



OVERVIEW

July 2014

Global stock markets were mixed in July. The FTSE All World Index declined -1.17% month-over-month, due to weak US stock market performance as investors fret over Argentina's default and ongoing tensions with Russia. The S&P 500 Index declined -1.38% and the Dow Jones Industrial Average declined -1.44% for the month, reducing their year-to-date gains to 5.66% and 1.20%, respectively. The MSCI Emerging Markets Index, however, bucked the trend by gaining 1.93% over the month. In line with the Emerging Markets Index, the ASEAN stock markets moved higher, with the Dow Jones ASEAN Islamic Total Return Index gaining 2.71% over the month. Year-to-date, the index has gained 14.02%.



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Malaysia

Foreign reserves remained steady at US\$131.9 billion on 14 July, matching the level registered on 30 June, due to a return of foreign capital flows entering the local bond and equity markets. Foreign investors purchased RM46.2 million worth of equity in the first half of July. Current reserves increased to RM423.8 billion, which is sufficient to finance 8.9 months of retained imports and 1.3 times the short-term external debt. Inflation, meanwhile, saw an uptick to 3.3% year-over-year in June, due to a broad-based rise in prices. Amid a strong growth outlook, increased inflation risk, and concerns over the build-up of financial imbalances, Bank Negara Malaysia raised the overnight policy rate by 25 basis points to 3.25% on 10 July, marking the first interest rate hike since May 2011.

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Indonesia

In a closely-fought presidential election, Joko "Jokowi" Widodo won with a 6% margin, in line with the quick-counts data. He won in 23 of Indonesia's 33 provinces, giving the new president a strong mandate. As a result, the stock market in Indonesia rallied, rising 4.5% for the month. Foreign investors were the net buyers, purchasing US\$1.1 billion of equity in July. Meanwhile, GDP growth inched down to 5.1% year-over-year from 5.2% in the first quarter, attributed to slower domestic demand as government consumption and investment slowed. Exports fell 1.0% year-over-year in the second quarter, but imports contracted even faster, leading to higher net exports during the quarter.

Philippines

Inflation rose to 4.9% in July, higher than the 4.6% consensus forecast, driven by higher food prices as weather disturbances reduced supply. With inflation looking likely to advance further, the Bangko Sentral ng Pilipinas has shifted from liquidity management to inflation management. The overnight borrowing rate was raised 25 basis

Market Indicators	Current Value	1 Month	YTD	1 Year
FBM EMAS Shariah (RM)	13,384	0.16% ▲	4.17% ▲	11.19% ▲
FBM KLCI (RM)	1,871	-0.48% ▼	1.89% ▲	8.84% ▲
S&P 500 (US\$)	3,503	-1.38% ▼	5.66% ▲	16.94% ▲
Dow Jones Industrial Average (US\$)	16,563	-1.44% ▼	1.20% ▲	9.39% ▲
FTSE All World (US\$)	279	-1.17% ▼	5.29% ▲	16.61% ▲
MSCI All Country World Index	423	-1.17% ▼	5.28% ▲	16.62% ▲
MSCI Emerging Markets (US\$)	444	1.93% ▲	8.19% ▲	15.32% ▲
Dow Jones ASEAN Islamic (US\$)	2,519	2.71% ▲	14.02% ▲	4.34% ▲

	Current	1 Month Ago	1 Year Ago
Ringgit per US\$	3.21	3.21	3.25
Crude oil (US\$)	\$98.17	\$105.37	\$105.03
Crude palm oil (RM)	RM 2,328	RM 2,448	RM 2,293

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points to 3.75%, but the reserve requirement rates were held at 20%. Meanwhile, a PHP2.6 trillion national budget for 2015 was submitted for Congress' approval, representing a 15.1% increase from last year. Foreign fund flow was negligible, as the net flow to equity was only US\$1.26 million for the month.

Singapore

The economy grew 2.1% year-over-year in the second quarter, slower than the 4.7% in the first quarter, affected by a slide in manufacturing activity resulting from lower electronics and transport engineering output. On a seasonally-adjusted quarter-on-quarter basis, GDP contracted 0.8%. In July, manufacturing PMI improved, surpassing expectations to rise to 51.5, buoyed by an increase in new orders and higher production.

Thailand

Economic data was mixed for the month. Domestic demand weakened, with the Private Consumption Index falling 1.1% year-over-year in June. Farm income and the tourism sector also fell 5% and 24.4%, respectively, during the same period. Exports, however, rose 3.9% on better exports for agriculture and industrial products. Despite the lackluster economic data, foreign investors were net buyers for the month, pouring US\$456 million into the Thai equity market, showing their optimism over the end of political impasse after the military coup.

COMPANY REVIEW

Kalbe Farma (KLBF IJ) posted a solid 2Q with revenue rising 10%, driven by higher sales for prescription, consumer health, and nutritional products. Net profit, however, grew more slowly at 4.6%, affected by the weakening Indonesian rupiah that depressed margins.

PTT Exploration and Production (PTTEP TB) posted a solid operating result in 2Q, with core earnings beating consensus by 4%, driven by higher average selling price and volume.

PORTFOLIO TACTICS

With the conclusion of the presidential election in Indonesia and the end of political impasse in Thailand, the concern over political instability will ease, painting a positive outlook for ASEAN. The US economy continues to strengthen with robust job creation, while China has shown signs of improvement following a slew of stimulus measures introduced by the government. Therefore, ASEAN markets should continue to perform well. We remain selective in picking stocks, focusing on companies that have solid and long-term growth profiles, such as Consumers (e.g., Universal Robina and Jollibee Foods), Health Care (e.g., Bangkok Dusit and Bumrungrad), Building Materials (e.g., Semen Indonesia) and Telcos (e.g., Advanced Info Service).

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