

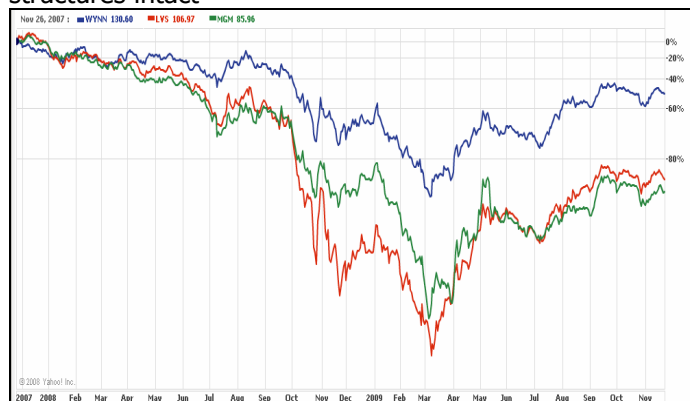
Sin City: Betting on a Recovery



Images from marketing literature for Singapore casinos

As we all know, the House always wins. With an 'edge' of between 1% & 5% casinos (both physical and virtual) are a sure fire bet to make money eventually, and it's a sure-fire bet that in time the gambler will lose. In normal economic conditions, casinos generate strong positive cash flows and are considered cash cows. However, these are certainly not normal times and last year just about everybody lost their shirt.

The major players in the world of gambling include Harrah's, Wynn, MGM Mirage and Las Vegas Sands. Despite a major recovery since March 2009, share prices are still down between 50% and 80% since 2007 and many companies had to make massive sacrifices in order to secure new debt funding and keep their corporate structures intact



Share price of Wynn (Blue), Las Vegas Sands (Red) and MGM (Green) from start 2007 to date (Yahoo! Finance).

According to Moody's there were seventeen casino operators that were at high risk of default through the credit crunch including Trump Entertainment. In fact, no commercial casino operator retained an investment-grade rating on their bonds last year. In Feb this year bond yields demonstrated that investors were only prepared to lend money to Las Vegas Sands at a rate of 32% p/a due to the perceived risk of bankruptcy.

Back in September the company reported that it may have difficulties servicing its 8.8 Billion USD debt and that it could struggle to continue as a "going concern", essentially admitting that it could file for Chapter 11.

It wasn't just that gamblers were staying at home and watching TV; corporate events and package tours account for a major part of company revenues and expenditure on this has been slashed. However, in anticipation of better times ahead the share prices of casinos have now started to rally.

It is a measure of the potential money available from gambling that despite these problems Las Vegas Sands pulled out all the stops to continue building the Marina Bay Casino in Singapore at an estimated cost of 5.4 Billion USD. In addition to gambling space, Marina Bay Sands will include an estimated 1.25 million square feet of meeting and convention space, an art and science museum, two theaters and 300 retail shops.

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Images from marketing literature for Singapore casinos

For Las Vegas Sands, being the first Casino due to open in Singapore gave them a massive opportunity to turn the company's fortunes around and tap a huge new market.

Singapore's corporate tax rate on Casino's is very attractive; 12-22% for Singapore compared to a massive 39% in Macau. No wonder companies are keen to take their seats at Singapore's casino table.

Morgan Stanley had estimated that the gaming market in Singapore could generate somewhere between 3 billion and 3.7 billion USD within the first year of operation. The Marina Bay Sands Resort & Casino, which won the approval to open the first casino (6 months ahead of anyone else), were looking to launch by the first quarter of 2010, however constructions delays, changes in high-level management and the credit crunch has caused a delay to their targeted opening.

Unfortunately for Las Vegas Sands it now appears that Malaysian competitors The Genting Group are now set to open their Singapore Casino (on Sentosa Island) first. This is significant because the Singaporean government has announced an effective "Gambling Tax" of USD 72 per visit or an annual membership fee of USD 1,440 per casino to be imposed on local residents. We'd assume not many folks would join both casinos. This would give an advantage to the business that is first to open its doors, and that looks likely to be Genting.

Shares in Genting International (the Singapore listed subsidiary of Genting) have already started to appreciate on the back of news of the Las Vegas delay, but our view is that there plenty of scope for more growth in the stock price, especially as so far, there has been no revenue generated from this part of the company.



For Singapore the development of the casinos appear to be part of a major new tourism drive which will dovetail with a whole new entertainment complex in Sentosa including a Universal Studios theme park and 6 world class hotels. The Las Vegas Sands Marina development (in the harbor just in front of Raffles place) will be an incredible backdrop to future F1 events and will further raise the profile of the Lion City.

As always there are many ways to profit from resurgence in gaming in general or Singapore's exciting development, and Montpelier can assist to explain your options.

Finally it is worth noting that it always seems to help you to feel just a little better when you own stocks in the company that you are handing money to on the Blackjack table.....

Keynotes: The Gold Price

If there was ever an investment that polarizes opinion, that investment is gold

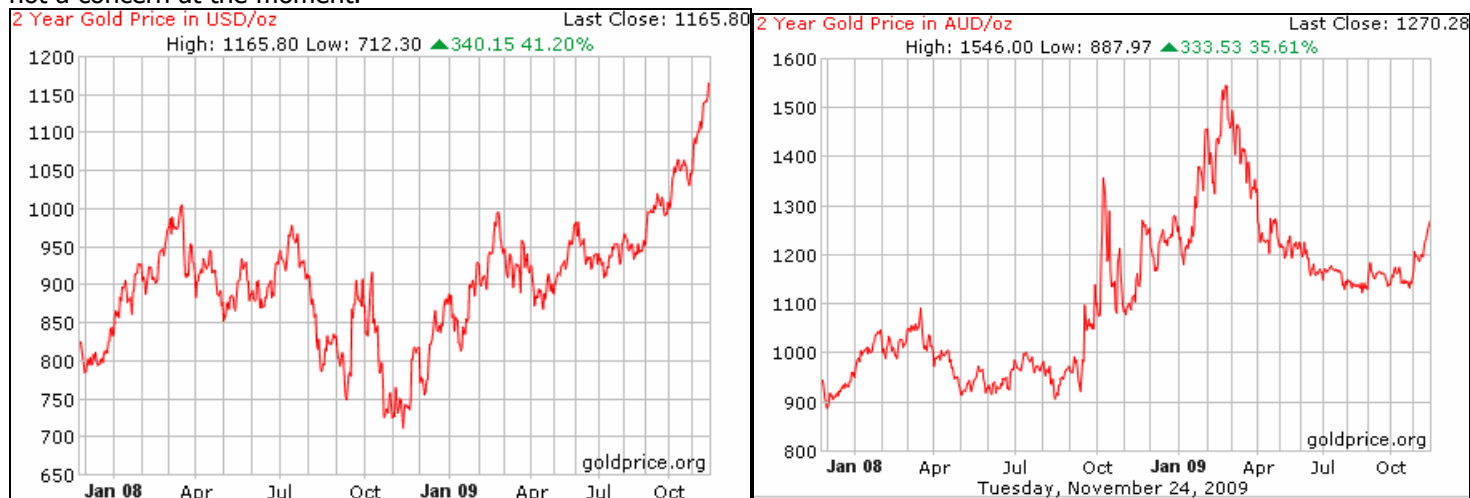
From those who believe that all paper (Fiat) money is worthless and that therefore gold is the only true store of value ("the gold price never changes, only the value of paper currencies used to price it does), to those who buy into Lenin's theory that gold should only be used to plate the inner surfaces of public urinals - an application for which gold is very suited for reasons of its chemical inertness.

As a metal gold has limited uses, namely; jewelry, dentistry and electronics. So, industrial supply and demand is a limited explanation for gold's price driver. The metal offers no interest-rate or dividend, but is perceived as an excellent hedge against inflation and deflation, as well as protection against weak currencies.

The gold price is currently at an all time high but we should put recent rises into context. Over the last 6-months gold has risen around 22% in USD terms - about the same as the S&P over the same period and much less than many emerging market stock markets. Also, a good part of this rise is a result of the weak USD (in which gold is usually priced). As measured in an appreciating currency such as the AUD, the price of gold has actually fallen over the past 6-months (see graphs below).

That the gold price remains an effective hedge against fear was demonstrated by its strength through the financial crisis (again shown by the graphs below), but the questions is what is pushing the price up in USD terms now?

There has been much talk of the threat of hyper-inflation as a result of the huge amounts of liquidity in the system as central banks print money in order to prop-up banks and stimulate their economies. The idea that inflation fears are supporting the gold price is contradicted by the bond market. The bond market is more liquid and many would argue that it is more efficient with more active participants. Investors are still buying 30 years bonds at yields of 4.2%, meaning that inflation is obviously not a concern at the moment.



Many people point to the fact that central banks such as China's and India's have started buying gold to hedge out their USD holdings over fears for the future direction of the currency. The fact that central banks have become net-buyers of the commodity (the IMF is selling) should help to keep the price high. So currency fears seem much more relevant.

Even more so than for other securities, gold tends to be priced according to sentiment which makes it difficult to predict. However, for investors holding USD and investing in equities it remains an effective hedge and we believe that it will push through 1,200 to 1,300 USD per/ounce next year.



Regions and Asset Classes

GLOBAL

The global economy appears to be recovering but at a fragile pace. Therefore policy makers are encouraged to keep supportive measures in place until the recovery is firmly established and when the rate of unemployment has improved. Australia was the first developed nation to tighten its monetary policy by increasing its rate by 0.25% to 3.25%. However this was later justified by Australia's employment data report for September showing it had 40,600 new jobs being created and unemployment rate dipping by 0.1% to 5.7%. International Monetary Fund Managing Director Dominique Strauss-Kahn believes that China has a critical role to play in the recovery of the global economy and must lead the world out of recession. Kahn had also called for China and other Asian countries to allow their currency to appreciate which would strengthen the global economy. Allowing currencies to rise would help in increasing in the purchasing power of households, raise the labor share income and also provide right incentives to re-orient investment markets.

PROPERTY

For the first time in seven months property prices across the UK took a dip, which some economist believe could be a warning of a double-dip housing recession, though many think this could just be seasonal and would recover as soon as the New Year starts. Halifax reported that housing prices rose by 1.2% in October, which is an increase for months in a row. Property prices fell by 0.5% on a month-on-month basis. Average selling price declined from 219,658 GBP to 218,654 GBP, however high-end properties saw an above-average decline of almost 3,000 GBP or 1% since last month. Over 132,000 buyers have benefited so far from the stamp duty holiday which will soon end. Therefore, December may see a good month for the property sector, being the last month before this exemption expires.

ALTERNATIVES

Gold touched a new record high of above 1100 USD per ounce in November and continues to rise as the US dollar continues to weaken. This was followed by a surge in the silver and platinum prices. Crude oil inventories gained +0.78 mmb to 339.9 mmb in the week ended October 23, although the increase was just half of what was anticipated by the markets, WTI crude oil fell below US78 as investors were disappointed by the surge in gasoline stockpiles. These stockpiles increased +1.62 mmb to 208.6 mmb and surprised the markets as consensus forecasted was a draw of -1.5 mmb; this was due to the decline in demand after the peak season. The decrease was driven by decline in refinery runs rather than increase in demand which would probably have cheered up investors.

INDIA

India's finance minister, Pranab Mukherjee, believes that India's economy should grow between 6% and 7% in the current fiscal year to March 2010 despite a going through a bad monsoon. The Indian meteorological department declared the country's four-month supposedly monsoon season had ended, leaving behind what it had said was the countries worst drought in decades, with rains 23% below normal. About half of India's 1.2 billion people depend on agriculture for their livelihood. Many economists also forecast that gross domestic product could expand at about 6% this year, but the weak monsoon has sent food prices skyrocketing and has already triggered inflation. Amongst the affected regions were the major rice and cereal growing northern and western states of Punjab, Haryana and Rajasthan.



EUROPE

The European economy which consists of 16 countries that share the Euro had expanded in the third quarter by 0.4% after a previous quarter contraction of 0.2%. Exports from Germany and France increased which led to a growth by 0.7% and 0.3% respectively. Europe's manufacturing sector expanded for the first time in 17 months and services industry grew at a quicker pace in October supporting the fact that the global economy is pulling out of recession. According to London-based Markit Economics, the manufacturing index rose to 50.7 in October from 49.3 the previous month and services gauge went to 52.3 from 50.9 in September. A separate report by them also indicated that German business confidence rose to a 13-month high. Most European based companies are increasing output to meet up with the reviving order rates which are beginning to kick in after almost 2 trillion USD worth of stimulus packages had been spent around the world to fight the recession. A report by the International Monetary Fund on Oct 1st said that the global economy is expanding at a faster pace than previously expected in 2010.

UNITED KINGDOM

The Office for National Statistics reported that the number of people claiming unemployment benefit rose by 12,900 in October to 1.64m which is the smallest increase in 18 months and 36% below what was predicted by economist. John Philpott, chief economists at the Chartered Institute of Personnel and Development believes that this data is encouraging but it should not be over exaggerated. In the 3rd Quarter of 2009, the UK economy contracted 0.4% indicating the deepest and longest recession since the World War II. This was unexpected as economists were expecting a modest 0.1% rise. More worryingly UK may have been the only major economy to have contracted in the 3rd Quarter of 2009. However the Bank of England believes that it still has some options left to revive growth and may still expand its quantitative easing program. The BoE is looking into driving the Pound down which will make the British products more competitive abroad, which will eventually increase exports, boost production, employment and stimulate growth.

USA

The US economy expanded at 3.5 % pace in the 3rd quarter of 2009; the first period of growth in more than a year. This growth was based on stimulus-driven gains in consumer spending and home building. Household purchases climbed 3.4 percent, the most in two years. With the Dow Jones Industrial Average hitting a fresh 13-month high at 10,406.96, decision makers are now focusing on whether the recovery (which is currently being supported by federal assistance to the housing and auto industries) could be sustained into 2010 and generate jobs. President Barack Obama's options for more aid are limited by budget deficits amounting to 1.4 trillion USD. Though the worst of the US economic woes may be over, the current pace of growth may not be sustainable. This is firstly due to poor conditions in the labour market causing lower consumer spending and secondly the dollar which is steadily weakening making it harder for the US government to keep borrowing from abroad to stimulate the economy. However the upside of the weakening dollar is that the increase in cost of foreign capital goods will spur more Americans to look in buying more American made products which will eventually help the trade deficit. Inventories in the US would continue to drop, boosting expectations that factory production will keep growing and there would be a rebound in employment.

CHINA

China's economy has been ticking along well compared to other emerging markets though it has still been the worst for many years. China expanded by 8.9% thanks to lavish spending that sparked a boom in construction, share prices and consumer spending. In September industrial production grew by 13.9% compared to a year earlier, followed by retail sales rising by 15.5% and urban fixed-asset investment up by 33% from January to September. Keeping in mind China has an economy which depends on its exports, China's trade surplus swelled in October to the highest level this year as exports fell at a slower pace, bolstering the case for policy makers to let the Yuan appreciate. The surplus rose to 23.99 USD Billion, nearly double the level in September, data released by the customs bureau on its Web site today showed. Exports slid 13.8%, less than the previous month's 15.2% decline



JAPAN

Back into deflation for the second time in a decade.....

Japan's exports declined at the slowest pace in 10 months in September as stimulus spending in China, Japan's biggest market, drove demands for Japanese cars and machinery. The Finance Ministry said shipments abroad had dropped by 30.7 percent from a year earlier compared to a 36 % decline in August. Exports are dropping at slower pace when measured by volume. The ministry's index of trade volume, which strips out the effect of currency fluctuations, showed shipments abroad fell 21.8 percent in September compared to a year ago. Though demand are beginning to pick up, a third of the country's factory capacity still remains idle. Other factors that contribute to reasons why Japan's trade rebound is still weak compared to others in Asia due to the fact that it concentrates on producing machinery used in factories, which tends to pick up in the later stages of a recovery once businesses are re-investing their gains. Besides this the Japanese yen has spiked to an eight-month high against the US dollar, however this has forced the new Minister of Finance Hirohisa Fujii to backtrack on earlier comments that he wanted to avoid currency intervention. Japan being an export oriented economy which relies on exports and not domestic consumption as the main engine of growth in the past six years doesn't favor a strong yen. A strong yen makes Japanese products more expensive and shrinks the value of Japanese companies' earnings abroad when they brought home

In focus: Theme Investments

Soft Commodities Sector

Continuing our regular theme highlighting different investment sectors, this month's focus is on soft commodities.

Soft commodities include Coffee, Cocoa, Sugar, Soybeans, Wheat and Fruit. Historically this area of investment has usually been the reserve of professional traders however with the rise in popularity of Exchange Traded Funds (ETFs) this asset class has become much more accessible to regular investors. Until recently, the price of 'Softs' as they are known, have considerably lagged behind their 'hard' commodity equivalents, such as industrial and precious metals (see graphs below).

However, the price of tea is now at an all-time high, cocoa is at a 30-year high; and sugar is at a 28.5-year high whilst Orange juice is at its highest level for 16 months. Soft commodities have risen between 30% and 70% this year and the potential for this growing further is huge. In addition to impressive performance, another great reason for them to form part of your portfolio is their non-correlation to other asset classes as rather than their prices depending on the general worldwide economy, the driving factors include supply constraints, the strength of the US Dollar, political problems, weather and government tariffs.

So what are the reasons behind these high prices now? Well, as most of these commodities are grown in just a few countries, it doesn't take much to affect the entire market worldwide. Let's look at a few soft commodities and the factors driving their growth of late.

Coffee

As with so many things in recent years, increased demand from China and India has fuelled the market. Considered a luxury item in the past as both nations continue to develop this has led to an explosion in demand from the expanding middle classes and this demand is only likely to keep rising. There have been crop losses in Columbia and fears of crop losses in Brazil so the economic fundamental of supply and demand has driven prices up. Coffee should climb well into next year aided by dollar weakness.

Sugar

Like oil, sugar is an international commodity. Unlike oil, sugar is an agricultural crop dependent on the weather. India is both the largest exporter and importer of sugar and is experiencing its driest period in 83 years with rainfall 64% below normal in the growing regions resulting in 50% less output and an increased import demand.

Brazil is the other major sugar cane producer. This year Brazil was expected to have a record crop however; heavy rains have prevented tractors from harvesting the sugar cane. Moisture also leaches sucrose from plants. So again their output has been significantly reduced.

As well as traditional uses, sugar cane is also used for bio-fuels which are a rapidly developing market - the majority of cars in Brazil run on Ethanol. As the use of biofuels grows, so too does the demand on sugar.

Global demand is expected to exceed supply by 5 million tons this year and this should ensure that the price of sugar continues to rise.

Cocoa

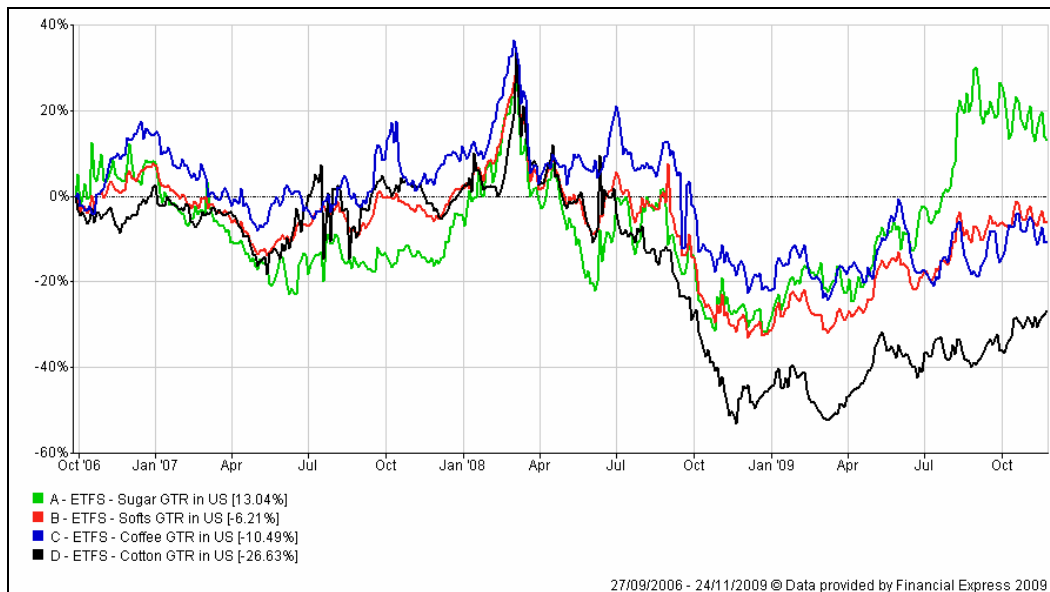
Chocolate lovers may be in for a shock. The price of Cocoa is currently at a 30 year high.

Cocoa shortages have been caused by poor harvests and civil war on the Ivory Coast, which grows 40% of the world's beans. El Nino turbulence in Indonesia, the 3rd largest producer and Ecuador has resulted in dwindling harvests. Supply has fallen for 4 consecutive years and has been exceeded by demand for the last 3. With more chocolate historically being consumed through the winter and the major importers being from the northern hemisphere then prices look set to continue rising in the coming months.

So you can expect to pay higher prices for your morning coffee, sugar, tea and cocoa in the near future. On the other hand however, it's an excellent opportunity to profit from the market.

There are a few ways to invest in this sector. You could use an ETF to take a direct position in the spot price of an individual soft commodity (e.g. CATL.L which a tracker for the spot price of cattle), or a broad ETF which buys into a range of soft commodities. Alternatively, a stock or fund which invests into companies whose primary aim is to make money through improvements in the efficiency of agriculture and agricultural methods.

Talk to your Montpelier consultant for more information.



Prices of individual soft commodities and the soft commodity sector

As always please do not hesitate to contact your Montpelier consultant or the Portfolio Team directly on portfolio@montpeliergroup.com if you want to further explore your investment options.

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