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## MARKET UPDATE

### Equity Review Outlook

- Record high oil prices, slowing global economy coupled with rising inflationary pressure continued to spook the equity markets in the first half of July. However, towards the later part of the month, investors turned net buyer after FED Chairman Bernanke hinted that the central bank has almost finished raising rates. On the domestic front, news flow turned slightly positive following BNM's decision to maintain Overnight Policy Rate (OPR) at 3.5% in the recent Monetary Policy Meeting. All in all, the KLCI index rose by 2.31% while the broad FTSE Emas index rose by 1.66% alongside with the regional markets. During the same period, Thailand, Singapore and Indonesia rose by 1.97%, 3.16% and 0.41% respectively.
- The quarterly results reported in July were so far slightly better than the previous quarter as more companies reported better than expected earnings. As an indication, British American Tobacco's second quarter net earnings rose 47% yoy and was 4% above consensus on the back stronger sales of Pall Mall and Dunhill packs while Digi continued to surprise investors with stronger subscriber growth numbers. Meanwhile, Tenaga, and Malakoff were among those that reported lower net profit as compared to the same period last year. Lower net profit of Tenaga was mainly due to lower foreign exchange gain during the period while Malakoff registered weaker earnings on the back of lower capacity factor at its three power plants.
- On the economic front, June's exports growth dipped slightly to 11.4% yoy as compared to May's 13.1% yoy while imports grew at a steady pace of 11.4% yoy in June from 11.8% yoy May. As a result, the trade surplus widened further to RM8.6 billion as compared to RM8 billion in May and RM7.7 billion a year ago. Stronger export growths were registered for the electrical and electronic; timber, crude petroleum, chemicals and chemical products while exports of machinery and palm oil products declined slightly during the month. Meanwhile, Industrial Production Index (IPI) in May surged 5.5% yoy driven mainly by the manufacturing sector, which rose by 8.3% in the same period.
- During the month, the market was pleasantly surprised by the BNM's decision to keep OPR at 3.5% in its recent Monetary Policy Meeting. In view that there is no sign of a significant up tick in domestic inflation from current level as a result of higher energy prices, we envisage the BNM may maintain OPR close to current level in the near term. The next meeting will be held on 25<sup>th</sup> August.
- Following the 9<sup>th</sup> Malaysia Plan that was unveiled in May, the Prime Minister announced a list of 880 projects worth RM15 billion to be tendered out. This first wave of projects includes among others 450 primary and secondary schools and water supply projects in Terengganu. We expect more stimulus measures to be announced in the next couple of months that would help cushion the impact from a slow down in the export sector going forward.
- With the view that the US FED is at its tail end of its tightening cycle and we are entering into a mid cycle slow down, the overall risk reward profile for equities is improving. Stocks are beginning to look attractive and valuations are not excessive. Hence, in terms of investment strategy, we begin to slowly move some cash into equities and maintain a high equity exposure.

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## MARKET UPDATE

### Fixed Income Review Outlook

- In US, there was no FOMC meeting in July. The next FOMC meeting is scheduled to be held on the 8<sup>th</sup> of August. After the last rate hike in June, investors have raised the odd that Fed might opt for a pause in August. Recent economic data continue to be mixed. The ISM manufacturing number came in higher than expected at 54.7 while the housing and consumer spending data continue to be weak. June CPI came in as expected at 0.2% mom, which is lower than 0.4% mom registered in May. Fed's Beige Book reported that economic growth is cooling down in certain area of US, and correspondingly, US GDP growth data came out lower at 2.5% as well. International crude oil price was hovering at USD75/barrel for the month and it was once shot up to USD78/barrel when the war between Israel and Lebanon breaks out. The US Treasuries yield curve inverts and shifted downwards during the month as the market thinks that a mid-cycle slowdown is more likely than a recession in the US. The 2, 5 and 10-year UST ended at 4.95% (-20bps), 4.90% (-19bps) and 4.98% (-16bps) respectively.
- The RM bond market was brought back to life in late July. Due to the electricity tariff hike last month, the market was mixed regarding the likelihood of rate hike in July. However, the June CPI came in lower than expected at 3.9% towards the end of month. On top of that, the rising probabilities that Fed FFR hike will pause have provided additional support to the market's belief of a no OPR hike in July. Thus, the MGS market rallied during the last week of July as market participants believe that OPR will not be hiked amidst growing nervousness of slower economic growth and the inflationary pressures going forward. On the 28<sup>th</sup> of July, market participant's view was proven to be correct, as BNM has decided to give a pause in July by keeping the OPR unchanged at 3.50%. This cites the likelihood that the domestic inflation is reaching its peak and BNM is concern about the possible moderation of global growth. During the month, the movement of Ringgit shows the uncertainty in the market regarding the OPR hike decision by BNM. The Ringgit was traded at 3.6415 beginning of the month but reverted back to 3.6807 nearing month end as the OPR will most likely to be kept unchanged. The 3, 5 and 10-year MGS ended at 4.15% (-33bps), 4.35% (-22bps) and 4.81% (-27bps).
- There were two sovereign issuances in July. The reopening of the 5-year GII with the size of RM3 billion attracted lukewarm response where it only attracted a bid-to-cover ratio of 1.52 times and was issued with an average yield of 4.635%. On the last day of July, there was a reopening of the 3 year MGS with the size of RM3billion. The issue size was within market expectation and was issued at 4.12% with a bid-cover ratio of 1.85 times.
- The positive sentiments were also felt in the PDS market resulting in an increased trading activity, but mainly in the AAA and AA segment of the market. There were a few new PDS issuances in the month, namely Putrajaya, Sabah Development Bank and Sunrise Berhad. During the month, RAM has upgraded SESCO and Pembangunan Leasing Corp, while on the other hand, Ambang Sentosa, Ample Zone, Memory Tech and Aegis One were all downgraded by MARC.
- In August, the bond market is likely to start off with more profit-taking activities as the OPR was kept unchanged in July. The next FOMC on 8 August would also provide further direction to the RM bond market. On the economic front, investors will be watching out for the July CPI numbers. We believe it would remain around 4% as a result of the electricity tariff increase. On the supply side, the 10-year reopening will be issued in August but the date and size is yet to be determined. The bond market is likely to turn more cautious towards month-end as the monetary policy meeting will be held on 25 August. The outcome would be influenced by the FOMC decision in early August, as well as the economic data to be released during the month.

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