

13 March 2007

Straits Times Index

<u>Key Singapore Indices</u>			
	Close	Chg	% Chg
STI	3182.7	60.2	1.9
Sesdaq	167.1	4.5	2.7
Finance	2356.8	38.1	1.6
Property	1376.4	73.4	5.6
Electronics	122.5	3.2	2.7
Vol (m)	1489.9	83.2	5.9
Val (\$m)	1642.3	96.6	6.2

<u>World Indices</u>			
	Close	Chg	% Chg
Dow Jones	12,318.6	42.3	0.3
Nasdaq	2,402.3	14.7	0.6
S&P500	1,406.6	3.8	0.3
FTSE	6,233.3	-11.9	-0.2
KLCI	1203.3	16.2	1.4
Hang Seng	19,442.4	267.3	1.4
Nikkei	17292.4	202.1	1.2
SET	672.4	1.2	0.2
KOSPI	1441.3	17.4	1.2
TWSE	7,629.2	55.3	0.7

<u>Market Statistics (SG)</u>			
STI 52-week range			
No. of gainers		578	
No. of losers		198	
No. of unchanged		#N/A	N Ap

Brace yourselves for a pullback

- The typical wall of worry was scaled over the last 5 trading sessions after the STI rebounded from a low of 2,931.63 to break above our 3,100 resistance level and also filled the gap between the 27th and 28th of Feb. We caution investors against turning positive in the near-term as our analysis has revealed certain signals that indicate more selling could be in store.

- The first sign of danger came from the weak traded volume that accompanied the index recovery over the last 5 trading days. This indicates that the uptrend is not sustainable in the near-term.

- The second sign of danger we discovered was imbedded in the quantitative analysis of the historical volatility and price movement of the Straits Times Index, where we compared the volatility behavior between the May 06 sell-off and the current sell-off in Feb 07.

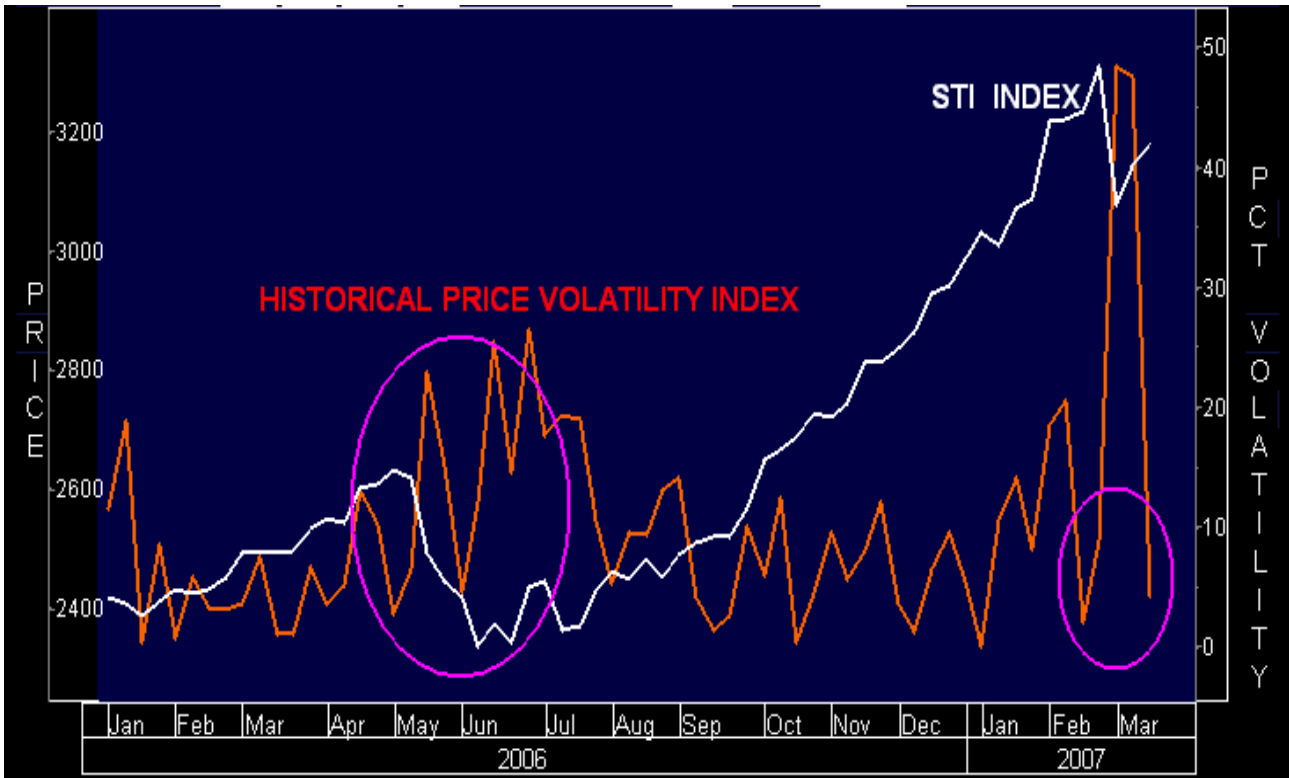
- Typically during a sell-down, the volatility index would spike from its lows until the STI reached a support and rebounded. This rebound would cause the volatility index to fall back towards a level close to 0. For the May 06 sell-off, it took the volatility index approximately 3 months to return back to levels that were close to 0. However, in the current market situation, we saw a very sharp plunge in the volatility index within the span of 5 days, which has come very close to the levels before the sell-off began. Thus we anticipate a very high probability of another spike in the volatility index, which means the index could pull back once more (refer to chart 1).

- In most cases, this scenario would not be significant enough by itself to warrant caution since the volatility index has reached levels close to 0 and saw minor spikes thereafter without the index pulling back since Sep 06. However, it may be different this time, based on the weak volume of the recovery and evidence from the quantitative sell-down analysis in our previous report (6th Mar 07), where we stated 86% of the time when the benchmark plunged more than 9% in the 1st phase of the sell down, the correction would extend to at least 15% in total. Thus, we advise investors to brace themselves for another pullback.

- Resistance set at 3,220 and support zone maintained at 2,700 - 2,800 (refer to chart 2).

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Chart 1: STI Historical Volatility vs Price (Weekly)



Data source: Bloomberg

Chart 2: Straits Times Index (Daily price chart)



Data source: Telequote

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