



PLATINUM
FINANCIAL SERVICES LIMITED

MONTHLY REPORT

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Anxiety returned to stalk the markets during January. A balance of good and bad news emerged on national economies and for individual companies, but after ten months of near continuous gains, the markets failed to find traction on the good news and instead slipped on the bad.

European markets fared the worst, with both UK and continental shares extending their losing streak with little pause for relief. Shares in London fell six out of seven days, erasing 6.7%. An Asian share slump over the past 2 weeks ended a miserable month for the Far East.

The UK finally emerges from its recession, but shares slide as investors shelter from risk

Continental bourses and the euro suffered under the weight of Greece's national debt. Fear that the Greek government could default on its debt sent investors running for safety and the country's bonds fell sharply. This widened the gap between the yields on Greek and German government bonds to a record level. The Greek bond yield, at comfortably above 6.5%, suggests the market sees Greek debt as more risky than the average emerging market debt.

Concerns about the sustainability of the whole euro project pushed the common currency to a multi-month low against the dollar and the pound.

Greece's debt problems turned the spotlight on other countries with a high or rising deficit, particularly Portugal, where the spread of its 10-year bond yield to the German equivalent rose to a nine-month high.

Better news for investors came from the US Federal Reserve which decided to maintain its near-zero interest rate policy, stating its intention to keep rates "exceptionally low" for an "extended period". One member voted to change the policy in a sign that a very gradual shift may have just started. Also the UK economy grew 0.1% in the fourth quarter of last year, putting an official end to the long and deep recession. But only just.

The quarterly results season is a mixed bag, with some companies posting surprise profits, others holding up well to difficult trading conditions while several companies have disappointed with poor results and downward revisions to their projections for the coming year.

Ford reported a surprise profit for 2009. Ford was the only big Detroit car maker to avoid bankruptcy restructuring in 2009 and its full-year net profit of \$2.7bn means it is the first of the big three car makers to recover from their years of losses (Ford lost \$6.9bn in 2008). Its shares rose by 0.5%.

Procter and Gamble and Colgate-Palmolive both pleased investors with strong quarterly results. Both groups credited an increase in advertising with the robust performance. Procter and Gamble rose 1.4% while Colgate-Palmolive fell 0.5%.

The biggest maker of mobile phone chips, Qualcomm, warned its revenues would be lower than expected because of tough competition and a slow recovery in demand from developed markets. Its shares dropped 14%. Motorola's shares tumbled 12% when it warned it would make a loss this quarter while its European rival Nokia gained market share in the growing smart-phone category and its shares rose 1.7%.

Investors' anxiety can be measured in higher market volatility. The recognised index of volatility, often known as Wall Street's fear gauge, is the Vix index (its correct name is the Chicago Board Options Exchange Volatility Index). It is a measure of the prices paid by investors for options to buy the S&P 500 Index in the future. It indicates the likely volatility of the index over the next 30 days.

The economic effect of government fiscal spending in Asia is likely to wane in 2010. For example, we studied projected fiscal spending in China, given its significance for the Asian economies and the aggressiveness of its fiscal stimulus in 2009. Our findings suggest that China is unlikely to drastically reduce its fiscal spending in 2010, a view which is validated by the government's supportive stance on active fiscal policy during the Central Economic Work Conference held in December 2009. We believe that China's fiscal deficit will likely be 2.5-3.0% of GDP in 2010-2011, from 3.0% in 2009.

This suggests that growth in fiscal spending could moderate to about 12% annually over 2010-2011, from 22% in 2009. As GDP growth is only driven by fiscal spending, we conclude that fiscal spending will be a muted source of economic growth in 2010 for China.

ASIAN EXPORT RECOVERY REMAINS ON TRACK

Across the region, there is evidence of a continued recovery in Asian exports. In January, export data from China, Korea and Taiwan continued to show significant improvements.

Leading indicators also remain supportive of a recovery. U.S. inventories remain low, but could pick up steadily as U.S. retailers are reporting signs of pent-up demand and a gradual return of shoppers since October. The U.S. ISM New Order Index also continues to suggest a recovery in Asian exports. In Asia, data points remain positive, including order flows from key trade fairs, import processing volumes, and both air and container cargo volumes. Finally, consumer confidence and business sentiment continue to improve globally.

U.S. RATE HIKE EXPECTATIONS INCREASED

Expectations of a U.S. rate hike in 2010 were raised in December on better-than-expected unemployment and economic data. U.S. unemployment dropped unexpectedly to 10.0% in November, while non-farm payroll data showed a milder loss of 11,000 jobs, against an average of 135,000 jobs lost over the prior three months. Retail sales and existing home sales data were also surprisingly positive.

THE USD STAGED A YEAR-END RALLY, WHICH WE DOUBT IS SUSTAINABLE

Asian currencies traded softer as the USD rose sharply in December and January, aided by year-end position squaring and profit-taking, as well as a perceived improvement in the U.S. economic outlook. The USD rebound did not surprise us, as we had believed that a correction was imminent due to market participants being heavily short the USD. However, we doubt that the USD recovery is sustainable, especially against the higher yielding emerging market currencies, given the record U.S. budget deficit and likely persistence of negative funds flows.

We believe the difficulty in 2010 will be how authorities remove this stimulus without undermining risky assets such as equities and commodities. While financial, currency and equity market trends were the principle drivers of the oil price last year, we expect these factors will become less supportive this year.

COMMODITY VIEWS

COMMODITIES AS AN ASSET CLASS: Investor appetite for commodities has never been stronger, in our view. We expect renewed inflows into the sector during 2010. However, we believe threats to the complex start to appear as the authorities remove monetary and fiscal stimulus later this year.

CRUDE OIL: We expect that 2010 will mark the transition back to the traditional fundamentals relating to oil supply, demand and inventories in contrast to financial, currency and equity market drivers that we believe dominated oil price trends last year. In our view, this would mean that rallies in the oil price above USD80/barrel will only become sustainable in 2011.

US NATURAL GAS: We expect natural gas prices to average USD6.00/mmBtu in 2009 and believe prices should average close to this in 2011 and 2012 as well. With ample supplies available from the shale plays and imported LNG, we no longer expect a return to a long-term 8-10 to 1 oil/gas price ratio.

PRECIOUS METALS: We believe the US dollar and investor inflows into gold will become less constructive for the gold price in the first half of this year. Indeed the US dollar tends to do well in anticipation of Fed rate hikes. We prefer to express bullish views in the sector via PGMs and silver as global growth recovers and new PGM investment vehicles come to the market.

INDUSTRIAL METALS: The industrial metals complex was the best performing of the four broad commodity sectors in 2009. From a valuation perspective, we believe investors need to recognize that asset classes that have been past winners have a habit of becoming future losers. From a fundamental perspective, we believe Chinese restocking, which was such a powerful force in 2009 on pushing copper prices higher, may move into reverse this year.

AGRICULTURE: 2009 proved that even small supply disruptions can have a powerful impact on agricultural prices such as sugar, cocoa and coffee. We believe parts of the complex are still trading cheap and we view new mandates to boost ethanol use in the US as bullish for corn.

In agriculture we believe last year highlighted that even with a small disruption in supply agricultural prices can react violently to the upside. We believe the structural factors such as the fight to feed people, cattle and cars in an environment of land and

water constraints will sustain upside price risks in the complex. In the US, we expect the ethanol blend in gasoline will be increased by five percentage points from the middle of the year and as a result increasing further the industrial use of corn

CURRENCIES

We continue to be positive on Asian currencies in 2010. Current account surpluses in most Asian economies are supportive of their currencies. Moreover, foreign investment in Asia has not been fully rebuilt to pre-crisis levels, suggesting that there is room for further recovery. In particular, there is pressure on the CNY to appreciate as reserves accumulation and money supply growth are now close to peak levels. We remain particularly positive on the KRW and the IDR due to the robust economic growth and attractive yields. We also continue to be optimistic on the AUD in the longer term because of strong economic fundamentals.

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