Phillip | Managed Account

August '21

To:	Our Valued Investors	**From:**	Chan Wai Chee
Letter:	M02/2021/08	**Dept:**	Managed Account
Email:	MAenquiries@phillip.com.sg	**Date**	3 August 2021
Re:	Bond yields, S-REITs, China, Gold, Forex, US, Cash	**Re:**	Functions, as fundamentals

Bond yields & Singapore REITs, Covid-19

RRPs (overnight reverse repo, giving cash to the Fed in return for US Treasuries) recently totaled: $1.45T (Apr), $5.51T (May), $9.64T (Jun) and $20.37T (Jul). Demand for Treasuries (function as collateral) gets stronger. Tip-of-the-hat to Jeff Snider of Alhambra Investments for arrowing 2:49:33 of the testimony of J Powell on monetary policy & the economy before the House Financial Services Committee.
https://www.c-span.org/video/?513257-1/fed-chair-inflation-remain-elevated-months-ahead-moderating

J Powell said there was a "shortage of bills". The "shortage" of T-Bills should sustain similar demand in Treasuries of other tenure. Meanwhile, US Treasury 10-year yields in July started at 1.99% and ended at 1.79%. This "shortage" situation should put fears of taper to rest.

We continue to have S-REITs dominating our portfolios. Core portfolios Singapore Equity Yield has 62%, Singapore Growth 42%, and Blue Chip Equity Yield 36%. Customised portfolios have between 20% and 30%. SMART portfolios have 15%. Today's situation is not as straight-forward as in 2019, when falling yields (US Treasury 10-year yield dropped from 2.69% to 1.92%) were matched by S-REITs' gain of 20%, as Covid-19 or its recovery will play some part in relative performances of S-REITs, according to their sector representation.

The end of the reflation trade might have been confirmed by falling yields that most had re-started about May end. Between then and end of July, 10-year yield of UK fell from +0.899% to +0.565%, France yield from +0.286% to -0.099%, Germany yield from -0.108% to -0.458%, Korea yield from 2.202% to 1.877%, Russia yield from 7.32% to 6.89%, Indonesia yield from 6.64% to 6.31% ... to name a few.

In respect of trades relating to recovery from Covid-19 (e.g. travel bubbles), we will seriously consider entering these in future, when we see the world acting as one in achieving herd immunity together, instead of playing who-gets-there-first. This would reduce our portfolios' exposure to volatility.

China

FDI for the June of RMB 126.84B is 8.4% higher than June 2020, and 16.1% higher than June 2019. USDRMB has recovered from 6.51 (2 weeks ago) to 6.46. Since starting the year at 6.53, it went to as good as 6.37 at end of May, to as bad as 6.57 end of March – stable currency. We continue to invest in RMB-denominated bonds.

However, one event has emerged that forces us to reassess our exposure to China. Xi Jinping, in his speech at the ceremony marking the CPC centenary, said that China had “achieved” “growing prosperous”, and “must continue to adapt Marxism to the Chinese context”.
http://english.www.gov.cn/news/topnews/202107/01/content_WS60dd8d8ac6d0df57f98dc459.html

Marxism succeeds when capitalism starts to fail. China has used capitalism to become wealthy. GDP has slowed. We know that this slowing is not just China’s but the world’s, due to the financial system (money supply) that is dictated by collaterals (in short supply). Does Xi interpret this as capitalism failing?

We see clampdowns of sorts. So far, it is toward monopolies (Tencent, Alibaba), and the protection of the worker (property loans, Meituan).

We do not see the control of the means of production being transferred to the government. We do not see re-distribution of wealth.

So, we stay invested in China. The damage caused by the clampdowns is being addressed by portfolio management.

On technicals, we see support at 3270 for the Shanghai Composite Index, based on both the 36-month and 9-month moving averages.

Gold

We witnessed sharp drops in the gold price when foreigners are holding less US Treasuries between 2013 and now. The 2019 gold price drop was relatively small. This could be due to falling yields. Foreign holdings of US Treasuries have been falling since March. As yields are falling at the same time, we are holding our exposure to the gold price.

We again want to say that we are invested in companies that control many stages (or the whole) of te 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 recent and 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 (little opportunity cost). This remains in the core part of SMART and Global Funds portfolios, and some customized portfolios.

Forex

Of currencies we are tracking, THB lost 2.5% and the AUD lost 2.3% in July.

US

CFNAI for June is +0.09. So, it is positive, as far as US national economic activity is concerned. Market valuations are still high. If you failed to meet expectations, punishment is a 7% drop in share price (e.g. Amazon).

Cash and September

China's RRR cut is a signal that the authorities see uncertainties ahead. Falling yields say that growth is weak, so our REITs' exposure is good. Falling TIPS' yields say that our nutrition exposure is good. Our core portfolios are holding between 8% and 16% cash. As we approach September (the other worry-month is March), we are likely to increase our cash position if repo signals show up more difficulties in financing.

Thank you

We are grateful for your continuing support.

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