

Equities Weekly – The Return of Helicopter Ben [25 June 2012]

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OPERATION TWIST PART II

Most equity markets ended the week lower as Fed Chairman Ben Bernanke opted to extend Operation Twist rather than launch Quantitative Easing III. Commodity prices of crude oil and Gold led the decline, posting losses of -4.6% and -2.9% respectively. Equity market losses were led by Russia and India, which dropped -3.3% and -1.8% on the back of lower oil prices and a failure to cut interest rates respectively. Meanwhile, in China, disappointing flash Manufacturing PMIs saw the HSML 100 index shed -1.7% as investors worried further over a sharp and prolonged slowdown in the economy.

Regional indices were mixed, with only Europe and Japan posting gains of 1.3% and 1.4% for the week. The US gained 0.3% while the MSCI Emerging Markets and MSCI Asia Ex Japan stayed flat.

[All returns in MYR terms]

EUROPE: SENTIMENT SLIDES AS RISKS MOUNT, ECB STEPS IN

Sentiment indicators continued to slide in Europe with risks continuing to rise in tandem with Spanish bond yields. Germany's sentiment indicators slid in the month of June after falling in May. The ZEW current situation survey fell to 33.2 in May from 44.1 in May, missing estimates of a drop to 39.0, while the ZEW economic sentiment survey slid into negative territory, posting a reading of -16.9 after recording 10.8 in May. The slip in the economic sentiment reading is a reflection of the concerns over the health of the European financial market with particular focus on Spain and its soaring sovereign yields. The risks in Europe have also been reflected in the Eurozone Composite PMI which remained at 46.0, indicating that the Eurozone economy continues to contract despite the PMI coming in better consensus estimates of 45.5.

On Friday, the European Central Bank (ECB) moved to ease the quality and widen the range of "appropriate collateral" it will accept from Eurozone banks, with the aim of boosting lending to companies and households in the troubled continent. The new range has been expanded to include asset-backed securities such as car loans, as well as certain types of mortgage-backed securities. The latest move by the ECB can be seen as an attempt to provide additional liquidity

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to the Spanish banking sector which holds a sizeable amount of mortgage-backed securities, many of which are underwater following the crash in the Spanish real estate market.

US: HOUSING IMPROVES, BUT MANUFACTURING TROUBLING

May housing starts came in weaker-than-expected, at a 708,000 annual rate compared to 722,000 expected by the consensus. While the headline figure missed estimates, there were signs of underlying strength in the latest housing data. April's housing starts were revised up from 717,000 to 744,000, the highest level since October 2008, while May's housing starts indicated that single-family home construction (a more representative measure of overall housing activity) actually rose 3.2% to an annual 494,000 rate, the highest level in over two years. Building permits also surged 7.9% month-on-month to 780,000, suggesting a stronger outlook for future construction activity.

However, the Philadelphia Fed Survey for June pointed to a second consecutive month of contraction for manufacturing in the Philadelphia area, heightening concerns that the upcoming ISM Manufacturing PMI for the month of June may be weak. Manufacturing has been a rare consistent bright spot for the US economy, demonstrating strength in the recovery even as areas like job creation and housing have faltered somewhat. While the latest weakness in economic data is more likely to signal a soft patch in the economy rather than an outright slowdown, it is increasingly likely that growth in 2Q 12 will be slower than initially thought given that corporate investment has likely slowed in the current quarter on weak business confidence, while the growth in consumer spending remains modest by historical standards.

GREATER CHINA: MODERATING ECONOMIC DATA

HSBC's Chinese Flash Manufacturing Purchasing Managers' Index (PMI) fell to 48.1 in June (a figure below 50 indicates a contraction in the industry), with the preliminary figure for June indicating an eighth consecutive month of contraction. June's contraction was deeper than what we saw in May when the figure was at 48.4 points and has spurred worries over a sharp slowdown in China.

Meanwhile, the unemployment rate in Hong Kong fell to 3.2% in May, the lowest level in over 14 years. The jobless rate has been hovering around an extremely low level in the past ten months, in the range of 3.2% to 3.4%. However, as global economic risks persist, stemming from a slowdown in US and China and the uncertainties surrounding the European debt crisis, the job market will remain challenging; we expect to see the unemployment rate inch higher. On the other hand, the consumer price index (CPI) rose just 4.3% year-on-year in May, decelerating

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from a 4.7% increase year-on-year in April. Moderating inflationary pressures were expected, due to slowing economic growth.

Taiwan's export orders for May contracted -3.04% year-on-year, a slight improvement from the -3.52% contraction seen in April and was also better than the -3.7% contraction markets had expected. This is the fifth in the past six months in which the figure showed a year-on-year contraction. The figure points towards continued weakness in the Taiwanese economy, suggesting that exports growth will continue to remain negative for the coming months. The sole bright spot is that exports orders did not contract any deeper; we expect to see exports bottom out in the coming months.

RUSSIA: INDUSTRIAL PRODUCTION CONTINUES TO GROW

Industrial production in May rose 3.7% on a year-on-year, beating the market estimates of 1.7% year-on-year growth. The growth was mainly driven by manufacturing sector which grew sharply by 7.0% year-on-year. The second largest driver was the electricity, water and gas sector whose output increased by 1.2% from a year earlier. However, the production of mining sector dropped slightly by -0.3%. The strong growth in manufacturing sector, the largest component of Russia's industry, offset the drop in mining sector's production. Since November, 2009, the monthly industrial production growth rate has remained firmly in positive territory, suggesting that production activity in Russia has room to expand despite the global economic turmoil.

[We are displaying market earnings and valuations based on in-house estimates or consensus estimates for all markets under coverage]

| Market | Local Currency | | | | MYR | | | 5 year | PE | PE | PE | Earnings | Earnings | Earnings |
|-----------------------|----------------|-----------|-------|--------|-----------|--------|--------|--------|------|------|------|----------|----------|----------|
| | 22-Jun-12 | 31-May-12 | 2012 | 2011 | 31-May-12 | 2012 | 2011 | | | | | | | |
| MSCI World | 304.63 | 2.2% | 1.7% | -9.4% | 2.7% | 2.5% | -6.3% | 1.8 | 11.8 | 10.8 | 9.5 | 9.8 | 8.8 | 14.1 |
| USA | 1335.02 | 1.9% | 6.2% | 0.0% | 2.4% | 7.0% | 3.5% | 0.75 | 12.8 | 11.4 | 10.2 | 22.1 | 12.6 | 11.4 |
| Europe (Stoxx 600) | 246.58 | 2.9% | 0.8% | -11.3% | 5.0% | -1.5% | -11.0% | 0.64 | 12.5 | 12.1 | 10.3 | -11.7 | 3.5 | 17.6 |
| Japan^ | 8798.35 | 3.0% | 4.1% | -17.3% | 0.8% | 0.4% | -9.7% | 0.22 | 13.2 | 12.1 | 10.0 | 17.5 | 8.8 | 21.3 |
| MSCI Emerging Markets | 917.18 | 1.2% | 0.1% | -20.4% | 1.7% | 0.9% | -17.6% | 5.0 | 9.7 | 8.8 | 7.6 | 9.7 | 9.5 | 16.3 |
| MSCI Asia ex Jap | 469.82 | 0.5% | 2.4% | -19.2% | 1.0% | 3.2% | -16.3% | 2.0 | 10.9 | 10.2 | 8.6 | 11.1 | 6.7 | 18.7 |
| Singapore | 2828.09 | 2.0% | 6.9% | -17.0% | 3.5% | 9.5% | -15.0% | 0.48 | 13.8 | 14.7 | 10.8 | 0.9 | -6.4 | 35.9 |
| Hong Kong | 18995.13 | 2.0% | 3.0% | -20.0% | 2.4% | 3.9% | -17.1% | 0.47 | 9.8 | 8.9 | 8.0 | 20.4 | 10.9 | 10.7 |
| Taiwan | 7222.05 | -1.1% | 2.1% | -21.2% | -0.9% | 4.1% | -21.5% | 0.94 | 14.5 | 11.8 | 10.7 | -16.1 | 23.0 | 9.7 |
| Korea | 1847.39 | 0.2% | 1.2% | -11.0% | 2.6% | 1.4% | -10.2% | 3.42 | 9.3 | 9.1 | 7.7 | 15.6 | 1.9 | 17.6 |
| China (HSML100)* | 5756.01 | -1.1% | 0.0% | -19.3% | -0.6% | 0.8% | -16.4% | 2.95 | 8.6 | 7.7 | 6.9 | 23.7 | 11.7 | 11.0 |
| Shanghai A (SHCOMP) | 2260.88 | -4.7% | 2.8% | -21.7% | -4.5% | 2.2% | -15.2% | 2.95 | 9.9 | 8.5 | 7.5 | 29.2 | 16.3 | 12.9 |
| China A (CSI 300) | 2512.19 | -4.6% | 7.1% | -25.0% | -4.3% | 6.5% | -18.8% | 2.95 | 10.7 | 9.0 | 7.9 | 29.7 | 18.2 | 14.8 |
| Malaysia | 1603.07 | 1.4% | 4.7% | 0.8% | 1.4% | 4.7% | 0.8% | 3.22 | 17.2 | 15.8 | 14.0 | -1.0 | 8.3 | 12.9 |
| Thailand | 1152.91 | 1.0% | 12.4% | -0.7% | 1.6% | 12.6% | -2.5% | 3.33 | 11.9 | 10.2 | 8.4 | 37.6 | 16.4 | 21.1 |
| India^ | 16972.51 | 4.6% | 9.8% | -24.6% | 3.7% | 2.8% | -34.4% | 8.35 | 13.3 | 11.7 | 10.8 | 20.8 | 14.0 | 7.7 |
| Indonesia | 3889.52 | 1.5% | 1.8% | 3.2% | 2.1% | -0.9% | 4.2% | 5.44 | 17.3 | 13.3 | 11.3 | 9.1 | 30.0 | 17.4 |
| Russia# | 1281.88 | 3.2% | -7.2% | -21.9% | 3.7% | -6.5% | -19.7% | 7.99 | 4.6 | 4.8 | 4.5 | 35.5 | -5.2 | 7.1 |
| Brazil | 55439.50 | 1.7% | -2.3% | -18.1% | 0.1% | -11.1% | -24.7% | 9.93 | 9.9 | 8.4 | 7.5 | 3.6 | 16.7 | 12.9 |
| Australia^ | 4048.21 | -0.7% | -0.2% | -14.5% | 3.1% | -1.4% | -11.3% | 2.51 | 11.3 | 10.3 | 9.1 | 4.9 | 10.4 | 12.4 |
| Nasdaq 100 | 2585.53 | 2.4% | 13.5% | 2.7% | 2.9% | 14.4% | 6.3% | - | 13.8 | 11.9 | 10.5 | 42.9 | 15.6 | 13.4 |

* Mainland Companies - Hang Seng Mainland 100 Index is a market capitalization weight index that comprise both H-share companies and red-chip stocks listed in main board of SEHK and including in HSCI index. The index is the benchmark of all China Mainland stock performance in Hong Kong

^ For Japan and India, their financial reporting year ends during the month of March

^^ For Australia, their financial reporting year ends during the month of June

Russia benchmark index - RTSIS\$ is denominated in USD. However, 5 years bond yields are based on RUB denominated sovereign bonds as there are no USD denominated bonds. We acknowledge and accept the difference based on the assumption that while USD denominated share prices are not trading at a premium or discount to RUB denominated share prices (for the same company stock), there should be no significant difference in tracking Russia equity index in either RUB or USD

