



Nov 2007

Erratic fund flow, weak USD still the theme

Equities market became very volatile again in November, investors sold equities on concerns about sub prime write offs and prospect of US economy. But there was not sufficient data to see the true picture. Without a clear picture, investors reacted vigorously to news of the day. Fund flow became very erratic and sharp movements were seen in investment markets. Thereby, investment markets swung up and down sharply in recent days.

So, does it mean that there is no trend in the market, which we can rely on for investment decisions?

In fact, there are still two obvious trends. First of all, the US economy shall continue to experience a drag from slowing housing market. Second, under risk of further collapse in housing market and uncertainty about the contagion effect on job market and overall economy, the Fed is under pressure to keep interest rate low.

With dimmer economic prospect and lower interest rate, it makes USD denominated assets a villain in the investment world. Investors are trying to get away from it. So, USD is continuing to lose its value against commodities and other currencies.

Thus far, we have seen commodities performed well, especially for gold. It is testing the historical high of USD 850/ounce. Moreover, better fundamentals in emerging markets shall continue to attract fund flow from developed markets.

All in all, weakening USD is still the theme and we maintain our favourite on commodities, especially gold. Still, fund flow getting very erratic is a phenomenon. Under such situation, the market shall have more volatility.

US: Slightly negative

US equities market rose in October, DJIA gained 0.25%, S&P500 was up 1.48% and NASDAQ jumped 5.78%. However, worries about sub prime mortgage related problem re-emerged as financial institutions write-off more of their assets in recent days. It drove the market down again. Although the Fed cut rate further by 25bps in November. Still, the magic touch of the Fed did not work this time. We still think that more data is needed to determine the prospect for US economy which is crucial to the US equities market.

EU: Neutral

European markets also rose in October. DAX rose by 1.26%, CAC made 2.31% and FTSE gained 3.75%. Still, re-ignited worries about problems in credit market pulled them down again early November. On economic front, European market was entering the mid-term slowdown. Both Ifo Business Climate Index and ZEW Economic sentiment indicators declined for 4 consecutive months since August. It painted a dimmer picture for the economic situations in coming months.

Japan: Negative

Japan market was among the few that dropped in October. NIKKEI lost 1.66%. Japanese Yen stayed high against the dollar. Still, it was not a sign for strong Yen. Rather, it was another imminent reflection of the weak USD considering that Japanese Yen had retreated significantly against other major currencies, e.g. Euro, Sterling.

China: Neutral

October was spectacular for Chinese stocks. HSCEI jumped 18.00%. Still, it started a steep correction in recent days. Premier Wen Jiao Bao's speech about more study is needed before individual investment scheme can be implemented. In other words, there could be some days before the scheme commence. The delay of the scheme became the catalyst for the sharp drop. Moreover, A share markets in mainland China retreated from the peak. It imposed a pressure on stocks of Chinese companies listed in Hong Kong also.

Hong Kong: Neutral

HSI jumped 15.51% last month. Similar to China, the market turned around in November. However, local property stocks performed slightly better in the recent retreat. It made HSI less hurt compare with HSCEI. For now, the market shows no sign of bottoming out. So, it is still too early to jump back in.

Emerging Markets: Slightly positive

Emerging markets had good performance again in October. On of the market that caught our attention is Russia. RTS rose 14.86% in October, and it remained resilient in early November despite poor performance in US. The country had been clouded by political uncertainty for some time, still the situation will become clear in coming months as Duma elections and Presidential elections are coming in Dec 2007 and Mar 2008. It could be another catalyst for fund flow into Russia.

Bonds: Neutral

The bond market gave no surprise. The Fed cut US policy rate by another 25 bps early November. Risk of economic fallout shall put the Fed under pressure to cut interest rate further. ECB and BOJ kept their policy rate unchanged. Again, it is expected to last for coming months given the risk to real economy and turmoil in financial markets continues. Despite that interest rate trend shifted downward, return on US Treasuries is still unattractive as the yield is already at very low level. On the other hand, European bonds could benefit from the appreciation of Euro.

Commodities: Positive

Crude oil and gold prices jumped on US rate cuts. Gold is testing the historical high of USD 850/ounce while oil broken through USD 90/barrel. Still, crude oil is seeing a trace back which was common due to seasonal effects.

Hedge funds: Neutral

Hedge funds continued with stellar performance in October. All strategy indices in HFRX index made a gain. HFRX Marco Index jumped 5.58% in the month, HFRX Relative Value Arbitrage Index came second with 3.01% and HFRX Equity Hedge Index was in third place with 2.90% gain.

Advices for investors

More losses in sub prime related assets were revealed. It cast a shadow on US economy and equities market. Without a clear picture about the prospect of the economy and the market, investors had become very sensitive to the news. As a result, fund flow was very unstable and equities markets become very volatile.

Currently, the most obvious trend is the depreciation of the USD. To capture the opportunities, investment in gold shall be an appropriate tool to employ.

Important Notice:

The information contained within this document is for the information of prospective clients and existing clients of Arcadia Financial Services (Asia) Ltd (here after AFS) and/or Arcadia Asset Management (Asia) Ltd (here after AAM). The information is not intended to be a recommendation, offer or solicitation to buy products, securities or services. Products and securities described within this document are not applicable to all persons of all nationality, residence or domicile. Persons interested in making any investment or purchasing any products or securities described within this document should inform themselves as to the legal requirements in their country of nationality, residence or domicile.

Investment in securities carries risks. Past performance is not necessarily a guide to future investment performance. If there is any doubt, you should seek advice from your financial consultant before contemplating any investment.

The information contained within this document is believed to be correct and was obtained from sources believed to be reliable, but accuracy, timeliness or completeness cannot be guaranteed. AFS and AAM cannot be held responsible for any errors or omissions contained within this document or for any consequences arising from the use of this document or the information contained within it.

If you want to receive Arcadia Market Commentary or you have any comments to us, please send to us by email: servicing@arcadia-asia.com or contact us at below at no obligation. Information sent to us will be treated strictly confidential.

*Arcadia Financial Services (Asia) Ltd
Arcadia Asset Management (Asia) Ltd
1402-1403, RBS Tower, Times Square, Causeway Bay, Hong Kong
Tel: (852) 2114 8488 Fax: (852) 2111 0777*