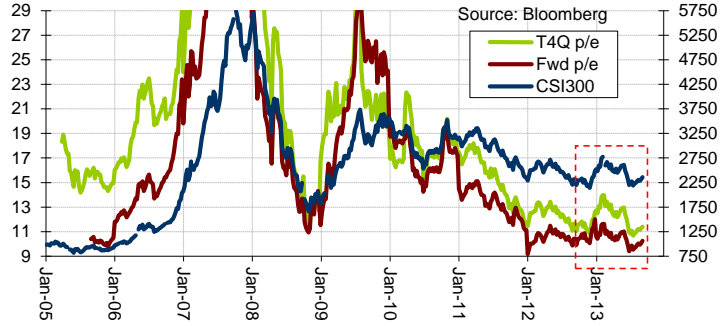


## Chinese firms are experiencing profit growth again



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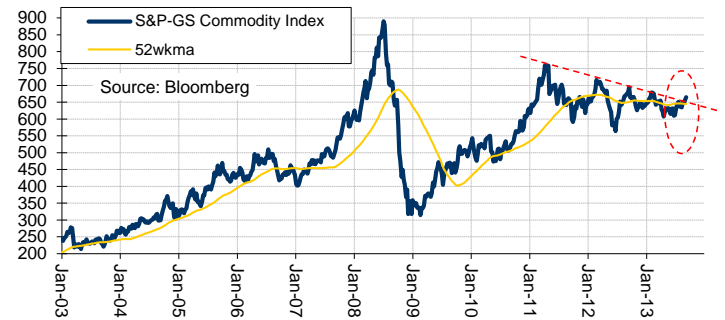
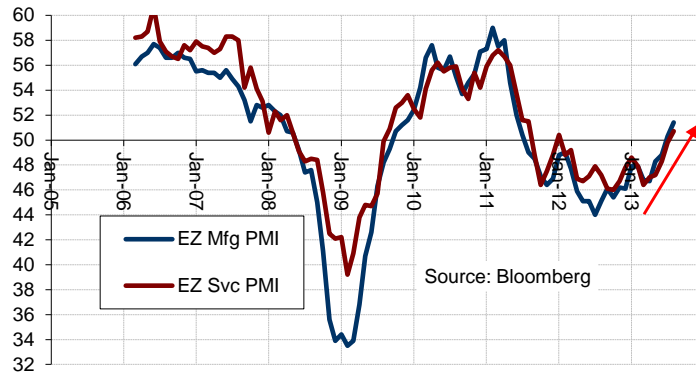
China index, the CSI 300 (ETF 83188.HK), has put in a double bottom in the weekly charts (see today's webinar), valuations are also at rock bottom (red box).



**Long the Commodity Index:- ETF GSG.US**

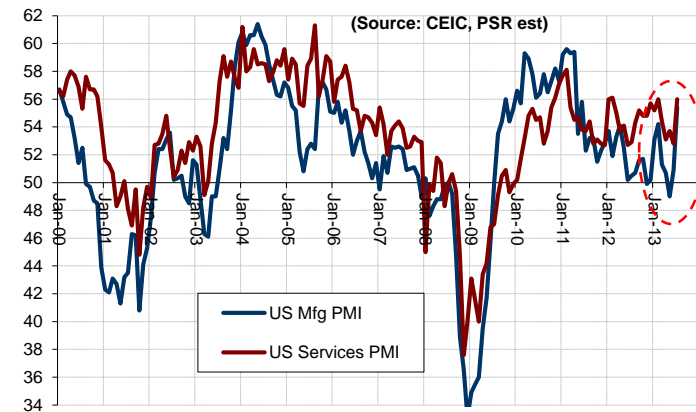
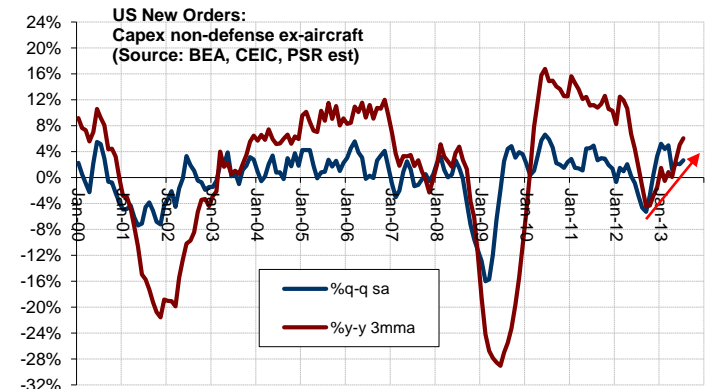
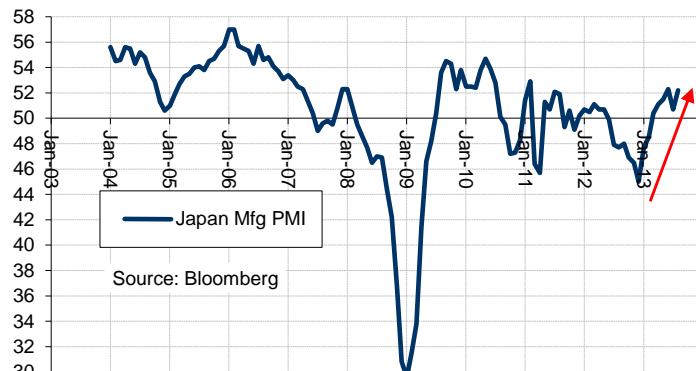
Global Growth sure is picking up, from EZ, JP, US and CN as we have seen, that's 75% of the world's output. Global PMIs confirm the improvement.

The commodity index S&P GSCI (ETF GSG.US) has been struggling to break thru that downward sloping trendline for almost 3yrs. It has finally cleared it convincingly for a few weeks now (hard to tell on this chart but please tune in to today's webinar for a detailed technical analysis).

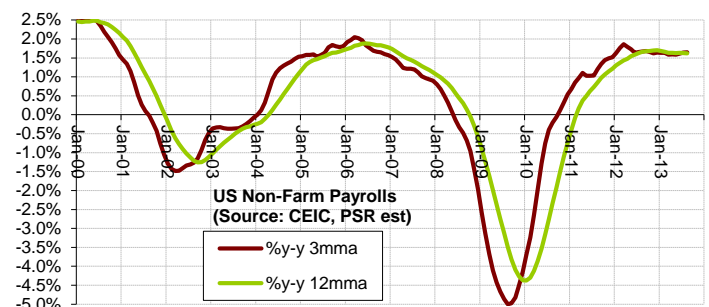


**Short Gold (again...):- Short SPDR Gold ETF O87.SGX**

US economy is likely to have a stronger GDP print in 2H13 than in 1H13. Forward looking business investment just keeps improving.

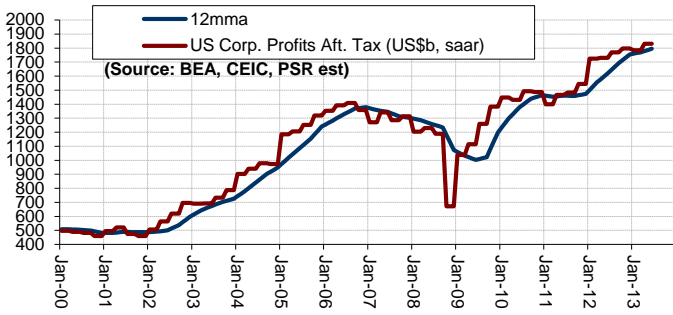


July's non-farm payrolls report was a little disappointing, but seen in terms of overall trend growth – US employment is steady

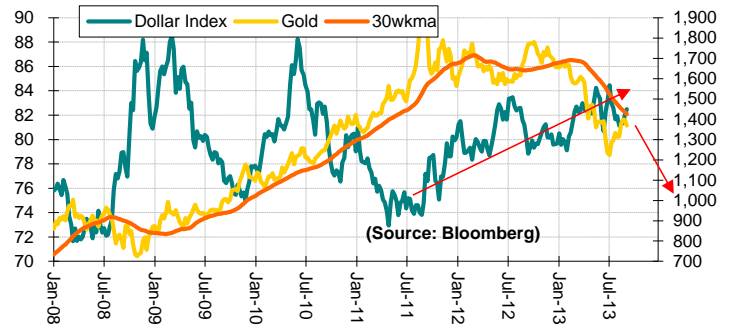


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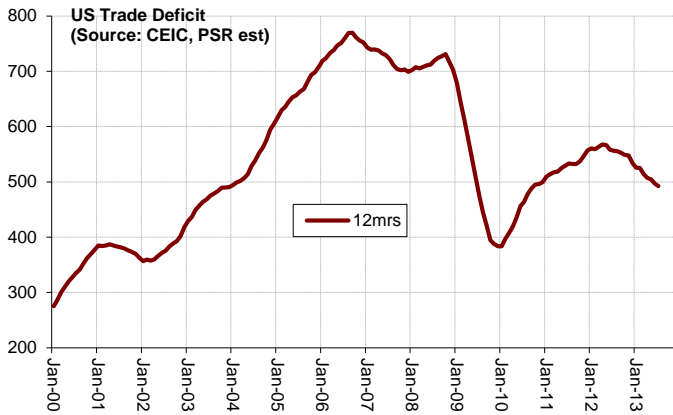
**US corporate profits still trending higher**



Improving growth, profit growth, reducing trade deficit, reducing govt budget deficit imply a strengthening US\$, what more with the end of QE – macro conditions are good for the dollar but bad for gold. Lots of clients have asked us if it was worth getting back into Gold, we do not believe so and in fact would take the bearish view.



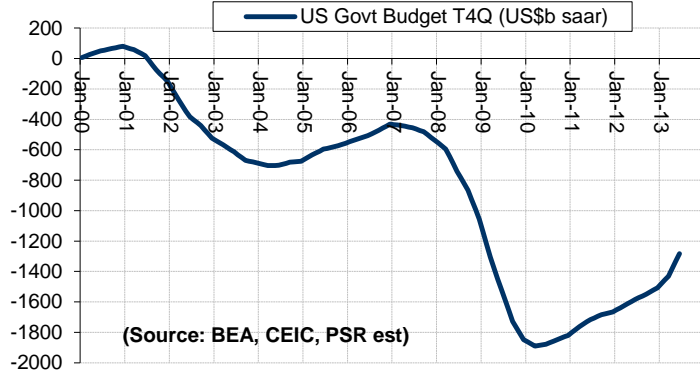
US Trade Deficit is also beginning to contract as the shale energy revolution reduces fuel imports and makes US manufacturing exports more competitive – this is positive for the Dollar (and growth!)



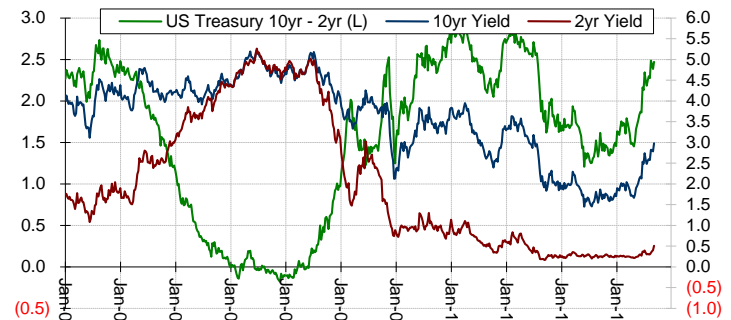
**Short US Treasuries (again...):- ETF TBT.US**

We have already gone over the case for a stronger US economy in our short gold section, the same macro outlook suggests further downside for US treasuries, as in the face of stronger growth, portfolio managers are bound to prefer stocks over bonds. QE tapering also suggests the largest buyer of 10yr US treasuries – the Fed – will at least begin slowing down the pace of purchases from the current US\$85b/mth to perhaps US\$75b instead. Such a move would send the signal that the slower purchases mark the beginning of a steady withdrawal to an outright stop by perhaps 4q14. Bonds at the longer end of the curve (10yr) are selling off and we think this will continue, hence we suggest to short the asset class with ETF TBT.US.

US govt budget deficit is also on a narrowing trend as the sequester works its way thru the budget. Even as fiscal tightening occurs, the economy is on a steady albeit slow improvement.



Widening of the US yield curve has been primarily due to selling at the long end of the curve (>10yr note), not so much the short end of the curve (<2yr note) which is still anchored by the fed funds rate.



## Phillip Securities Research: Asset Allocation Strategy

Returns incl. Yield	2012	2012 total return		2013	2013 total return	
<b>Bonds</b>						
US Treasuries	UW from OW 9 Oct	7.0%	correct	UW	-11.4%	correct
US MBS	OW	4.7%	wrong	UW from OW 23 Jan	-3.5%	correct
US Corp IG	NW from OW 9 Oct	16.5%	correct	UW	-8.1%	correct
US Corp HY	OW	20.1%	correct	NW from OW 18 Feb	0.8%	correct
EM-Asia US\$ IG	OW	19.6%	correct	UW from OW 23 Jan	-8.9%	correct
EM-Asia LC IG	OW	13.3%	correct	NW from OW 23 Jan	-9.4%	correct
EM-Asia HY	OW	30.8%	correct	NW from OW 18 Feb	-6.7%	correct
simple average:	OW	16.0%	correct	NW	-6.7%	CORRECT
<b>Equities</b>						
World	NW	15.4%	correct	OW	14.2%	CORRECT
US	NW from UW 21 Dec	13.8%	shld have MW in Jun not Dec!	OW from NW 18 Mar	18.0%	correct
EZ	UW	17.8%	wrong	UW	11.6%	under review
JP	-			OW	36.6%	correct
Korea	NW	12.8%	correct	NW	-2.6%	wrong
Taiwan	NW	12.2%	correct	NW	7.1%	wrong
China-A	OW 22 Oct	7.8%	timely!	OW	-1.3%	maintain
China-H	OW 22 Oct	17.8%	caught 2nd move	OW	-1.0%	maintain
HK	OW 8 Oct	26.1%	caught 2nd move	OW	5.0%	maintain
SG	OW	23.5%	correct	OW	-0.8%	maintain
MY	NW	13.4%	correct	NW	5.4%	under review
TH	OW	29.6%	correct	OW	-6.8%	under review
ID	NW	11.3%	correct	OW from NW 11 Apr	-10.0%	under review
PH	OW	36.8%	correct	NW from OW 5 Jun	4.9%	correct
India	UW	29.3%	wrong	UW	-2.5%	correct
<b>Commodities</b>						
Gold	UW 25th Oct	-2.9%	correct	OW from NW 9 Sep	-1.4%	upgraded
				UW	-16.8%	CORRECT

OW = Overweight | NW = Neutralweight | UW = Underweight (Souce: PSR, Bloomberg)

**Global Macro, Asset Strategy Team, Phillip Securities Research**

OW = Overweight ; MW = Neutralweight ; UW = Underweight

<u>Broad Asset</u>	<u>Sub-Asset</u>	<u>ETF</u>	<u>Phillip CFD</u>
Bonds (MW)	US Treasuries	TLH.AMEX / TLT.AMEX	
	US Mortgage Backed	VMBS.AMEX / MBG.AMEX	
	US Corp	VCLT.AMEX / LQD.AMEX	
	US Corp High Yield	HYG.AMEX / JNK.AMEX	
	EM US\$ Govt	EMB.AMEX	
	EM LC Govt	LEMB.AMEX	
	EM US\$ HY Corp & Govt	EMHY.AMEX	
	Asian US\$ Govt & Corp	N6M.SGX	
	Asian LC Govt & Corp	N6L.SGX	
	Asian US\$ Corp HY	O9P.SGX	
Equities (OW)	US	SPDR S&P 500 (SPY:AMEX)	US SP 500 Index USD5 CFD (S&P500) / Wall Street Index USD1 CFD (DJIA)/ US Tech 100 Index USD5 CFD
	Europe	SPDR Stoxx 50 (FEU:AMEX)	
	Australia	iShares MSCI Australia (IOZ:ASX)	
	Japan	Lyxor Japan TOPIX (CW4:SGX)	Japan 225 Index JPY100 CFD (Nikkei 225) / Tokyo Index JPY1000 CFD (Topix)
	S.Korea	DBXT - MSCI Korea (IH2:SGX)	
	Taiwan	DBXT - MSCI Taiwan (HD7:SGX)	Taiwan Index USD20 CFD (MSCI Taiwan)
	China A shares	CSI300 (83188.HK) / SSE 50 (JK8.SGX)	FTSE China A50 Index USD1 CFD
	China H shares	HKCEI (2828.HK)	H Shares Index HKD5 CFD (HSCEI)
	HK	Hang Seng (2800.HK)	Hong Kong 40 Index HKD5 CFD (Hang Seng)
	Singapore	SPDR STI (ES3:SGX)	STI SGD5 CFD / S'pore Index SGD20 CFD (SMSCI)
	Malaysia	DBXT - MSCI Malaysia (LG6:SGX)	FBM KLCI MYR10 CFD
	Thailand	DBXT - MSCI Thailand TRN (LG7:SGX)	
	Indonesia	DBXT - MSCI Indonesia (KJ7:SGX)	
	Philippines	DBXT - MSCI Philippines (N2E:SGX)	Indonesia Index USD1 CFD (MSCI Indon)
	Vietnam	DBXT - FTSE Vietnam (HD9:SGX)	
	India	iShares MSCI India (I98:SGX)	India50 Index USD1 CFD (S&P CNX Nifty)
	Commodities		
		Lyxor Commodity 10\$US (A0W:SGX)	
Gold		SPDR Gold ETF (O87:SGX or GLD:AMEX)	

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