

# July '21

<b>To:</b> Our Valued Investors	<b>From:</b> Chan Wai Chee
<b>Letter:</b> M02/2021/06	<b>Dept:</b> Phillip Managed Accounts
<b>Email:</b> MAenquiries@phillip.com.sg	<b>Date:</b> 1 July 2021
<b>Re:</b> Bond yields, S-REITs, China, Crude, Gold, Forex, US, Windows 11	<b>Re:</b> Functions, as fundamentals

## Bond yields & Singapore REITs

In May, RRP (overnight reverse repo, giving cash to the Fed in return for US Treasuries, as collateral) attracted \$0.5T. In June, RRP attracted \$0.75T (a record). This time, the lenders got a better deal because the Fed raised the rate from 0% to 5 bps (basis points). Despite this, some of the bill (4-week, 8-week, 13-week) rates traded/auctioned at 4 bps. Does this mean the demand for Treasuries (for its function as collateral) remains strong? Yes, we think so.

The longer-term rates (>10-year, 20-year) started June at around 2.2%, and ended June at around 2.0%. The media/market expects tapering by end of the year, but the yield curve is not steepening. Using end/beginning June rates, 10-5 year dropped 23 bps, 10-2 year dropped 26 bps).

We have increased our weightage in S-REITs; and, we have entered TLT ETF (iShares 20+Year Treasury Bond) for some customized accounts (due to the \$140 price tag). The smaller investors continued or increased their exposure to government securities.

Does this signal the end of the 300-day reflation trade that started on August 4, 2020? It is still a young trend reversal, so we conclude later.

## China

FDI for the first 5 months continues to be strong (vs 2020). For those who want to compare to 2019, 2020 grew 16% from 2019. Our SMART, Returns Enhancer, and Global Funds investors are in RMB bonds (we prefer funds that have more offshore than onshore holdings). Interest in this area has been received from other clients. We initiated for the first customized client yesterday. Yes, Managed Account is a discretionary management service, but our clients do give us suggestions.

China's foreign reserves remain the fundamental basis of the RMB monetary system. The RMB has come off its 6.36 against the USD. The current 6.46 is

still better than the 6.55 in early April. We monitor, but we are still in China equities.

### **Commodity sector rotation, Gold**

We shifted out of a natural resources fund (heavy with copper, iron ore) - although we have made our case for iron ore, copper, and food prices to last at least another year – into an energy fund that is heavy on crude explorers & producers.

Bitcoin looks like it wants to make a recovery, but based on longer term technicals, it would be good for Bitcoin to build a base structure to launch a sustainable recovery.

We again want to say that 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.

As long as the current repo-financing (collaterals vs unsecured) system remains, we need Gold as a deflation hedge. This remains in the core part of SMART and Global Funds portfolios, and some customized portfolios (conservative ones).

### **Forex, TIC data**

Not a signaling tool as TIC data is very late (April data only released in mid-June), but we are watching - Thailand: \$80.6B (Feb), \$66.9B (Mar), and \$59.8B (Apr). Forex: USD1 to THB30 (around year-turn) to THB32 now.

### **US**

If one needs to watch US data, we suggest CFNAI, as it is a weighted average of 85 existing monthly indicators of national economic activity. It is positive (above 0 is good).

### **Windows 11**

What is happening? It appears that older PCs cannot update to Windows 11. Will this spell an increase in spending on buying new PCs instead of dabbling in stocks? Or, will it spell a revolutionary movement out of Windows?

### **Thank you**

We are grateful for your continuing support.

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