



OVERVIEW

June 2014

Global stock markets continued to rise higher in June. The FTSE All World Index rose 1.96% month-over-month, led by strong US stock market performance in tandem with the improved global economy. The S&P 500 and Dow Jones Industrial Average advanced 2.07% and 0.75%, respectively, while the MSCI Emerging Markets Index jumped 2.66% over the month. In line with regional markets, ASEAN stock markets moved higher, with the Dow Jones ASEAN Islamic Total Return Index gaining 1.20% over the month. Year-to-date, the index has gained 11.00%.

Malaysia

Foreign exchange reserves rose from US\$130.2 billion at the end of March 2014, to US\$131.9 billion as at the end of June. This is sufficient to finance nine months of retained imports and is 1.3 times the short-term external debt. The increase in reserves was mainly due to sustained inflows to the financial market as well as trade activities. Furthermore, there was a significant increase in foreign holdings of bonds. Equity market inflows have improved recently on the back of stronger data in the region as well as in the developed economy. With the rise in reserves, excess liquidity in the banking system has increased to RM246.6 billion from RM242.2 billion the previous month. Meanwhile, better growth prospects and the rising possibility of an interest rate hike have led to the appreciation of the ringgit from RM3.26 (per US\$) at the end of March to RM3.21 (per US\$) at the end of June. Foreigners have remained net buyers of Malaysian equities for the third consecutive month, though the numbers have tapered off to RM0.5 billion from RM3.0 billion in May.

Indonesia

The third direct presidential election since the collapse of the autocratic regime of Suharto in 1998 was held on July 9, 2014, with governor of Jakarta Joko Widodo declared president-elect on July 22. Mr. Widodo and his running mate, a former vice president and ex-army general Jusuf Kalla, ran against former army general Prabowo Subianto and former economy minister Hatta Rajasa. Both campaigns used nationalistic rhetoric on the economy to address corruption and other domestic issues, such as infrastructure, education, and social security. Mr. Widodo pledged to boost productivity by supporting small and micro businesses, while Subianto emphasized stronger domestic control of the economy and limiting foreign investors in the oil and gas sectors. During the month of June, the equity market continued to attract net foreign investment of US\$280 million.



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We believe ASEAN markets remain an attractive asset class given their solid fundamentals, decent growth, and compelling valuations.

Market Indicators	Current Value	1 Month	YTD	1 Year
FBM EMAS Shariah (RM)	13,387	2.26% ▲	4.00% ▲	11.87% ▲
FBM KLCI (RM)	1,883	0.73% ▲	2.38% ▲	9.39% ▲
S&P 500 (US\$)	3,552	2.07% ▲	7.14% ▲	24.61% ▲
Dow Jones Industrial Average (US\$)	16,827	0.75% ▲	2.68% ▲	15.56% ▲
FTSE All World (US\$)	282	1.96% ▲	6.53% ▲	23.63% ▲
MSCI All Country World Index	429	1.93% ▲	6.53% ▲	23.71% ▲
MSCI Emerging Markets (US\$)	436	2.66% ▲	6.14% ▲	14.31% ▲
Dow Jones ASEAN Islamic (US\$)	2,453	1.20% ▲	11.00% ▲	-1.21% ▼

	Current	1 Month Ago	1 Year Ago
Ringgit per US\$	3.21	3.21	3.16
Crude oil (US\$)	\$105.37	\$102.71	\$96.56
Crude palm oil (RM)	RM2,448	RM2,426	RM2,337

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Philippines

The inflation rate slowed to 4.4% in June 2014, from 4.5% in May, which is in line with market expectation. The market expects that the full-year inflation rate will average around 4.4%, which is within the Development Budget Coordination Committee's full-year target of between 3.0% and 5.0%. Meanwhile, recently released data showed that imports grew by 3.0% in April 2014 and are expected to expand in the coming months due to a favorable business and consumer outlook. This expectation is backed by surveys conducted by the Central Bank of Philippines, Bangko Sentral Ng Pilipinas, which showed that the overall confidence index of businesses rose to 50.7% in the second quarter of 2014 from 37.8% in the first quarter. As a result, foreign funds have continued to flow into the country, with a net purchase of US\$160 million in equities for the month.

Singapore

Singapore's manufacturing sector expanded at a slower-than-expected pace in June, with the PMI hitting 50.5, from 50.8 in May. This was due to lower new export orders as well as a drop in production output. Weakness in the electronic sector, which reported a contraction in output over the last two months, was the main culprit.

Thailand

As Thailand's military presses on with economic reforms, the economy is showing signs of recovery following months of political turmoil that led to a military coup in May. Thailand's central bank expects to see growth in the second half of 2014. Since the ousting of civilian government on May 22, surveys show that business and consumer confidence has revived as the government sets in place a new budget and investment strategy. In 4Q13, Thailand's GDP growth stood at 0.6% year-over-year, but in 1Q14 it went into negative territory at -0.6% year-over-year, far below the consensus expectation of +0.4%. The drag on growth came from slower domestic demand, which fell further by -4.2% in 1Q14 (-5.5% in 4Q13), and slower private consumption, which fell by -3.0% in 1Q14 (-4.1% in

4Q13). Reflecting the concern over the current situation's uncertainty, foreign investors withdrew US\$180 million from the Thai equity market in June.

COMPANY REVIEWS

As the second largest hospital group in the world, IHH is focused on growth and is well-positioned given the exponential increase in the middle-income demographic. IHH runs 37 hospitals with more than 6,000 beds and employs more than 25,000 people. The company excels in high-growth markets and is targeting India, China, Indochina, the ASEAN countries, and the Middle East. Together with its Turkish partnership through Acibadem Holding, IHH hopes to tap into the rapidly emerging economies of Central Eastern Europe, Central Asia, and North Africa.

Astra Otoparts has transformed into Indonesia's biggest automotive component company, supported by six business units, 33 subsidiaries, and affiliated companies employing more than 35,000 people. Over the last five years, Astra Otoparts recorded solid financial performance with strong annual sales growth and consistent net income above IDR1 trillion for the past three years.

PORTFOLIO TACTICS

In aggregate, ASEAN countries continued to perform well economically, albeit with some volatility. Political uncertainties remain the wild card in the region, but things are heading in the right direction: stability for Thailand, and pro-business political influence in Indonesia and the Philippines. In the long term, we believe ASEAN markets remain an attractive asset class given their solid fundamentals, decent growth, and compelling valuations (against developed markets). Companies that have solid and long-term growth profiles, such as Consumers (e.g., Kalbe Farma, Unilever Indonesia, and Jollibee Foods), Health Care (e.g., Bangkok Dusit and Hartalega), Building Materials (e.g., Semen Indonesia), and Telcos (e.g., Axiata) remain our picks.

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