Buy the Dip

(SPDR Gold ETF: 087.SG)

Buy the Dip on market overreaction

Strong Support for Treasury Yields in Jan

Source: Bloomberg, Business Insider, KGI Research

Volatility remains low compared to 2015

Source: Bloomberg, KGI Research

Negative Correlation (Equities vs Gold)

Correlation Matrix (7 Rows x 7 Columns)

Security	XAUUSD	SPX	TWSE	STI	HSI	VIX	HYG
11) XAUUSD	1.000	-0.260	-0.059	-0.134	-0.133	0.194	-0.057
12) SPX	-0.260	1.000	0.159	0.235	0.234	-0.764	0.695
13) TWSE	-0.059	0.159	1.000	0.499	0.606	-0.114	0.181
14) STI	-0.134	0.235	0.499	1.000	0.653	-0.167	0.179
15) HSI	-0.133	0.234	0.606	0.653	1.000	-0.172	0.181
16) VIX	0.194	-0.764	-0.114	-0.167	-0.172	1.000	-0.529
17) HYG	-0.057	0.695	0.181	0.179	0.181	-0.529	1.000

Source: Bloomberg, KGI Research

Event

On 2nd February 2018, the Dow dropped by more than 600 points, a magnitude last seen on June 24 2016, the day after Britain voted to leave the European Union. This is only the 9th time in the Dow's 122-year history that the index dropped by more than 600 points. In this note, we share our thoughts on various asset classes and recommend buying Gold & oversold stocks.

Impact

The Dow's drop coincided with a sharp spike in treasury yields last week and a crash in Bitcoins. We think that this sell-off is a correction and not driven by credit risks or systematic issues.

Volatility & Bitcoins

Financial markets have been trading in a low volatility environment and spikes in volatility are common. The VIX currently trades at 17.31 and while this translates to a 70% gain from levels last seen in December, we are far from the levels last seen in 2015 (53.29). Additionally, the sell-off in crypto-currencies has seen Bitcoin prices correct by more than 50% from their highs in the past few months. Such price actions can contribute to volatility in other asset classes.

Bonds & Equities & Gold

As the Dow dropped by more than 600 points, US 10Y rose to a high of 2.86%, driven by fears of quantitative tightening and a potential trade war between the United States and China. Additionally, uncertainty surrounding the new Fed Chairperson's views on interest rates and bullish jobs data contributed to the spike in yields. This steepening however, is only reflected in the 10y and not seen on the longer end of the yield curve. Spreads between the 10Y and 30Y widened by merely 3 bps since January 2018, giving us confidence that last week's sell-off is temporary and not persistent.

The spike in 10Y yields have caused gold prices to stall after making strong gains since December and interestingly, despite strong negative correlation between gold and equity prices, gold prices fell together with equity prices in last week's sell-off.

Valuation & Action

We see this sell off as an opportunity to buy cheap, fundamentally strong companies which have been oversold. Investors can also opt to buy the Gold ETF (087.SG) as a short term trade to guard against a continued sell-off.

Risk

Faster-than-expected rise in interest rates.

KGI Research Team
65 6202 1194
sgp.research@kgi.com

See the last page for important disclosures.

KGI's Ratings

Rating	Definition
	KGI Securities Research's recommendations are based on an Absolute Return rating system.
BUY	>10% total return over the next 12 months
HOLD	-10% to +10% total return over the next 12 months
SELL	<-10% total return over the next 12 months

Disclaimer

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities. This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. You should independently evaluate particular investments and consult an independent financial adviser before dealing in any securities mentioned in this report.

This report is confidential. This report may not be published, circulated, reproduced or distributed and/or redistributed in whole or in part by any recipient of this report to any other person without the prior written consent of KGI Securities. This report is not intended for distribution and/or redistribution, publication to or use by any person in any jurisdiction outside Singapore or any other jurisdiction as KGI Securities may determine in its absolute discretion, where the distribution, publication or use of this report would be contrary to applicable law or would subject KGI Securities and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by KGI Securities to be reliable. However, KGI Securities makes no representation as to the accuracy or completeness of such sources or the Information and KGI Securities accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. KGI Securities and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of KGI Securities and its connected persons are subject to change without notice. KGI Securities reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) KGI Securities, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) KGI Securities, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; and (3) the officers, employees and representatives of KGI Securities may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business".)

However, as of the date of this report, neither KGI Securities nor its representative(s) who produced this report (each a "research analyst"), has any proprietary position or material interest in, and KGI Securities does not make any market in, the securities which are recommended in this report.

Each research analyst of KGI Securities who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of KGI Securities or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including KGI Securities' total revenues, a portion of which are generated from KGI Securities' business of dealing in securities.