SATURNA
SATURNA SDN BHD (342171-V)

MARKET REVIEW MALAYSIA

January 2014

OVERVIEW

Global stock markets plunged in January. The MSCI All Country World Index declined -3.98% month-over-month, dragged down by a number of factors: uninspiring US stock market performance; an emerging markets sell-off due to renewed fears over the tapering of the US quantitative easing (QE) program; and a slowing economy in China. The S&P 500 and Dow Jones Industrial Average fell -3.46% and -5.19%, respectively, while the MSCI Emerging Markets Index dropped -6.49% over the month. In tandem with regional markets, the Malaysian stock market moved lower, with the FBM KLCI Index and FBM EMAS Shariah Index declining -3.35% and -3.36, respectively.

Neoh Boon Sing
Investment Analyst

Malaysia

Foreign Exchange Reserves fell by US$4.8 billion to US$134.9 billion as at year-end 2013, down from 2012's US$137.9 billion. At the current level, foreign exchange reserves are sufficient to finance 9.6 months of retained imports and cover 3.7 times the short-term external debt of the nation, compared with 9.5 months of retained imports and 4.2 times short-term external debt cover in the same period a year ago. In line with the drop in foreign exchange reserves, the Malaysian ringgit extended its losses against the US dollar, depreciating 2.1% month-over-month. Meanwhile, exports growth eased to 6.7% year-over-year in November, from 9.6% in October, due to a slowdown in the exports of non-electrical and electronic products. To continue supporting growth, Bank Negara Malaysia opted to maintain the Overnight Policy Rate at 3.0% on 29 January.

Global markets will remain volatile given continued "noise" from the US and a potentially worsening slowdown in China.

United States

Economic data continued to show improvement, with GDP expanding 3.2% in the fourth quarter of 2013. The growth was driven by a pick-up in consumer spending, which was supported by a better labor market. In December, the unemployment rate fell to 6.7%, the lowest level in more than five years. Non-farm payrolls, on the other hand, increased at a slower pace of 74,000, missing the consensus estimate of 197,000. Having said that, the long-term trend remains steady as the economy added 182,000 jobs on average every month in 2013. Expecting a gradual recovery in the jobs market, the Federal Reserve pressed ahead with its QE taper by reducing its asset purchase by another US$10 billion to US$65 billion per month. The Fed funds rate, meanwhile, will be kept at 0-0.25% as long as the unemployment rate remains above 6.5% and the inflation rate over the next two years does not exceed 0.5 percentage point above the Fed's longer-run goal of 2%. It is worth noting that Janet Yellen replaced Ben Bernanke as head of the Federal Reserve on 31 January.

Market Indicators	Current Value	1 Month	YTD	1 Year
FBM EMAS Shariah (RM)	12,604	-3.36% ▼	-3.36% ▼	16.57% ▲
FBM KLCI (RM)	1,804	-3.35% ▼	-3.35% ▼	14.42% ▲
S&P 500 (US$)	3,201	-3.46% ▼	-3.46% ▼	21.52% ▲
Dow Jones Industrial Average (US$)	15,699	-5.19% ▼	-5.19% ▼	16.07% ▲
FTSE All World (US$)	258	-3.98% ▼	-3.98% ▼	13.22% ▲
MSCI All Country World Index	392	-3.98% ▼	-3.98% ▼	13.38% ▲
MSCI Emerging Markets (US$)	384	-6.49% ▼	-6.49% ▼	-10.17% ▼

	Current	1 Month Ago	1 Year Ago
Ringgit per US$	3.35	3.28	3.11
Crude oil (US$)	$97.49	$98.42	$97.49
Crude palm oil (RM)	RM2,551	RM2,628	RM2,512

Continued on next page.

Saturna Sdn Bhd (342171-V) *Suite 5-03, 5th Floor, Menara Atlan* *161B, Jalan Ampang* *50450 Kuala Lumpur Malaysia*
Phone: 603 2164 5303 Fax: 603 2164 5308 ***www.saturna.com.my***

China

Economic growth slowed amid the government's fight against shadow banking. Real GDP growth edged down to 7.7% year-over-year in the fourth quarter of 2013 from 7.8% in the third quarter. This was underpinned by stable fixed-asset investment spending, which grew 19.2% (versus 19.3% in 2012) due to a pick-up in infrastructure and property development investment. Manufacturing PMI, however, fell to 51.0 in December from 51.4 in November, pointing to slower growth in manufacturing activity. Similarly, service activities eased to 54.6 in December from 56 in November, with new export orders, the employment index, and business expectations all heading lower.

Europe

Economic recovery in the eurozone remained fragile and uneven. The unemployment rate remained high at 12.1% in November (the latest data available), unchanged from the previous month, as the region continued to struggle with the legacy of a debt crisis that caused unemployment to surge and consumer confidence to plummet. In November, construction output fell 0.6% month-over-month, while exports declined 0.2%. As the outlook remains subdued and inflation risk remains low, the European Central Bank has kept its key policy rate unchanged at 0.25%.

Japan

All industry activity rebounded by 0.3% month-over-month in November, after dropping 0.4% a month ago, indicating that economic activities were holding up during the month. This was due to a 1.8% pick-up in construction activities, versus 1.1% in October, and a reversal for tertiary industry activities from -0.9% in October to 0.6% in November. Core machinery orders rose 9.3% month-over-month in November, boosted by front-loaded demand ahead of the April sales tax jump.

COMPANY REVIEW

Axis REIT posted steady fourth quarter results, with net rental income growing 1.9% year-over-year on the back of positive rental reversion. For the quarter, Axis REIT declared a 4.7 sen distribution per share, with total distribution for FY13 amounting to 18.5 sen per share.

PORTFOLIO TACTICS

Moving forward, global markets will remain volatile given continued "noise" from the US and a potentially worsening slowdown in China. While QE tapering indicates an improved US economy, investors are concerned that the Fed's decision is too hasty. In Malaysia, the government's steps towards fiscal transformation (via subsidy rationalization, the implementation of a goods and service tax in April 2015, etc.) to bolster its fiscal health will be positive in the long term, but provides few catalysts to propel the market in the near term. Thus, we continue to position towards companies that have solid and long-term fundamentals, such as Consumers (e.g., Unilever Indonesia and Jollibee Foods), Health Care (e.g., Bangkok Dusit and Hartalega), Building Materials (e.g., Semen Indonesia), and Telcos (e.g., Axiata).

Saturna Sdn Bhd (342171-V) Suite 5-03, 5th Floor, Menara Atlan 161B, Jalan Ampang 50450 Kuala Lumpur Malaysia
Phone: 603 2164 5303 Fax: 603 2164 5308 ***www.saturna.com.my***