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MARKET REVIEW MALAYSIA

OVERVIEW

October 2013

Global stock markets were mostly up in October. The FTSE All World Index rose 4.03% month-over-month as the US Federal Reserve decided to hold off tapering its quantitative easing. The S&P 500 and Dow Jones Industrial Average gained 4.60% and 2.88%, respectively. Year-to-date, both indices have soared 25.30% and 21.02%, respectively. Meanwhile, the MSCI Emerging Markets Index surged 4.86% over the month. In tandem with regional markets, the Malaysian stock market was up for the month, albeit at a lower pace. The FBM KLCI Index increased by 2.23% whilst the FBM EMAS Shariah Index rose slightly higher to 3.09%. Year-to-date, both indices have gained 10.13% and 13.55%, respectively.

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Malaysia

Malaysia's foreign exchange reserves rose by US$0.6 billion in October to US$137.1 billion. In ringgit terms, foreign exchange reserves rose by RM1.4 billion in the second half of October to RM446.2 billion as at October 31, compared to an increase of RM0.3 billion in first half of October. At the current level, foreign exchange reserves are sufficient to finance 9.7 months of retained imports and cover 3.9 times the short-term external debt of the country, compared to the 9.3 months of retained imports and 3.8 times of short-term external debt cover in the same period a year ago.

The economic impact of typhoon Haiyan has so far reached US$14 billion.

In October 2013, Malaysia announced its 2014 budget, which mainly emphasized the reduction of its ballooning budget deficit. Among the initiatives mentioned by Prime Minister Najib Razak were the introduction of a 6% Goods and Services Tax (GST), which will be implemented on April 1, 2015, and increases to the Real Property Gains Tax. For properties disposed within the holding period of up to three years, the RPGT rate is increased to 30%, whereas for disposals within the holding period of up to four and five years, the rates are increased to 20% and 15%, respectively. The budget package also includes expansion of the "Bantuan Rakyat 1Malaysia" (BR1M) programme amounting to a RM4.6 billion one-off cash subsidy to low-income constituents.

Malaysia's central bank left the Policy Rate unchanged at 3.0% on November 7, its fifteenth consecutive instance of no change, as it carefully weighs accommodative monetary policy to support growth against containment of rising prices. This decision was also aided by the low inflation rate, which hovered below 2.5% from January through September. According to the central bank, Malaysia's growth is expected to be supported by expansion in domestic activities and exports due to improving external factors such as competitiveness and productivity enhancements.

Market Indicators	Current Value	1 Month	YTD	1 Year
FBM EMAS Shariah (RM)	12,742	3.09% ▲	13.55% ▲	16.60% ▲
FBM KLCI (RM)	1,807	2.23% ▲	10.13% ▲	14.47% ▲
S&P 500 (US$)	1,757	4.60% ▲	25.30% ▲	24.82% ▲
Dow Jones Industrial Average (US$)	15,546	2.88% ▲	21.02% ▲	18.92% ▲
FTSE All World (US$)	262	4.03% ▲	19.55% ▲	23.47% ▲
MSCI Emerging Markets (US$)	423	4.86% ▲	0.29% ▲	6.53% ▲

	Current	1 Month Ago	1 Year Ago
Ringgit per US$	3.16	3.26	3.06
Crude oil (US$)	$96.38	$102.33	$92.19
Crude palm oil (RM)	RM2,623	RM2,355	RM2,420

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United States

The US economy surprisingly added 204,000 jobs in October despite a 16-day partial shutdown of the federal government. The October jobs report noted that the shutdown did not affect total jobs and that hiring has picked up in the fall. Employers also added approximately 60,000 more jobs in the previous two months than earlier estimated.

In terms of GDP, US real GDP growth accelerated to an annualized rate of 2.8% in the third quarter from a revised 2.5% in the second quarter, indicating that economic growth gained momentum ahead of the partial government shutdown in October. This was aided by a slight pick-up in gross private investment to 9.5% in 3Q13 from 9.2% in the previous quarter, which was mainly driven by a build-up in inventories and an increase in fixed residential investment. The third quarter GDP numbers registered 0.2% growth, bolstered by higher local and state government spending, compared to a decline of -0.4% in the previous quarter.

Philippines

According to the Philippines Finance Minister Cesar Purisima, the devastation caused by typhoon Haiyan is expected to cut Philippines growth by 1% this year. The typhoon, which recently hit Tacloban City, was one of the most powerful storms ever recorded on land. It clocked wind gusts up to 315 kph, resulted in a huge loss of more than 3,600 lives, injured more than 12,000 people (figures could go much higher), and ultimately affected 9.5 million people, or 9% of the total Philippines population. Almost 20,000 homes were damaged, and four airports remain closed. The government is prepared to use PHP23 billion (US$533 million) from various agencies for relief and rebuilding of disaster-ravaged towns and provinces. The economic impact of Haiyan has so far reached US$14 billion. One of the hardest hit sectors was agriculture, where approximately half of the sugar cane growing areas and a third of rice-producing land was damaged.

Thailand

Thailand's economy is expected to grow at a slower pace in the third quarter than in the second quarter due to continuously high household debt as well as slowing government measures to stimulate consumption. The market expects a disappointing third quarter GDP number, as slowing exports numbers will take their toll and negatively impact investors' confidence. To recall, the second quarter GDP number of 2.8% was slower than the 5.4% recorded in 1Q13. On the political front, the government does not expect that its tourism sector will be impacted by the ongoing demonstration in Bangkok. Tensions have died down for now.

China

China will loosen its one-child policy as part of major reforms to secure its economic future and to strengthen policy ties with the United States. This policy change would help prevent the looming crisis caused by an aging population and ensure continued manufacturing growth. According to the Communist Party of China (CPC), it would allow couples to have two children if one of the parents is an only child. Currently, as quoted by the government, more than 8.5% of China's population (115 million people) is over 65 years old, and this number will rise to 24% (323 million) by 2050. However, despite the government's loosening of the policy, based on a survey of 26,000 respondents, more than one third still prefer to have only one child as poverty has made them reluctant to have children.

Europe

The eurozone's economic growth slowed to 0.1% in the third quarter from 0.3% in the previous quarter. The figure marks the second quarter of anemic growth, but replaced an 18-month recession. The European Central Bank cut the interest rate to 0.25% to lift growth. Europe's economy is taking far longer to recover than other advanced regions affected by the credit crisis. For 2015, the European Commission predicts growth of between 1.1% and 1.7%.

Japan

The world's third largest economy, Japan, slowed to 0.5% in the third quarter, down from 0.9% in the previous quarter amid weakness in exports and as consumer spending eased. The deceleration comes despite aggressive measures taken this year to spur growth after stagnation. On an annualized basis, Japan's economy grew 1.9%, just above expectations for a rise of 1.7%. Japan has pumped money into the economy this year and embarked on aggressive monetary stimulus to end deflation and revive its growth prospects.

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COMPANY REVIEW

Kalbe Farma posted another round of good results. Net profit grew 3.2% on the back of a 16.5% increase in revenue. The company stands to benefit from the implementation of a national social security scheme next year.

London Sumatra showed improved results on a quarterly basis helped by an uptick in average crude palm oil (CPO) selling prices. News flow for the sector has been positive, aided by lower inventory in Malaysia as well as potentially higher blending of biodiesel. Net income in 3Q13 increased by 235.3% quarter-over-quarter to IDR264 billion, supported by a FOREX gain of IDR138 billion, which represents 52.2% of total net income in 3Q13.

PORTFOLIO TACTICS

Global growth remains a bit below its long-term average target concurrent with sluggish world trade, a lower third quarter European GDP number, slowing emerging market prospects, and lower investment growth among commodity producers. 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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