SATURNA
SATURNA SDN BHD (342171-V)

MARKET REVIEW MALAYSIA

November 2011

OVERVIEW

The Malaysia stock market ended the month with small declines despite high volatility.

Malaysia's Foreign Exchange Reserves stood at US$135.0bn at the end of November, a slight increase over the prior month. Inflation was steady at 3.4% year-over-year in October, unchanged from the prior month. Bank Negara held the Overnight Policy Rate at 3.0%, while other central banks continued to ease. Industrial production declined 1.3% YOY in October after rising 2.6% in the previous month.

In the U.S., the unemployment rate fell to 8.6% (October: 9.0%), which was a large surprise, although it appeared to result from the attrition of job seekers rather than the pace of hiring. Industrial output registered an increase of 0.7% month-over-month in October. Retail sales increased 0.5% in October from the prior month, and there is early optimism about a strong opening to the Christmas shopping season in the U.S. Inflation turned negative in October (-0.1% m-o-m). Existing homes sold at an annual rate of 4.97 million in October (September 4.90 million) while new homes sold at a 307 thousand annual rate in October (versus 303 thousand in September, which was revised lower from 313 thousand). Republican Party primary races in January will kick off the presidential election season in the U.S.

Bryce Fegley, CFA
President

A consensus is emerging that the U.S. economy will not suffer a double dip.

Globally, central banks continued the recent trend toward easing policy: Thailand cut to 3.25% (from 3.50%) to cope with the economic damage of flooding; Bank of Indonesia made a further surprise rate cut to 6.00% (from 6.50%) in November; Australia eased to 4.25% (versus 4.50%) on 6 December; and China eased bank reserve requirements by 50 basis points on the same day that global central banks coordinated to lower dollar swap rates by 50 basis points to ease dollar funding conditions outside U.S. at beginning of December. Global equities experienced another month of volatility despite ending close to where they began the month. Concern mounted as yields on Italy's 10-year bonds were driven above 7%, before renewed hopes for a solution to the European debt crisis appeared at the end of the month. A consensus is emerging that the U.S. economy will not suffer a double dip, which is key to avoiding the scenario of euro-zone contagion leading to global recession.

Market Indicators	Current Value	1 Month	YTD	1 Year
FBM EMAS Shariah	RM 9,848	-0.39% ▼	0.93% ▲	3.77% ▲
FBM KLCI	RM 1,472	-0.61% ▼	0.30% ▲	3.05% ▲
S&P 500	US$1,247	-0.22% ▼	1.06% ▲	7.83% ▲
Dow Jones Industrial Average	US$12,046	1.18% ▲	6.70% ▲	12.38% ▲
FTSE All World	US$197	-3.03% ▼	-6.99% ▼	-0.06% ▼
MSCI Emerging Markets	US$928	-6.61% ▼	-17.38% ▼	-11.41% ▼

	Current	1 Month Ago	1 Year Ago
Ringgit	3.18	3.07	3.16
Crude oil	US$100.36	US$93.19	US$84.11
Crude palm oil	RM 3,000	RM 2,942	RM 3,506

MARKET REVIEW

Quarterly earnings reports had a mixed tone. Malaysia Marine and Heavy Engineering (MMHE) earned 5 sen per share in Q3 with solid operating margin, while reporting revenue below expectations amid growing concern over its order book. IOI Corporation reported EPS of 4 sen, blaming the big drop versus a year ago on a mark-to-market loss on non-ringgit borrowings. Petronas Chemicals Group (PCHEM) posted EPS of 14 sen, but hinted at concern over availability of methane supplies. Meanwhile, Sime Darby's fiscal Q1 2012 EPS of 18.1 sen exceeded expectations for the third consecutive quarter, and UEM Land's EPS of 1.3 sen tripled their year-ago results.

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PORTFOLIO TACTICS

The high levels of consumer and government debt and other obligations (i.e., unfunded state pensions) in the developed world are likely to constrain demand and force ongoing deleveraging and political reform for at least the next several years. The other "solution" to high debt levels in the past has been inflation. While inflation is a possibility, past indexing of state-provided benefits to price/wage levels would suggest that political reform is still a necessary complement to either deleveraging or inflation. In any case, we favor businesses with strong balance sheets and competitive advantages that can improve amid weak economic conditions, as well as raise prices and maintain margins during inflationary environments.

We also expect a gradual, though possibly rough, transition in China away from intense capital investment and toward consumption growth. As such, we favor the companies producing "soft" resources that flow through an economy (e.g., oil & gas, thermal coal, agricultural goods) as opposed to the "hard" resources (e.g., aluminum, iron ore, cement, coking coal).

Sector/stock preferences are Plantations (Sime and IOI), Oil & Gas (Dialog), Consumers (UMW), Medical (KPJ, Top Glove), Property (UEM Land), and Telecommunications (Maxis).

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