SATURNA
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MARKET REVIEW MALAYSIA

## OVERVIEW

**June 2013**

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Global stock markets plunged in June. The FTSE All World Index dropped -2.86% month-over-month due to weak US performance. The S&P 500 and Dow Jones Industrial Average fell -1.34% and -1.25%, respectively. Year-to-date, however, both indices are still higher by 13.82% and 15.20%, respectively. Meanwhile, the MSCI Emerging Markets Index tumbled -6.37% over the month, dragged down by China and Brazil. The Malaysian stock market, however, bucked the trend. The FBM KLCI Index rose 0.45% whilst the FBM EMAS Shariah Index declined mildly at -0.58%. Year-to-date, both indices have gained 6.95% and 8.73%, respectively.

### Malaysia

Malaysia's Foreign Exchange Reserves were marginally lower at US$140.8 billion as at June 14. Meanwhile, inflation inched up further to 1.8% in May, the highest in more than a year, led by faster increases in the cost of housing, utilities, and education. While higher, inflation remains low and is not expected to pose a threat to the economy. On May 9, Malaysia's central bank, Bank Negara Malaysia, opted to maintain the Overnight Policy Rate at 3.0%.

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The Malaysian ringgit weakened to 3.16 per USD at the end of June due to a reversal of short-term capital flows following US Federal Reserve Chairman Ben Bernanke's comments that the Fed may begin tapering bond-buying stimulus later this year. The crude palm oil price was little changed at RM 2,337 per tonne from RM 2,360 per tonne a month ago, supported by better inventory data. The price of crude oil, meanwhile, rebounded to US$96.56 a barrel at the end of June from US$91.97 a month ago.

### United States

Fed Chairman Bernanke laid out a likely road map for winding down the central bank's stimulus policies starting later this year, provided the job market and economy continue to improve. Having said that, the Fed has committed to maintaining the accommodative monetary policy of 0% to 0.25% interest rates as long as the unemployment rate remains above 6.5% (it was 7.6% in May).

### China

China's manufacturing PMI has fallen below 50 for two consecutive months, indicating contraction of its manufacturing sector. There are also growing strains in its financial sector due to overextended bank lending and a sharp increase in shadow banking. This has caused the People's Bank of China to try taming informal lending by tightening money supply, leading to a "cash crunch." The overnight interest rate at which banks borrow from each other spiked to 13.44% on June 20, while an intraday gauge of overnight purchase rates hit a record of 30%.

| Market Indicators | Current Value | 1 Month | YTD | 1 Year |
|---|---|---|---|---|
| FBM EMAS Shariah (RM) | 12,295 | -0.58% ▼ | 8.73% ▲ | 15.90% ▲ |
| FBM KLCI (RM) | 1,774 | 0.45% ▲ | 6.95% ▲ | 14.94% ▲ |
| S&P 500 (US$) | 1,606 | -1.34% ▼ | 13.82% ▲ | 20.60% ▲ |
| Dow Jones Industrial Average (US$) | 14,910 | -1.25% ▼ | 15.20% ▲ | 18.87% ▲ |
| FTSE All World (US$) | 234 | -2.86% ▼ | 6.34% ▲ | 17.57% ▲ |
| MSCI Emerging Markets (US$) | 381 | -6.37% ▼ | -9.57% ▼ | 6.84% ▲ |

| | Current | 1 Month Ago | 1 Year Ago |
|---|---|---|---|
| Ringgit per US$ | 3.16 | 3.10 | 3.18 |
| Crude oil (US$) | $ 96.56 | $ 91.97 | $ 84.96 |
| Crude palm oil (RM) | RM 2337 | RM 2360 | RM 2992 |

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A month ago, the overnight interest rate was less than 4.0%. While the month-long liquidity squeeze in China's interbank lending market has shown signs of easing, uncertainties remain.

### Europe

Preliminary PMI for the manufacturing sector inched higher to 48.7 in June, from 48.3 in May, and 46.7 in April. This marked the highest rate in 16 months and the second consecutive month of improvement. "Improvement," however, is a relative term as the PMI is a diffusion index measuring conditions versus the previous month. Any reading below 50 indicates continued deterioration. According to Markit, an international financial information services provider, the manufacturing sector in the eurozone is showing signs of stabilizing, and on this trajectory a return to growth for the sector is in the cards for the third quarter.

### Japan

Industrial production growth accelerated to 2.0% month-over-month in May, the most since 2011, after rising 0.9% in April and compared with an increase of 0.1% in March. This was significantly higher than the median estimate of a 0.2% gain, suggesting that "Abenomics" has led to improving business sentiment and that the weaker yen is underpinning increased exports for manufactured products, although that has yet to appear in Japan's trade figures.

## COMPANY REVIEW

BIMB reported strong quarterly results, with total net income and net profit growing 13.6% and 14.2%, respectively, year-over-year. Loan growth has been sustained at 36.7% year-over-year, while asset quality continued to strengthen.

## PORTFOLIO TACTICS

The local bourse ended the month marginally higher despite a confluence of negative developments in global capital markets. The FBM KLCI slid 2.6% over a week to close at 1,728.64 points on June 25 before some bargain-hunting activities surfaced. The stock market will remain volatile, given: 1) concerns about the Fed's tone and anticipation of actual tapering, and 2) concerns about the slowing growth and credit crunch in China which are likely to continue haunting the market. Being value investors, we will make use of market opportunities to collect good quality companies with resilient earnings. We continue to position towards Consumers (e.g., Unilever Indonesia and UMW Holdings), Health Care (e.g., KPJ and Hartalega), Construction (e.g., Gamuda) and Telcos (e.g., Axiata).





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