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MARKET REVIEW MALAYSIA

OVERVIEW

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Global stock markets bounced back strongly in September after the sell-off in August. The FTSE All World Index rose 5.25% month-over-month, helped by the US Federal Reserve's decision to maintain its US$85 billion a month bond-buying programme. The S&P 500 and Dow Jones Industrial Average gained 3.14% and 2.27%, respectively. Year-to-date, the two indices have gained 19.79% and 17.63%, respectively. Meanwhile, the MSCI Emerging Markets Index soared 6.50% over the month. In tandem with regional markets, the Malaysian stock market moved higher for the month, with the FBM KLCI Index gaining 3.09% whilst the FBM EMAS Shariah Index rose 3.16%. Year-to-date, the indices have gained 7.73% and 10.14%, respectively.

Malaysia

Malaysia's Foreign Exchange Reserves picked up by US$0.3 billion to US$135.1 billion as of September 13. At the current level, the reserves are sufficient to finance 9.3 months of retained imports and cover 3.8 times the short-term external debt. Inflation, meanwhile, moderated to 1.9% year-over-year in August from 2.0% in July as demand price pressures were contained, with core inflation hovering at 1.1%. Given low inflation, Malaysia's central bank, Bank Negara Malaysia, has opted to maintain the Overnight Policy Rate at 3.0%. With the gradual subsidy rationalisation and the possible implementation of a goods and service tax, there are growing signs of increased price pressures ahead.

With the German election now behind us, all eyes will again turn to the situation in the eurozone periphery.

In line with the pick-up in foreign exchange reserves, the Malaysian ringgit reversed its course and appreciated 0.6%. The gain was mainly due to inflows of capital back into emerging market assets after the Fed unexpectedly refrained from tapering its monetary stimulus. The crude palm oil price, however, declined to RM2,355 per tonne from RM2,407 per tonne a month ago due to lingering concern of potentially higher production in September and October. The price of crude oil also dropped to US$102.33 per barrel at the end of September from US$107.65 a month ago.

United States

The US economy continues to recover, albeit at a slow pace. In August, the unemployment rate fell to 7.3% after inching lower to 7.4% in July, with 169,000 jobs added. The ISM Manufacturing PMI, meanwhile, rose further to 56.2 in September, from 55.7 in August and 55.4 in July. New home sales rebounded by 7.9% month-over-month to an annualised rate of 421,000 units in August. Despite the positives, the Fed said that it needs more evidence of lasting improvement in the economy before deciding on the timing of the tapering. As of this report, the battle between Republicans and Democrats has come to a head with the US government being

Market Indicators	Current Value	1 Month	YTD	1 Year
FBM EMAS Shariah (RM)	12,365	3.16% ▲	10.14% ▲	13.10% ▲
FBM KLCI (RM)	1,769	3.09% ▲	7.73% ▲	11.98% ▲
S&P 500 (US$)	1,682	3.14% ▲	19.79% ▲	19.34% ▲
Dow Jones Industrial Average (US$)	15,130	2.27% ▲	17.63% ▲	15.59% ▲
FTSE All World (US$)	252	5.25% ▲	14.90% ▲	18.67% ▲
MSCI Emerging Markets (US$)	403	6.50% ▲	-4.35% ▼	0.98% ▲

	Current	1 Month Ago	1 Year Ago
Ringgit per US$	3.26	3.28	3.18
Crude oil (US$)	$ 102.33	$ 107.65	$ 84.96
Crude palm oil (RM)	RM 2355	RM 2407	RM 2992

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shut down. Although disrupting, government shutdown is not something new in the US, as there have been 17 shutdowns since 1980. The bigger issue, however, is the debt ceiling, which is an ongoing concern because of the recurring need to raise it to avoid default.

China

Economic data continued to point to an improving trend in the economy. Manufacturing PMI expanded to 51.1 in September from August's 51.0. Similarly, industrial production accelerated to 10.4% year-over-year in August, up from 9.7% in July, driven by higher output of electricity, pig iron, crude steel, steel products, and coke. Among them, the output of electricity edged up 13.4% year-over-year after an increase of 8.1% in July. Adding to this positive data, consumption rose with retail sales increasing from 13.2% in July to 13.4% in August.

Europe

Despite registering positive GDP growth in the second quarter, economic recovery in the eurozone remains fragile and uneven. In July, industrial production contracted 1.5% month-over-month, led by the slump of industrial activities in Germany, which dropped 2.3%. Exports fell 1.6% from June, while construction output growth eased to 0.3% after expanding 0.7% in June. With the German election now behind us, all eyes will again turn to the situation in the eurozone periphery.

Japan

Real GDP grew at an annualized rate of 3.8% in the second quarter, faster than the initial estimate of 2.6%. This was attributed to a strong rebound in non-residential investment of 5.1% and public investment of 12.7%. Aided by weaker yen, exports rose to 14.7% year-over-year in August from 12.2% in July. With growing signs recovery is gaining traction, Prime Minister Shinzo Abe announced on October 1 a raise in the consumption tax to 8% (from 5% currently) beginning April next year.

COMPANY REVIEW

Al-Aqar Healthcare reported steady results, with earnings per share growing 2.1% year-over-year, driven by increased rental income after the acquisition of Bandar Baru Klang Specialist Hospital.

Nippon Indosari Corpindo registered slower net profit growth of 5.6% year-over-year for the first half of 2013 despite 23.9% revenue growth, mainly due to higher production costs and operating expenses.

PORTFOLIO TACTICS

Global markets rallied following the Fed's decision to maintain its bond-buying programme. However, concern about actual tapering still lingers so markets will remain volatile. In Malaysia, investors focus on Budget 2014, which will be announced on October 25. We continue to position towards Consumers (e.g., Unilever Indonesia and UMW Holdings), Health Care (e.g., Bangkok Dusit and Hartalega), Building Materials (e.g., Semen Indonesia) and Telcos (e.g., Axiata).

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