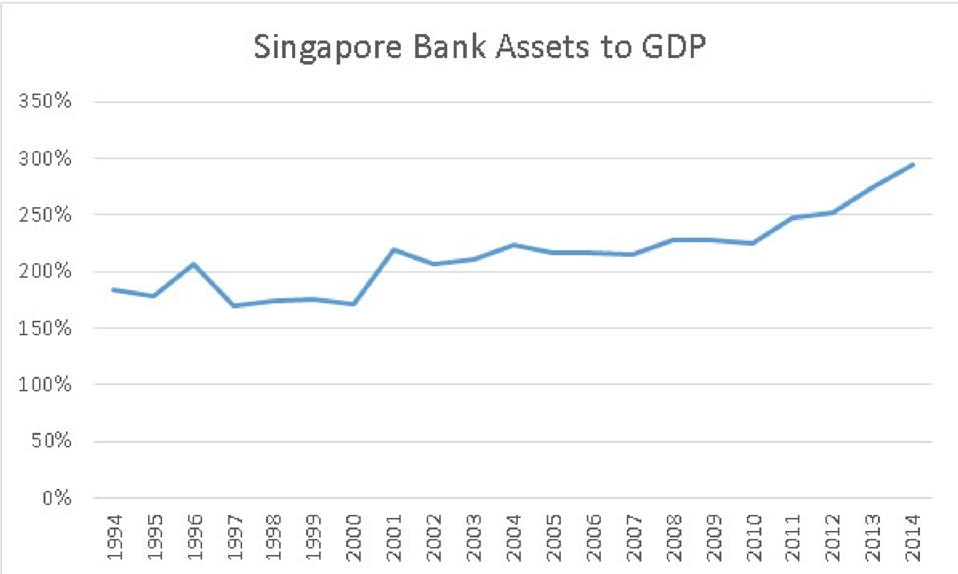
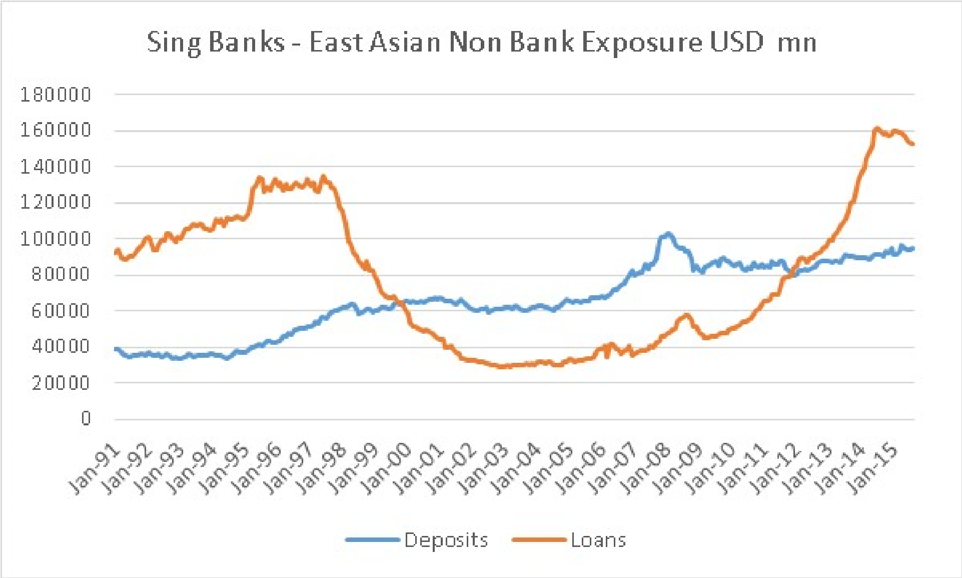
SINGAPOREAN BANKS

Singapore acts as an international finance centre for much of Asia. Singaporean bank assets have grown significantly to become close to 300% of GDP.

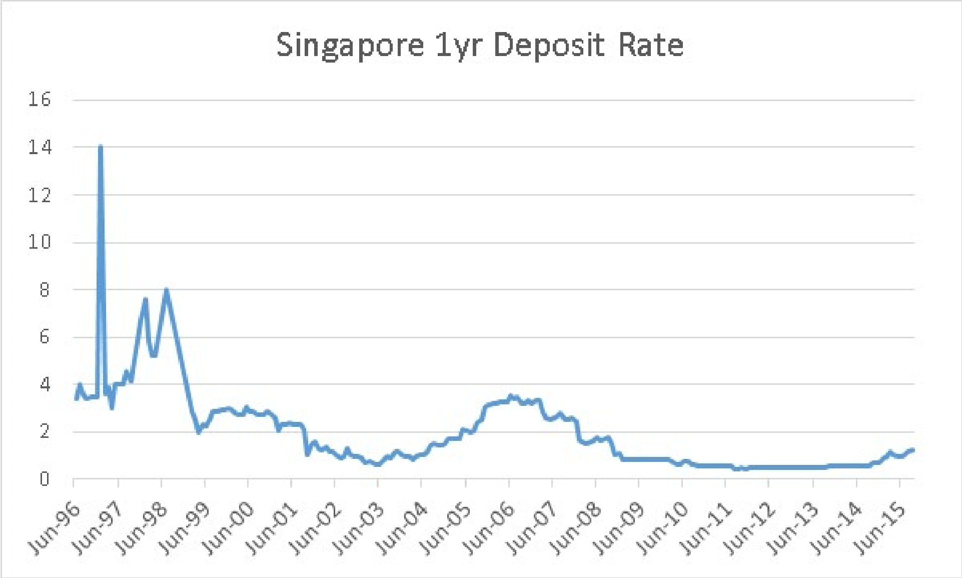


Singapore has three major domestic banks – DBS, UOB and OCBC (four until 2000, when UOB acquired OUB bank). All three banks have one third to half of the assets overseas. Malaysia, Hong Kong and China are the main location of their overseas assets.

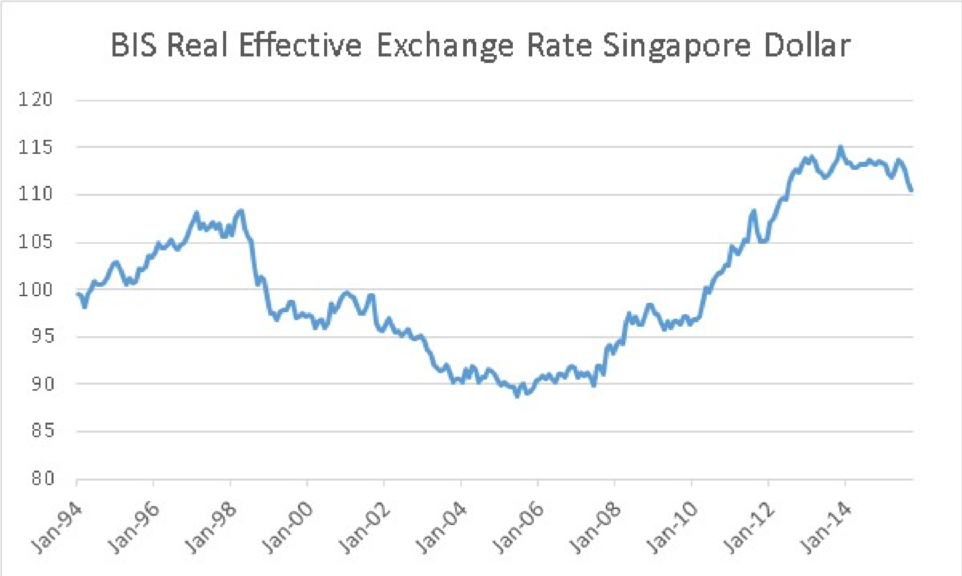
The Monetary Authority of Singapore (MAS) ask banks to provide detail by Domestic Banking Unit (DBU) and Asian Currency Units (ACU). The ACU statistics further breakdown deposits and loans by region and sector going back to 1991. East Asia is defined by the MAS as China, HK, Japan, South Korea, Taiwan and ASEAN (Association of Southeast Asian Nations). Singaporean banks are the most exposed to Asian credit quality since 1997.



Singapore runs an unorthodox monetary system. MAS does not set an interest rate, but rather controls the exchange rate. What this means is that interest rates in Singapore are directly related to exchange rate expectations.



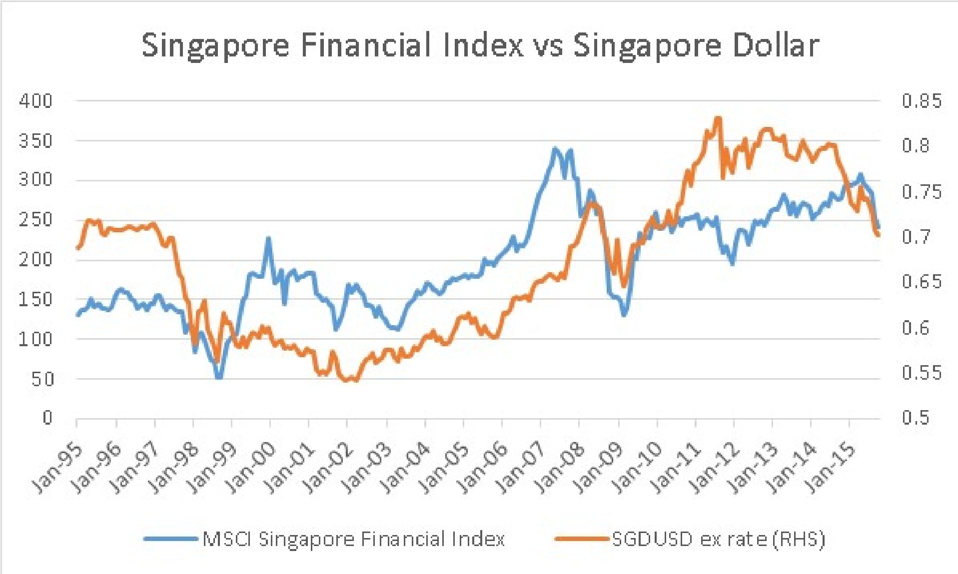
1 year deposit rates tend to rise as Singapore dollar falls. As can be seen above, interest rates are beginning to rise as the Singapore dollar comes under pressure. This also occurred in 2007. However the big problem is that according to the BIS (Bank of International Settlements), on a real trade weighted basis, Singapore has never been more expensive.



The problem for Singaporean banks is that weakness in other Asian currencies affects the Singaporean banks in two ways. Firstly, weaker currencies in the countries that Singaporean banks have lent to would lead to expectations of weaker loan growth and potential loan quality issues. Secondly, weaker Asian currencies would naturally put downward pressure on the Singaporean dollar. As seen above this causes Singaporean interest rates to rise, putting pressure on the banks' funding. Hence Singaporean banks are particularly affected by weakness in Asian currencies.

Singaporean banks fell by close to 70% in local currency terms during the Asian financial crisis as Singapore banks cut their Asian exposure.

All of this explains the high correlation between a weak Singapore dollar and the performance of the banking sector.



Given the extended nature of Singapore lending to Asia, together with the prospect of the Singapore dollar declining from a high level, the risk reward of shorting Singapore banks looks very good to me.

INFORMATION

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