

# Global Macro, Asset Strategy - update

## Gold losing its glitter? Still positive on EM / Asia debt

Joshua Tan, Ng Weiwen

25 October 2012

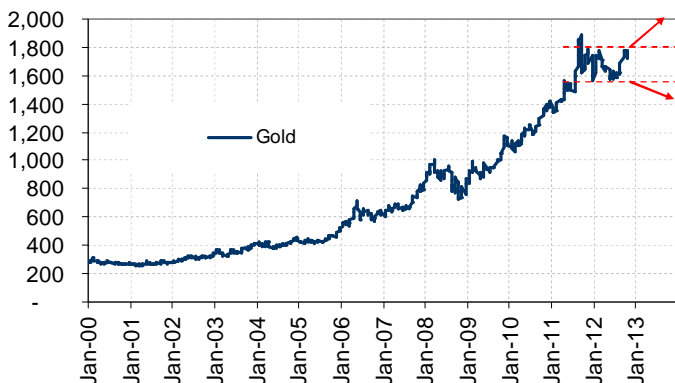
Products: ETF | Unit Trusts

Phillip Securities Research Pte Ltd

### Gold – downgrade – Negative/Underweight

- **ETF: SPDR Gold ETF (O87:SGX or GLD:AMEX)**
- **Unit Trusts: Schroder AS - Gold & Precious Metals A Acc -USD**
- **Updated table summary of Global Macro, Asset Strategy Pg2**

- (1) We downgraded Gold in our Morning Note on Monday 22<sup>nd</sup> Oct, we wish to do it formally in this note – yes we said long on 9th Oct on indefinite QE – but decided to U-turn as technicals did not gel with our initial thoughts on gold, which prompted a re-analysis.
- (2) **Technicals.** SPDR Gold ETF (GLD: AMEX) has gapped down below the 50dma support level on the 23<sup>rd</sup> Oct trading close and is likely to see an increase in selling pressure.
- (3) **Spot gold is struggling to break through the strong resistance at \$1800 level.** Note in Oct, **gold formed a third lower high in a possible ‘triple top reversal pattern’** - which if confirmed- could see gold retrace to around \$1680 level. Conversely, if gold clears the \$1800 level, it will challenge the near-term high of \$1815 next.



- (4) What primarily drives gold is faith – the lack thereof – in “paper” currencies, which primarily is the USD. We were bearish on the USD due to indefinite QE by the Fed. But this thesis may not prove so obvious. Technically, the USD is finding some footing. Weakness from QE3 seems short lived.

- (5) **We think the market is re-thinking the USD and thus Gold**, along 2 lines:
  - a. Firstly, the US economy, for all its problems will still outperform the EZ and Japan, its large developed market counterparts – this makes the USD a continually attractive currency relative to such developed economy options. Whether in growth or recession, the US is likely to do better than the EZ and Japan. This not the same as saying it’s the best safe haven out there – for e.g. the SGD is a more attractive safe haven currency. But among the big 3 – the US, EZ and JP – the USD is best. This lends support to the USD which is generally not great for gold.
  - b. Secondly, the impending fiscal cliff, if it happens will be positive for treasuries as the budget position will improve, a flight to treasuries would be positive for the USD.
  - c. Thus it seems that either way, there is support for the USD, which can’t be great for Gold.
- (6) **Notwithstanding the perceived weaker link in currency debasement, gold is still an important hedge within a portfolio.** Major drivers such as (i) easing by major central banks which result in rising inflation expectations as well as (ii) escalating debt levels in the advanced economies (US and EZ) are likely to continue to lend support to gold prices.
- (7) **On balance, we downgrade Gold formally in this note**, as with our Morning Note comment on the 22<sup>nd</sup>, and will revisit this call if market perception on the fundamentals changes. To be sure, there are enough “die-hard gold bugs” out there to provoke a strong rebound sooner or later. We will watch the key 1500 support level, and see how macro developments affect the asset. Gold is a complicated asset, and one must stay flexible on it.
- (8) **Our main calls of long EM/Asia debt remains unchanged, as well as long Mortgaged Backed and long High Yield US corporate.** Our preference in the Equity space for ASEAN over the US remains unchanged. We **upgraded China to Overweight on the 22<sup>nd</sup> Oct as well.**

25 October 2012

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

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

**MACRO OUTLOOK:**

- Global Economy: growth still slowing, high frequency indicators turning negative on %y-y 3mma
- Mon. Policy: Massive, unprecedented QE coordination from G3. Most Asian CBs have room to cut, ECB room to cut.
- Fiscal Policy: US facing fiscal cliff, EU austerity. China measured. MY looking stretched. Asia, ASEAN in general still has bullets
- Tail Risks: ECB's OMT has removed EZ breakup for medium term. But EZ debt compounding faster than Nom. GDP, is a underlying breakup risk. US fiscal cliff looms.

**INTER-MARKET PICTURE: Risk-On due to QE3**

- Bonds: **OVERWEIGHT** - Safe Havens look neutral, gained back some ground after QE3. Best trade since GMAS 26th July: EM & Asia bonds still rallying. Long mortgage backed on QE3.
- Equities: **MARKETWEIGHT** - QE3 has sparked a rally, but if underlying economy does not respond to QE3, it could get ugly. Adopt a traders mindset.
- Commodities: **UNDERWEIGHT** - Rallied on QE3 but now looking tentative and undecided - QE3 is supportive but global economy is not.
- Gold: **UNDERWEIGHT** on short-lived support from QE3 and the seemingly weaker link in currency debasement

Broad Asset	Sub-Asset	Absolute Return / Relative Return *	ETF	CFD	
Bonds	US Treasuries	N/UW	10-20yr Treasuries (TLH:AMEX) / +20yr Treasuries (TLT:AMEX)		
	US Mortgage Backed	BL/OW	VMBS:AMEX / MBG:AMEX		
	US Corp	N/MW	VCLT:AMEX / LQD:AMEX		
	US Corp High Yield	BL/OW	HYG:AMEX		
	EM US\$ Govt	BL/OW	EMB:AMEX		
	EM LC Govt	BL/OW	LEMB:AMEX		
	EM US\$ HY Corp & Govt	BL/OW	EMHY:AMEX		
	Asian US\$ Govt & Corp	BL/OW	N6M:SGX		
	Asian LC Govt & Corp	BL/OW	N6L:SGX		
	Asian US\$ Corp HY	BL/OW	O9P:SGX		
Equities	US	N/UW	SPDR S&P 500 (SPY:AMEX)	US SP 500 Index USD5 CFD (S&P500), Wall Street Index USD1 CFD (DJIA)	
	Europe	N/UW	SPDR Stoxx 50 (FEU:AMEX)		
	India	N/UW	iShares MSCI India (I98:SGX)	India 50 Index USD1 CFD (S&P CNX Nifty Index)	
	China	N/OW	HKCEI (2828.HK), CSI300 (83188.HK)	H Shares Index HKD5 CFD (CEI :H-shares), FTSE China A50 Index USD1 CFD	
	HK	N/MW	Tracker Fund of Hong Kong (2800.HK)	Hong Kong 40 Index HKD5 CFD (HIS)	
	Japan	N/UW	Nomura ETF Nikkei 225 (1329.JP)	Japan 225 Index JPY100 CFD (Nikkei 225), Tokyo Index JPY1000 CFD (TOPIX)	
	S.Korea	N/MW	DBXT - MSCI Korea (IH2:SGX)		
	Taiwan	N/UW	DBXT - MSCI Taiwan (HD7:SGX)	Taiwan Index USD20 CFD (MSCI Taiwan)	
	Australia	N/MW			
	Singapore	N/OW	<b>CIMB ASEAN40 ETF (QS0:SGX or M62:SGX)</b>	SPDR STI (ES3:SGX) / Nikko AM STI (G3B:SGX)	Straits Times Index SGD5 CFD (STI), Singapore Index SGD20 CFD (SMSCI)
	Malaysia	N/MW		DBXT - MSCI Malaysia (LG6:SGX)	FBM KLCI MYR10 CFD (Bursa Malaysia KLCI)
	Thailand	N/OW		DBXT - MSCI Thailand TRN (LG7:SGX)	
	Indonesia	N/MW		DBXT - MSCI Indonesia (KJ7:SGX)	Indonesia Index USD1 CFD (MSCI Indonesia Index)
	Philippines	N/OW		DBXT - MSCI Philippines (N2E:SGX)	
Vietnam	N/MW	DBXT - FTSE Vietnam (HD9:SGX)			
Commodities		Neutral / Underweight	Lyxor Commodity 10\$US (A0W:SGX)		
Cash		Marketweight			
Gold		Bearish / Underweight	SPDR Gold ETF (O87:SGX or GLD:AMEX)		

25 October 2012

**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

25 October 2012

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 an 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 to 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.

25 October 2012

**Contact Information (Singapore Research Team)**

---

**Chan Wai Chee**

CEO, Research

Special Opportunities

+65 6531 1231

yebo@phillip.com.sg

**Magdalene Choong, CFA**

Investment Analyst

Regional Gaming

+65 6531 1791

magdalenechoongss@phillip.com.sg

**Ken Ang**

Investment Analyst

Financials, Telecoms

+65 6531 1793

kenangwy@phillip.com.sg

**Nicholas Ong**

Investment Analyst

Commodities, Offshore & Marine

+65 6531 5440

nicholasonghg@phillip.com.sg

**Joshua Tan**

Head of Research

Global Macro, Asset Strategy

+65 6531 1249

joshuatan@phillip.com.sg

**Go Choon Koay, Bryan**

Investment Analyst

Property

+65 6531 1792

gock@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)

research@phillip.com.sg

**Derrick Heng**

Deputy Head of Research

SG Equity Strategist &

Transport

+65 6531 1221

derrickhengch@phillip.com.sg

**Travis Seah**

Investment Analyst

REITs

+65 6531 1229

travisseahhk@phillip.com.sg

**Roy Chen**

Macro Analyst

Global Macro, Asset Strategy

+65 6531 1535

roychencz@phillip.com.sg

25 October 2012

**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](http://www.poems.com.sg)

**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](http://www.phillip.com.hk)

**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](http://www.phillip.co.id)

**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](http://www.phillip.co.th)

**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](http://www.kingandshaxson.com)

**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](http://www.octaphillip.com)

**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](http://www.poems.com.my)

**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](http://www.phillip.co.jp)

**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](http://www.phillip.com.cn)

**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](http://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