Equity Review Outlook

- The Malaysian equity market continued to rise for the 12th straight month and gained 7 points, to close at 1354.38 points in June. The KLSI also rose in tandem, rising by 3.2 points to end the month at 201.69 points. During the month, the KLCI reached a new record high of 1,391.57 on 22nd June before succumbing to profit-taking activities amidst a sell-down in regional markets. This was due to fresh concerns that the US would raise interest rates to curb inflation.

- CPI for May rose slightly at 1.4%YoY, the lowest in three years as the stronger Ringgit continued to cushion imported inflation. Exports in April rose 0.9%, representing a turnaround from two consecutive months of negative growth this year. Exports were up to RM46.12 billion while imports gained 2.6 per cent to RM40.11 billion. This brings the trade surplus to some RM6 billion, making it the 114th consecutive month of trade surplus since November 1997.

- Going forward, the Malaysian market will continue its temporary consolidation phase, as the much of the news flow has been priced in and the KLCI remains one of the best performing markets YTD. Apart from an improving global economic outlook, local catalysts for the stock market include the 2008 pre-election budget, further policy shifts to boost the property market, and the nation’s general election, which will pave the way for more positive news flow going forward. We maintain our neutral stance, although we will continue to selectively invest in good quality stocks.

Fixed Income Review Outlook

- The US economy has remained steadfast in the month of June. The Federal Reserve kept its key policy rate at 5.25% and is likely keep it so for the period ahead. The housing market is still a concern and will continue to drag on. But despite the poor performance in the housing sector, business capital spending has been picking up which should help ease the drag from the housing market. CPI figures for the month of May edged up 0.1% from April’s figure to 2.7%. The economy is expected to expand albeit at a moderate pace over the coming quarters as the housing sector wrestles with its ongoing adjustments. For the period under review, the 2, 5 and 10 year US treasuries yield initially rose beyond the 5% level due to fear of higher oil prices, but settled at 4.86% (-1bps), 4.92% (+10bps) and 5.02% (+15bps) respectively at month end.

- The central bank maintained a sustainable growth stance, keeping monetary policy on hold and maintaining the Overnight Policy Rate at 3.5% as inflation seems to be moderating. In tandem with this, money supply continued to rise in May. This level of money growth and liquidity expansion is reflective and supportive of economic growth and is positive for the equity market. Although Bank Negara has allowed the Ringgit to appreciate, taking some pressure off the surge in liquidity in the system, the Ringgit lost some momentum as it corrected in tandem with the bond market correction, and closed the month at RM 3.4505.

- Going forward, the local bond market will continue to be well supported on the back of flushed liquidity and sound economics fundamentals. Inflation outlook remains benign with the full year CPI projection by Bank Negara to be at 2.0-2.5%. With Ringgit remains undervalued, huge current account surplus and healthy growth numbers, we expect the Bank Negara to keep the Overnight Policy Rate at 3.50% going forward. On the PDS side, we expect more bonds to be issued in 2H07 as issuers move to lock in borrowing cost in this low interest rate environment. The increasing bond supply should be well absorbed by the market as the