SATURNA
SATURNA SDN BHD (342171-V)

MARKET REVIEW ASEAN

OVERVIEW

September 2015

Padharmendren Annadorai
Equity Analyst

Global stock markets continued their decline in September, ending the third quarter on a volatile note driven by an uncertain US Federal Reserve Bank, the ongoing global commodities rout, and weakness in China and across the broader emerging markets. At its September meeting, the Fed decided to postpone raising interest rates again, citing concerns over weak overseas economies. While perhaps intended to soothe the markets, the Fed's decision brought additional volatility instead.

The prolonged fall in global energy and metal prices caused partly by the slowdown in China, the world's biggest consumer of metals and other resources, hit home for equities recently as investors sold off commodity giant Glencore – some 30% in one day – highlighting nervousness over its sizable leverage.

Weakening commodity markets also continue to impact currencies of countries that rely heavily on energy or raw material exports. The Malaysian ringgit fell against the US dollar for most of the quarter, reaching its lowest level since the depths of the Asian financial crisis in 1998. Indonesia, the world's biggest exporter of thermal coal, is seeing the rupiah languish near 17-year lows.

Markets were down across the globe in 3Q 2015.

Malaysia

The equity markets in Malaysia saw volatility in line with other regional markets throughout the quarter. News of the government's allocating MYR20 billion to investment entity ValueCap – to support local equities – provided a minor boost to the markets. However, volatility returned after the Fed decided against rate hikes. Adding to market woes, the Wall Street Journal reported that the US Federal Bureau of Investigation (FBI) launched an investigation on allegation of money laundering at Malaysian government-linked fund 1MDB.

Foreign reserves in September remained below the psychologically important US$100 billion mark. The Malaysian ringgit weakened further against the US dollar, declining -14.15% to end the quarter at a 17-year low of 4.39. Foreign net selling continued, totaling MYR18 billion year-to-date. The FBM KLCI gained 0.76% in September but fell -4.31% in the quarter to close at 1,621.04.

Market Indicators	Current Value	1 Month		YTD		1 Year	
FBM EMAS Shariah (RM)	11,889	4.24%	▲	-3.01%	▼	-7.28%	▼
FBM KLCI (RM)	1,621	0.76%	▲	-5.93%	▼	-9.60%	▼
S&P 500 (US$)	3,570	-2.47%	▼	-5.29%	▼	-0.61%	▼
Dow Jones Industrial Average (US$)	16,285	-1.35%	▼	-6.95%	▼	-2.11%	▼
FTSE All World (US$)	252	-3.58%	▼	-6.46%	▼	-5.97%	▼
MSCI All Country World Index (US$)	382	-3.58%	▼	-6.62%	▼	-6.11%	▼
MSCI Emerging Markets (US$)	339	-3.01%	▼	-15.47%	▼	-19.28%	▼
Dow Jones ASEAN Islamic (RM)	8,062	-0.29%	▼	-0.20%	▼	0.23%	▲
Jakarta Composite Index (RM)	4,224	-5.72%	▼	-12.59%	▼	-30.22%	▼
Philippine Stock Exchange Index (RM)	6,894	2.07%	▲	16.38%	▲	-7.24%	▼
Straits Times Index (RM)	2,791	-0.95%	▼	-0.45%	▼	-21.11%	▼
Stock Exchange of Thailand (RM)	1,349	0.84%	▲	5.16%	▲	-21.74%	▼

	Current	1 Month Ago	1 Year Ago
Ringgit per US$	4.39	4.18	3.28
Crude oil (US$)	$ 45.09	$ 49.20	$ 91.16
Crude palm oil (RM)	RM 2,306	RM 1,928	RM 2,232

Indonesia

The falling rupiah continues to be a concern for the Indonesian economy on worries of escalating inflation. Bank Indonesia in

Continued on next page.

Saturna Sdn Bhd (342171-V) Suite 5-03, 5th Floor, Menara Atlan 161B, Jalan Ampang 50450 Kuala Lumpur Malaysia
Phone: 603 2164 5303 Fax: 603 2164 5308 ***www.saturna.com.my***

late September introduced new regulation to contain the sliding rupiah, but its effect is yet to be seen. In addition, the government announced several measures to stimulate growth.

Currency weakness flowed over to the equity markets as foreign investors sold off US$498 million of Indonesian equities in September, bringing the year-to-date total to US$2.0 billion. The Jakarta Composite Index fell -6.25% in September and -13.84% in the quarter to close at 4,223.91. In ringgit terms, the index fell -5.72% in the month and -7.93% for the quarter.

Philippines

As a net importer, the Philippines continues to benefit from lower crude oil prices. Lower oil prices translated into a lower headline inflation rate of 0.6% in August, well below the 2% to 4% target set by the central bank. Infrastructure spending rose 93% year-over-year to PHP38 billion in July, bringing the seven-month cumulative figure to PHP246 billion, 22% higher than in 2014.

In late September, Fitch followed the lead of the other two top rating agencies in upgrading the Philippines' credit outlook from stable to positive, in recognition of improved governance standards under President Aquino's administration.

The Philippine Stock Exchange Index closed at 6,893.98 points, down -2.84% for September and down -8.34% for the quarter. In ringgit terms, the index rose 2.07% in the month and rose 3.56% for the quarter.

Singapore

Following a landside victory in recent elections, the ruling People's Action Party (PAP) has the mandate to address Singapore's slowing economic growth. The PAP just reshuffled its cabinet, bringing in experienced officials to guide the economy through a challenging period.

Notably, manufacturing PMI decreased to 49.3 in August from 49.7 in July, the lowest since December 2012, as export orders fell. Further, core inflation trended downward to 0.2% in August. To prevent deflation, the Monetary Authority of Singapore may initiate further monetary easing, which could result in an even weaker Singapore dollar.

Stocks in Singapore did not escape the broad-based selldown as the Straits Times Index closed down -4.41% in September and -14.69% in the third quarter. In ringgit terms, the index fell -0.95% in the month and -5.44% for the quarter. We believe that Singapore stocks could perform well over the medium to long term as valuations remain highly attractive.

Thailand

The Stock Exchange of Thailand Index closed at 1,349.0 points, down -2.06% for the month and down -9.34% for the quarter. In ringgit terms, the index rose 0.84% in the month but fell -1.40% for the quarter. Thailand's central bank recently slashed its 2015 growth forecast for the Thai economy for the third time this year to 2.7 percent. More importantly, Thailand's export growth has dropped month after month, and the country's manufacturing index has continued to plummet as well. Weakening emerging markets negatively impact many of Thailand's most important export markets. In addition, years of political turmoil, uncertainty about the coup government, and a lack of investment in education and rural infrastructure continue to debilitate the Thai economy.

PORTFOLIO TACTICS

We expect weakness in China and across the commodities spectrum to continue into the fourth quarter. Naturally, the ASEAN economies, which rely heavily on both Chinese and commodity exports, will likely weaken further. Moreover, the Fed could raise interest rates sometime this year, which may put further pressure on emerging market economies.

As the ASEAN countries embark on stimulus programs to propel their economies, we believe companies tied to infrastructure growth could benefit over the long run. Further, we expect the ASEAN telecommunications companies (e.g., Singtel) to outperform given their high dividend yields and stable cash flows.

Vol. 6 No. 9

Saturna Sdn Bhd (342171-V) Suite 5-03, 5th Floor, Menara Atlan 161B, Jalan Ampang 50450 Kuala Lumpur Malaysia
Phone: 603 2164 5303 Fax: 603 2164 5308
www.saturna.com.my