



## OVERVIEW

June 2012

Stock markets rebounded strongly in June after uninspiring performance in May. Malaysian stock indices, however, lagged global benchmarks in the rebound after their out-performance in May. The FBM KLCI Index rose 1.4%, while the FBM EMAS Shariah Index advanced 3.1% in June, bringing their half-year gains to 6.4% and 8.7%, respectively. Meanwhile, the FTSE All World Index surged 5.0% in June, gaining 6.1% for the first half of the year. U.S. benchmarks rose sharply in June, with both the S&P 500 and Dow gaining 4.1%, bringing half-year returns for these indices to 9.5% and 6.8% respectively. The MSCI Emerging Markets Index reversed its previous downward trend to record a 3.9% gain in June, bringing year-to-date performance to 4.0%.



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Malaysia's Foreign Exchange Reserves inched up marginally higher at US\$ 136 billion at 15 June 2012. Headline inflation slowed further to a 23-month low of 1.7% in May from 1.9% in April. Given the fall in oil prices in recent weeks, headline inflation is likely to stay muted. Core inflation also eased to 1.5% from 1.6% in April. On 5 July, the Malaysian central bank decided to retain the Overnight Policy Rate at 3% for the seventh consecutive time amid a subdued external outlook. It expects the economy will continue to be supported by domestic demand and the implementation of Economic Transformation Programme projects. The last policy change was made in May last year.

The Malaysian ringgit was unchanged at 3.18/US\$ at the end of June from the previous month. Crude palm oil prices continued to decline, ending the month at RM 2,992 per tonne after reaching a 1-year high of RM 3,655 per tonne on 10 April. The price of Crude oil fell to \$84.96 a barrel at the end of June from \$86.53 a barrel in May.

In the U.S., the unemployment rate rose to 8.2% (from 8.1% in April), while non-farm payrolls' month-over-month increase moderated to 69,000 from a revised 77,000 in April. Retail sales declined 0.2% month-over-month in May, partly due to a 2.2% drop in gasoline sales. The Manufacturing PMI slipped further to 52.9 in June from 53.9 in May, undershooting consensus' 53.8 estimate. The Consumer Price Index fell 0.3% month-over-month in May, after being unchanged in the previous month.

The decision of the latest European summit to provide funds directly to Spanish banks resulted in equities rallying for a few days before rolling over and surrendering the gains. Bond markets were impressed for a day; while Spanish 10-year bond yields are again flirting with 7%. Repeated European summits have led to repeated policy pronouncements and repeated short-lived rallies in risk assets. Unfortunately, none of the so-called solutions have addressed the underlying issues of over-regulated economies, protected industries and trades, or rigid hiring and firing laws. In short, only a return to growth can solve

**“By itself, easy monetary policy cannot solve underlying solvency or deeper structural problems.”**

— *The Bank for International Settlements*

Market Indicators	Current Value	1 Month	YTD	1 Year
FBM EMAS Shariah (RM)	11,003	3.13% ▲	8.72% ▲	8.49% ▲
FBM KLCI (RM)	1,599	1.45% ▲	6.45% ▲	5.29% ▲
S&P 500 (US\$)	1,362	4.12% ▲	9.49% ▲	5.45% ▲
Dow Jones Industrial Average (US\$)	12,880	4.05% ▲	6.83% ▲	6.63% ▲
FTSE All World (US\$)	205	5.00% ▲	6.05% ▲	-6.22% ▼
MSCI Emerging Markets (US\$)	937	3.90% ▲	3.97% ▲	-15.75% ▼

(As of 30 June 2012)

	Current	1 Month Ago	1 Year Ago
Ringgit per US\$	3.18	3.18	3.02
Crude oil (US\$)	\$84.96	\$86.53	\$95.42
Crude palm oil (RM)	RM 2992	RM 3070	RM 3107

(As of 30 June 2012)

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the European debt morass and Europe has yet to adopt any measures to that end. In its latest annual report The Bank for International Settlements states, *“By itself, easy monetary policy cannot solve underlying solvency or deeper structural problems. Central banks need to recognise and communicate the limits of monetary policy, making clear that it cannot substitute for those policy measures that can address the root causes of financial fragility and economic weakness.”*<sup>1</sup> We couldn’t agree more.

## COMPANY REVIEW

Top Glove reported 3rd quarter earnings of 8.7 sen per share, 45% higher than consensus’ 6.0 sen per share. Meanwhile, Gamuda reported 2nd quarter earnings of 6.65 sen per share, 19% higher than the corresponding period last year.

## PORTFOLIO TACTICS

The Malaysian stock market continued to climb higher during the month amid global uncertainties. Volatility remains as European Union actions to battle the sovereign debt crisis continue. Our stock preferences remain Plantations (e.g., Sime and United Plantations), Consumers (e.g., UMW Holdings), Health Care (e.g., KPJ & Top Glove) and Telecommunications (e.g., Axiata).

<sup>1</sup> BIS 82nd Annual Report. Page 49.

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