May-Jun ‘21

To:	Our Valued Investors	**From:**	Chan Wai Chee
Letter:	M02/2021/05	**Dept:**	Managed Account
Email:	MAenquiries@phillip.com.sg	**Date**	31 May 2021
Re:	Bond yields, S-REITs, S-Banks, China, Crude, Gold, Forex	**Re:**	Functions, as fundamentals

Bond yields & Singapore REITs/Banks

The 10-year US Treasury yield is lower than a month ago. So, the bond market ignored the super-hot CPI, PPI and core PCE numbers. So, the bond market recognizes Treasuries’ important function as collaterals in repo funding.

On the huge almost $0.5T Reverse Repo done, the media focused on the supply of cash to the Fed. Jeff Snider (Alhambra Investments) focused on the demand for OTR (on-the-run) securities. And, he has the March 18 data point to prove it.

However, yields have been rising since 4 August 2020. US Treasuries find sympathy in an unlikely place: S-REITs. There are last price peaks: for AREIT (29 July 2020), Mapletree Logistics (4 August 2020), and a few others (September 2020). This reflation trade is now almost 300 calendar days old, and a few have got tired of waiting (e.g. Parkway) and recently have started reversing the downtrend.

DBS made a bottom on August 3, when OCBC and UOB were quite low (lowest was 30 Oct), and have been rising since. Will Singapore banks end their run, when this reflation trade ends? On hindsight, we regret having taken some money off the table for Singapore banks too early.

China

FDI grew by 38.6% to RMB 397B in the first 4 months y-o-y (3 months, 39.9% y-o-y to RMB 302B). This is not great if one measures by decades, but it could be a new uptrend. This is important because foreign reserves remain the fundamental basis of the RMB monetary system. If this trend persists in the coming quarters, we would see improvements - in industrial production, retail sales, currency, and stock prices – like in 2016-17. Our holdings should benefit.

There is some positive mainstream news on a strong RMB, which should help performance in our exposure to RMB bonds, a position which we have in our Global Funds, Returns Enhancer, SMART and Customised portfolios.

Commodity sector rotation, Gold

Although we have made our case for iron ore, copper, and food prices to last at least another year, we are pondering on a shift from the industrial commodities to crude oil. Copper and iron ore prices have increased very substantially. Nasdaq and Bitcoin prices have also increased substantially, but Bitcoin has just given back some, and Nasdaq also did relative to Dow. Copper is now buoyed by strikes in Chile. Iron ore is being bashed a little by green China.

Crude has not got its share of elevated prices yet. Non-OECD demand is the real threat in global warming. But, the mainstream media seems obsessed with the supply side, which is not expected to grow. Which makes a $100 target oil price a reality again.

Just to play safe, we are invested in companies that control many stages (or the whole) supply chain; have NPVs of reserves (calculated at lower commodity prices) that far exceed current market capitalization); paying dividends or on the verge of paying dividends due to the recent and very positive cash-flows; or, other comparative advantages. If in funds, we will look for an experienced fund manager.

We have not, but are looking at getting some off industrial commodities into crude. Meanwhile, the same adjustments will be made with our Gold & Resources portfolio, which performed due to our copper and iron ore exposure. SMART portfolio needs a day or two to make up its mind, but will likely do likewise.

Meanwhile, Gold has held up exceptionally well despite rising yields since August. So, we will be adding a little more in our SMART portfolio, especially if Bitcoin is now not as great a substitute for Gold as it was at $60,000.

Forex, TIC data

We do not equate bank reserves to money printing. Similarly, we do not think so highly of foreign reserves as the all-important must-have in emerging economies. Of course, it is good to have a lot. But even with that, we have to watch the data.

The US Treasury released its March data on 17 May 2021. There was a net increase in foreign holdings by $208B. We were looking for tell-tale decreasing numbers, which indicate some urgent need for USD.

Going in the opposite direction, there was a noticeable drop in Thailand's holdings of US Treasury securities from $80.6B (Feb 2021) to $66.9B (Mar 2021). Not an alarm, but worth paying attention, as it moved from THB30.2 to THB31.28 per USD1 (down 3.45%) in March. The forex has been fairly stable in April and May.

Thank you

We are grateful for your continuing support.