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MARKET REVIEW MALAYSIA

OVERVIEW

December 2013

Global stock markets maintained their upward trend in December. The FTSE All World Index rose 1.75% month-over-month, led by strong US performance. The S&P 500 and Dow Jones Industrial Average rose 2.53% and 3.19%, respectively. Year-to-date, the two indices have gained 32.39% and 29.65%, respectively. Surprisingly, however, the MSCI Emerging Markets Index declined 1.45% over the month, dragged by uninspiring market performance in Brazil and South Africa. Meanwhile, the Malaysian stock market moved slightly higher for the month, with the FBM KLCI Index gaining 3.31%, whilst the FBM EMAS Shariah Index rose 2.95%. Year-to-date, the indices have gained 14.53% and 17.04%, respectively.

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Malaysia

As at December 13, 2013, Malaysia's foreign exchange reserves of US$135.3 billion were enough to cover 9.4 months of retained imports and cover 3.7 times the short-term external debt, as compared to 9.4 months of retained imports and 4.2 times short-term external debt cover in the same period a year ago. Though the numbers have slightly decreased from US$140.7 billion in November to US$135.3 billion in December, foreign exchange reserves remain healthy. In line with the drop in foreign exchange reserves as reflected in the payment of import bills, the ringgit extended its losses against the US dollar in December. The ringgit fell to a three-month low on December 19, to RM3.28 per US dollar after the US Federal Reserve pared stimulus that has spurred inflows of short-term foreign portfolio funds into emerging markets.

Bank of Japan has put in place several stimulus measures, among them the virtually zero interest rate policy and asset purchases.

United States

The US PMI for the non-manufacturing sector unexpectedly fell from 53.9 in November to 53.0 in December. This marked a six-month low and was below the consensus estimate of 54.7. Nevertheless, the number still indicated the 48th straight month of expansion in the services sector. By sector, gains among construction companies and retailers were being offset by slowdowns in hotels, restaurants, entertainment, and real estate firms, suggesting that growth will take time for improvement.

China

China's official non-manufacturing PMI index eased for the second consecutive month, from 56.0 in November to 54.6 in December, signaling a further slowing of non-manufacturing activity. This was mainly reflected in a contraction in new export orders sub-index for 27 industries surveyed. The drop from 49.9 in November to 49.4 in December suggests weakening foreign demand for the third month, mainly in construction, resident services and repairs, railway transportation, and construction-related industries.

Market Indicators	Current Value	1 Month	YTD	1 Year
FBM EMAS Shariah (RM)	13,052	2.95% ▲	17.04% ▲	17.04% ▲
FBM KLCI (RM)	1,867	3.31% ▲	14.53% ▲	14.53% ▲
S&P 500 (US$)	1,848	2.53% ▲	32.39% ▲	32.39% ▲
Dow Jones Industrial Average (US$)	16,577	3.19% ▲	29.65% ▲	29.65% ▲
FTSE All World (US$)	269	1.75% ▲	23.41% ▲	23.41% ▲
MSCI Emerging Markets (US$)	411	-1.45% ▼	-2.60% ▼	-2.60% ▼

	Current	1 Month Ago	1 Year Ago
Ringgit per US$	3.28	3.22	3.18
Crude oil (US$)	$98.42	$92.72	$84.96
Crude palm oil (RM)	RM2,628	RM2,615	RM2,992

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Europe

The eurozone's PMI for the services sector slowed from 51.2 in November to 51.0 in December, which was above the 50 level, signaling that it is still in expansionary territory. The moderation was mainly due to slower performance of new business as faster growth in Ireland and Spain were offset by slower growth in Germany, and outright declines in France and Italy. Meanwhile, employment numbers in the region remained unchanged following marginal job losses in the previous two months. Those payroll numbers rose at faster rates in Germany and Ireland but they were being offset by ongoing job losses in France, Italy, and Spain.

Japan

Japan's Consumer Price Index rate stood at 1.5% in November, up from 1.1% in October, as weaker yen and higher energy costs pushed up other related prices. This marked the sixth straight month of positive growth in the CPI after 12 consecutive months of decline in an early sign of an end to Japan's persistent deflation. Prices of food picked up to 1.9% in November from 1.4% in October due to an increase in the price of fresh food during the month. Besides food, the cost of transportation and communications also pushed up the CPI numbers. As part of the effort to improve its chronic deflation, Bank of Japan has put in place several stimulus measures, among them the virtually zero interest rate policy and asset purchases, to achieve its 2.0% inflation target.

COMPANY REVIEW

Gamuda Berhad reported steady 1Q14 (FYE July) results, with profit before tax growing 15.9% year-over-year on the back of 56.4% revenue growth. Though its PBT margin slowed from 23.6% year-over-year to 17.5% year-over-year, these numbers were expected due to a higher contribution from the Project Delivery Partner (PDP) works where Gamuda recognizes only a 6% margin.

Pepsi-Cola Products Philippines' 9M13 net profit went up by 12% year-over-year to PHP681 million, which accounted for 84% of the full year's consensus forecast. Despite its Tanauan Plant, which was severely damaged by the recent super-typhoon, the 9M13 results remained intact as the destroyed plant contributed only 2-3% of Pepsi-Cola's total capacity.

PORTFOLIO TACTICS

Emerging markets continued to lag the US stock market, given uncertainty that the Fed would taper its US$85 billion-a-month asset purchase programme earlier than expected, and as the US jobs report has so far surprised on the upside. Emerging markets will remain volatile due to lingering concern over imminent QE tapering compounded by currency depreciation. In Southeast Asia, elections will overhang Indonesia and Thailand. In Malaysia, Budget 2014 displays fiscal prudence but provides little catalyst to propel the market. Thus, we continue to position towards companies that have solid and long-term fundamentals such as Consumers (e.g., Unilever Indonesia and Pepsi-Cola), Health Care (e.g., Bangkok Dusit and Hartalega), Building Materials (e.g., Semen Indonesia) and Telcos (e.g., Axiata).

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