

# MARKET COMMENTARY

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We have repeatedly sounded cautious through the months. Accordingly, our funds have been positioned defensively.

We expect the economic environment to remain challenging. However, these challenges will also provide us with the opportunity to invest in quality names we continue to favour.

## OUR HOUSE VIEW

### Asian Markets Hostage To External Factors

- Frail sentiment persists even as the US Fed postponed its benign interest rate upcycle by another quarter or more. Moderating US economic growth has also dampened risk appetite.
- Recent China macro-economic data, while mixed, are pointing to a slightly improved situation. However, sustainability is still required for improved confidence. Other than India and Indonesia, other Asian Central Banks have treaded cautiously on monetary easing ahead of uncertain US interest rate movement as well as a potential fall-out from Brexit.
- The result is likely cautious market direction until investors get better clarity post June. In contrast to the developed equity markets, Asian equity markets do offer some floor valuation protection considering the nearer-trough valuations.
- We believe the local stock market could consolidate over the few months on the back of concerns about 1MDB's loan default which could further dampen investor sentiment. In addition, the Ringgit's depreciation against the US\$ might not be over yet. Hence, there are more negative than positive factors.



CARTOON BY: HEDGEYE

## PERFORMANCE OF KEY INDICES

FIGURE 1

	AS AT 29.04.16	1 MTH (% change)	YTD 2016 (% change)	PER 2016
D. JONES	17,773.6	0.5	1.0	16.7
NASDAQ	4,775.4	-1.9	-5.7	29.7
DAX	10,039.0	0.7	-6.6	21.5
KLCI	1,672.7	-2.6	-1.2	18.0
USD / MYR	3.90	0.1	-9.0	-

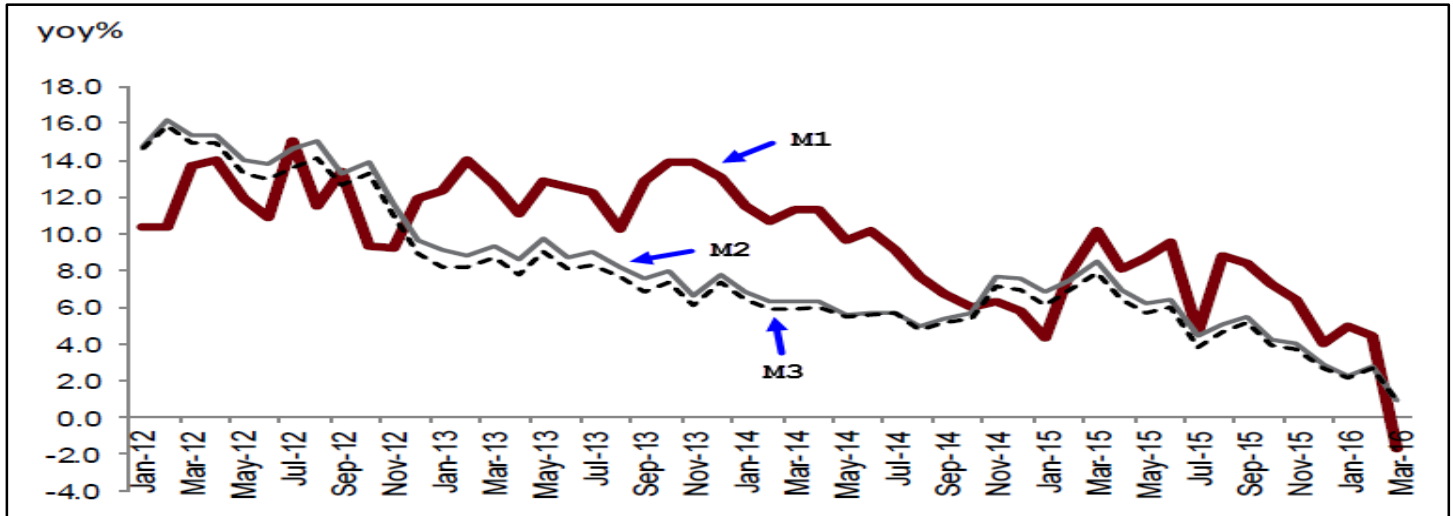
SOURCE: BLOOMBERG (AS AT 29/04/2016)

## WEAKER MONETARY CONDITIONS THE PRELUDE TO A DECELERATING ECONOMY?

### Money Supply Slumps!

Money supply numbers for the month of March posted dismal growth. Narrow supply money, M1, contracted by 1.7% yoy, the first into negative territory since 1999. Both monetary aggregates, M2 and M3, also registered dismal growth, both up only 0.9% yoy. This is the lowest broad money supply growth since 1999.

FIGURE 2: MONEY SUPPLY GROWTH SLUMPED

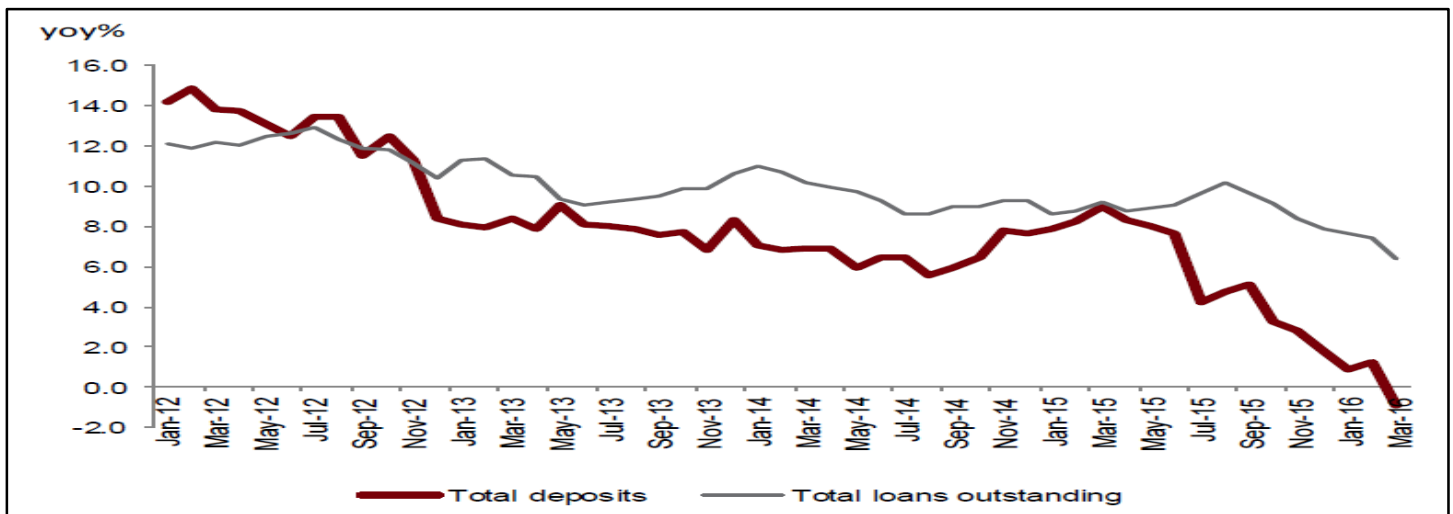


SOURCE: BANK NEGARA MALAYSIA

### Is Money Leaving The System?

The total deposits in the banking system has been on a declining trend since March 2015, coinciding with the period when the Malaysian Ringgit started to unravel over 1MDB concerns. With the Malaysian Ringgit strengthening of late, and the recent heightened investigations of 1MDB across a number of overseas jurisdictions, there would appear to be some opportune capital flight.

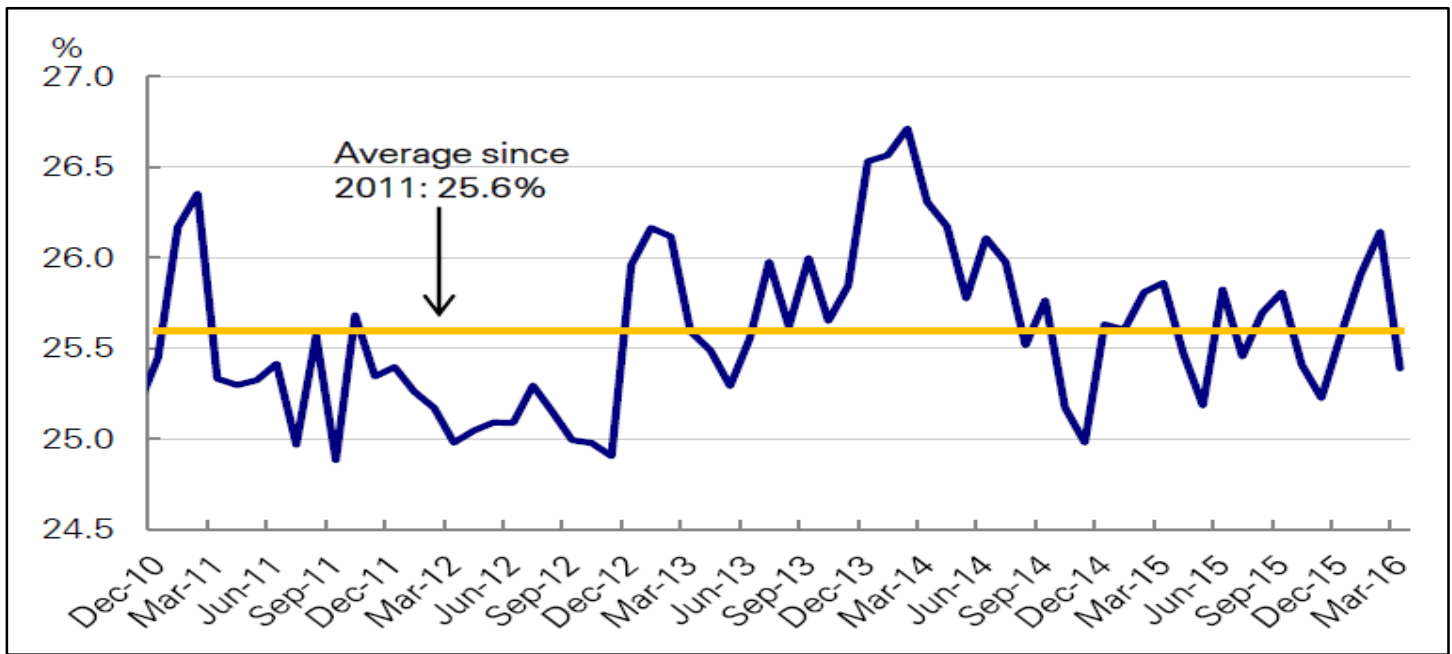
FIGURE 3: TOTAL DEPOSITS DECLINED YOY



SOURCE: BANK NEGARA MALAYSIA

The effect is a tightening of system funding. In particular, the decline in industry CASA (sticky low interest deposits) will put additional funding pressures and costs on the financial institutions.

**FIGURE 4: INDUSTRY CASA IS BELOW THE FIVE-YEAR TREND**

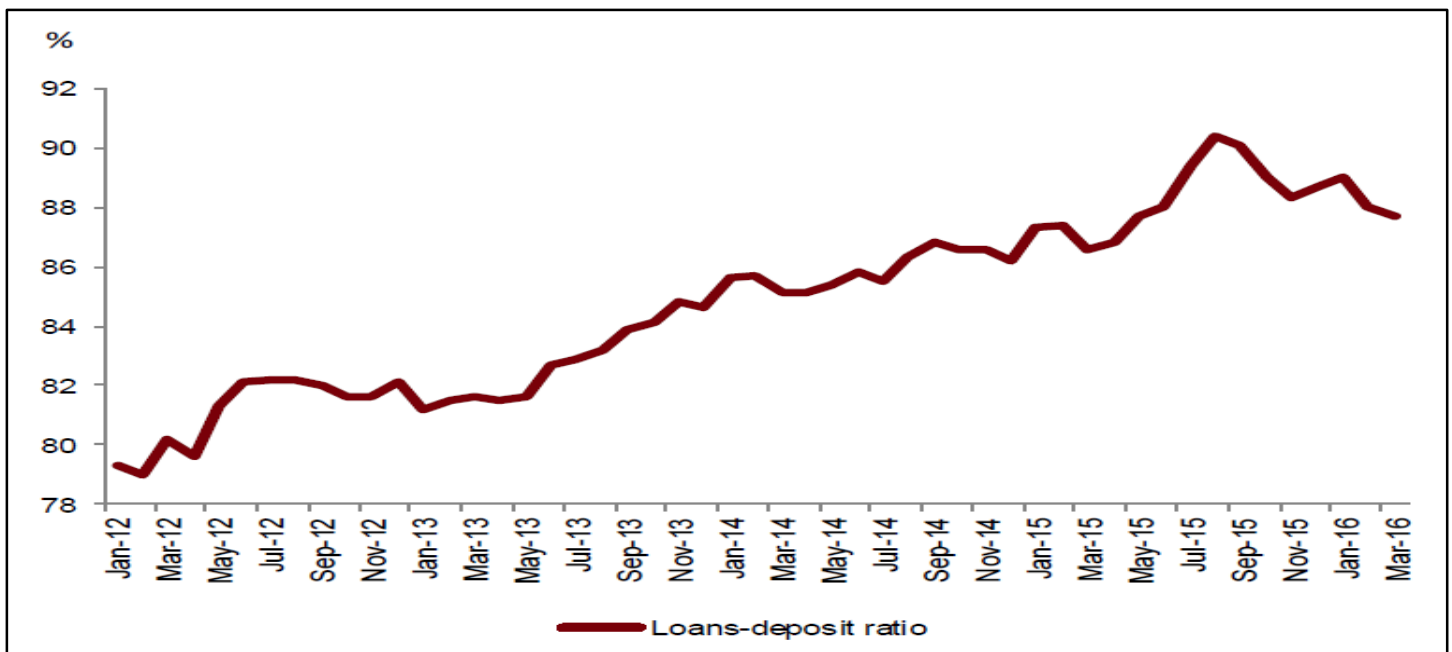


SOURCE: DEUTSCHE BANK, BANK NEGARA MALAYSIA

**Implications For The Banking System & The Economy**

How would financial institutions typically handle tightening liquidity?

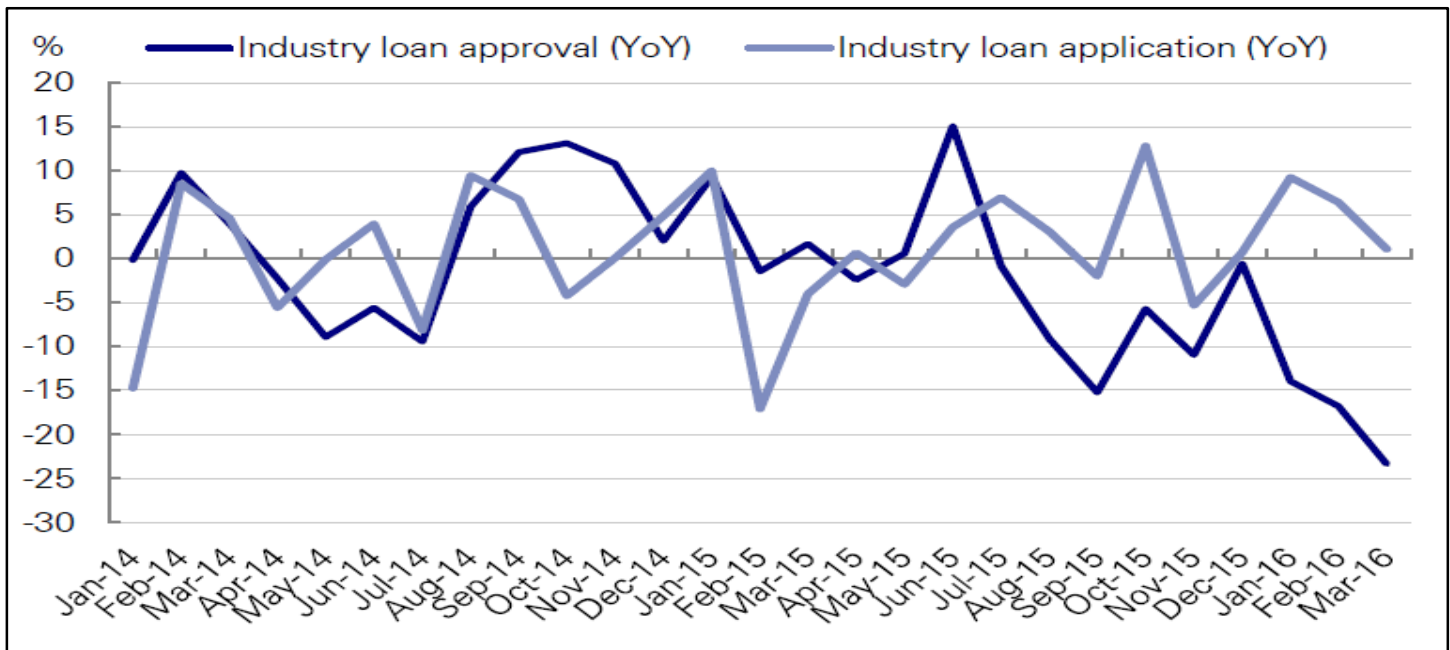
**FIGURE 5: LOAN TO DEPOSIT RATIO EASED SLIGHTLY FURTHER**



SOURCE: BANK NEGARA MALAYSIA

Already, banks are managing this tightening situation through the tightening of loan disbursement. Getting a loan now is getting more and more difficult!

**FIGURE 6: SYSTEM LOAN APPROVALS & APPLICATIONS**



SOURCE: DEUTSCHE BANK, BANK NEGARA MALAYSIA

The wider economic implication from this inability to grow the loan book is credit starvation to the real economy and an inevitable slowdown of economic growth ahead.

## SELECTED HOLDINGS

**FIGURE 8**

STOCKS	BLOOMBERG TICKER	PRICE (RM)	PER 2016	EPS (\$) 2016	GROWTH (%) 2016	P/BVPS 2016	DY (%) 2016
NESTLE	NESZ MK EQUITY	75.10	27.35	2.75	9.13	22.49	1.73
BAT	ROTH MK EQUITY	48.43	17.43	2.78	-12.85	23.86	6.02

SOURCE: BLOOMBERG CONSENSUS DATA (AS AT 13/05/2016)

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