May '22

To:	Our Valued Investors	From:	Chan Wai Chee
Letter:	M02/2022/05	Dept:	Managed Account
Email:	MAenquiries@phillip.com.sg	Date	5 May 2022
Re:	Forex & interest rates, Other risks remain, Oil price, Gold/Silver miners, REITs, Our portfolios	Re:	Functions, as fundamentals

Forex rate difference ≠ interest rate difference

Fed Fund rate was raised from 1% to 5% between July 2004 and July 2006, with the ECB/BOJ rates unchanged; and, the Dollar Index fell from 89.9 to 85.3. Between December 2015 and December 2018, Fed Fund rate was raised from 0.15% to 2.4%, with the ECB/BOJ rates again not moving up; and, the Dollar Index fell from 98.6 to 96.0. We can examine these, on falling rates, to further prove market commentators are making all the wrong noises. Let's not waste time.

USD/JPY at 130 may now be a problem. The last time it was 130 was 20 years ago.

Recently: JPY's strength at 103 was in January 2021. It coincided with the peak of the Hang Seng Index. The Shanghai Composite Index then was less than 10 points from its high. Is it a reflection of the exodus of foreign capital? Foreign capital that went in earlier via cheap-rate JPY loans that swapped into RMB assets? Or, are these Japanese banks no longer interested in this business? Next few months will tell.

If USDJPY is not a leading indicator for these stock markets, have the HSI/SCI bottomed? We have not taken a bite yet, as CNYUSD weakened 4% in 2 weeks and USDHKD traded near the 7.85 "limit".

In April, China's PMIs and New Orders are all down, and not much better than during the Covid-lows. China's infrastructure plan - putting national security to overcome 'extreme conditions' as priority – does not mean building bridges that nobody uses. Subjective, but conservative – to me. The noises out there sound bigger, and more positive.

If JPY and CNY weakness remains or worsens, there may be longer-term implications to certain economies. We must have learnt the lessons of the Asian Financial Crisis, not to repeat these. Before we get there, borrowing in JPY may start to look cheaper for countries that traditionally rely on its financing – Thailand and Indonesia.

A weak Chinese economy may mean a weak global economy (on GDP, not on country allocation in investing). The UST yield curve comes back into the picture. The UST's relevance in the global setting is because Eurodollars drive the global economy.

Other risks remain

Besides the yield curve, other risks remain – war (NATO's arming Ukraine against Russia), tech sell-off (rich valuation), chip shortage (auto sales), collateral squeeze (some Treasury yields trade below RRP/IORB rates).

Oil price

In the latest quarterly Dallas Fed Energy Survey that was published on 23 March, a disturbing answer to the question – *"by what percent do you expect your firm's crude oil production to change from fourth quarter 2021 to fourth quarter 2022?"* - surfaced. *"The median growth rate among large firms was 6 percent, compared with 15 percent among small firms. Twenty-five percent of executives at larger firms expect to expand crude oil production by more than zero but not more than 5 percent, with an additional 25 percent targeting no growth. Executives at small firms expect to increase crude oil production at much higher rates."*

This is bad news to inflation fighters, as the oil price permeates many CPI items.

To us, we will stay invested in the dirty energy sector, with regular profit-taking along the journey.

Another interesting question, another insightful answer:

Q: *"What West Texas Intermediate crude oil price is necessary to get publicly traded U.S. producers back into growth mode?"* And, why?

A: *"A sizable portion, 29 percent, believe the shift to growth mode will not be dependent on the price of oil." "Slightly over half - 59 percent - of executives believe investor pressure to maintain capital discipline is the primary reason that publicly traded oil producers are restraining growth despite high oil prices."*

We are invested in a few of these once-complacent companies, now restrained by discipline, but driven by the high oil price.

Gold/Silver miners

These have taken a back-seat recently. We have also paused. We are mindful that a run on collateral kind of liquidity crisis can drive safe-haven prices low because there is still market volume in a market sell-down. Unlike, risky assets that have little or no volume.

REITs

The bottoming process (April letter) seems to have taken place in the higher yielding ones.

With rents rising in several areas in the US, and people returning to their offices, we are likely to bite the SGX-listed US ones.

Yes, the trade of “Buy Banks, Sell REITs” in a rising yield environment is now sounding like a broken record. Crowded trades are usually less effective.

Cash in our portfolios

In most core portfolios, we have 20-30% cash; with about 15% in the remainder.

The cash-heavy ones: Returns Enhancer (fixed income UTs) – 100%, Global Funds – 92%, Hong Kong Focus - 80%, Customized accounts – 30-40%, SMART – fixed income portion in cash.

The cash-light ones: Gold & Resources – 10%, REITs – 10%.

Your portfolio may not have the same numbers indicated, due to holding round lots.

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 in many places.