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Its 2007 all over again !!
.....how to survive this
liquidity rally



Kevin Scully, 14 October 2010




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In my last presentation in July/Aug 2010, I was bullish on stocks and said that the STI Index would reach 3300 to 3500 before the end of 2010

Stock markets have rebounded from their Q2-PIGS weakness....

	Jan 1 2009	31-Dec- 09	% change	16-Jul-10	% change	13-Oct- 10	% change
Dow Jones	9034.7	10428.1	15.4%	10359.3	-0.7%	11096.1	6.4%
Nikkei 225	9043.1	10546.4	16.6%	9530.5	-9.6%	9583.5	-9.1%
Hang Seng Index	15042.8	21872.5	45.4%	20208.0	-7.6%	23684.9	8.3%
Shanghai Composite	1880.7	3277.1	74.2%	2392.5	-27.0%	2895.5	-11.6%
STI	1829.7	2897.6	58.4%	2947.2	1.7%	3210.6	10.8%

Recovery in stock markets in Q3-2010 linked to a decline in concern about the debt problems in the EU...but US economy falters

VIX 18.93Y as of close 10/12

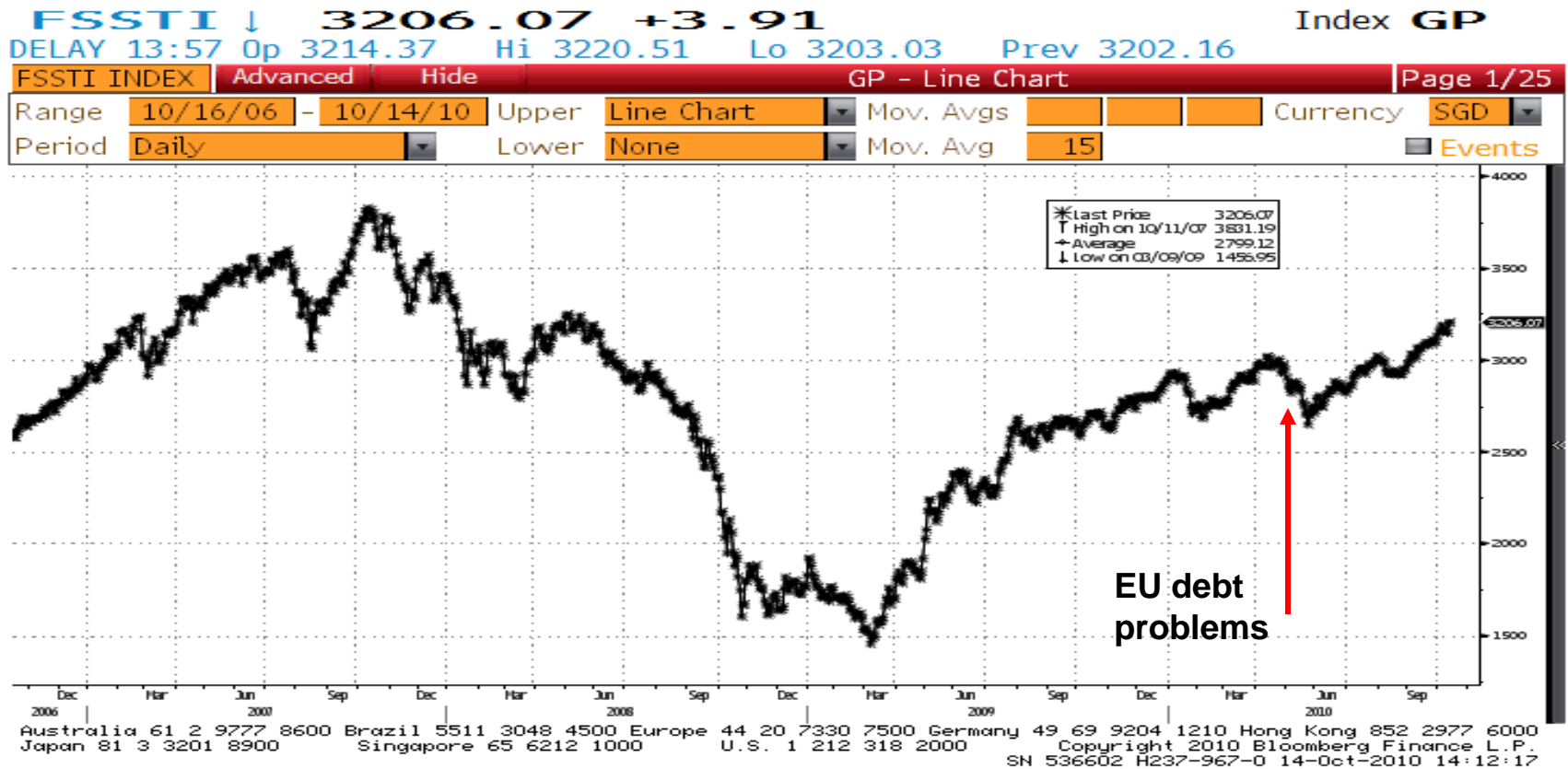
Index GP


VIX INDEX	Advanced	Hide	GP - Line Chart				Page 1/19
Range	10/15/07 -	10/12/10	Upper	Line Chart	Mov. Avgs		Currency USD
Period	Daily		Lower	None	Mov. Avg	15	Events



Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000
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STI has rebounded nicely from its April 2010 lows as EU debt problems ease





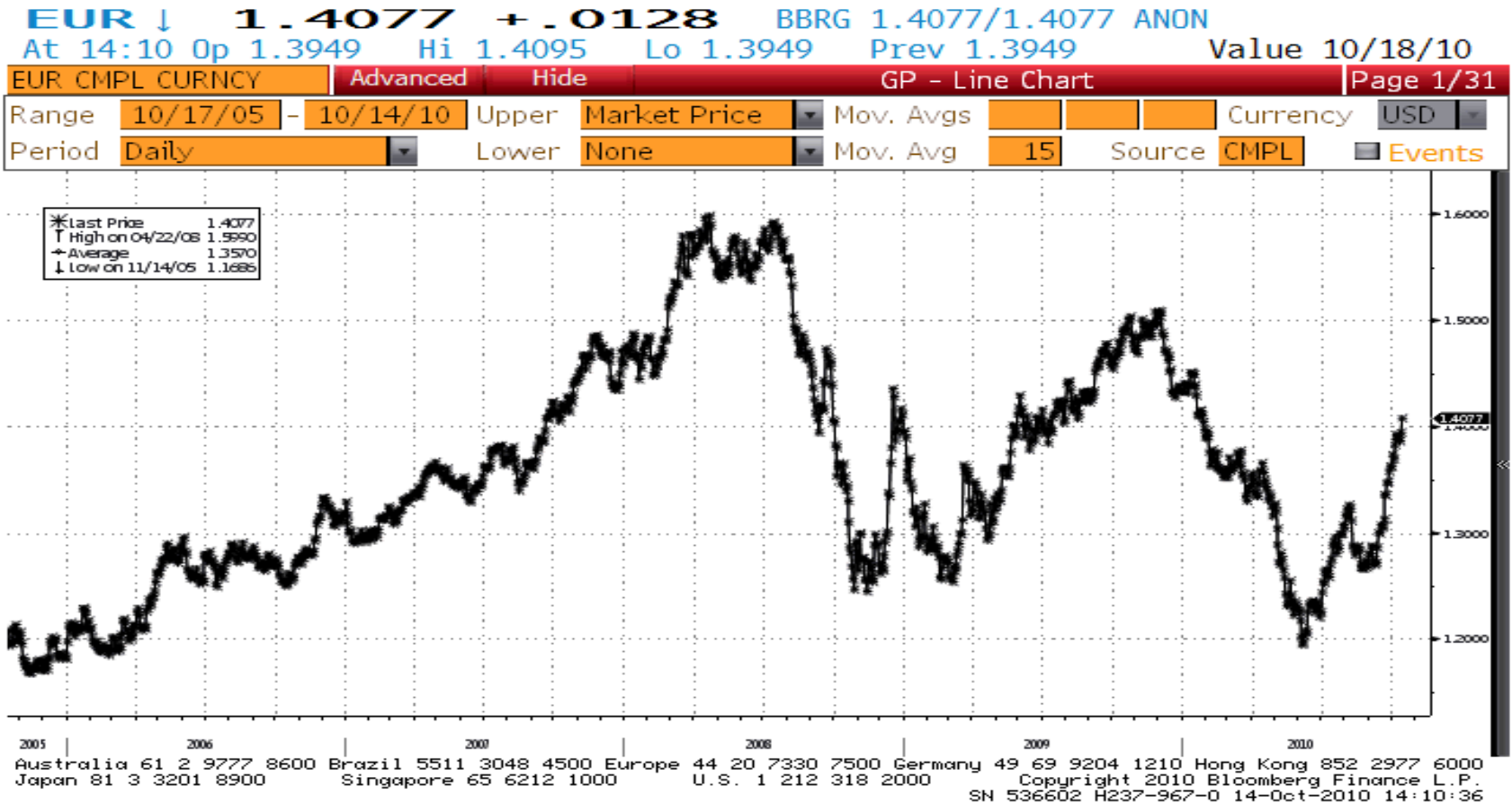
Debt problems among the PIGS being managed but.....


US economic data weakening significantly

PIGS have found financial support from ECB but expect social unrest as fiscal tightening starts to bite in the coming months

	GDP US\$bn	% of world
World economy 2009	57937.5	
EU	16447.3	28.4%
USA	14256.3	24.6%
Japan	5068.1	8.7%
China	4909.0	8.5%
Germany	3352.7	5.8%
France	2675.9	4.6%
Spain	1464.0	2.5%
Portugal	227.9	0.4%
Ireland	227.8	0.4%
Greece	330.8	0.6%
Hungary	129.4	0.2%
Singapore	177.1	0.3%

Euro's strength from recent PIGS woes linked to weakness in US economy



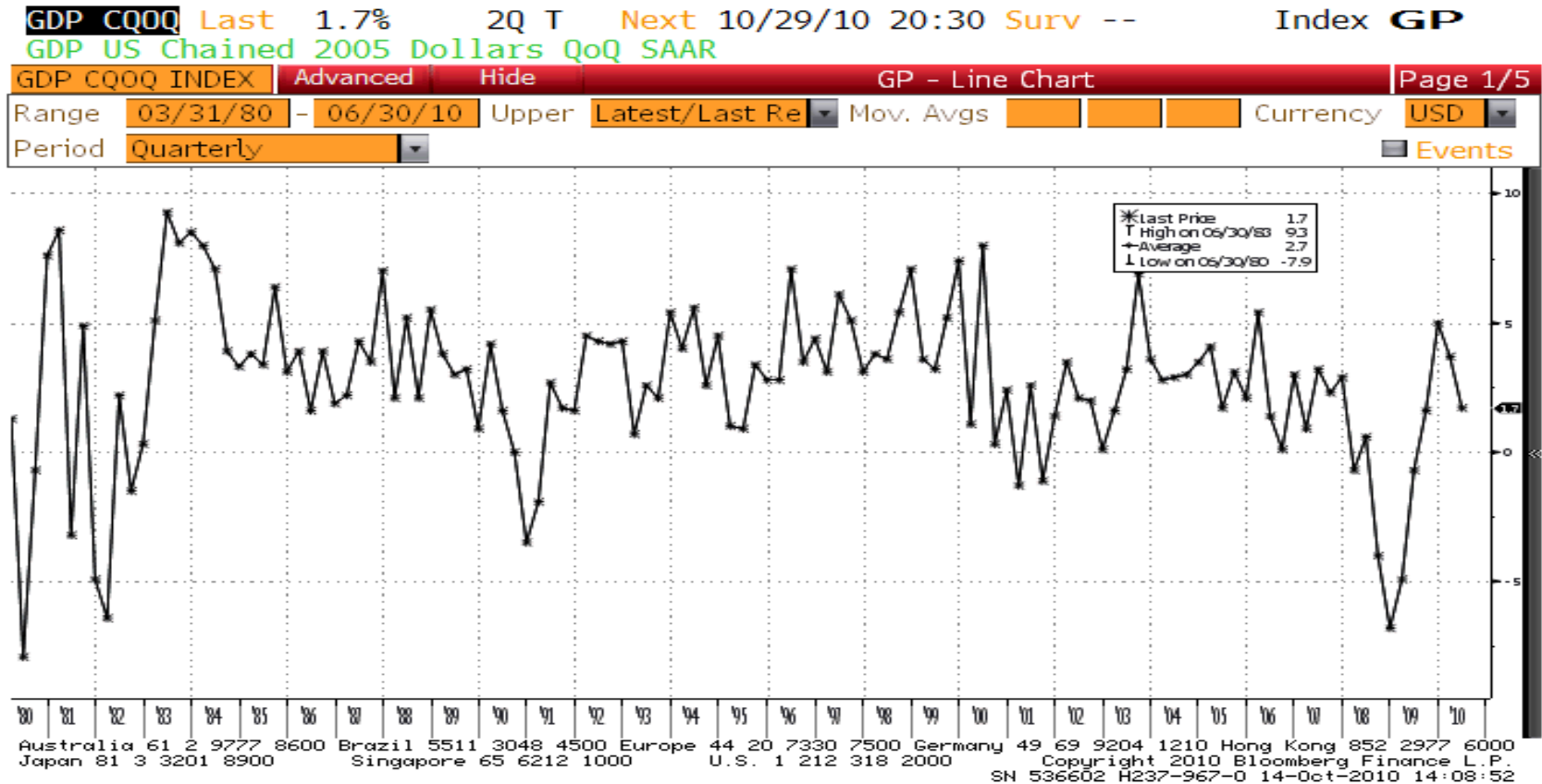


Economic recovery in
the US is faltering

Global economy recovering nicely from 2009 led by developing economies

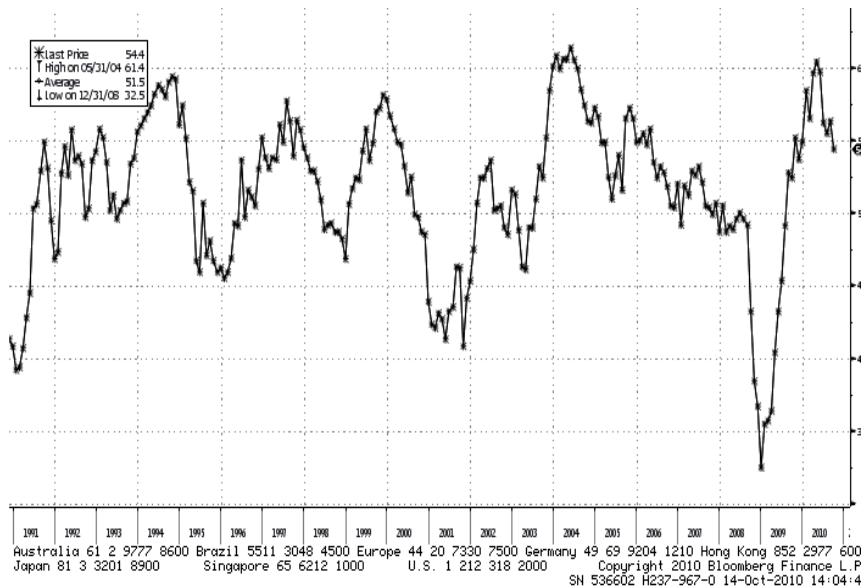
- World Bank – Global economy contracted by 2.1% in 2009 but forecasted to grow by 3.3% in 2010 and 3.3% in 2011
- US economy shrank 2.4% in 2009, but is expected to grow 3.3% in 2010 and 2.9% in 2011
- China grew 8.7% in 2009 and forecasted to expand 9.5% and 8.5% in 2010 and 2011 respectively
- But US economic forecasts are now too bullish – Q1 was 3.7%, Q2 was 1.7% and H2 now likely to be 1.5% giving full year growth of 2.1%

US GDP growth starts to falter

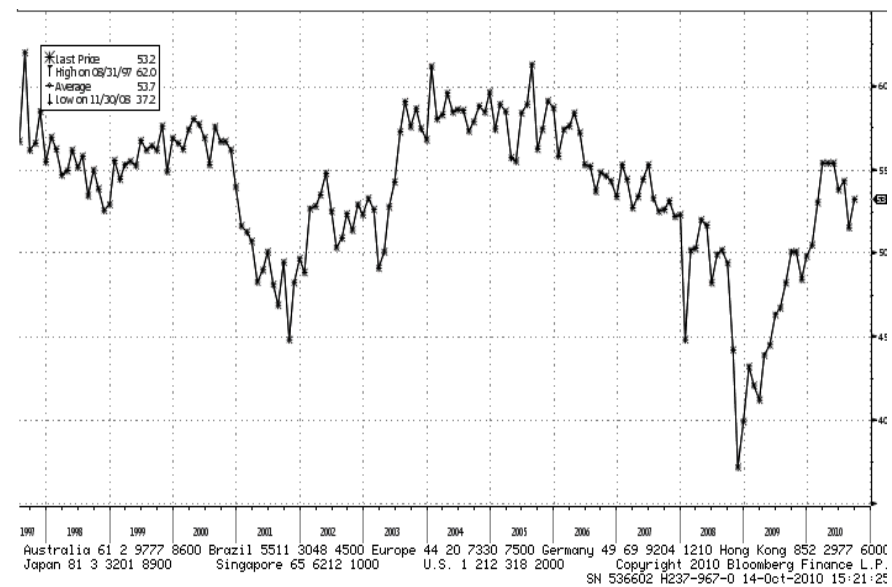


US economy both manufacturing & services sectors have started to falter...

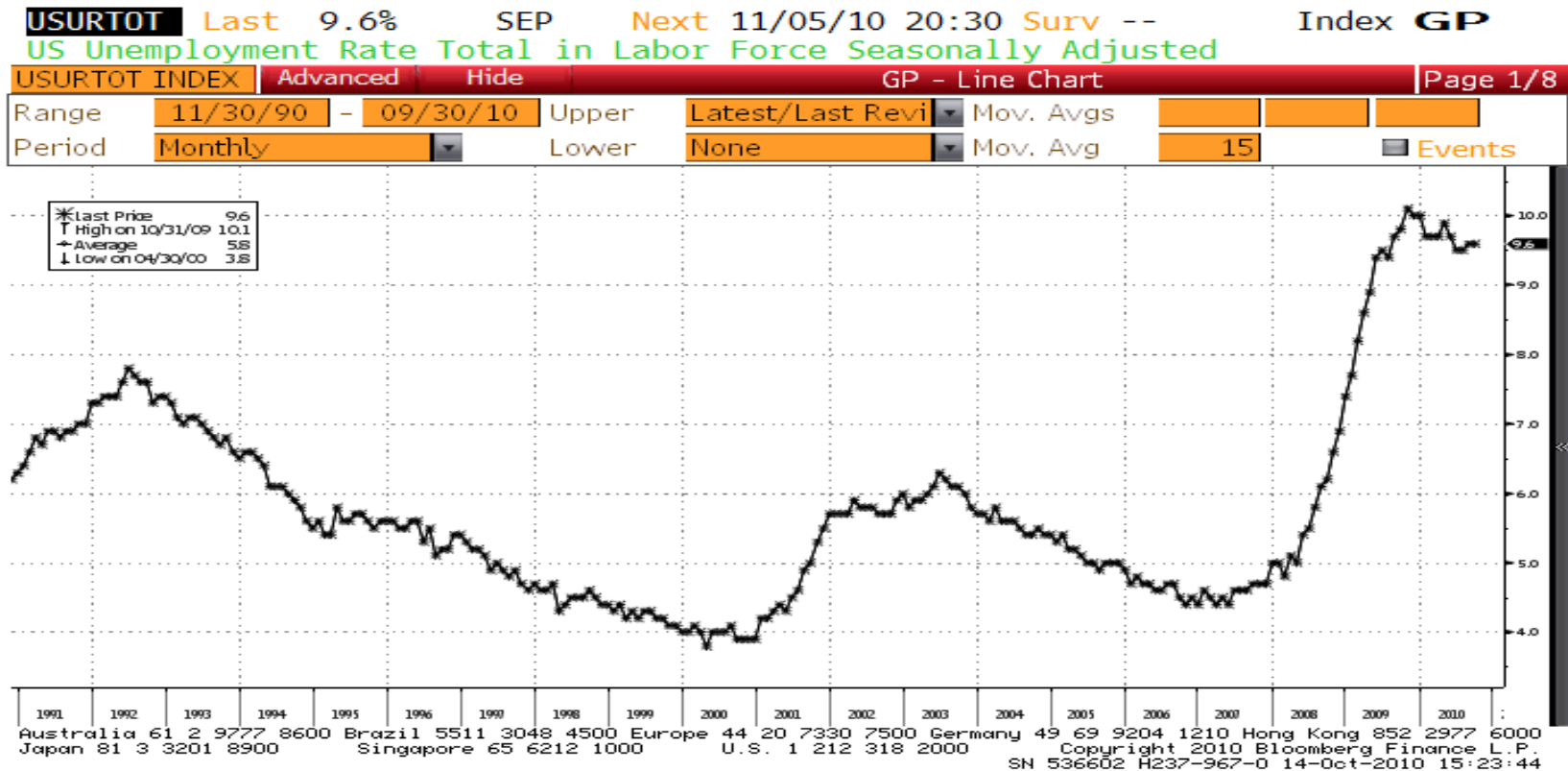
ISM Manufacturing



ISM Non-Manufacturing



US unemployment remains high



US Trade Deficit continues to widen

USTBTOT Last -\$42.8B JUL Next 10/14/10 20:30 Surv -\$44.0B Index **GP**
 US Trade Balance Balance Of Payments SA

USTBTOT INDEX Advanced Hide GP - Line Chart Page 1/8
 Range 01/31/92 - 07/31/10 Upper Latest/Last Re Mov. Avgs Currency USD
 Period Monthly Lower None Mov. Avg 15 Events



1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010
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Currency or trade war looming

US President Obama under a lot of pressure to reduce trade deficit

- High unemployment, weak GDP and rising trade deficits – could lead to unilateral trade sanctions and a currency war
- Under a new US Currency Manipulation Bill passed by Congress in early October, if the US classifies China as a currency manipulator – it can impose tariffs on imports from China
- China will not take this lying down.....”an impending currency or trade war !!??”

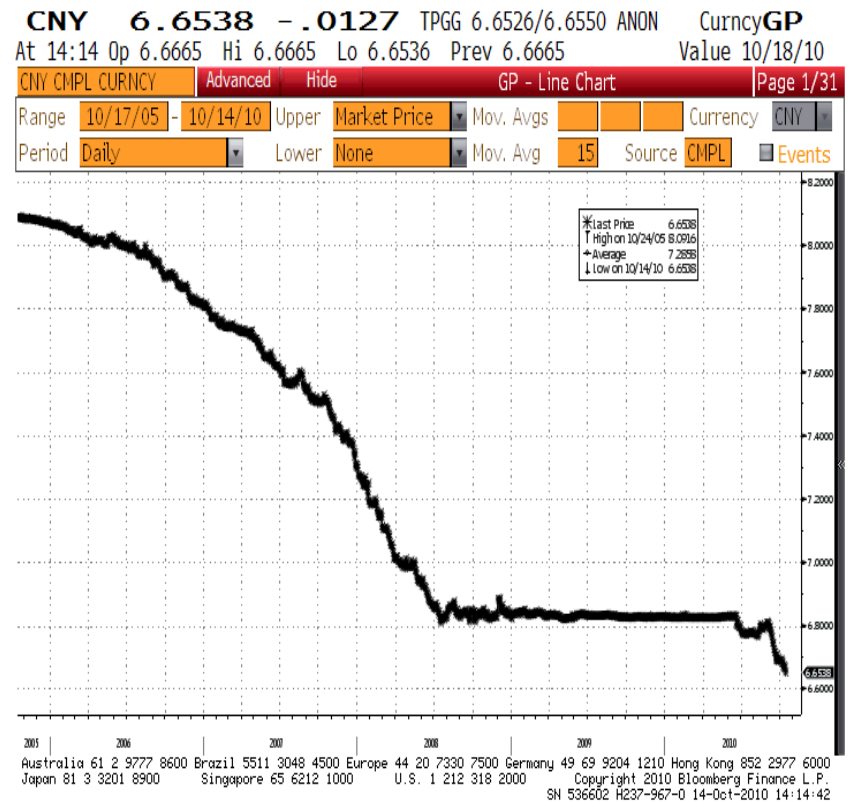
US pressured Japan to strengthen its currency in 1985 by 40% in 2 years

- The famous Plaza Accord saw the US force Japan to strengthen its currency when Japan was running a huge trade surplus with the US.
- It created the huge asset bubble in Japan and the asset deflation that we still see today some 30 years later.



China will never agree to such an Accord.....

- RMB will appreciate gradually.....but not at the rate as demanded by the US or Japan in the 1980s.
- China's PM has already warned of the economic effects of an excessive appreciation of the RMB.
- China also owns too much US Treasuries to undertake such a strengthening.



QE 2 from US and later EU

keeping property, commodities
and stock markets bouyant



Fed has signalled QE 2

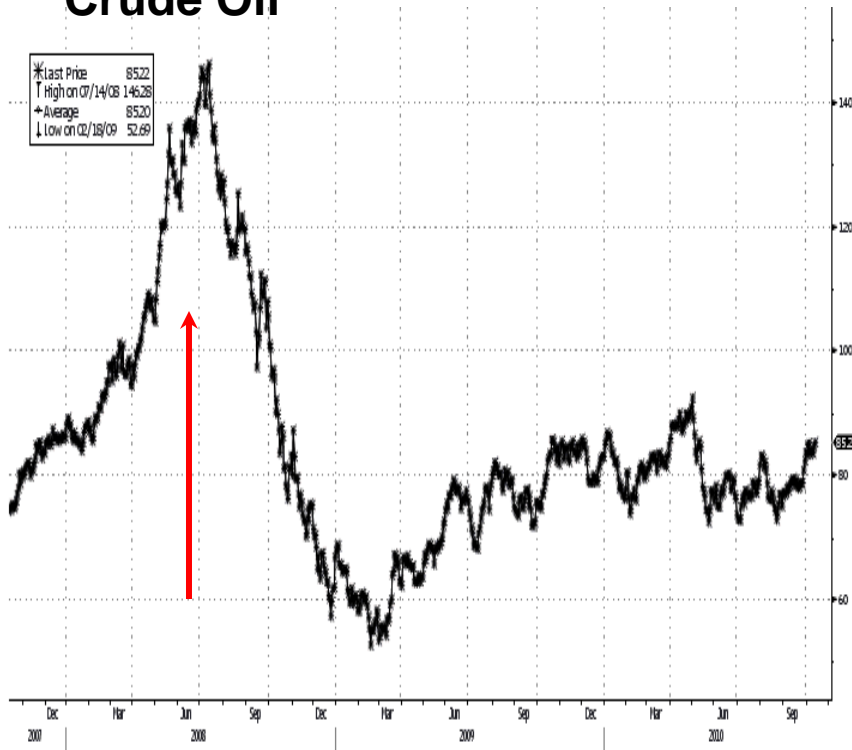
- The US markets have forgotten the lessons of the recent crisis.
- The latest rally has been on the back of weakening economic data and the expectation of QE 2 (quantitative easing).
- The massive amounts of liquidity have to go somewhere.....hence bonds, stocks, commodities and properties are all up at the same time.

Lessons of 2007/2008

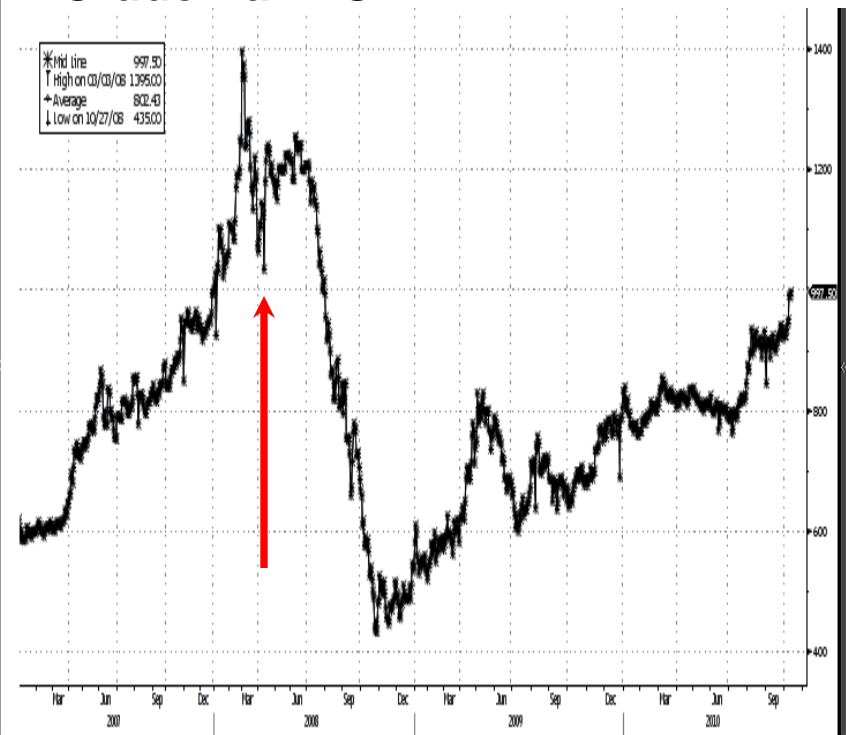
- Its 2010 and investors seem to have forgotten the financial crisis of 2007/2008.
- The recent financial crisis started in mid 2007 with the collapse of a small British Bank – Northern Rock in the US this was followed by the collapse of another 25 subprime lenders.
- The Fed responded through quantitative easing (QE) and lowered the Fed Funds Rate which was 5.25% in August 2007 down to 1% in October 2008. Interest rates are near zero now.
- Where did the liquidity go ?!

Commodities - Crude oil, palm oil !!

Crude Oil



Crude Palm Oil

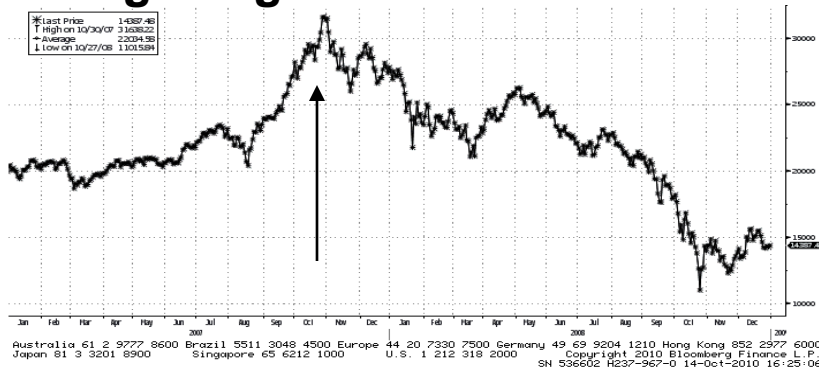


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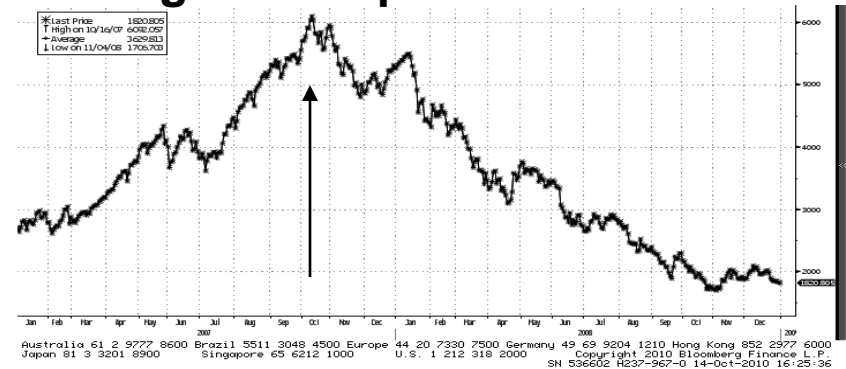
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Stocks

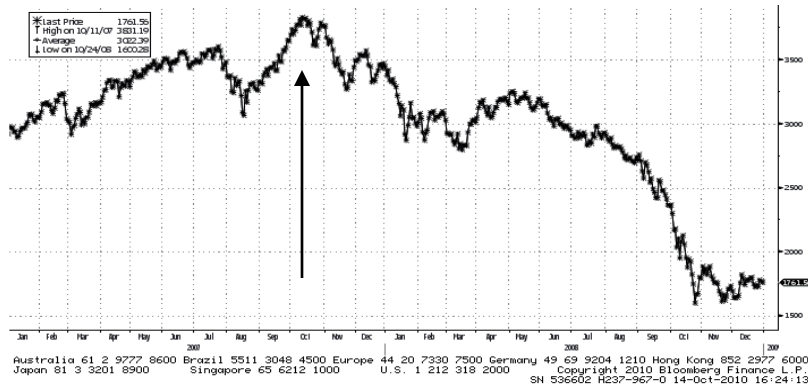
Hang Seng



Shanghai Comp Index



STI Index



Gold

GOLDS ↑ **1382.35** +12.5 BXPM 1382.2/1382.6 FXDD
 At 16:27 Op 1369.75 Hi 1387.35 Lo 1369.3 Prev 1369.85

ComdtyGP

GOLDS COMDTY Advanced Hide GP - Line Chart Page 1/24

Range 01/02/07 - 10/14/10 Upper Line Chart Mov. Avs Currency USD

Period Daily Lower None Mov. Avg 15 Events

*Last Price 1382.35
 † High on 10/14/10 1382.35
 ← Average 918.29
 ‡ Low on 01/05/07 603.97



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 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000

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Undervalued Asian currencies fuelling property asset bubbles

Hong Kong imposes property curbs

- 4 May 2010

HK's URA introduces new measures that include a restriction on corporate purchases of flats to 10 percent of total sales and a maximum limit of two units per buyer during the sale period

- 25 Oct 2010

Loans on properties valued at 20 million Hong Kong dollars (\$2.6 million) or more would be capped at 60 percent, down from 70 percent. For cheaper properties the maximum loan would remain 70 percent but would be capped at 12 million Hong Kong dollars.

Last week Henderson Land Development said it sold a duplex for a world record of 88,000 Hong Kong dollars per square foot.


Australia introduces curbs on foreign property buyers

- 24 April 2010

Australia clamped down on foreigners buying property after complaints that a rapid influx of Asian money had helped make its housing among the most expensive in the world.

The government reimposed tough rules relaxed in 2008 that say temporary residents need permission to buy homes and must sell when they leave, while foreigners investing from abroad can only buy new properties.


The rules are backed by stiff new penalties including compulsory sell orders, as well as expanded monitoring and a crackdown on real estate agents who help foreigners flout the rules.



Singapore imposes property curbs in late August 2010



Investment strategy for rest of 2010 into 2011



We are near my target of 3300-3500....positive Q4 and 2011 guidance needed for fundamental rally to continue.....

heightened risks of trade/currency wars and rising interest rates in 2011

PER of the Dow at 13.3 times 2010

...low end of its historical range if

earnings forecasts are maintained



PER of Shanghai now at 16.4 times 2010 at historical low since 2000



PER of Hang Seng Index now 15.1 times 2010–near historical low levels



PER of STI Index now only 13-14 times 2010 earnings (part 1)



PER of STI Index now only 13-15 times FY2010 earnings— part 2



Summary

- Stock markets have recovered from concerns about the Sovereign debt crisis in Europe especially among the PIGS.
- VIX surged to 44 and is now down below 20 points. Euro weakened against the US\$ to 1.19 and is now at 1.41...
- US economic recovery has been weak and prompted FED to signal for QE2
- High unemployment in the US and huge trade deficits may result in currency or trade wars.
- Stock markets have gained 10-15% in Q3 and while not expensive on current forecasts may be vulnerable to rising interest rates in Asia and slower corporate earnings growth in 2011.

My strategy.....

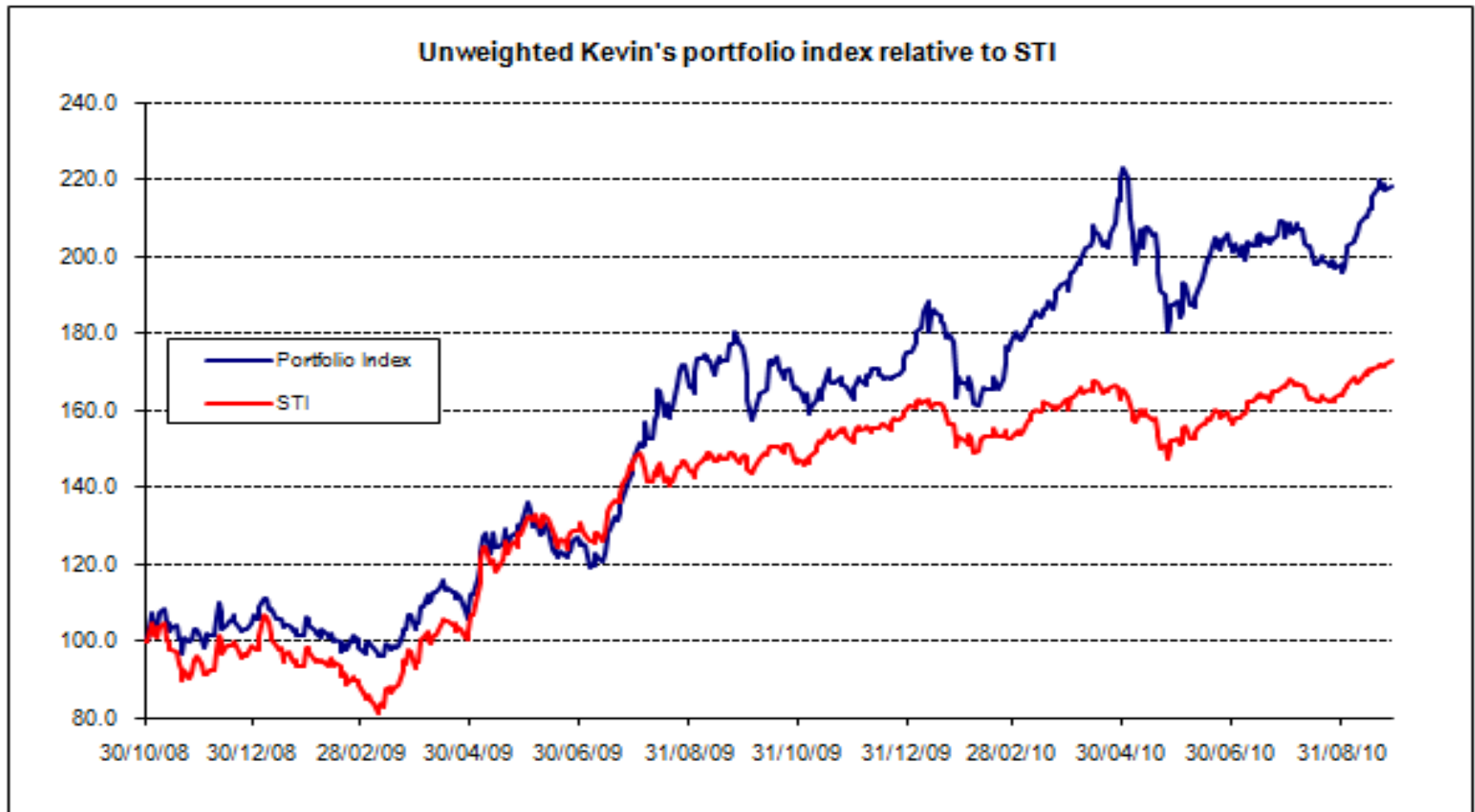
- Beware of the trading liquidity that QE2 from the US and EU will bring.
- Expect Asian interest rates to start to firm as they face mounting pressure from the US. MAS today signaled an upward widening of the S\$ band against the basket.
- Don't pay a liquidity premium unless you are trading the market. Look for undemanding PERs and attractive dividend yields.
- Technology stocks still offer value but watch guidance closely especially into Q1-2011 as inventory restocking is now complete
- Banks offer good exposure to the Singapore economy and didn't participate in the Q3-2010 rally in the STI Index. UOB and OCBC still offer upside.
- Construction stocks remain undervalued with many companies trading below NTA and some even below cash levels....worth a look for medium term investors

Stock recommendations

Visit www.nracapital.com “Kevin’s Stock Picks”we will soon to be releasing Stock Picks (yield)

This is only for subscribers of our premium research service but is available to investors who use or have a stock trading account with Lim and Tan Securities

Our Stock Picks have outperformed the STI Index since we started the portfolio in mid 2008





Thank You