SATURNA
SATURNA SDN BHD (342171-V)

MARKET REVIEW MALAYSIA

OVERVIEW

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***Bryce Fegley**, CFA*
President

Global investors suddenly embraced risk with the reset of the calendar, propelling stock markets to one of the strongest opening months in history. Malaysia stock indexes lagged behind global benchmarks after their out-performance in 2011. FBM EMAS Shariah returned 2.01%, ending at RM 10,499. FBM KLCI declined 0.59% to end at RM 1,521. In contrast, MSCI Emerging Markets surged 11.30% in January; FTSE All World Index rose 6.00%; Dow gained 3.55%; and S&P 500 added 4.48%.

Malaysia's Foreign Exchange Reserves declined again to US$128.9 bn. Inflation eased to 3.0% year-over-year in December, from 3.3% in November. Bank Negara maintained its Overnight Policy Rate at 3.0%.

The ringgit strengthened slightly to 3.04/USD from 3.17 at end of December. Crude palm oil eased to RM 3,075 per tonne, from RM 3,175 at end of December. Crude oil was little changed at US$98.48 from $98.83 at year end.

Investors' willingness to embrace risk seems to have turned on a dime.

In the U.S., the unemployment rate fell to 8.3% (November 8.5%), and hiring exceeded expectations with an increase of 243,000 jobs. While the unemployment rate has fallen for five straight months, from 9.1% in August, the U.S. civilian labor participation rate has also declined from 64.1% in August to 63.7% in January, which suggests that much of the improvement in the unemployment rate is a result of the attrition of former job seekers. Industrial output rebounded by 0.4% month-over-month in December, from a decline of 0.2% in November, whilst retail sales increased 0.1% month-over-month in January. CPI was flat for a second month in December. Exports weakened further to 6.1% year-over-year in December, hitting a new 7-month low.

Globally, central banks continued to maintain rates while monitoring the results of prior rate cuts. Late in 2011, however, the European Central Bank made significant loans (nearly US$500 billion) available to European banks for terms of up to three years (Long Term Refinancing Operations), which seems to have had the desired impact of reducing shorter-term funding uncertainty. Yields on Italian 10-year bonds have eased to below 6% after hovering around 7% over the previous months. Standard & Poor's downgraded the formerly AAA credit ratings of France and Austria after a string of downgrades in January, leaving Germany the only country in the Eurozone to have stable AAA grade. France and Austria were cut one level to AA+ from AAA and face the risk of further downgrades.

The World Bank cut its global economic growth projection to 2.5% from a June estimate of 3.6%, the biggest cut in more then three years, as recession in the Eurozone threatens to spread to sensitive emerging markets such as China, India, and Mexico. However, the projection for 2013 is more optimistic, at 3.1%.

Market Indicators	Current Value	1 Month	YTD	1 Year
FBM EMAS Shariah	RM 10,499	2.01% ▲	2.01% ▲	6.26% ▲
FBM KLCI	RM 1,521	-0.59% ▼	-0.59% ▼	3.69% ▲
S&P 500	US$1,312	4.48% ▲	4.48% ▲	4.22% ▲
Dow Jones Industrial Average	US$12,633	3.55% ▲	3.55% ▲	9.12% ▲
FTSE All World	US$208	6.00% ▲	6.00% ▲	-3.12% ▼
MSCI Emerging Markets	US$1,019	11.30% ▲	11.30% ▲	-6.49% ▼

	Current	1 Month Ago	1 Year Ago
Ringgit	3.04/US$	3.17/US$	3.06/US$
Crude oil	US$98.48	US$98.83	US$92.19
Crude palm oil	RM 3,075	RM 3,175	RM 3,840

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COMPANY REVIEW

Tenaga reported its third quarterly loss in a row (-0.04 sen), and said nothing about resolution of its fuel supply problems, other than its expectation for business to "remain challenging." The company also noted that continuing use of distillates could shorten the lifespan of its generating plants.

PORTFOLIO TACTICS

Investors' willingness to embrace risk seems to have turned on a dime with the new year. In particular, investors have embraced assets that hold the promise for a relatively attractive yield in comparison to the paltry 1-2% coupons available from long-term government bonds in the U.K., Germany, U.S., and Japan. The Australian dollar, for example, rose from US$1.02 to $1.06 in January. With short-term rates at 4.25%, or 4% above U.S. rates, investors have again bid the Australian dollar well above its purchasing power parity (which we estimate to be US$0.75-0.80) in order to capture the yield. The rising exchange rate only adds gravy to that yield differential, but we must caution that excessive deviations from purchase power parity (much less continued appreciation) are unsustainable over the longer term. Asian emerging market currencies like ringgit, rupiah, and baht, have likewise recovered much of what was lost in the second half of 2010 as their interest rates attract foreign investors back into their markets. We continue to favor companies that pay reasonable dividends and have long-term prospects to increase their dividends, and are glad to see strong performance from a number of our holdings.

Sector/stock preferences remain Plantations (e.g. Sime, IOI, and United Plantations), Oil & Gas (e.g. Dialog), Consumer Staples (e.g. UMW), Medical (e.g. KPJ, Top Glove), Property (e.g. UEM Land) and Telecommunications (e.g. Maxis).

Saturna Sdn Bhd (342171-V) Unit B10-1, Block B, Level 10, Megan Avenue II 12 Jalan Yap Kwan Seng 50450 Kuala Lumpur Malaysia
Phone: 603 2164 5303 Fax: 603 2164 5308 ***www.saturna.com.my***