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## MARKET OUTLOOK FOR THE WEEK (28<sup>th</sup> JANUARY – 1<sup>st</sup> FEBRUARY 2013)

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### Key Events Last Week

- USD GDP Annualized (Q4) Preliminary Release -0.1% Actual vs 1.1% Forecast
- USD Fed Interest Rate Decision 0.25% Actual vs 0.25% Forecast
- USD Personal Income (MoM) (Dec) 2.6% Actual vs 0.8% Forecast
- USD Congress Vote on Debt Ceiling
- USD Nonfarm Payroll (Jan) 157K Actual vs 160K Forecast
- USD Unemployment Rate (Jan) 7.9% Actual vs 7.8% Forecast
- USD ISM Manufacturing PMI (Jan) 53.1 Actual vs 50.6 Forecast
- EUR German Consumer Price Index (YoY) (Jan) Preliminary Release 1.7% Actual vs 2.0% Forecast
- JPN Retail sales (YoY) 0.4% Actual vs 0.3% Forecast
- JPN Industrial Production (YoY) 2.5% Actual vs 4.1% Forecast
- JPN Household Spending 0.7% Actual vs -0.1% Forecast
- JPN Unemployment Rate 4.2% Actual vs 4.1% Forecast

### Key Events to Focus on This Week

- EUR Producer Price Index (YoY) (Dec) Feb 04, 18:00. 2.2% Forecast 2.2% vs Previous 2.1%
- AUD House Price Index (YoY) (Q4) Feb 05, 08:30. Forecast 0% vs Previous 0.3%
- AUD RBA Interest Rate Decision Feb 05, 11:30. Forecast 3% vs Previous 3%
- EUR Retail Sales (YoY) (Dec) Feb 05, 18:00. Forecast -1.1% vs Previous -2.5%
- AUD Employment Change (Jan) Feb 07, 08:30. Forecast 5.0K vs Previous -5.5K
- AUD Unemployment Rate (Jan) Feb 07, 08:30. Forecast 5.5% vs Previous 5.4%
- GBP BoE Interest Rate Decision Feb 07, 20:00. Forecast 0.5% vs Previous 0.5%
- GBP BoE Asset Purchase Facility Feb 07, 20:00. Forecast 375B vs Previous 375B
- EUR ECB Interest Rate Decision Feb 07, 20:45. Forecast 0.75% vs Previous 0.75%
- CNY Consumer Price Index (YoY) (Jan) Feb 08, 13:30. Forecast 2.0% vs Previous 2.5%
- EUR German Trade Balance (Dec) Feb 08, 15:00. Forecast 14.8B vs Previous 14.6B
- USD US Trade Balance (Dec) Feb 08, 21:30. Forecast -45.8B vs Previous -48.73B

*Time indicated is in SG Timing*



## **Global Market Summary**

### **Singapore's total domestic banking unit loans soars**

Singapore's total DBU loans outstanding registered YoY growth of 16.7% to S\$490.8 billion in Dec 2012. Business loans and Consumer loans reported growth of 18.0% YoY and 15.0% YoY respectively. Month-on-month, loans growth in Dec 2012 was higher. Total loans grew 1.9 %, compared to 0.5% in Nov 2012. Business loans grew 2.6% MoM, while Consumer loans grew 1.7% MoM. 57.9% of total loans comprise of Business loans, with the remaining attributed to Consumer loans.

### **China Reports Record Capital-Financial Account Gap for 2012**

China last year had the biggest deficit in its financial and capital account since records began in 1982 as the domestic and global economies slowed, spurring outflows of funds.

The USD117.3 billion annual gap was the first since 1998 when investors deserted China during the Asian financial crisis and reversed a USD221.1 billion surplus in 2011, according to data released on the State Administration of Foreign Exchange website yesterday. The excess in the current account, the broadest measure of trade, rose to USD213.8 billion in 2012 from USD201.7 billion the previous year.

The deficit may reflect reduced intervention by the central bank to control the exchange rate of the yuan, which strengthened 1% against the USD in 2012, the least in three years. China's foreign-exchange reserves, the world's largest, rose the least since 2003 last year, as the economy expanded at the weakest pace since 1999.

### **China's new home prices clock biggest gain in two years**

China's new home prices rose 1% in Jan, the biggest gain in two years, as developers turned optimistic because the government did not impose additional measures to curb the property market last month.

Prices climbed for an eighth month in January to 9,812 yuan (USD1,577) per square meter (10.76 square feet) from December, SouFun Holdings Ltd. (SFUN), the country's biggest real estate website owner, said in an e-mailed statement today, based on its survey of 100 cities. The increase was the biggest since January 2011. Developers have supplied more high-end properties to the market since the Ministry of Housing and Urban-Rural Development said in December that it would support demand from residents seeking bigger homes this year, SouFun said. China may delay expansion of property tax trials because the timing is not "mature," China Securities Journal reported today, citing an unidentified person.

### **Asian Stocks Advance on Japan Earnings, China Industrial Profits**

Asian stocks rose this week, with the regional benchmark index capping a three-month rally, as Japanese equities gained on earnings and a pickup in Chinese industrial profits highlighted the region's growth momentum. The MSCI Asia Pacific Index (MXAP) on Jan 30 reached the highest level since August 2011 and has rallied about 11% since Nov 14, when the announcement of Japanese elections sparked optimism a new government would

add stimulus to fight deflation. The measure traded at 14.6 times average estimated earnings compared with 13.7 for the Standard & Poor's 500 Index and 12.4 times for the Stoxx Europe 600 Index, according to data compiled by Bloomberg.

### US Debt Limit extension approved by Congress

On Thursday, US Congress approved a legislation allowing the government to continue borrowing billions of dollars to meet its obligations. The legislation, to be signed by President Obama next week, would suspend the previous USD16.4 trillion limits on federal borrowing until May. The measure temporarily eliminated the risk of a government default in the short term. However, Congress will have to act on the next round of voting on Mar 27, when the temporary extension expires. On Mar 27, decisions will be made regarding the structuring of government budget to finance the current debt obligation. Previously, US debt was backed by the full faith in the US Dollar. A failure to maintain this faith and to avert the debt limit would not bode well for the global economy.

### Lower than expected drop in US GDP

US Annualized Gross Domestic Product (GDP) was released on Thursday. It was unexpectedly in the negative at -0.1%, compared to the general consensus of 1.1%. This unusual below-expectation number contradicts with the general consensus that the US Economy was on track to recovery on 2013. As a result, SPX500 Index halted its advance and reverted back to the USD1498.3 mark three hours after the news. The Index was previous at the five-year high of USD1510, having passed a significant psychological barrier at USD1500.



However, it is important to note that the main reason for the drop in GDP was a staggering 22% cut in defense spending. One possible explanation is that defense spending is shrinking overall, as a result of budget pressures and the on-going draw down in Iraq and Afghanistan.

### Negative results on US Nonfarm Payroll and Unemployment rate

Nonfarm Payroll represents the change in number of jobs in the economy compared to the previous month. It includes the number of jobs recorded in the payroll of goods-producing, construction and manufacturing companies. Together with the unemployment rate, it is an important indicator of the strength of the US Economy.

For the month of Jan 2013, Nonfarm Payroll increased by 157 thousand, lower than the previous 196 thousand increase in Dec 2012. Likewise, unemployment rate for January increased slightly to 7.9%, compared to the previous 7.8%. In reaction to this lower headline change in Nonfarm Payroll and higher than expected unemployment rate, volatility was observed across all asset classes. Gold price, for example, fluctuated within a wide range of 2000 %age point, between USD1661.91 and USD1682.18, during the course of 2 hours after the release.



However, the revised Nonfarm Payroll for November was higher by 86,000 jobs to 247,000 jobs added from 161,000 originally estimated. Moreover, the %age of employees working multiple jobs for economic reasons declined for the second consecutive month to 4.8 % from 4.9 % in December.

### **Fed decision on Interest Rate**

On Jan 31, the Federal Reserve released its interest rate decision for the US Dollar. In general, this decision affects other rates set by other financial institutions, such as commercial banks. It also tends to affect the exchange rate, as traders look for difference in interest rate for a rollover profit.

The interest rate on Jan 31 was maintained at 0.25%. Thus, the Federal Reserve continued to maintain its historically-low interest rate. This, coupled with the disappointing employment and GDP data, reaffirms the continuation of stimulus measures. In the mid-term, this would cause investors to move toward riskier asset such as equities. Thus, the current bullish run of the EUR as well as of other indices such as the SPX500 would be expected to continue for the next month.

### **EURO at its highest value since 2011**

As the balance sheet of the European Central Bank shrinks, the Euro has appreciated against the US dollar and has hit its highest in 14 months. The Euro has also registered a second week gain, this is due to data showing that Europe's economy is improving.

A foreign-exchange strategist, Sireen, working at Credit Agricole SA said that the data that has been emerging in Europe has been coming up pretty fair. Sireen feels that the data indicates that the European economy is improving and at the very least shows some indication of stabilization of the European economy.



The Euro rallied by 1.3% to \$1.3640 this week. At its highest, it hit \$1.3711 against the greenback, the highest since November 2011. The Euro climbed 3.6% against the Yen peaking at 126.97 and then stabilizing at 126.66. This may also be due to the devaluing of the Japanese currency as the Japanese central bank continues to perform quantitative easing.

### **European Stocks dropped over the past week**

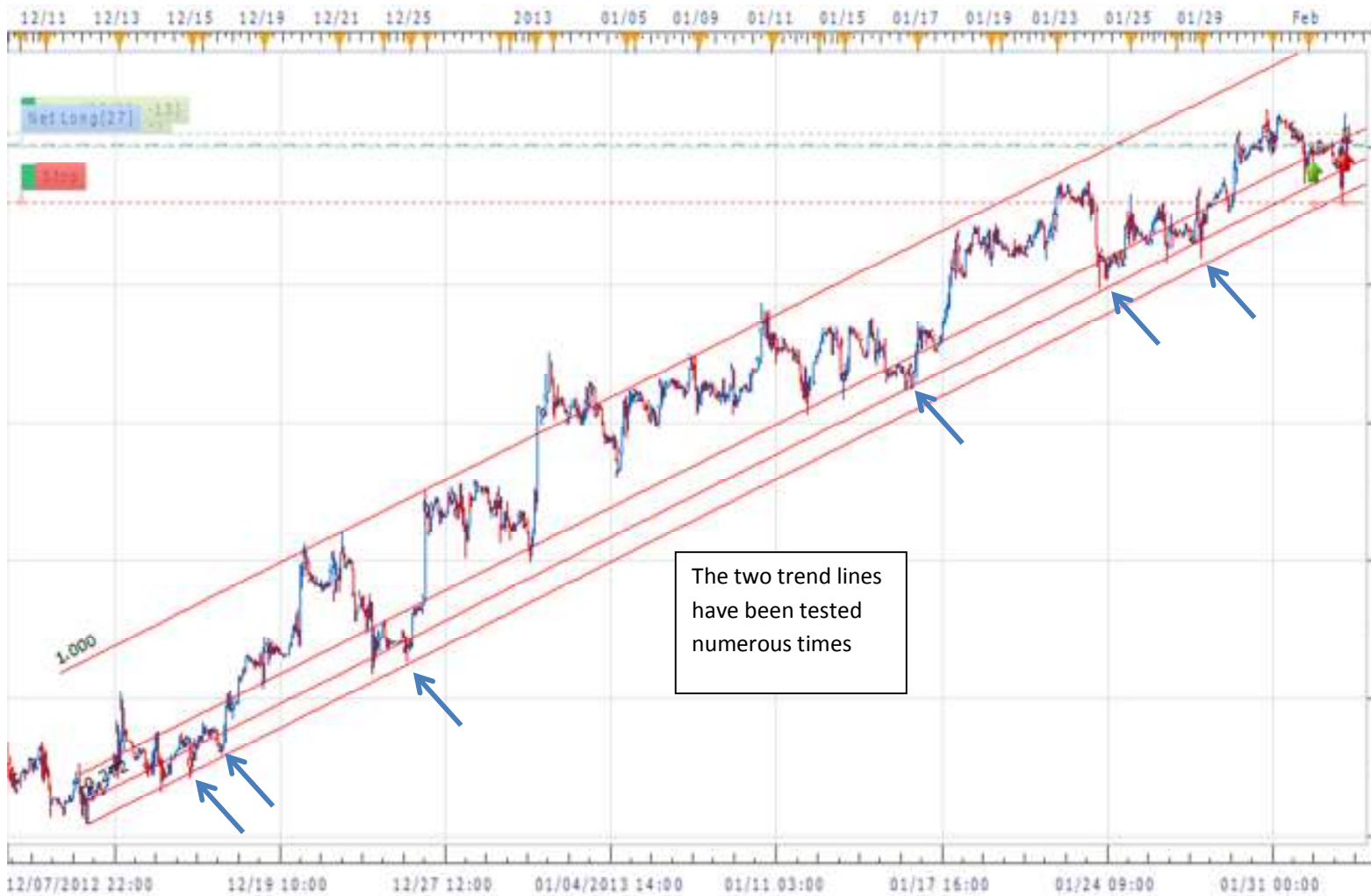
European stocks suffered a huge decline over the past week as reports from the US indicated that the US economy shrank in the fourth quarter of 2012. The reported cause was due to the uncertainty of the Fiscal Cliff decision that caused business and investors' confidence to drop and to pull back from the market. The drop was the biggest weekly decline in 2013. Another reason for the drop is due to the Spain market regulators lifting the ban on shorting equities.

12 out of 18 of Western Europe's markets National benchmark indexes slid downwards this week. France's CAC 40 dropped 0.1%, while the U.K.'s FTSE 100 Index added 1%. Germany's DAX slipped 0.3 % and Spain's IBEX 35 slumped 5.7%, its biggest slide since September.

## Trading Ideas for This Week

### TA Trade Idea: Long US Crude Oil.

Crude oil continues its two-month bullish run, as shown on the H1 chart, advancing from 85.21 to a high of 98.10 last Friday. Price movement has been following a rising Fibonacci channel, with two particularly strong supports at level 0 and 0.236. In particular, the 0 level support has been tested a total of four times, with the most recent one on Friday, 02 Jan 2013



In the short run, the supporting trend line is expected to hold for the next week, especially after it rejected the massive sell-off after Nonfarm Payroll, when price dropped to USD96.50 after the news release and has since continued its bullish movement. Currently, the bid price is at USD97.61, in the region between the 0.236 and 0.382 level trend lines. This is a good opportunity for short-term traders to enter and benefit from the on-going up trend. The recommended target price level is between USD97.14 and USD97.67. A potential stop loss could be set slightly below USD96.48, where the previous bottom of the candlestick was formed during Nonfarm Payroll.



For further signal to confirm the bullish move, traders might want to look at oscillators such as the RSI and MACD, which are particularly effective during a trend period. Currently, the RSI has moved up after hitting the support line at 31.91, while the MACD is at the first support line at -0.12. In general, an upward movement will be confirmed when the two oscillators, along with price, bounces back from their respective support/trend line. However, conservative traders might want to wait for the MACD to cross over the zero line before entering.



Fundamentally, the continuing depreciation of the US Dollar would be bullish for Crude Oil. With the Federal Reserve deciding to maintain the current interest rates and the disappointing employment data last week, the market has been pricing in the possibility of continuing Quantitative Easing operation. This would devalue the US Dollar and since US Crude Oil's price is measured in USD, price would rise as a result.

A potential risk for this trade idea is that the current price is only slightly below the level resistance at 100.35, where the previous top was formed on 13 Sep 2012. A failure to break through this resistance would potentially cause price to reverse and re-test the trend line. A break through, however, will maintain the upward movement, and price is expected to continue rising until the next significant resistance at 103.60.



#### FA Trade Idea: Short ORIENTAL GRP LTD:

Oriental is a steel manufacturing and trading group with an integrated steel mill. It manufactures mild steel bars and high tensile steel bars, such as angle bars and flat bars. Oriental Group is now primarily engaged in the business of providing value-added services relating to the procurement and supply of industrial and construction materials used in the industrial and construction industries in the People's Republic of China.



Reason 1:

Indicators imply extremely poor performance of the company. An ultra-high P/E ratio of 717 implies that this is an opportunity to short the company. Moreover, with an EPS of -0.00428 (almost zero), and ROA of -4.254 %, the company has not managed to get its balance sheet into the black for the third consecutive year. Last but not least, with a Current Ratio of 2.096, it does not give Oriental a significant room to leverage on its assets to borrow.

Reason 2:

The steel manufacturing Industry has an inflated supply while its demand weakens: The Chinese steel-making industry has, as a whole, stepped up its supply in 2012, though in the face of weakened demand in 2012. Price of steel and related metals is expected to fall in 2013. This will adversely affect Oriental's earnings in 2013.

Reason 3:

Macro-economic environment is unfavourable. The Chinese government has tried to lift up the economy through its 4 trillion RMB stimulus package from 2009 to 2011 to generate domestic demand and hence alleviate its reliance on export-oriented growth. Yet this package of policies, which mainly target at basic construction of infrastructures, seemed unable to achieve the intended results. It is thus reasonable to expect a shift of government policies to generating domestic demand directly from the masses.



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