

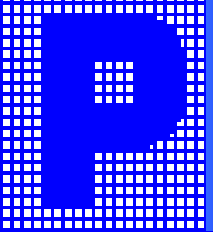
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Fixed income – Unfortunately, high yields outperformed mortgage backed securities last month. But both posted gains for the month. We still recommend investors hold onto their mortgage backed securities in the short term



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20 November 2009

We are still holding on to gold and mortgage backed securities

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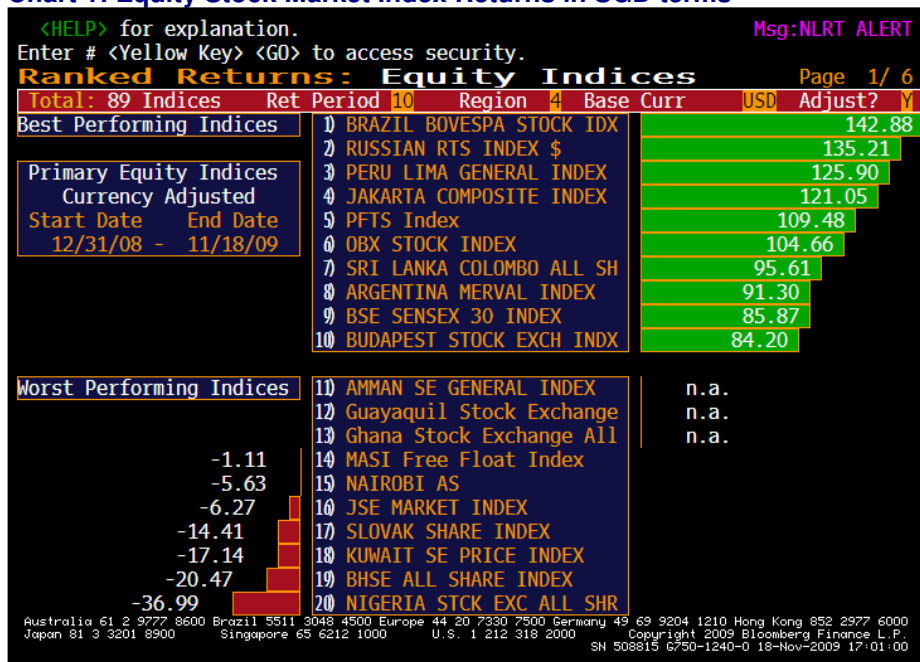
Equities – Correction is a probability not a possibility

Sentiments on global equities continue to be subjected to several factors: profit-taking on the back of a strong 2009 since March, overbought market levels and possible liquidity concerns due to thin trading ahead of thanks-giving holiday season.

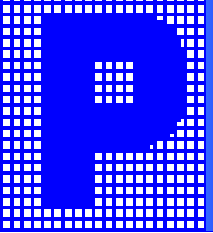
Report Highlights

Brazilian stock market remains the best performing market Year-to-Date.

Chart 1: Equity Stock Market Index Returns in SGD terms



Source: Bloomberg



On a whole, the market's 60 percent rally off its March lows, coupled with gradually improving economic data has done enough to justify the 'green shoots' talk. Nevertheless, the market remains undivided as to whether the bull run will continue or a correction is due. Our take sticks with the general consensus that the equities market may stay sideway for the time being.

Interestingly, from a technical point of view, we feel that a double top may be forming on the S&P 500 daily chart and a breakout to the downside will likely bring us to the 950 region again. However, as a word of cautious, until the double top is formed, we remain neutral on the global equities market.

Chart 2: Daily Price Chart on S&P 500



Double-Top formation on the S&P Daily chart

Since March, the VIX Index has been battered down due to a run-up in global equities. This index has also been known as the 'fear' index, reflecting ongoing market sentiments. We believe that any bounce in the VIX index in the near term should be taken as a sign of rising speculative trading activities in the options market as traders turn cautious. This may eventually translate into a 10-20% correction on the equities market. The support level at 20.00 is critical for the VIX and may be tested again in the near term. Refer to Chart 3 below.

Chart 3: The CBOE VIX Index



Source: Bloomberg, as of 18 November 2009

Lastly, we wish to highlight on the foreign portfolio investment in some of the Asian equities on a weekly, monthly and yearly basis. The table below illustrates that Japan continues to be subjected to high levels of foreign divestment (US\$41.2 billion) as investors continue to favour market such as India and South Korea. We advise investors to remain bearish on Japanese equities as its economy remains fundamentally weak. Refer to Table 1 for more information.

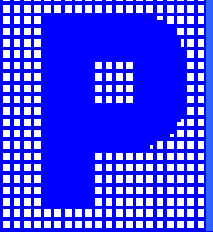
Table 1: Foreign Portfolio Investment in Emerging Asia equities

	WTD (Mil US\$)	MTD (Mil US\$)	YTD (Mil US\$)
India	147.4	909.4	14966.0
Indonesia	74.3	48.9	837.1
Japan	-109.3	-109.3	-41270.7
S. Korea	169.6	759.1	21552.5
Taiwan	1034.0	1772.0	13273.3
Thailand	-2.8	-228.1	1438.8

Source: Bloomberg, as of 18 November 2009

The VIX Index may be poised for a bounce in the near term

Foreign Divestment remains significant in Japan Equities

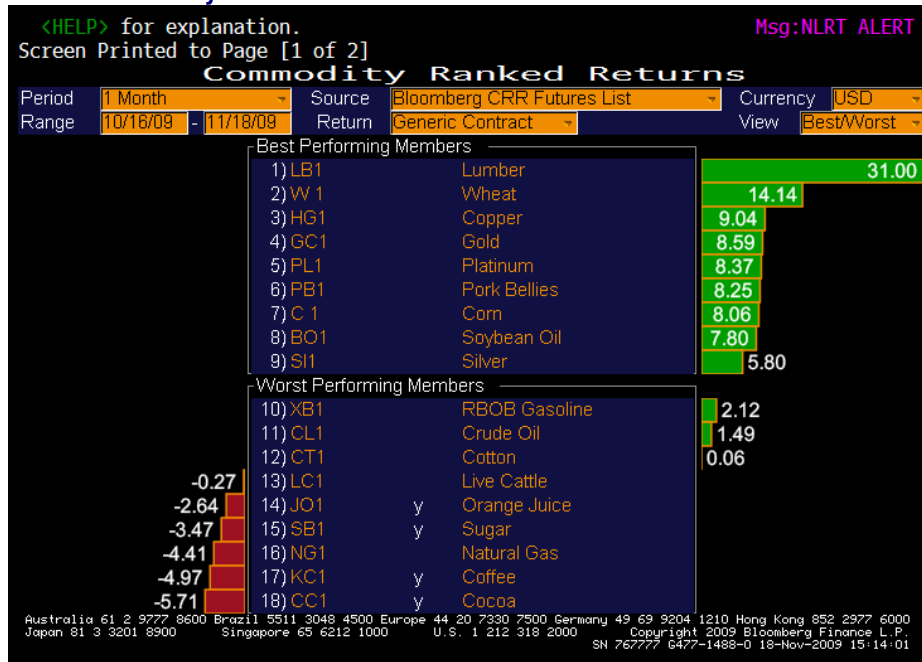


Commodities – Gold Play

On the commodities front, after breaking out above the June and August highs, the CRB Jefferies Index turned lower in late October, but in the first few days of November had not deeply penetrated the congestion of the past six months. Energies and grains — markets that had been notably weak in September — helped lead the bullish charge in October, while precious metals continue their previous upside momentum.

Performance of commodities are mixed as precious metals continue to outperform

Chart 4: Monthly Return for the CRB Jefferies Index



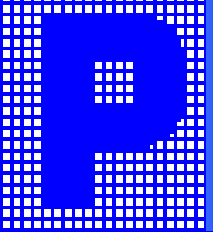
Source: Bloomberg, as of 18 November 2009

Chart 5: CRB Jefferies Index



CRB Jefferies Index starts its consolidation phase around the 270 region

Source: Bloomberg, as of 18 November 2009



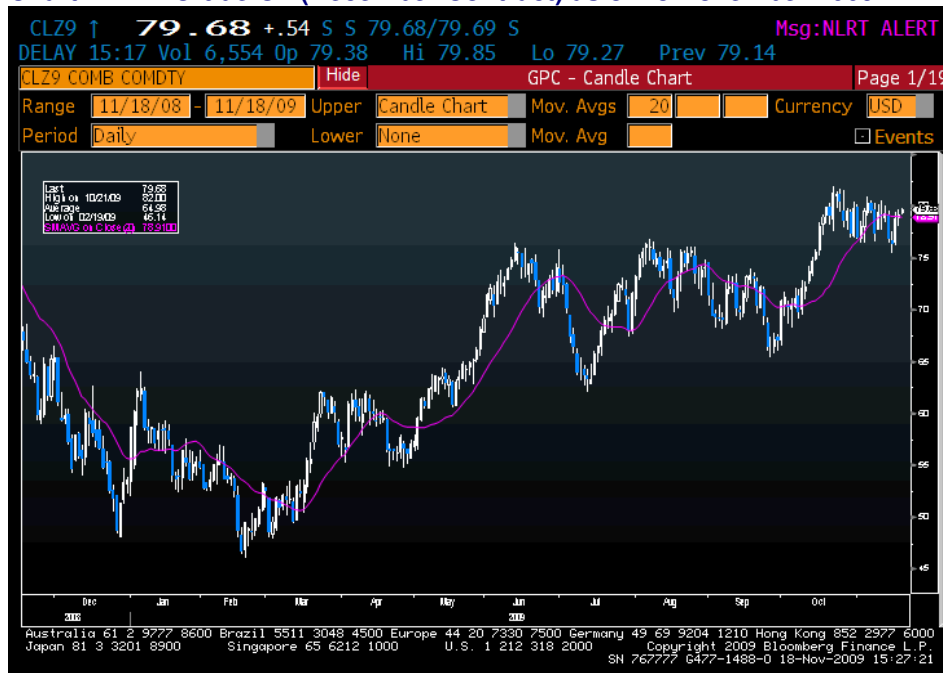
We remain neutral to slight bearish on energy commodities. Technically, crude is overdue for a correction. Prices look overextended mostly due to outsized bullishness on the global economy. Near term, crude prices will highly correlate inversely with the dollar index. With reference to charts below, the likelihood of a dollar bounce to the region of 77.74 is possible. As the dollar strengthens temporarily, crude may briefly come off. Based on December crude futures, a realistic downside target would be US\$68/barrel.

Chart 6: Dollar Index (Trade-Weighted)



Source: Bloomberg, as of 18 November 2009

Chart 7: WTI Crude Oil (December Contract) as of 18 November 2009



Source: Bloomberg, as of 18 November 2009

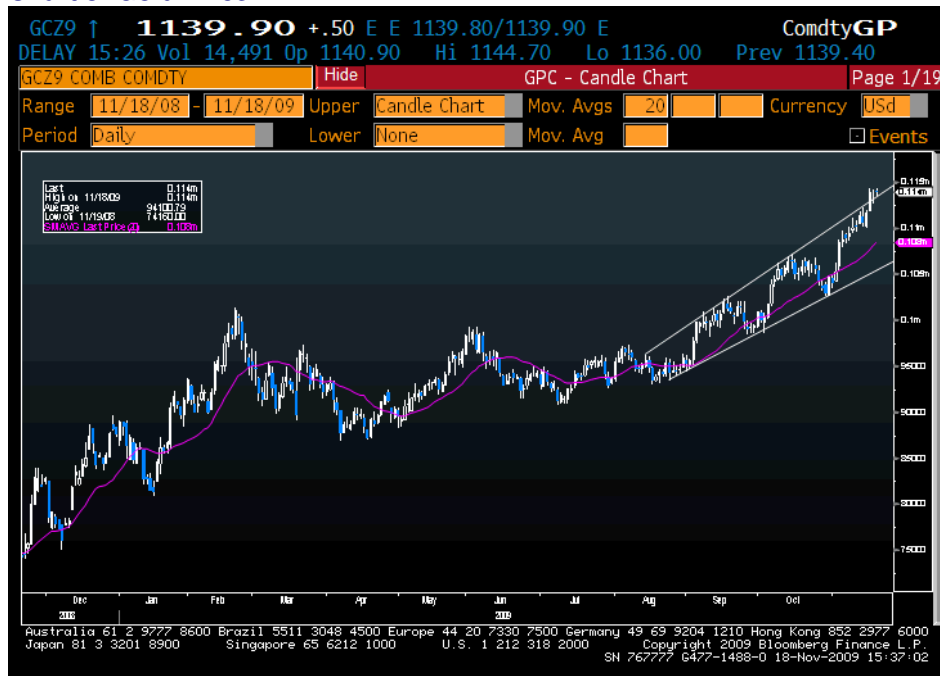
Dollar Index finding support at the 75 region.

Price of oil finding strong resistance as it approaches the US\$80/barrel mark.

As for precious metals, especially gold, will be the focus in the near term. Market opinions are pointing towards a secular bull market on gold. Earlier in November'09, the International Monetary Fund (IMF), sold gold to India's central bank in a predetermined sale worth \$6.7 billion—the biggest central bank purchase of gold bullion in 30 years. We highly believe that the emerging market central banks will continue to accumulate gold bullion in order to supplement their dollar-based reserves. According to Bloomberg, the BRICs central banks are holding on to a massive US\$2.1-trillion worth of foreign reserve, much of which is denominated in American currency. Together with tighter supplies as gold production stagnates, the big boys in the emerging markets may continue their accumulation of gold reserve. Our recommendation is to wait for a correction before resuming fresh purchases.

Fundamental factors on gold remain strongly positive.

Chart 8: Gold Price



Breakout of price channel on Gold Price Daily Chart.

Source: Bloomberg, as of 18 November 2009

Table 2: Gold Production (in tons)

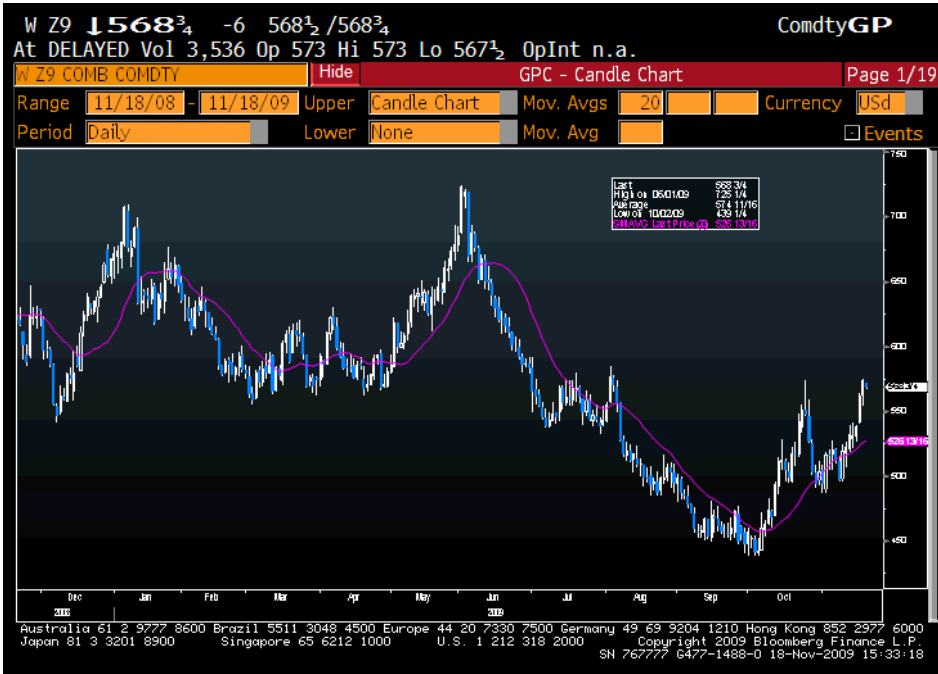
	2009F	2008	2007	2006	2005
Mine Production	2502	2414	2478	2485	2550
Off. Sector Sale	16	236	484	365	663
Old Gold Scrap	1485	1209	958	1129	898
Total Supply	4003	3859	3920	3979	4111

Inelastic supply of gold may further push up gold price.

Source: Bloomberg, as of 18 November 2009

Most grains commodities pulled back in late October, but they nonetheless remained near their highest levels since August. December Wheat reached US\$575.5/bu. on Nov. 17 surpassing the high on Oct. 23, with active underlying trading volume. December Corn mirrored the move, settling at the US\$400/bu. region and above the SMA 20 support. January Soybeans rallied above US\$1000/bu fairly early in October before consolidating between roughly US\$975.0/bu. and US\$1010/bu.. Near term view on grains commodities remains neutral as prices looks to be in a consolidating phase. Below are the attached price charts of the mentioned three agricultural commodities.

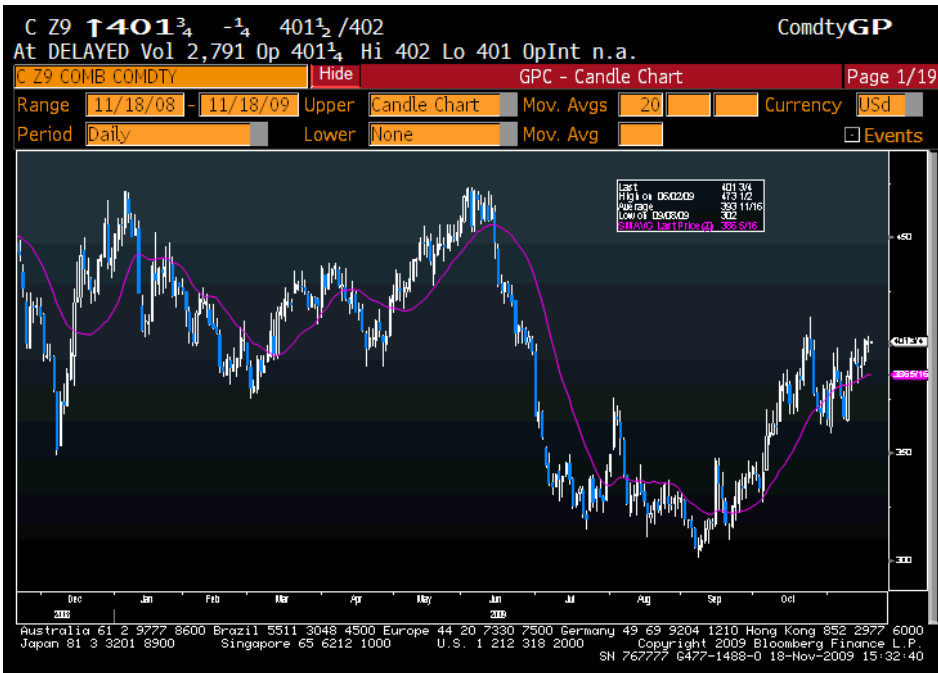
Chart 9: Wheat December Futures Price



Source: Bloomberg, as of 18 November 2009

A significant break above 570 will result in further upside but do not be surprise if price bring us back to the SMA 20 support at 520 region.

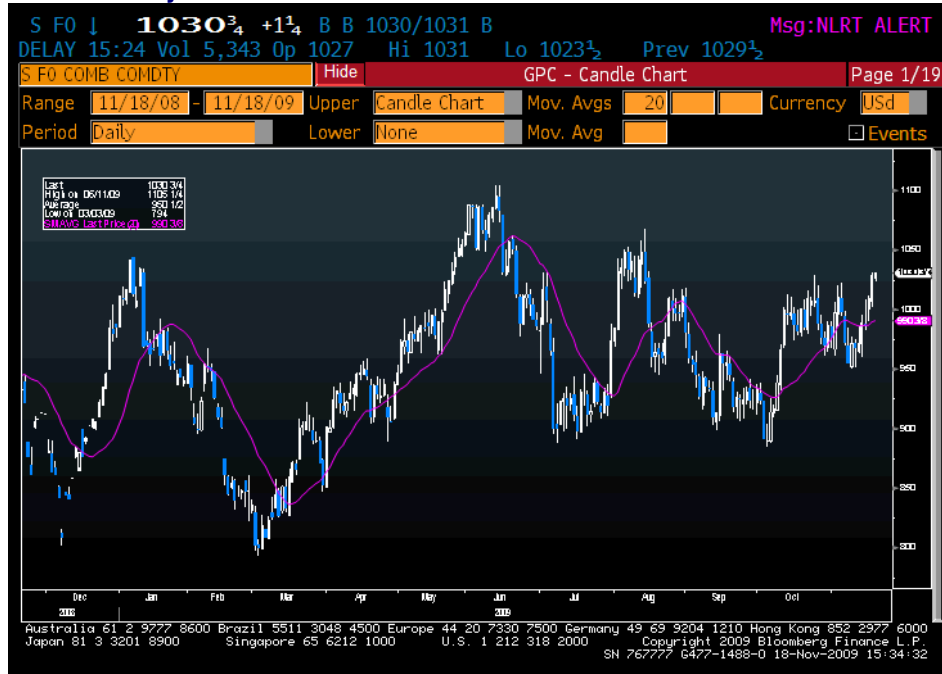
Chart 10: Corn December Futures Price



Source: Bloomberg, as of 18 November 2009

May find support at the US\$385 region.

Chart 11: Soybean December Futures Price



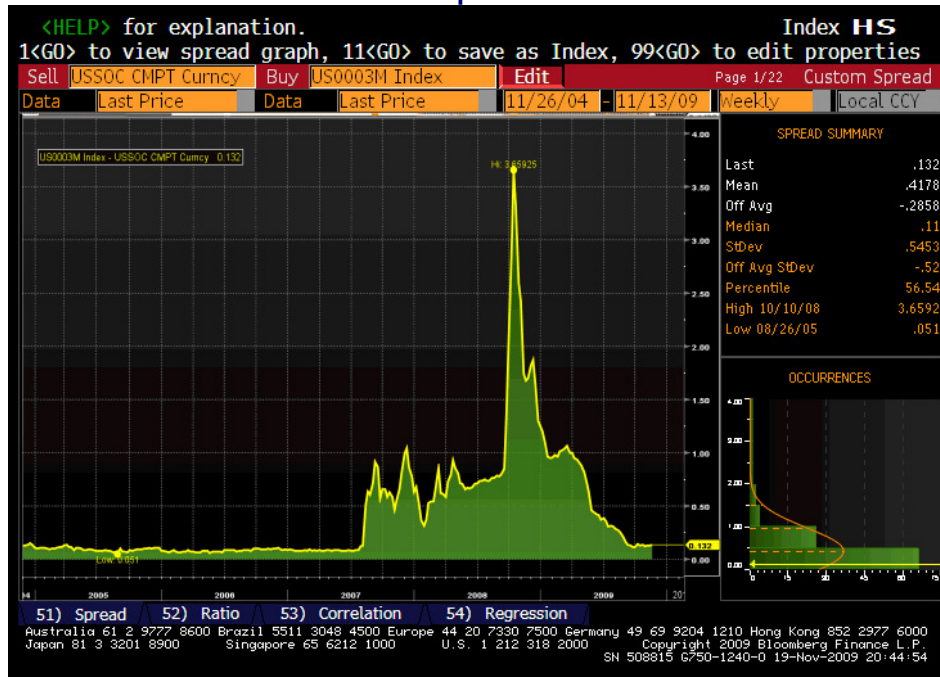
Source: Bloomberg, as of 18 November 2009

Expecting a wedge breakout in the near term but underlying sentiment remains neutral.

Fixed Income – Hold onto mortgage backed securities

Last month, high yield bonds have outperformed mortgage backed securities, which was unexpected. We were surprised by how much the spreads have narrowed for the junk bonds even though we felt that the opportunities in the sector were limited. The fact that junk bonds have outperformed showed that the systemic risk in the inter-banking system has largely disappeared. Chart 12 shows the spread between 3 month LIBOR and the 3 month. The graph shows that the spreads have returned to normal but the spread is trading at a somewhat elevated level before the crisis began. As of 13 November 2009, the spreads traded at about 133 basis points while the spreads were around 100 basis points before the banking failures in 2007.

Chart 12: The 3 month LIBOR-OIS spread curve



Source: Bloomberg, as of 13 November 2009

We had asked investors to buy mortgage backed securities last month and would like to keep the call this month. The last time we asked investors to buy mortgage backed securities was in January. At that time, the market was very stressed and the spreads were very wide. Since then, mortgage backed securities have continued their path higher.

Please refer to our focus of the month report dated November to find out the reasons why we still favor US mortgage backed securities

The 3 month LIBOR-OIS rate seems to have normalized

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Unit Trust Focus of the Month

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20 November 2009

Mortgage Backed Securities

We are still keeping our call on US mortgage backed securities as we think that this asset class can still be supported although the picture at the moment for the overall fixed income market would be neutral in the short term.

The Fed's intention is to keep the mortgage market afloat

In early November, President Obama signed legislation extending the first time home buyers tax credit through April, while the Federal Reserve's Program to purchase housing debt is valid through March. From these two recent initiatives, we know that the US will run the extra mile to keep the housing market afloat. In fact, if you take a look at the Fed's balance sheet (Figure 1), we see that the Fed has constantly been purchasing mortgage backed securities. (Just observe the pink line that has been steadily increasing) Given the fact that the US government is willing to help support the market, we think that investors can consider looking at mortgage backed securities.

The Long End has started to move again

If we look at the US Sovereign yield curve recently from 4 months ago, we see that the curve has moved lower and it is a parallel shift. Take note that this has happened even though the Fed has not touch monetary policy and it also happened in the midst of a stock market rally. (See Figure 3) The long end of the yield curve has also started to drift lower possibly because of risk aversion. Even the rates have started to come down lower at the short end of the curve, which indicates that the market is quite nervous in the short term. This would indicate that government issued paper like mortgage backed securities would look more attractive relative to junk bonds.

The rate of prepayment could stabilize

Another factor that affects the mortgage backed security price is the prepayment of mortgages. To analyze this, we would have to look at the general economic conditions and how they affect the US consumer's ability to prepay on their mortgage loan.

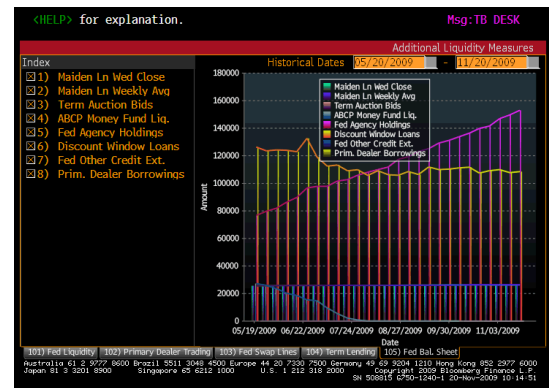


Figure 1: Fed Balance Sheet
 Source: Bloomberg

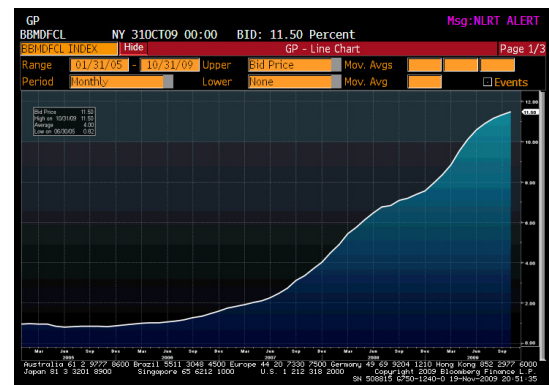


Figure 2: Mortgage Foreclosure compiled by Bloomberg
 Source: Bloomberg

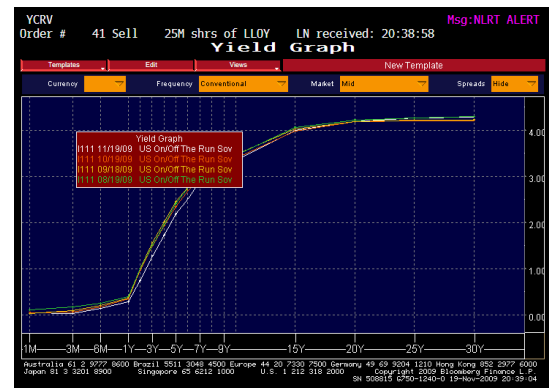


Figure 3: US on and off the run sovereign yield curve
 Source: Bloomberg

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Unit Trust Focus of the Month

Figure 4 shows the amount of refinancing activity as a percentage of total mortgage applications. The figure shows that people are still facing headwinds as they try to refinance their loans. Figure 5 shows the affordability of new home owners. We can see that the affordability is high relative to the past 20 years, which shows that there is actually money to be paid for mortgages. As long as refinancing activity is high and people can afford to buy homes, the prepayment ability should stabilize which is a positive factor for mortgage backed securities

This point is reinforced by Figure 6. Figure 6 shows that dealers expect prepayments to stabilize on a new 30 year mortgage. The prepayment forecast has stabilized given the scenario for rates to be cut by 300 basis points.

Recommended Fund

We like the Franklin Templeton US Government Bond Fund, which invests in US mortgage backed securities. The fund is mainly for conservative investors who want to participate in the US mortgage market. Here is the past performance of the fund as displayed in the below table.

Franklin Templeton US Government Bond Fund Performance (as of 18 November 2009)						
	1 mth	3 mth	YTD	1 Year	3 Year	5 Year
Absolute Return	0.98	2.17	5.04	7.17	N.A	N.A
Maximum Drawdown				-2.26		
Volatility				3.05		
Semi variance				3.01		
Sortino Ratio				2.43		



Figure 4: Refinancing as a percentage of total mortgage applications

Source: Bloomberg

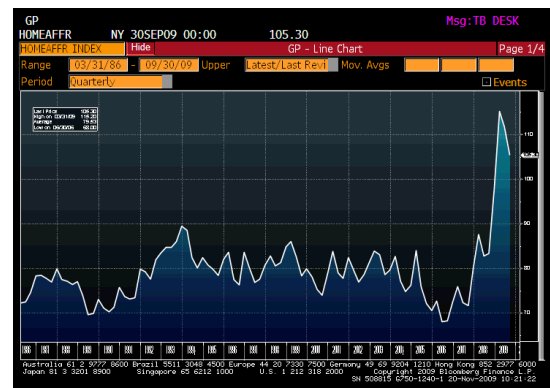


Figure 5: New home buyers home affordability

Source: Bloomberg



Figure 6: US Dealers forecast on a typical 30 year Fannie Mortgage Loan

Source: Bloomberg



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Asset Class Update

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