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MARKET REVIEW MALAYSIA

OVERVIEW

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Global stock markets were mostly down in August. The FTSE All World Index fell -2.02% month-over-month, triggered by uncertainty over whether the US Federal Reserve would begin tapering its bond-buying programme (QE). The S&P 500 and Dow Jones Industrial Average lost -2.90% and -4.11%, respectively. Year-to-date, both indices have gained 19.30% and 16.93%, respectively. Meanwhile, the MSCI Emerging Markets Index retreated -0.64% over the month. In tandem with regional markets, the Malaysian stock market fell lower for the month, albeit at a slower pace. The FBM KLCI Index dipped -2.31% whilst the FBM EMAS Shariah Index fell -2.56%. Year-to-date, both indices have gained 8.75% and 9.73%, respectively.

Malaysia

Malaysia's Foreign Exchange Reserves retreated by US$3.1 billion to US$134.8 billion as at August 30. This was mainly reflected in the outflow of foreign short-term capital in anticipation of US QE tapering and payment of import bills, but was mitigated by the repatriation of exports proceeds. At the current level, reserves are sufficient to cover 9.3 months of retained imports and cover 3.7 times the short-term external debt of the nation. In line with the drop in foreign exchange reserves, the ringgit remained weak, having depreciated by 3.2% against the US dollar for the month. The ringgit has been under selling pressure due to short-term capital outflow after the Fed Chairman reaffirmed that the central bank would taper its US$85 billion in monthly bond purchases by end of this year. As a result, investors are concerned about Malaysia's current account position, which had narrowed substantially in 2Q13.

We strongly believe the Malaysian government will reduce electricity tariff subsidies and implement the GST.

In July 2013, Malaysia's monthly inflation rate had slightly increased from 1.8% in June to 2.0% in July, due to higher food prices. We anticipate that the monthly inflation rate will go higher for the next couple of months due to the recent increase in fuel prices by RM0.20 to RM2.10 per liter as announced by the government. This move will eventually trigger additional increases in food prices as a result of expected increases in transportation costs. Further to this, in order to improve the current account position, we strongly believe that the Malaysian government will reduce electricity tariff subsidies and implement the Government Services Tax (GST).

United States

Rising demand in the services sector is encouraging. The US Purchasing Managers' Index for non-manufacturing activity rose significantly to 58.6 in August from 56.0 in July and 52.2 in June – the fastest pace in eight years – signaling expansions in service industries such as retail, health care, construction, and finance, which in total make up more than two-thirds of GDP. Consumer spending is holding up well to support economic growth. Further support came

Market Indicators	Current Value	1 Month	YTD	1 Year
FBM EMAS Shariah (RM)	12,047	-2.56% ▼	6.77% ▲	9.73% ▲
FBM KLCI (RM)	1,728	-2.31% ▼	4.50% ▲	8.75% ▲
S&P 500 (US$)	1,633	-2.90% ▼	16.15% ▲	19.30% ▲
Dow Jones Industrial Average (US$)	14,810	-4.11% ▼	15.02% ▲	16.93% ▲
FTSE All World (US$)	240	-2.02% ▼	9.18% ▲	17.06% ▲
MSCI Emerging Markets (US$)	379	-2.34% ▼	-10.19% ▼	0.85% ▲

	Current	1 Month Ago	1 Year Ago
Ringgit per US$	3.28	3.24	3.13
Crude oil (US$)	$107.65	$105.03	$94.62
Crude palm oil (RM)	RM 2,407	RM 2,293	RM 2,920

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from an increase in export orders and the 13th consecutive month of growth in employment numbers to meet services demand. The pick-up in services and manufacturing activities suggests that the US economy will likely sustain its growth through 4Q13.

Philippines

The Philippines' inflation rate dropped from 2.5% year-over-year in July to 2.1% year-over-year in August. This follows a decline in the costs of housing, water, electricity, fuel, and gas by an average of 0.3% year-over-year from 0.6% year-over-year in July on a lower electricity tariff of 0.35 Philippine pesos ("PHP") per kilowatt hour. In tandem with the drop in headline inflation, the core inflation rate eased to 1.9% year-over-year in August, after inching lower to 2.3% in the previous month. With the year-to-date inflation rate falling to 2.8%, which is below the central bank's target of 3.0%-5.0% this year, the Philippines central bank has more room for monetary policy adjustment.

Thailand

Thailand's consumer confidence fell to a nine-month low from 80.3 in July to 79.3 in August. This was mainly due to the downward revision in the government economic planning agency's 2013 GDP growth projection to 3.8% - 4.3% from the previous forecast of 4.2% - 5.2%. The external global economic slowdown weighed on the confidence index, and this was made worse by political uncertainties and falling agricultural product prices within the country, which led to recent street protests.

China

China's August industrial output, fixed asset investment, and retail sales rebounded after a sluggish first half of 2013. Robust export data and slowing inflation numbers indicate recovery, although some economic experts question its durability. Analysts believe that China's economic growth this year could reach its target of 7.5%, aided by strong industrial output, which was up by 10.4% in August from 9.7% in July, and strong retail sales, up 13.4% year-over-year in August from 13.2% in July. China's economic rebound is also being reflected in its asset markets. Property prices are growing at more than 10% per year, and the stock market has rallied over the past two months.

Europe

The eurozone's real GDP registered positive growth of 0.3% quarter-over-quarter in 2Q13 following a contraction of -0.2% in 1Q13. This was mainly driven by a rebound in exports, gross fixed capital formation, and household consumption. The eurozone has emerged from a record-long recession that started in 1Q12. Household consumption returned to growth of 0.2% quarter-over-quarter in 2Q13 compared to -0.2% in the previous quarter. Similarly, gross fixed capital formation expanded by 0.3% quarter-over-quarter in 2Q13 from -2.2% in the previous quarter. In terms of countries, out of the four largest eurozone economies, Germany and France recorded 2Q13 GDP growth of 0.7% quarter-over-quarter and 0.5% quarter-over-quarter, respectively, compared to the previous quarter of 0.0% and -0.2%, respectively.

Japan

Japan's Prime Minister Shinzo Abe planned for a consumption tax hike from 5% to 8% to lower public debt, which is currently the worst among industrialized countries at more than twice the size of Japan's economy. The package would see the government create an extra budget worth more than 2 trillion Japanese yen that could finance cash payments to lower-income households and homebuyers.

COMPANY REVIEW

Pepsi-Cola Products Philippines' (PIP) volume for 2Q13 grew by 25% year-over-year while sales grew by 20.8% year-over-year due to its aggressive expansion plan. For the first half of 2013, revenue grew by 17.4% while profit margin grew by 27.6%. Its net income for the first half of 2013 grew by 13.94% year-over-year to PHP658 million, which was in line with market estimates, accounting for 55% of the PHP1.2 billion full-year market forecast.

In the first half of 2013, Meralco's (MER) core net income results of PHP9.17 billion were in line with market expectation. Management expects to earn PHP17 billion for the full year, which is slightly below the consensus target of PHP17.8 billion. For the first half of 2013, profit grew only by 1.7% year-over-year, but for 2Q13 it dropped by -8.0% to PHP5.15 billion.

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PORTFOLIO TACTICS

Global growth remains slightly below its long-term average target, with sluggish world trade, slowing emerging market prospects, and lower investment growth by commodity producers. Global growth is now projected at 3.1% for 2013, and 3.8% for 2014, representing a downward revision of a quarter percentage point each year compared to the forecasts in April 2013. The underperformance was due to the continuing growth disappointments in major emerging market economies, a deeper recession in the euro area, and a slower-than-expected US expansion. The FBM KLCI Index plunged to 1,686.17 on Aug 28 before easing to 1,727.58 at the end of the month, as investors fear the Fed may cut its bond-buying programme. 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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