OVERVIEW

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Global stock markets bounced back in July after a sell-off in June. The FTSE All World Index rose 4.79% month-over-month, helped by robust US performance. The S&P 500 and Dow Jones Industrial Average gained 5.09% and 4.12%, respectively. Year-to-date, the two indexes have gained 19.61% and 19.95%, respectively. Meanwhile, the MSCI Emerging Markets Index advanced 1.05% over the month. In tandem with regional markets, the Malaysian stock market moved higher for the month, albeit at a slower pace. The FBM KLCI Index rose 0.02% whilst the FBM EMAS Shariah Index gained 0.78%. Year-to-date, the indexes have gained 6.98% and 9.57%, respectively.

Malaysia

Malaysia's Foreign Exchange Reserves were marginally lower at US$137.9 billion as of July 15. The reserves position is sufficient to finance 9.6 months of retained imports and is 4.3 times the short-term external debt. Inflation was unchanged at 1.8% year-over-year in June as demand price pressures were contained, with core inflation edging down to 1.1% from 1.2% in May. Given low inflation, Malaysia's central bank, Bank Negara Malaysia, has opted to maintain the Overnight Policy Rate at 3.0%.

Following Fitch Ratings' cut on the nation's credit outlook, the Malaysian ringgit weakened to 3.24 per USD from 3.16 at the end of June. The depreciation was compounded by weaker export figures and a continued reversal of short term capital flows. The crude palm oil price declined to RM2,293 per tonne from RM2,337 per tonne a month ago, as demand for crude palm oil was weak. The price of crude oil, however, rose to US$105.03 a barrel at the end of July from US$96.56 a month ago.

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United States

Economic recovery continues to gain traction. In 2Q13, GDP growth accelerated to 1.7% quarter-over-quarter (annualized growth) from the first quarter growth of 1.1%, supported by a strong upturn in capital investment amid steady consumer spending. The employment market is also improving with continued job creation. In July, the unemployment rate inched lower to 7.4% after remaining stable at 7.6% in May and June, partially due to a lower participation rate. New home sales rose 8.3% month-over-month in July, while existing home sales fell on tight supply.

Market Indicators	Current Value	1 Month	YTD	1 Year
FBM EMAS Shariah (RM)	12,374	0.78% ▲	9.57% ▲	13.81% ▲
FBM KLCI (RM)	1,773	0.02% ▲	6.98% ▲	12.65% ▲
S&P 500 (US$)	1,686	5.09% ▲	19.61% ▲	24.99% ▲
Dow Jones Industrial Average (US$)	15,500	4.12% ▲	19.95% ▲	22.36% ▲
FTSE All World (US$)	245	4.79% ▲	11.43% ▲	21.47% ▲
MSCI Emerging Markets (US$)	385	1.05% ▲	-8.62% ▼	1.95% ▲

	Current	1 Month Ago	1 Year Ago
Ringgit per US$	3.24	3.16	3.18
Crude oil (US$)	$ 105.03	$ 96.56	$ 84.96
Crude palm oil (RM)	RM 2293	RM 2337	RM 2992

China

Manufacturing managed to remain expansionary in July, with the PMI rising to 50.3 in July from 50.1 a month ago. Non-manufacturing PMI also rose to 54.1 in July from 53.9 in June. Despite showing resilience, the economy in China is likely to head for slower growth, as flagging foreign and domestic demand may weigh on exports

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and factory production. New aggregate financing fell to CNY1.04 trillion in June from CNY1.19 trillion in May and a high of CNY2.55 trillion in March, as China appeared to have made progress in curbing shadow banking activities.

Europe

Preliminary PMI for the manufacturing sector rose to 50.1 in July, from 48.8 in June and 48.3 in May. This marked the first expansion since June 2011 and the highest rate in 24 months. The PMI for the services sector also improved to 49.6 in July, reaching an 18-month high, from 48.3 in June and 47.2 in May. As a whole, the composite index rose to 50.4 in July, from 48.9 in June, compared with 47.7 in May, providing encouraging signs that the eurozone's economy is heading for stabilization.

Japan

Exports grew by 7.4% year-over-year in June, following a rise of 10.1% in May and 3.8% in April. The reading marked the fourth consecutive month of growth. Industrial production, however, dropped 3.3% month-over-month in June after rising 1.9% in May.

COMPANY REVIEW

Semen Indonesia reported strong quarterly results, with year-over-year revenue and net profit growing 34.4% and 23.3%, respectively, underpinned by increased sales volume and higher cement selling prices.

Kalbe Farma reported IDR641 billion profit before tax in 2Q, an increase of 17.5% compared to last year's corresponding period. All business segments showed strong sales performance at double-digit growth, while margins were kept intact.

PORTFOLIO TACTICS

It was a good month for global markets as concerns about the US Federal Reserve's tapering of quantitative easing subsided, supported by positive economic data. The FBM KLCI Index hit a new all-time high on 24 July at 1,810 before easing to 1,772.62 at the end of the month, as the Index came under selling pressure after Fitch Ratings revised its outlook on Malaysia to negative from stable. Markets will remain volatile given uncertainty from slowing overseas demand. We continue to position towards Consumers (e.g., Unilever Indonesia and UMW Holdings), Health Care (e.g., KPJ and Hartalega), Building Materials (e.g., Semen Indonesia) and Telcos (e.g., Axiata).

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