



Analyst
Liang Shibin
 +6565311516
 liangsb@phillip.com.sg

Down February: The Writing May Be On The Wall

Executive Summary

Equities – Developed market equities playing catch-up with regards to performance. Total assets of money market funds may be bottoming out, signaling a potential funds outflow on the equities front.

Commodities – Oil prices surge on Middle East unrest and may breach the US\$100/bbl. mark in near term; Gold is likely to trend higher as interest in the overall commodities space builds up.

Fixed income – U.S Treasuries and swap rates signal a robust U.S recovery ahead; Shift of attention away from the peripheral European economies at the moment but problems remain.

Equities – Bearish Sentiments Ahead

To the surprise of many, China's Shanghai Composite Index emerged the top performing index for the month of February, up more than 6 percent (See Table 1 below). The benchmark index for Singapore equities went down as much as 6 percent month-on-month. Market sentiments turned bearish during the month itself after China raised interest rates for the third time since mid-October to curb inflation. Chinese policy makers aim to hold growth in M2, the broadest measure of money supply, at about 16 percent this year. Last year, the actual 19.7 percent gain compared with a target of 17 percent. Political deterioration across the Middle East region further intensified the bearish tone within the equity space.

In terms of earnings, the number of companies in Asia Pacific excluding Japan index that missed earnings estimates had exceeded those that surpassed expectations, according to data compiled by Bloomberg. Of the 102 companies that reported results since the beginning of the year, 54 had a negative surprise, while 44 had a positive surprise.

Table 1: Selected Equity Stock Market Index Returns

Country	Index	Feb. 24	1-mth % gain/loss	3-mth % gain/loss	6-mth % gain/loss	52 week High	52 week Low
China	Shanghai se Composite	2866.18	6.18 ▲	0.08 ▲	8.00 ▲	3186.72	2319.74
Thailand	Stock Exch of Thai Index	996.34	3.40 ▲	-0.95 ▼	11.90 ▲	1056.44	709.85
Indonesia	Jakarta Composite Index	3462.43	3.24 ▲	-5.59 ▼	10.90 ▲	3789.47	2502.05
United States	S&P 500 Index	1307.40	1.28 ▲	9.10 ▲	24.29 ▲	1344.07	1010.91
Europe	Euro Stoxx 50	2954.92	-0.81 ▼	7.14 ▲	13.02 ▲	3077.24	2448.10
Asia Pac ex Jap	MSCI AC Asia Pac ex Jap	460.91	-2.99 ▼	1.28 ▲	14.36 ▲	486.99	354.75
Hong Kong	Hang Seng Index	22938.44	-3.56 ▼	-0.30 ▼	11.11 ▲	24988.57	18971.52
India	BSE Sensex 30 Index	18178.33	-5.08 ▼	-6.59 ▼	-0.73 ▼	21108.64	15960.15
Korea	KOSPI Index	1965.11	-5.88 ▼	1.75 ▲	11.32 ▲	2121.06	1532.68
Singapore	Straits Times Index	2999.26	-5.96 ▼	-4.50 ▼	2.50 ▲	3313.61	2648.15

Source: Bloomberg, as of 24 Feb 2011

Major global equities were mixed on a monthly basis. China and Indonesia equities rebounded while India continued its decline.



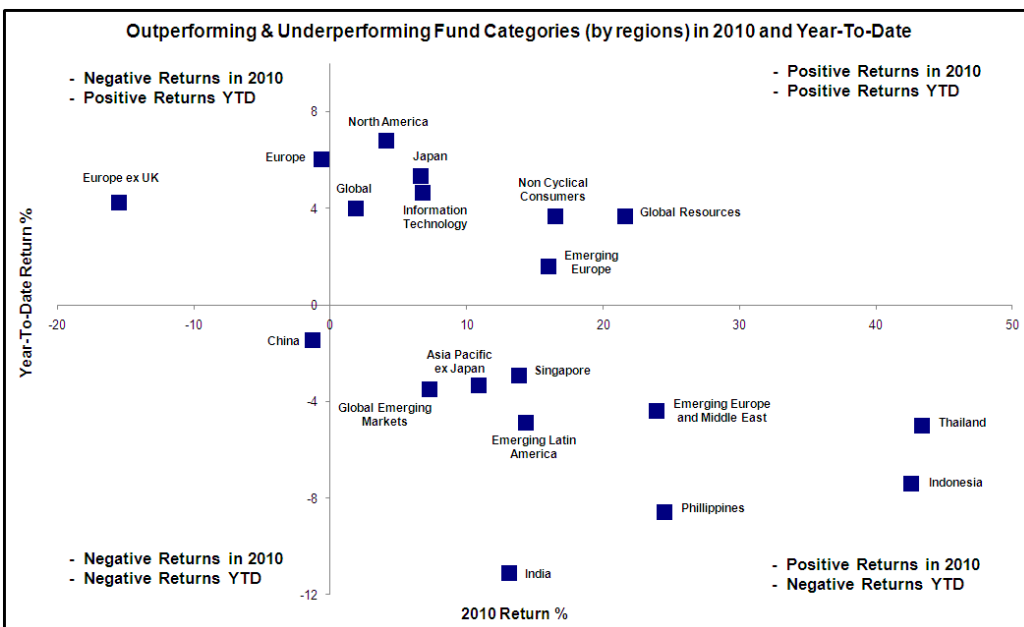
Developing and Developed Equities Diverge

On a Year-To-Date (YTD) basis, we observed a divergence in performance between emerging market equities and the developed market equities. Chart 1 below shows the compilation of YTD performance of 259 equity funds distributed by PhillipCapital plotted against their 2010 performance.

From the geographical perspective, North America equities were one of the top performing categories on a YTD basis, followed by European and Japanese equities. Given that these three regions were underperforming for most part of 2010, they are playing catch-up at the moment. On the other hand, emerging market equities (in particular Asian equities) underperformed over the same time period. However, country funds such as Indonesia and Thailand were badly hit following their exceptional performance in 2010. China equities were the laggard story with negative performance in 2010 as well as YTD. Nevertheless, we feel that there is no reason to shun away from Asian investments at the moment. Valuations are not overly expensive and fundamental robust growth will remain as long as inflation are kept in check for these Asian countries. That being said, the overall bearish sentiments may be here to stay for quite some time and investors should avoid single country exposure at the moment. A regional approach will be the preferred approach.

From the sector perspective, the performing sectors in 2010 and as well as YTD are Information Technology, Global Resources and Non Cyclical Consumers. We feel that the strong performance in the Information Technology sector was largely attributed to the growth in reported earnings we have seen thus far, and had been largely priced in. However, we feel that Global Resources and Non Cyclical Consumers may continue their outperformance on the back of rising global inflationary pressures.

Chart 1: Developed Market Equities Funds Catches Up



Developed market equities playing catch-up, developing market equities were mostly down on a YTD basis.

Source: Financial Express, as of 18 Feb 2011



Money Market Funds Total Asset Reaches Bottom

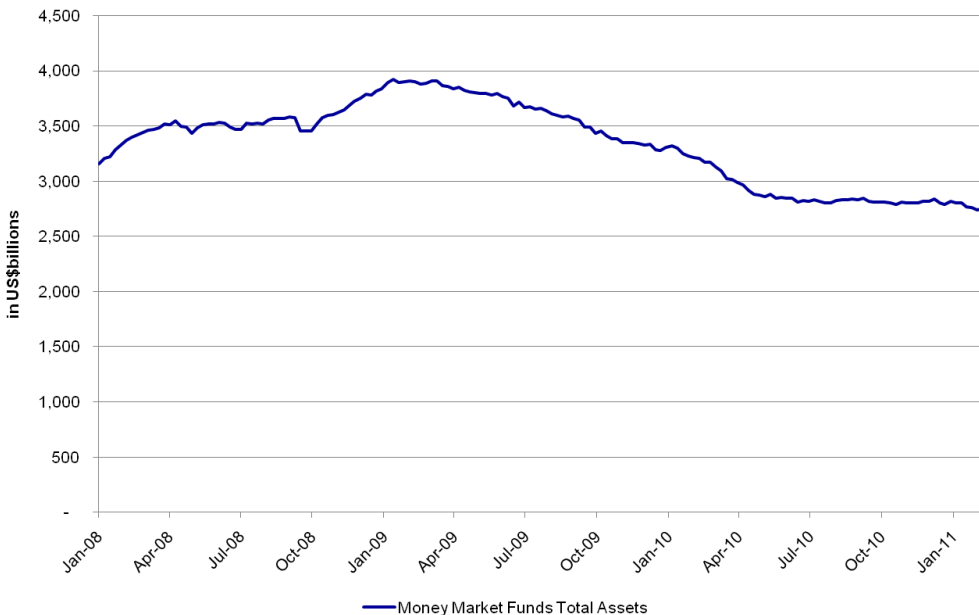
The selloff in global equities was significant since the start of the week Feb 22. This may be the beginning of a deeper correction on the back of the run-up in global equities since September last year. One common analogy is that whenever markets become increasingly risk averse, investors tend to exit equities and choose to hold cash and low-yielding money funds instead. Money market fund investments are short-term, very liquid investments with high credit quality. In short, as the level of total assets of money market funds peaks, the bottom of the market is near. Historically, Bloomberg noted that cash holdings peaked one month before equities began to recover during the two longest recessions since World War II, in 1982 and 1974.

From another angle, as the level of total assets of money market funds starts bottoming, it spells the top of the equity market. According to Investment Company Institute, a mutual-fund trade association, the total asset value of global money market funds came off from a high of US\$3.9 trillion in March 2009 down to the US\$2.75 trillion today (See Chart 2 below). From the chart, money market funds' assets (a component of M2) have been on a steady decline since peaking right around the time the stock market bottomed. This is one of the lowest level we have seen over the last three years. A significant correction in equities could have funds flowing back into these low-yielding money market funds or other liquid components of M2.

It may be still premature to gauge whether the recent rally in global equities is going to be over but the potential investment outflows from risky assets (mainly global equities) could be anywhere near the region of US\$1 trillion based on the money market funds assets' previous high.

Chart 2: Cash is No Longer On Sidelines

Money Market Funds Total Assets



Total asset value of global money market funds looks to be bottoming out since its decline back in March 2009.

Source: Investment Company Institute, as of 16 Feb 2011



Commodities – The Start of a Long-Awaited Rise

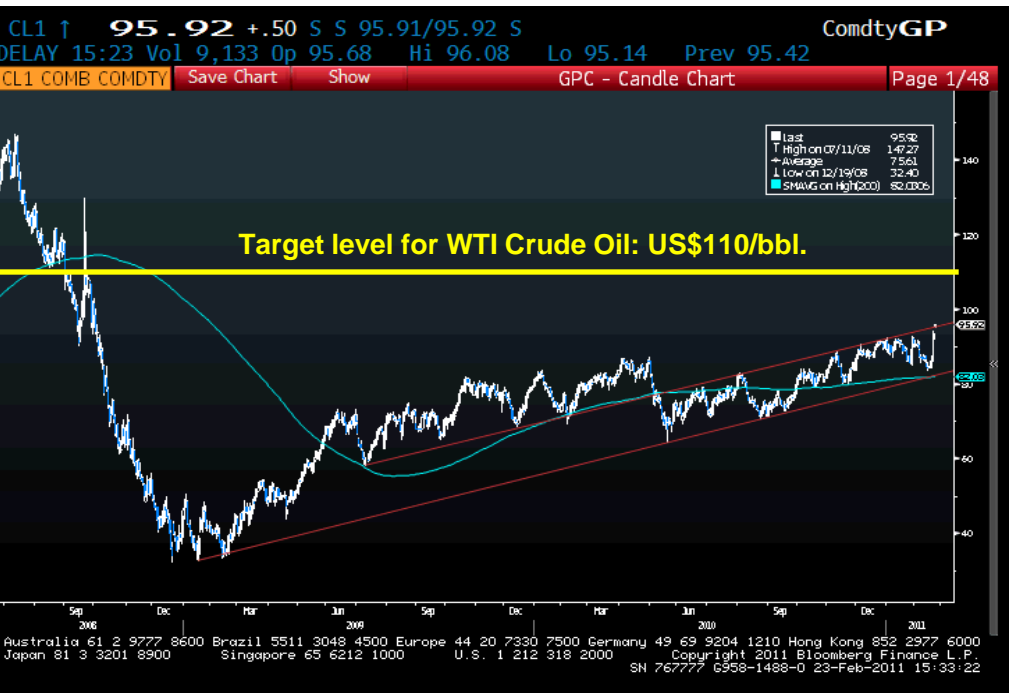
Oil, silver and gold all made huge moves due to the events transpiring in Libya. WTI crude oil is heading towards US\$100/bbl. while gold is back above US\$1,400/Oz. and silver is closing in on US\$34/Oz..

Contrary to the previous unrest in Egypt, the information coming out of Libya is very limited and extensively controlled, adding more uncertainty to the market. Although oil production at Libya stood at only 1.6 million bpd, there are questions about how much spare capacity countries like Saudi Arabia can actually turn on. At the moment, many major oil producers around the world including BP have removed all non-essential staff from Libya, and the International Energy Agency is expecting supply disruptions.

From the chart below, the WTI crude near futures is trading above its 200MA and hitting its near term channel resistance at US\$95/bbl. mark (See Chart 3 below). Now oil is at a resistance level that is likely to be broken, especially with the escalating situation in Libya. The unrest in Libya had become chaotic if not, deadly. Leader Gaddafi's son publicly stated that his father is ready to fight any force and is unlikely to step down anytime soon. In light of the ongoing Middle East tensions, we have upgraded our near term price target for WTI crude near futures to US\$110/bbl. instead of our previous estimate at US\$100/bbl..

We remain concern about potential spike in oil prices and continue to reiterate that prolonged period of higher oil prices will result in a spike in costs and slashes margins, crimping consumer spending on a global basis. The United States uses 19 million bpd of oil, so a US\$5 increase in oil prices may translate to an estimated cost of US\$95 million per day to the U.S. consumers.

Chart 3: Crude Oil Prices Likely to Remain High



WTI crude near futures looking to head higher, next target level at US\$110/bbl., previous low in Aug 2008.

Source: Bloomberg, as of 23 Feb 2011



Gold – Consolidation Over; Next Move Up

As mentioned earlier, the investment appeal of gold returned in the month of February on the back of the Middle East unrest. We view that worsening events in the Middle East may be just the right trigger for a further leg up in the gold prices.

Longer term, rising inflation, the decline in the U.S dollar, and ultra-low interest rates created the perfect environment for investors to stay long on gold. Emerging countries such as Saudi Arabia, China, India, and Russia are boosting their gold reserves through purchases of physical gold. According to Reuters, the Industrial and Commercial Bank of China (ICBC) reportedly sold nearly 7 tons of physical gold in January this year alone, almost half of what they sold in all of 2010. In terms of supply, the world mining production of gold has not been able to catch up with overall demand. Supply is reported to be in the region of 2500 metric tons per year over the past 15 years.

The level of institutional investment interest in the gold metal remains significant. Fund managers such as John Paulson, legendary investors George Soros and Jim Rogers are the frontrunners in advocating portfolio exposure to the gold commodity. Hedge funds reportedly owned US\$23 billion of long positions in gold stocks and ETFs.

By no means of coincidence, since the Fed Reserve began its monetary easing policies, precious metals have been in a bullish mode. Beginning Jan-2007, gold gained more than 120 percent and 82 percent against US Dollar and Singapore Dollar respectively (See Table 2 below). Several economists interpreted this as evident of monetary inflation. The part two of quantitative easing announced on November 3, 2010 is likely to further depreciate the paper currency values relative to investment assets such as commodities and equities. We are positive on the gold commodity in particular and will be targeting further upside in the coming months ahead. We view that the consolidation on gold may be coming to its end and a next breakout to the upside may be waiting in line.

Table 2: Gold Return Against Paper Currencies

Currency	YTD Return	2010 Return	2009 Return	2008 Return	2007 Return	Past 10 Years (Ann.)
USD	-2%	29%	25%	5%	31%	18%
EUR	-4%	39%	21%	10%	18%	14%
GBP	-7%	34%	13%	43%	29%	17%
SGD	-3%	18%	22%	5%	23%	15%

Gold generated double digit annual returns against major paper currencies over the past ten years.

Source: Bloomberg, as of 18 Feb 2011



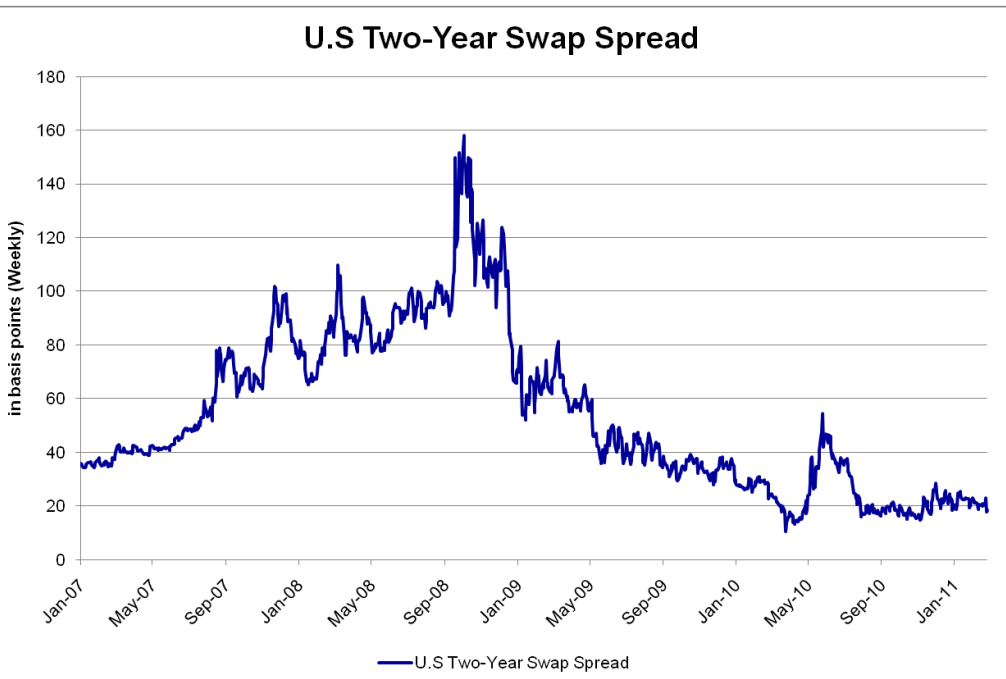
Fixed Income – Bear on the Bonds; Bull on the Economy

The recent breakout of the 10-Year U.S Treasury yield above 3.5 percent is a testimony of the improving macro-backdrop in the U.S. We view that the Treasury bond market may take a further hit as inflation risks start to set in. Our target for the 10-Year Treasury yield is at the crucial 4 percent mark. Monetary tightening cycles in the U.S as a result of rising inflation may signal the start of the Treasury bond bear market. As highlighted in our previous reports, we remain negative on the U.S Treasuries at the moment.

From Chart 4 below, the 2-Year U.S swap spread is pointing towards a robust economic and financial conditions for the U.S economy moving forward. Swap spreads are good indicators of systemic risk and leading indicators of future economic and financial conditions. Also, the spread between the 2-Year and 10-Year Treasury yields is signaling that the U.S. yield curve has been at its steepest in recent years (See Chart 5 on the next page). On a forward looking basis, the U.S. bond market is pricing in a strong turnaround in the U.S. financial fundamentals over the near term, putting bond prices under pressure.

Confidence is still low on the governance of the euro area and long term viability of the euro (See Chart 6 on the next page). Without going into details of individual troubled European nations, over-investment and a rapid rise in private sector through foreign indebtedness landed the peripheral economies into trouble. Macroeconomic imbalances will remain, if not worsen, within the euro area as divergences in real interest rates persist. Given the strong political commitment to the euro currency, we see no outright default on the GIPSIs (in order of severity – Greece, Ireland, Portugal, Spain and Italy). There will be profound financial, economic and political consequences in the event of the single currency break-up.

Chart 4: Swap Spread Indicates Strong Growth Ahead



Two-Year U.S swap spread signals improving economic and financial conditions for the U.S markets.

Source: Bloomberg, as of 24 Feb 2011



Chart 5: Treasury Spread Points to Robust U.S. Recovery

Treasury Spread Between the 2-Year and 10-Year

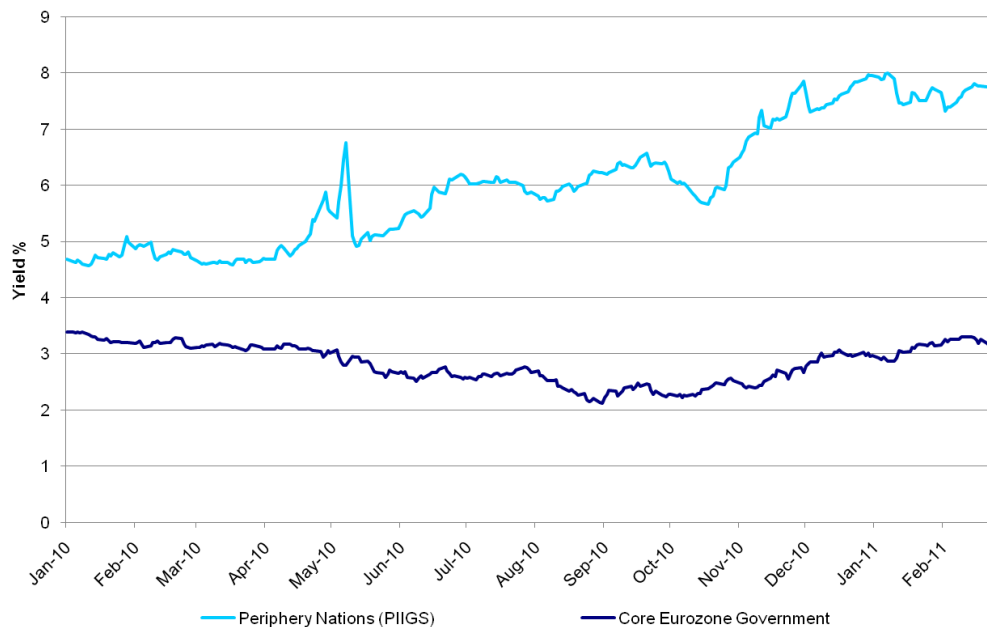


Source: Bloomberg, as of 24 Feb 2011

Yield curve is at its steepest in recent history as the spread between the 2-Year and 10-Year Treasuries widens.

Chart 6: Troubled European Nations Still Struggling

10-Year Government Bond Yields



Source: Bloomberg, as of 24 Feb 2011

The periphery European nations will be enduring through a prolonged period of higher yields on their government debts.



GENERAL DISCLAIMER

This publication shall not be reproduced in whole or in part, distributed or published by you for any purpose. Phillip Securities Pte Ltd shall not be liable for any direct or consequential loss arising from any use of material contained in this publication.

This publication is solely for general information and should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities, and specifically funds, mentioned herein. It does not have any regard to your specific investment objectives, financial situation and any of your particular needs. Accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of any person or group of persons acting on such information and advice. Unit Trusts distributed by Phillip Securities Pte Ltd are not obligations of, deposits in, or guaranteed by, Phillip Securities Pte Ltd or any of its affiliates. No action should be taken without first viewing the details in a fund's prospectus. A copy of the prospectus can be obtained from Phillip Securities Pte Ltd or online at www.eunittrust.com.sg. Past performance is not necessarily indicative of future returns. Investments in unit trusts are subject to investment risks, including the possible loss of the principal amount invested. Investors should note that the value of the units and income from the fund may rise as well as decline. Investors should also note that there are limitations whenever performance is stated or comparison is made to another unit trust or index for any specific period as no funds or indices are directly comparable.

This publication should not be relied upon 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 investment product described in this material is suitable or appropriate for the recipient. Recipients should be aware that the investment products described in this publication may 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.

Whilst we have taken all reasonable care to ensure that the information contained in this publication is accurate, we do not guarantee the accuracy or completeness of this publication. Any advice contained in this publication is made only on a general basis and is subject to change without notice. We have not given any consideration to and have not made any investigation of the investment objectives, financial situation or particular needs of any specific person or group of persons as we are not in possession of any such information. You may wish to seek advice from a financial adviser before making a commitment to purchase the investment products mentioned. In the event you choose not to seek advice from a financial adviser, you should consider whether the investment product is suitable for you. Any unit trusts mentioned in this publication is not intended for U.S. citizens.

DISCLOSURE OF INTEREST

Statement pursuant to section 36 of the Financial Advisers Act - Phillip Securities Pte Ltd, its directors and employees may have interest in the securities recommended herein from time to time, and its associates and connected persons may also have positions from time to time. Opinions and views expressed in this report are subject to change without notice.

PhillipCapital is a group of companies who together offer a full range of quality and innovative financial services to retail, corporate and institutional customers. Member companies in Singapore include Phillip Securities Pte Ltd, Phillip Securities Research Pte Ltd, Phillip Financial Pte Ltd, Phillip Futures Pte Ltd, Phillip Trading Pte Ltd, Phillip Capital Management (S) Ltd, CyberQuote Pte Ltd, International Factors (Singapore) Ltd and ECICS Ltd.

Information on any and all independent PhillipCapital members and the respective financial services they offer can be obtained through the following website – www.phillip.com.sg. Members can otherwise be identified by their authorised use of PhillipCapital brand name along with their own name in their documentation and literature.