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MARKET REVIEW MALAYSIA

OVERVIEW

May 2012

Stock market performance globally was subdued in May. In local currency terms, the Malaysian stock market bucked the trend, with the FBM KLCI Index rising 1.1% whilst the FBM EMAS Shariah Index rose 0.63%, bringing their year to date gains to 4.93% and 5.42%, respectively. The FTSE All World Index declined 8.89%, shaving year to date performance to 1.00%. U.S. benchmarks weakened, with the S&P 500 declining 6.01% whilst the Dow declined by 5.82%, bringing year to date returns for these indices to 5.16% and 2.67%, respectively. The MSCI Emerging Markets Index continued its downward trend, falling 11.19% in May, bringing year to date performance down to 0.06%.

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Malaysia's Foreign Exchange Reserves were marginally higher at US$136bn at the end of May. Inflation continued to moderate, dropping to 1.9% in April from 2.1% in March. Headline inflation is expected to moderate over the remainder of the year, although in its monetary policy statement, the Malaysian central bank noted there might be possible upside risks to inflation if global energy and commodity prices rise. Bank Negara left the Overnight Policy Rate unchanged at 3% for the sixth consecutive month, citing risks to global growth and the potential impact on the Malaysian economy.

Slow U.S. hiring, weakening signals from China, and Euro Zone concerns dampened optimism in May.

The Malaysian ringgit depreciated to US$3.18 from US$3.03 at the end of April. Crude palm oil prices continued to decline, ending the month at RM 3,070 per tonne after reaching a 1-year high of RM 3,655 per tonne on 10th April. The price of Crude oil fell to US$86.53 at the end of May, coming down from US$104.87 in April.

U.S. employment data was softer, with non-farm payrolls rising by a slower than expected 115,000 in April. Private payroll data released at the end of May reported a small pick up of 133,000 jobs, which was below expectations of an increase of 148,000 jobs, indicating that recovery in hiring activity remains slow. First quarter GDP was revised downwards to 1.9% from 2.2%, led by downward revisions to consumer spending and inventories. Same store sales grew by 0.8% in April, which was slower than expected, although this could be attributed to unseasonably warm weather and an earlier Easter holiday this year.

Concerns about the impact of prolonged pain in Europe continued to dominate global financial markets in May, as opinions remained divided on how to promote growth and relieve financial strain within the European region. Meanwhile, signs of moderating growth and exports in the Asian region further served to dampen optimism in the outlook for the global economy. In particular, April data pointing towards weaker industrial production and fixed asset investment from China increased concerns of slower growth in the Asian region.

Market Indicators	Current Value	1 Month	YTD	1 Year
FBM EMAS Shariah (RM)	10,717	0.63% ▲	5.42% ▲	6.87% ▲
FBM KLCI (RM)	1,581	1.10% ▲	4.93% ▲	5.46% ▲
S&P 500 (US$)	1,310	-6.01% ▼	5.16% ▲	-0.41% ▼
Dow Jones Industrial Average (US$)	12,393	-5.82% ▼	2.67 % ▲	1.36% ▲
FTSE All World (US$)	196	-8.89% ▼	1.00% ▲	-12.01% ▼
MSCI Emerging Markets (US$)	906	-11.19% ▼	0.06% ▲	-20.13% ▼

	Current	1 Month Ago	1 Year Ago
Ringgit per US$	3.18	3.03	3.01
Crude oil	US$86.53	US$104.87	US$102.7
Crude palm oil	RM 3,070	RM 3,472	RM 3,475

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COMPANY REVIEW

Parkson Retail Asia reported Q3 earnings of SG$9.7m on the back of SG$107m sales. Axiata reported Q1 EBITDA to be 4.1% higher year on year at RM 1.803bn, on track to meet management's guidance for the year.

PORTFOLIO TACTICS

Despite ending marginally higher in May, the Malaysian stock market experienced a significant decline intra-month amid increased speculation that Greece might leave the euro and concerns about the potential impact that could have on the domestic economy and regional trade. The market recovered its losses upon the expectation that Europe and China would take more decisive action to support growth. U.S. company fundamentals remain robust, with GDP data showing that corporate profits rose 14.8% year on year in the first quarter of this year. We continue to position towards Plantations (e.g., Sime and United Plantations), Consumers (e.g., UMW Holdings), Health Care (e.g., KPJ & Top Glove), Technology (e.g., UEM Land) and Telco's (e.g., Axiata).

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