Unicorn Financial Solutions Pte Ltd
538 Geylang Road #02-09
The Arizon Singapore 389493
Tel: (+65) 6887 3885
Website: www.unicorn.sg

14 April 2015

Interest Rates & Our Investment Calls

Our view of the World Today:

	Monetary Policy	Interest Rate Outlook	Exchange Rate Outlook (/SGD)
US	Tightening	↑	↑
Eurozone	Loosening	↓	↓
China	Loosening	↓	↔
Japan	Loosening	↓	↓

The above table summarises our view of the major world economies in their present state.

Let's go back in time:

Since November 2008[1], U.S. had pursued a loose monetary policy in the aftermath of the U.S. subprime mortgage-induced financial crisis that year with a few rounds of Quantitative Easings (QE; read money printing) as well as cuts in interest rates to near zero. As the U.S. economy improved, QE was tapered and finally brought to an end in October 2014[2].

---

[1]Has quantitative easing worked in the US? (by BBC)

[2]The Fed Eases Off - Tapering to the End of a Gigantic Stimulus (by Bloomberg View)

Whenever money is printed, the supply of money increases. Coupled with low interest rates then, there was a lot of hot money which flowed into countries like China and Singapore. With more money chasing the same finite amount of real assets, each of these assets would be worth more in monetary terms, hence assets inflation. This was especially significant in the property market.

As hot money flowed quickly into China, China needed to build a dam, through monetary tightening, in order to stem the inflow of funds into their country.

Without this dam, the inflation in China would have been immense. Unicorn has also been proactively recommending Clients to invest into Chinese equities since 2008. It is akin to having our funds in China when it's at low tide then, and enjoying the ride as the tide rises. In 2008, the Shanghai Composite Index fell about 65%[3], with the lowest below 2000 index points.

So what's happening now?

As the U.S. economy recovers, it is now pursuing a monetary tightening policy with an imminent increase in interest rates. The U.S. dollar strengthens accordingly.

To counter deflation and low growth, both the Eurozone (the largest economy in the world)[4] and Japan (the 3rd largest economy)[5] are currently pursuing a loose monetary policy by lowering interest rates and printing money – not that they have much of a choice. And thus, in our view, both the Euro and Japanese yen will weaken.

Now that the tide (of hot money) is gone, China is turning on its own tap by lowering its interest rates[6] and loosening its monetary policy, thereby creating a reservoir instead.

As an indication of the tide, the Shanghai Composite Index has now risen to 3,961.38 (as of 7th April, 2015).

With a loose monetary policy and the Chinese equities market functioning better[7], the Chinese equities market will likely do well while the U.S. market will probably stagnate due to a very long bull run and tightening of its monetary policy.

How can we benefit?

With the current outlook on exchange rates, it would be wise to position your assets to benefit accordingly.

---

[3]China's Stock Market Drops Over 65 Percent in 2008 (by The Epoch Times)

[4]Economy of the European Union (by Wikipedia)

[5]World GDP Ranking 2015 | Data and Charts (by IMF, October 2014; from Knoema)

[6]Yuan Drops to Two-Year Low as PBOC Rate Cut Boosts China Stocks (by Bloomberg)

[7]Changes Afoot in Chinese Stock Market (by The Wall Street Journal)

As our investments into oil and China are denominated mainly in USD and HKD respectively, we will stand to gain as the U.S. dollar strengthens. We will benefit too from the Hong Kong Dollar as it is pegged to the U.S. dollar[8].

You have been ploughing and sowing the fields since the beginning of spring, that is, investing into China since 2008. You can now sit back and enjoy the fruits you have sown with the wise decision you have made in the past few years, as the tide in China lifts your wealth higher.

As the world continues its money-printing business and the value of money erodes, we encourage you to continue investing to ensure your money grows more valuable over time.

---

[8]Hong Kong dollar (by Wikipedia)

Unicorn Financial Solutions Pte Ltd Reg. No.: 200501540R