April '22

To:	Our Valued Investors	**From:**	Chan Wai Chee
Letter:	M02/2022/04	**Dept:**	Managed Account
Email:	MAenquiries@phillip.com.sg	**Date**	4 April 2022
Re:	Liquidity risk, Recession risk, War risk, Oil price, Gold miners, China/Hong Kong, REITs, Forex	**Re:**	Functions, as fundamentals

Liquidity risk

Interest on Reserve Balances (IORB) is 40 bps, from 15 bps (difference is 25 bps hike). In the secondary market, the 4-week Treasury bill is worth 23 bps on 16 March, and 17bps on 31 March. This is 23 bps lower than IORB. It is definitely not the Treasury vs the Fed – it is more likely that the demand for Treasuries has risen.

Previously, IORB was 15 bps, when the 4-week Treasury bill traded mostly for 5 bps. So, about 10 bps lower, as compared 23 bps currently.

Reverse repos remain high at around $1.65T, after doing $1.4T during October-November. RRP rate is now 30 bps (hiked 25 bps from 5 bps).

While we have liquidity risk at the back of our heads, we monitor the 10-year US Treasury yield, which went up from 1.9%-2.0% to 2.2% on the rate hike. Now, it is 2.32%, after reaching a 2.48% high on 25 March. Further drop will mean higher liquidity risk.

Recession risk

The 10-year vs 7-year US Treasury yield has inverted since mid-March. The 10-year vs 2-year, almost. We will not quarrel over 2-year or 3-month.

High oil price can be demand-destructive. We have high oil prices.

The above is global, as US Treasury is the accepted collateral. Oil price, too.

In the US, change in private inventories 4Q21/3Q21 is about $1/4T more. Will this pile-up coupled with demand-destructive high oil price negatively affect the next GDP?

In China, the NBS' manufacturing and non-manufacturing went below 50, from the >50 February numbers. In both, new orders and new export orders fell.

Tipping toward recession. Do we still need to worry about the war?

War risk

Everyone seems to be taking a breather. Even Germany is allowed to pay for its Russian oil in Euros, instead of Rubles. Even the ban on wheat, meslin, rye, barley and corn seeds has been lifted.

Oil price

Will the release of 180M barrels of oil from US reserves bring down the oil price? The US happened to have under-delivered from previous releases. A similar release from China would carry more weight. We wait.

Gold miners

Over 2 weeks, gold price fell, but gold miners rose. In recent history – 2015 and 2020 – gold miners also out-performed gold.

China/Hong Kong

The SCI and HSI seem to be closer to the bottom. However, the USDHKD is above 8.35, and this may trigger another sell-off. The USDCNY has not been affected by the lowering China rates vs the hawkish Fed hikes, yet. Will this effect come?

We rather wait, as Common Prosperity stocks will need some time to take off.

Surely, the second biggest economy would deserves a bigger allocation, given its stated drive toward sustainable economic growth. Yes, we will bite again, albeit slowly.

REITs

The bottoming seems to have taken place, despite US rate hikes.

We now look at high dividend-yielding ones to see if their ‘punishment’ had been over-done. We look for management’s action plans or action to address those concerns that led to their ‘punishment’.

Forex

Apart from the weak HKD, JPY is also weak. The popular argument of US rate hikes does not explain most past occurrences. Past liquidity sell-off is also not connected.

Thank you

We are grateful for your trust, and continuing support. Our portfolios appear well-positioned, based on risks mentioned above, and the likely green shoots sprouting.

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V05/2020