



Jan 2008

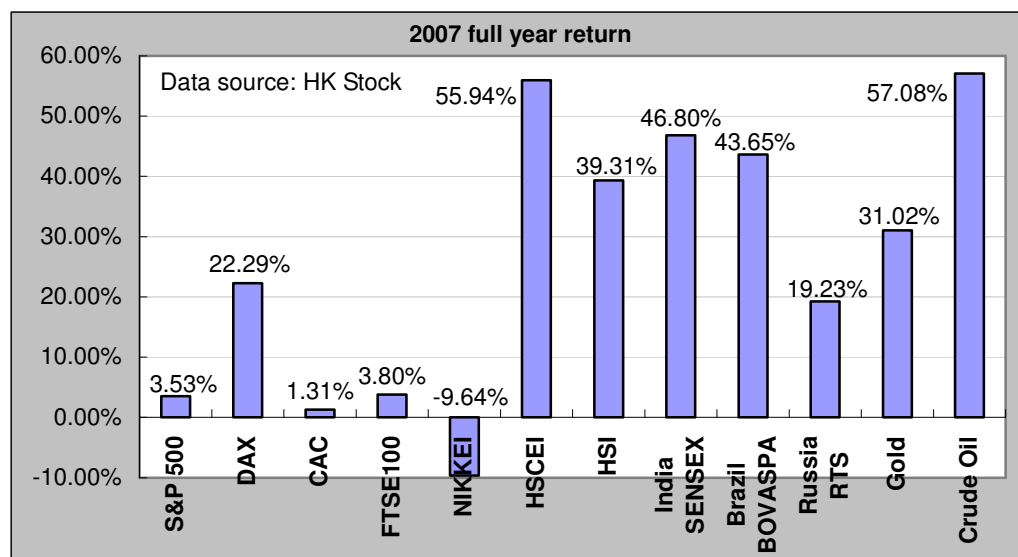
Start 2008 with gold, agriculture & emerging economies

In 2007, choosing where to put your money at really made a difference. While developed markets and hedge funds disappointed investors, return from commodities investment and some emerging markets was enviable.

As you can see from the chart below, gold, crude oil, China, India, Brazil all made more than 30% for investors. Besides them, Korea, Malaysia, Indonesia and Turkey also made a similar gain. So, commodities, Asian markets and Brazil (Latin America) were the winners.

On the other hand, all developed countries, except Germany, gained less than 5% in local currency terms. In fact, they had a healthy run until the credit crunch caused by sub prime related problem surfaced in July 2007. Then, they gave back most of the gains. This is also what happened in many other developing countries, e.g. Mexico, Chile, Czech Republic and Hungary.

In sum, investment returns concentrated in commodities and Asian markets. But for developed markets, the return declined as a result of sub prime related problem and sluggish economic prospect.



Now, 2007 is gone. So, where shall investor place their money with in the beginning of the new year? Natural resources, agriculture and domestic demand of emerging markets are my choices.

Natural resources, especially gold are expected to benefit from a declining USD. For mining companies, M&A activities are still buoyant and it shall drive stock prices. And for energy related investment, crude oil prices stayed well on the up trend despite that the fluctuations were vigorous.

Agricultural products have structural support from supply and demand conditions. The demand from emerging markets is rising, but supply growth is limited due to reducing farmland acreage and accessibility of water. Moreover, the soft commodities and agricultural industry had just returned to investors' focus. So, the inflow of funds would also be supportive to agriculture products investment.

For emerging markets, investors shall stay with where domestic demand is strong. The

BRIC countries are the obvious choices. Among them, Russian market picked up in the last quarter of 2007. Even though global equities market were going down in the 4th quarter of 2007, Russian market went up by 10%. Looking forward, the political risk of investing in Russia shall decline further after the presidential election in March 2008. It is beneficial to stock market performance.

Happy new year and we wish you another successful year.

US: Negative

US stock market was still weak. In Dec 2007, DJIA dropped by 0.80%, S&P 500 declined by 0.86% and NASDAQ fell 0.33%. The financials remained suppressed due to sub prime related losses. Housing market was also on the down trend. Labour market started to show the impact of an economic slowdown, the US unemployment rate rose from 4.7% in Nov 2007 to 5.0% in Dec 2007. More, chain store sales in Christmas season also declined. Slowing growth is spreading out to other areas of the economy, so the US equities market is expected to stay under pressure.

EU: Neutral

Europe markets gained slightly, DAX rose 2.50%, CAC increased by 0.29% and FTSE100 made 0.38%. Similar to US, European economies were also heading toward a slowdown. European retail sales numbers declined in November, it showed that the consumption in Europe is also slowing down. As the market is still affected by sub prime related losses and a slowing economy. More consolidation is expected for European markets.

Japan: Negative

NIKKEI lost 2.38% in Dec 2007. The long awaited recovery in domestic consumption to drive Japan's economic recovery did not come. In addition, a slowing global economy is a threat to Japanese exports. So, Japan is not expected to do well either. In fact, the hesitation of BOJ to lift the interest rate is a very good reflection of the worries about Japanese economy. From a technical view point, Japanese equities market is in a bear market. So, I would not suggest investors to try their luck with any rebound in Japanese market.

China: Slightly positive

HSCEI declined by 6.13% in Dec 2007. The market is still consolidating. Facing risk of inflation, the Chinese government voiced its objection to price rise in water, electricity and gas. The strengthening of tightening industry had pressured on banks, properties and utilities stocks. On the other hand, the industries that were benefited by government policy e.g. infrastructure, telecom did relatively well.

Hong Kong: Slightly positive

HSI lost 2.90% in Dec 2007. Still, it held up above the previous low of 25,600. The domestic property stocks were driven up by rate cut expectations and asset inflation in Hong Kong. They became the leading sector in Hong Kong market.

Emerging Markets: Slightly Positive

We have listed several countries, which gained more than 30% in 2007. However, many other countries were just giving back most of the gains as worries about sub prime problem and slower global growth spread. The countries continue to do well in 2008 includes Russia, India, Indonesia and Malaysia. For Russia, United Russia, the political party led by Putin, won the Duma election last year. It had eased the worries about political risk of the country. Moreover, the political risk shall decline further after the presidential election in March 2008. It shall benefit the equities market.

Bonds: Neutral

The Fed cut US interest rate again lest that US shall fall into recession. In Dec 2007, its cut the interest rate by another 0.25% to 4.25%. The interest rate forward market is pricing in a 0.5% cut in Jan 2008. Expectations of more rate cut is helping bond prices. Besides US, UK is also facing the risk of housing market down turn. So, BOE is also expected to lower

the interest rate. However, a falling UK interest rate is a risk to pound sterling exchange rate against USD. Thereby, I would not suggest investors to buy into UK bonds.

Commodities: Positive

In Jan 2008, gold and crude oil reached historical highs. At the moment, gold is what I preferred. As USD is falling on rate cut expectations, gold prices is driven up. Besides gold, soft commodities prices were also rising. The commodities bull market spread to agricultural products eventually. The soft commodities returned to investors focus. They are expected to benefit from the investment related fund inflow.

Hedge funds: Neutral

In 2007, the performance of hedge funds were generally lower than 2006. The calendar year return of HFRX Global Hedge Fund Index was 4.23%, nearly 5% lower than 9.26% for 2006. By strategies, the return of different strategy index was just very similar. HFRX relative value arbitrage index, HFRX event driven index, HFRX merger arbitrage index, HFRX distressed securities index, HFRX equity hedge index, HFRX macro index and HFRX equity market neutral index also gained between 3-5% for 2007. The worst performer was HFRX convertible arbitrage index, and it lost 0.95%.

Advices for investors

Developed markets are still negatively affected by credit market problem and slowing economy. So, capital is expected to flow out from these market to other assets classes to take advantage of weak USD and domestic demand of emerging markets.

Natural resources, agriculture and emerging markets are what I think investors can start the year with.

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