MARKET COMMENTARY

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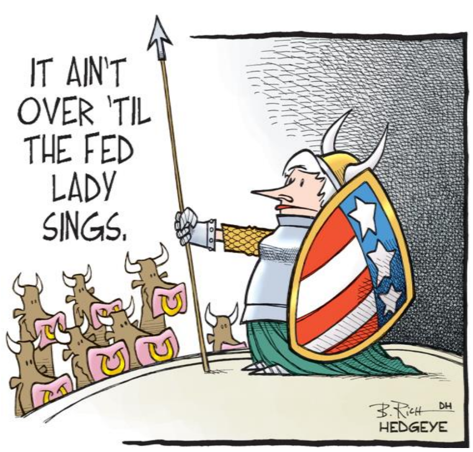
Coordinated fiscal priming and further monetary easing should mark the bottom of this economic cycle.

Read on to understand why we like consumer names.

Further easing should lift the yield names too!



CARTOON BY: HEDGEYE

OUR HOUSE VIEW

Asia's Destiny In Her Own Hands

- Asian equity markets have done well in July and are vulnerable to profit-taking, especially with concern that the recent stronger job data out of the US may bring forward the normalization of US interest rates. These profit-taking bouts are buying opportunities.
- The certainty of a fundamental investment case for Asia is upon us. Asian currencies have stabilized, resilient through Brexit and strong US economic data. Economic recovery is already apparent; Indonesia surprised with a better than expected 2Q16 GDP growth, the positive lagged impact from the combination of easier monetary conditions and fiscal stimulus.
- Equity markets may look expensive but Korea and Thailand has experienced positive consensus earnings revisions, the first in more than two years. We expect upside surprises from the rest of the Asian region to follow, supporting valuations.
- The Malaysian equity market is likely to track along with the region. Bank Negara's surprise interest rate cut should support the economy as would the multiplier effects of mega infrastructure projects such as the Malaysia-Singapore High Speed Rail and the Pan Borneo Highway.

PERFORMANCE OF KEY INDICES

FIGURE 1

	AS AT 31.07.16	1 MTH (% change)	YTD 2016 (% change)	PER 2016
D. JONES	18,432.2	2.8	4.7	17.9
NASDAQ	5,162.1	6.6	1.9	32.4
DAX	10,337.5	6.8	-3.8	24.1
KLCI	1,653.3	-0.1	-2.4	18.0
USD / MYR	4.07	0.9	-5.3	-

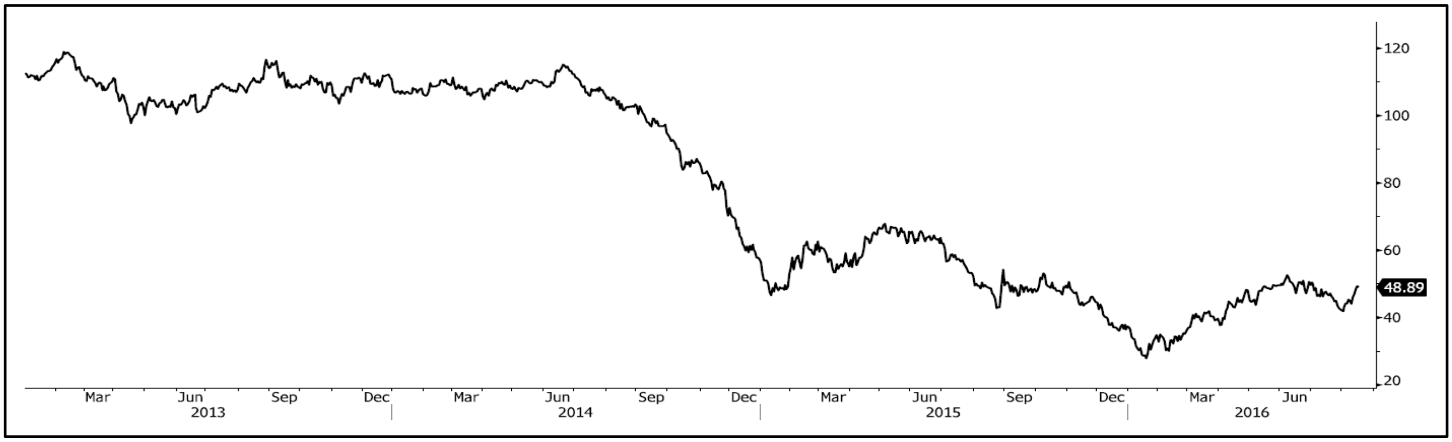
SOURCE: BLOOMBERG (AS AT 31/07/2016)

THE RETURN OF THE CONSUMER

Resilient Malaysian Ringgit

Our argument has always tied the fundamentals of the Malaysian economy to the direction of oil price. Therefore, it is a pleasant surprise for us that, despite oil's near 20% price correction, it has done little damage to the Malaysian Ringgit. It is all the more important that this resiliency was maintained even as Bank Negara surprised the market with a 25bp cut in the Prime Lending Rate.

FIGURE 2: GENERIC 1ST CRUDE OIL, BRENT (2013 – YTD)



SOURCE: BLOOMBERG (DATA AS AT 17/08/2016)

We are very much encouraged such that we believe the trading band we envisaged for the Malaysian Ringgit is probably going to be tightened and likely at the stronger end of the range.

FIGURE 3: USD/MYR CHART (1996 – 2016)

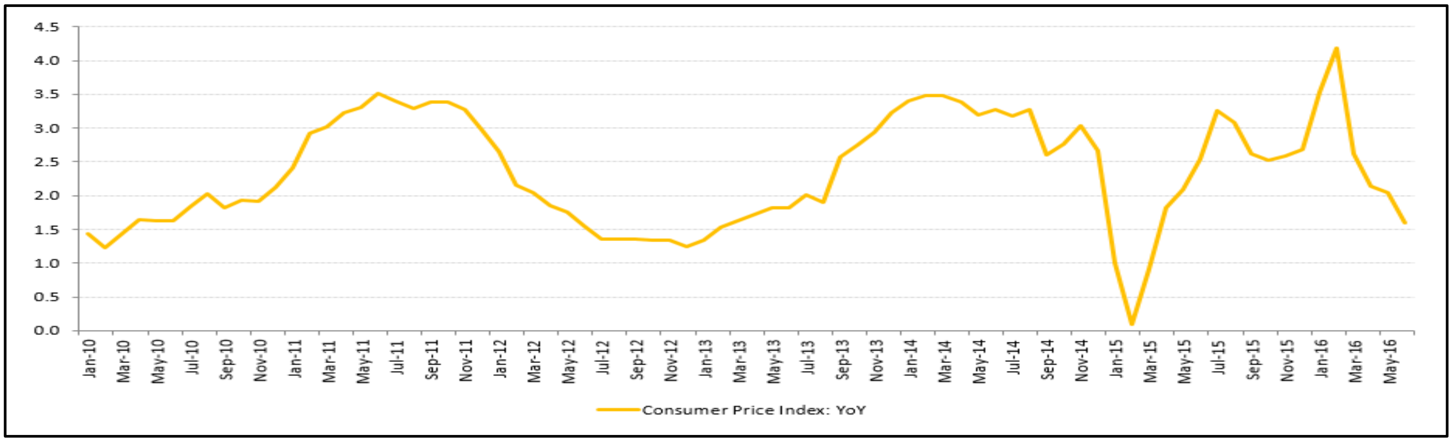
SOURCE: BLOOMBERG (DATA AS AT 17/08/2016)

Meanwhile, as highlighted also in Issue 9, we continue to see strong interest in Malaysian debt market. In fact, Malaysia's bond market has benefitted more than its neighbours!

Confidence For More Monetary Easing

By the time this newsletter hits the press, Malaysia's 2Q16 GDP will have been released, with expectations for a tad weaker reading. Also, inflationary pressure has eased as evidenced by the slower rate of growth in recent months.

FIGURE 4: CPI (2010 – YTD)



SOURCE: MAYBANK KE

Especially with the Malaysian Ringgit having held its ground, this may pave the stage possibly for Bank Negara to cut OPR another time at its next monetary policy meeting on 7th September 2016.

The End Of The Pinch On Purchasing Power

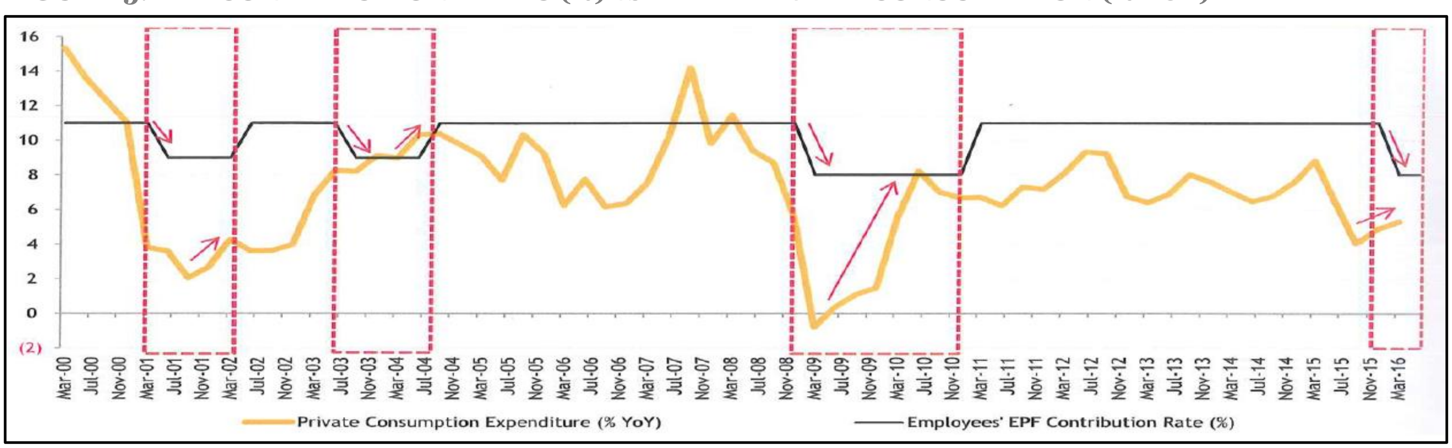
In the last year, has it felt a lot more expensive when you go to the supermarket or when you dine out? Not to mention the impact of GST too!

As the inflationary pressures got felt through a weaker Malaysian Ringgit, especially with imports, many companies have been forced to pass through part of the rise in costs to alleviate the cost burden to end consumers.

As discussed extensively in our Market Commentary February 2016 Issue 7, the Government announced during the revised Budget to (1) reduce employee EPF contribution by 3% points from March 2016 to December 2017, and (2) provide a special tax relief of RM2,000 to individual taxpayers with a monthly income below RM8,500 for the Year of Assessment 2015.

This will be complemented by interest rate cuts, benefitting primarily the mid-income earners, as these 'savings' are a larger percentage of their take-home pay. We expect a progressive recovery from the middle of this year onwards.

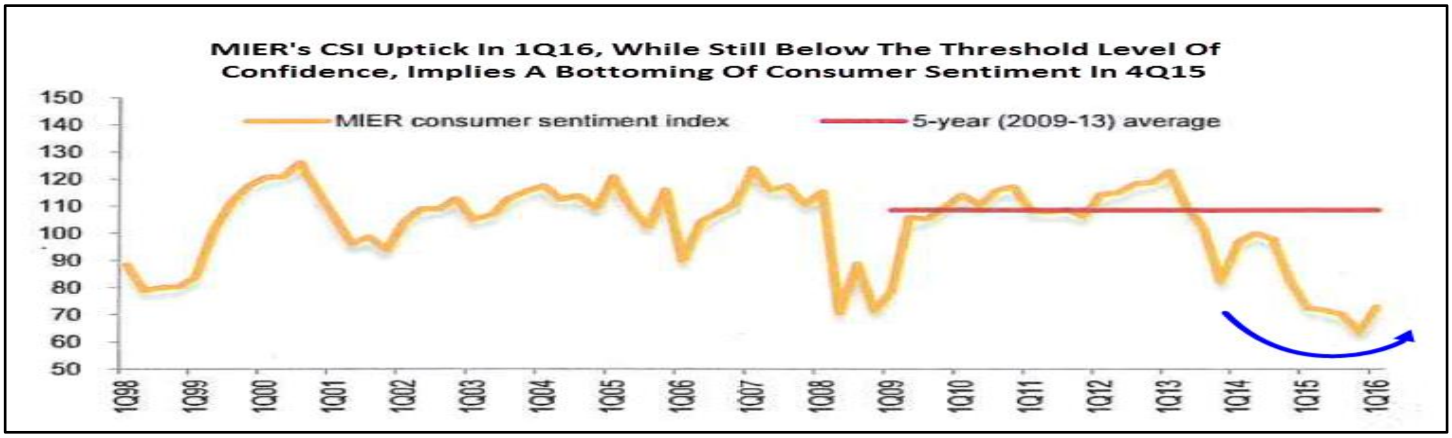
FIGURE 5: EPF CONTRIBUTION RATES (%) vs REAL PRIVATE CONSUMPTION (% YoY)



SOURCE: MAYBANK KE

As evidenced by the MIER Consumer Sentiment Index (CSI), we are likely to have seen the bottom of consumer sentiment in 4Q15 with an uptick observed in 1Q16.

FIGURE 6: MIER CSI



SOURCE: MAYBANK KE

Portfolio Positioned to Capture the Beneficiaries

In Market Commentary March 2016 Issue 6, we first discussed the switch in our portfolios from export oriented names to consumer names that are beneficiaries of a recovering Malaysian Ringgit and the revised Budget.

Another theme we have added to is 'The Scarcity Chase for Yield'. As interest rate resumes its downtrend, yield plays will remain in vogue. Axis REIT is a name that offers an attractive dividend yield yet management also has a good track record in expanding its portfolio offering a nice combination of capital growth supported by dividends.

SELECTED HOLDINGS

FIGURE 7

STOCKS	BLOOMBERG TICKER	PRICE (RM)	PER 2016	EPS ($) 2016	GROWTH (%) 2016	P/BVPS 2016	DY (%) 2016
AXIS REIT	AXRB MK EQUITY	1.80	20.69	0.09	-1.14	1.48	4.61
KLCCP STAPLED GROUP	KLCCSS MK EQUITY	7.58	18.44	0.41	18.79	1.07	4.64
YTL HOSPITALITY REIT	YTLREIT MK EQUITY	1.15	14.38	0.08	11.10	0.76	6.86

SOURCE: BLOOMBERG CONSENSUS DATA (AS AT 17/08/2016)

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