



## OVERVIEW

Stock market performance remained positive in December. In local currency terms, the Malaysian stock market was remarkably higher, with the FBM KLCI Index rising 5.03% whilst the FBM EMAS Shariah Index rose 5.49%, for year to date gains of 14.40% and 15.89%, respectively. The FTSE All World Index continued to recover, rising 2.44% and bringing its year to date performance to 17.19%. U.S. benchmarks also continued to slowly rise, with the S&P 500 rising 0.91% whilst the Dow Jones Industrial Average rose by 0.79%, bringing year to date returns for these indices to 16.00% and 10.24%, respectively. The MSCI Emerging Markets Index rose 4.90% over the month, bringing year to date performance to 18.47%.

Malaysia's Foreign Exchange Reserves increased by US\$0.6 billion in December to US\$139.8 billion mainly due to repatriation of export proceeds and some inflows of foreign portfolio funds. For the full year, the foreign exchange reserves rose by US\$6.1 billion in 2012 compared to US\$27.1 billion in 2011. Meanwhile, Malaysian exports figures bounced back to grow by 3.3% year-over-year in November after dropping by -3.3% year-over-year in October and compared to +2.6% year-over-year in September. The exports figure in November was better than the median estimate of 2.3% but was still weak due to the challenging external economic environment. The improving numbers were mainly due to a rebound in the exports of electrical and electronics (E&E) products as well as better export numbers in non-E&E manufactured goods.

In terms of inflation, Malaysia's headline Inflation remained unchanged at 1.3% year-over-year in November, which was marginally lower than the median estimate of 1.4% year-over-year. This year, we expect inflation to inch up to 2.0% as the market expects there will be a fuel price hike post election, which will trigger most of the consumption goods' prices to rise. On the monetary side, we expect the central bank to maintain the current Overnight Policy Rate at 3.0% as the expected inflation rate of 2.0% is still manageable.

The Malaysian ringgit marginally depreciated, reaching 3.06 per USD in December from 3.04 at the end of November. Crude palm oil prices continued to decline in December from RM 2,424 in November to its lowest one-year price on December 13 of RM 2,303. Later, it rebounded back to RM 2,438 on December 31 in anticipation of a better economic outlook in 2013. However, the figures are still well below the one-year high of RM 3,655 per tonne on 10th April. On the other hand, global crude oil prices climbed higher to US\$91.82 at the end of December from \$88.91 in November, but still remained below the high for this year of \$109.49 in February. Going forward, we expect global crude oil prices to remain at this current level as we do not expect any further extraordinary demand due to the weak global macro conditions.

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December 2012



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**We anticipate inflation to inch up based on expectations of rising fuel prices.**

Market Indicators	Current Value	1 Month	YTD	1 Year
FBM EMAS Shariah (RM)	11,521	5.49% ▲	15.89% ▲	15.89% ▲
FBM KLCI (RM)	1,689	5.03% ▲	14.40% ▲	14.40% ▲
S&P 500 (US\$)	1,426	0.91% ▲	16.00% ▲	16.00% ▲
Dow Jones Industrial Average (US\$)	13,104	0.79% ▲	10.24% ▲	10.24% ▲
FTSE All World (US\$)	224	2.44% ▲	17.19% ▲	17.19% ▲
MSCI Emerging Markets (US\$)	1,055	4.90% ▲	18.47% ▲	18.47% ▲

  

	Current	1 Month Ago	1 Year Ago
Ringgit per US\$	3.06	3.04	3.17
Crude oil (US\$)	\$91.82	\$88.91	\$98.83
Crude palm oil (RM)	RM 2,320	RM 2,145	RM 3,175



U.S. economic growth is likely to hold up at a sub-par level as it averted the fiscal cliff on January 1, 2013. The housing industry recovered as home sales numbers and prices bounced, aided by record low mortgage rates. The unemployment rate improved as the economy continues to create jobs. As it stands, real personal consumption expenditure strengthened to 2.5% year-over-year in November from a low of 0.8% year-over-year in August. Meanwhile, the Fed announced recently its intent to purchase US\$85 billion of bonds to drive down long-term borrowing costs to stimulate economic growth. The Fed also noted that it will keep its key policy rate at 0-0.25% at least until the unemployment rate drops below 6.5% or inflation rises to 2.5%.

In China, the economy shows signs of recovery as the country's retail sales improved to 14.9% year-over-year growth in November compared to 14.5% in October. Similarly, China's industrial production figures went up for the third consecutive month in November while the Purchasing Managers Manufacturing Index indicated that growth continued to expand in December. We see these as a result of China's earlier monetary policy easing to twice reduce the borrowing cost by 56 basis points during June and July 2012 and three cuts to the Statutory Reserves Requirements (SRR) since November 2011. The policy easing also helped China's credit growth with new loans growing by 13.3% year-over-year in January through November 2012 period compared to two straight years of contraction in 2011 and 2010.

The Euro-debt crisis has stabilized after the European Central Bank (ECB) agreed on September 6, 2012, to purchase government bonds through Outright Monetary Transactions (OMT) along with a successful debt buy-back as well as the disbursement of bailout funds to Greece on December 13. Currently, Spain has yet to decide on whether to seek full sovereign bailout from the Troika in order to trigger the ECB's OMT. Still, the eurozone economy remained weak in Q4 2012. However, business and consumer confidence were seen improving in December.

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## COMPANY REVIEW

Axiata Group's 9M12 core net profits of RM 2.13 billion exceeded full-year market consensus target by 6% year-over-year. EBITDA margins were also higher than expected due to micro segmentation marketing efforts, which helped to reduce administration expenses.

UMW's 9M12 net profits of RM 743.4 million were above market expectations. Both its yearly and quarterly results were higher than the previous results of 77% year-over-year and 33% year-over-year, respectively. All segments recorded improvements. Profit-before-tax margins improved from 12.3% in Q2 2012 to 15.1% in Q3 2012.

## PORTFOLIO TACTICS

The local bourse hit its highest level on December 31 of 1,688.95 points as the market expected that the U.S. fiscal cliff issue would be resolved, while Europe slowly recovers. However, we noted that this positive growth in December was just a temporary sentiment as the election risk still persists. Malaysia's economic growth outlook remains tempered by the uncertain external macroeconomic environment, although domestic public spending should provide support in the period leading to the country's general election. We continue to position towards Consumers (e.g., UMW Holdings), Health Care (e.g., KPJ & Hartalega) and Telcos (e.g., Axiata).