



Phillip Capital Management

Challenges Investing During Weak Ringgit

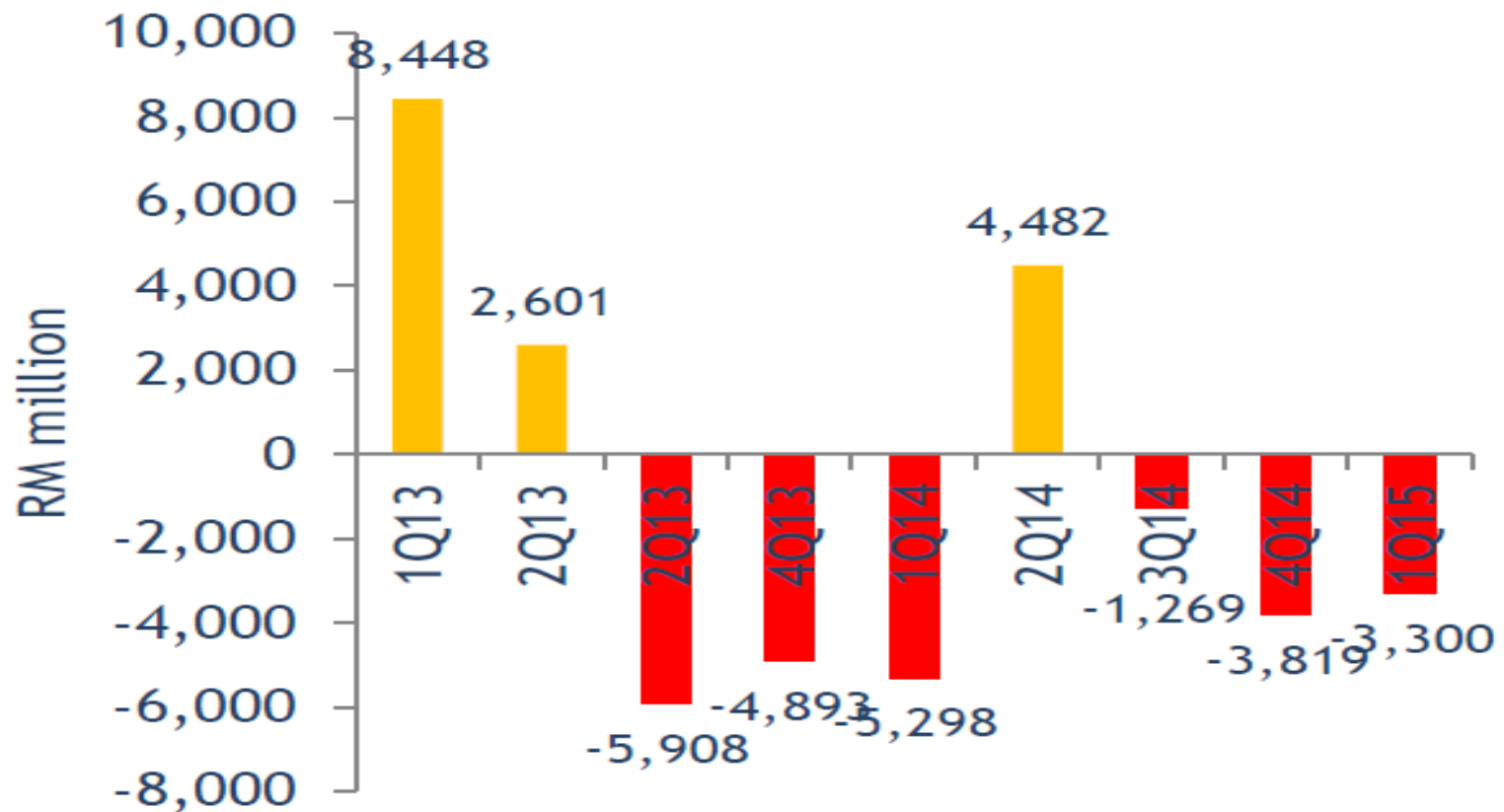
by
Ang Kok Heng
Phillip Capital Management Sdn Bhd
9 May 2015

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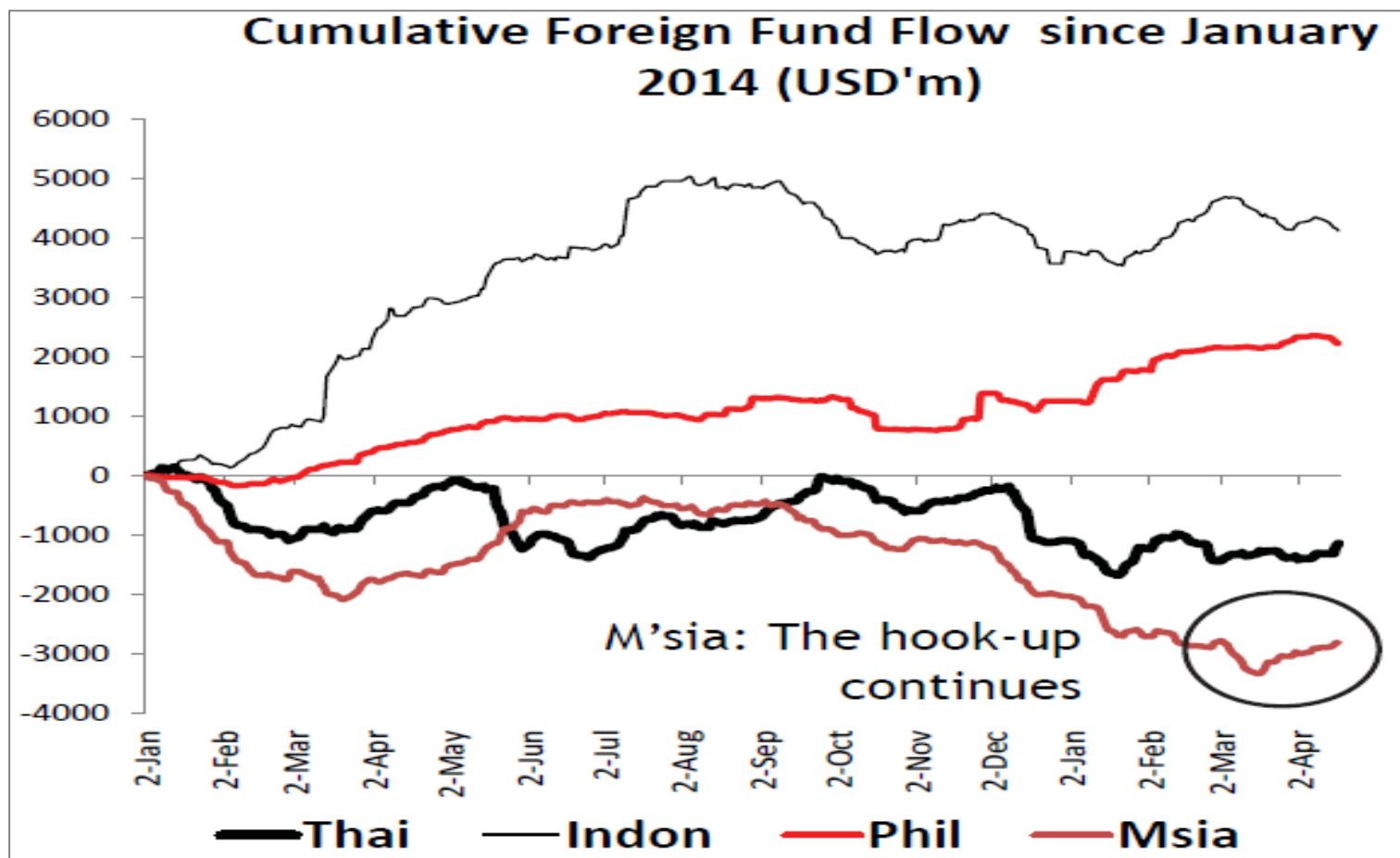
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Foreign Funds Have Been Quiet in Malaysia (Foreigners sold RM6.5bn stocks in 2014)

Foreign Investors Trading Pattern in Bursa Msia
(1Q13-1Q15)



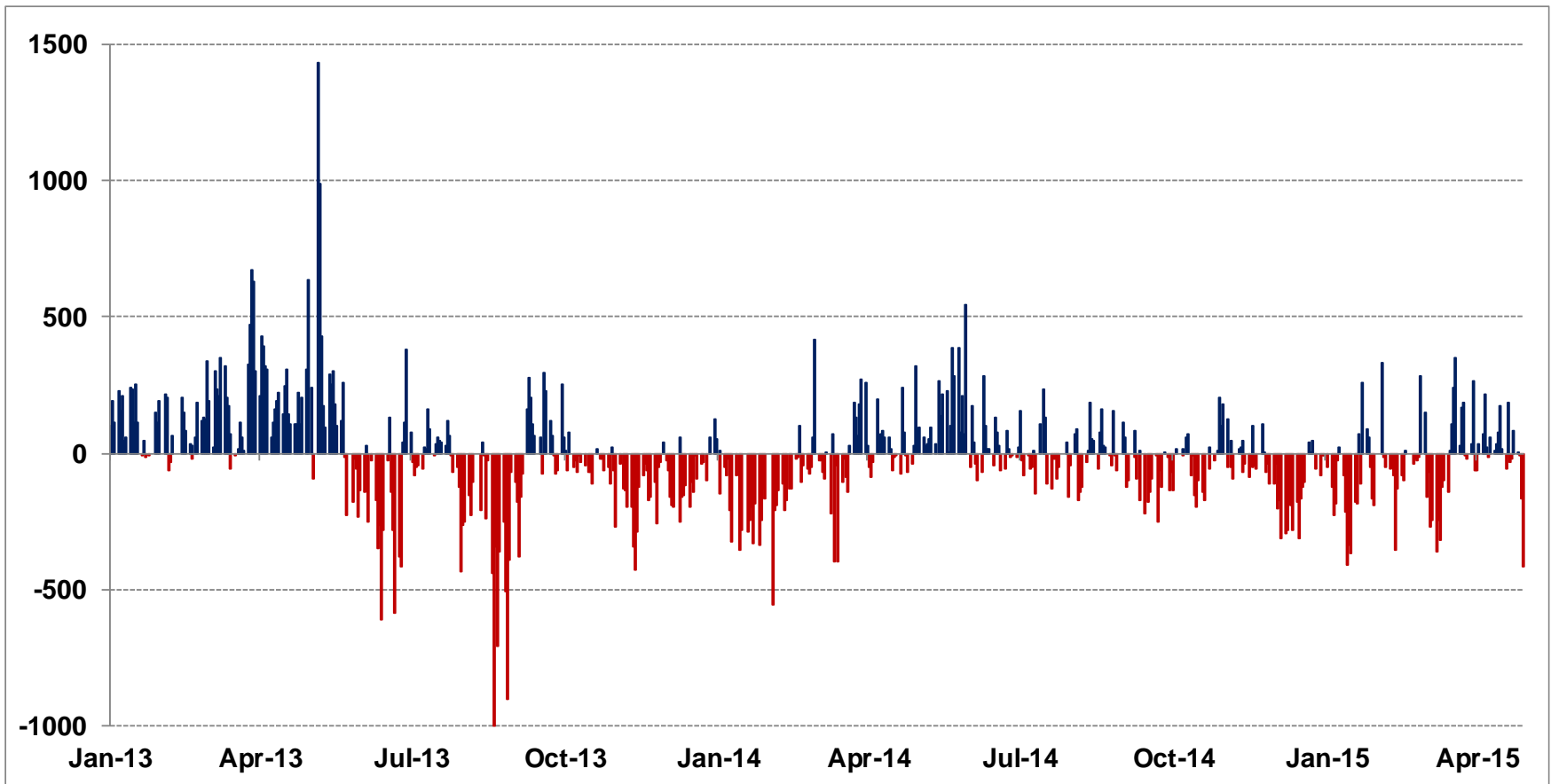
Foreign Funds Have Been Quiet in Malaysia (Foreigners sold RM6.5bn stocks in 2014)



Source: MIDF

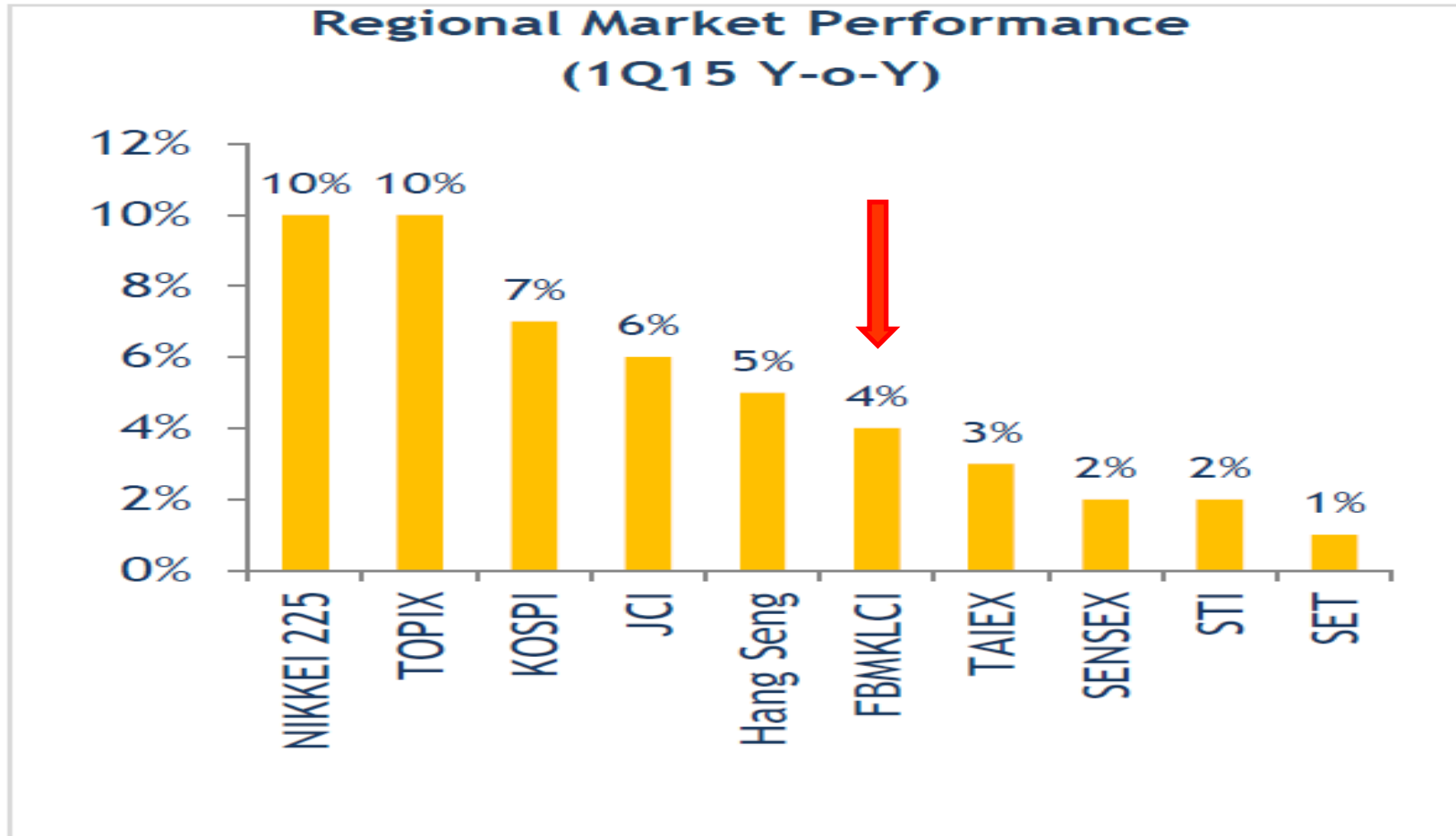
Foreign Started to Return (Mild net purchases by foreign funds since end March 2015)

Foreign Daily Flow (RM mil)



Source: theSundaily, PCM

Performance 1Q 2015



Recent Market Development

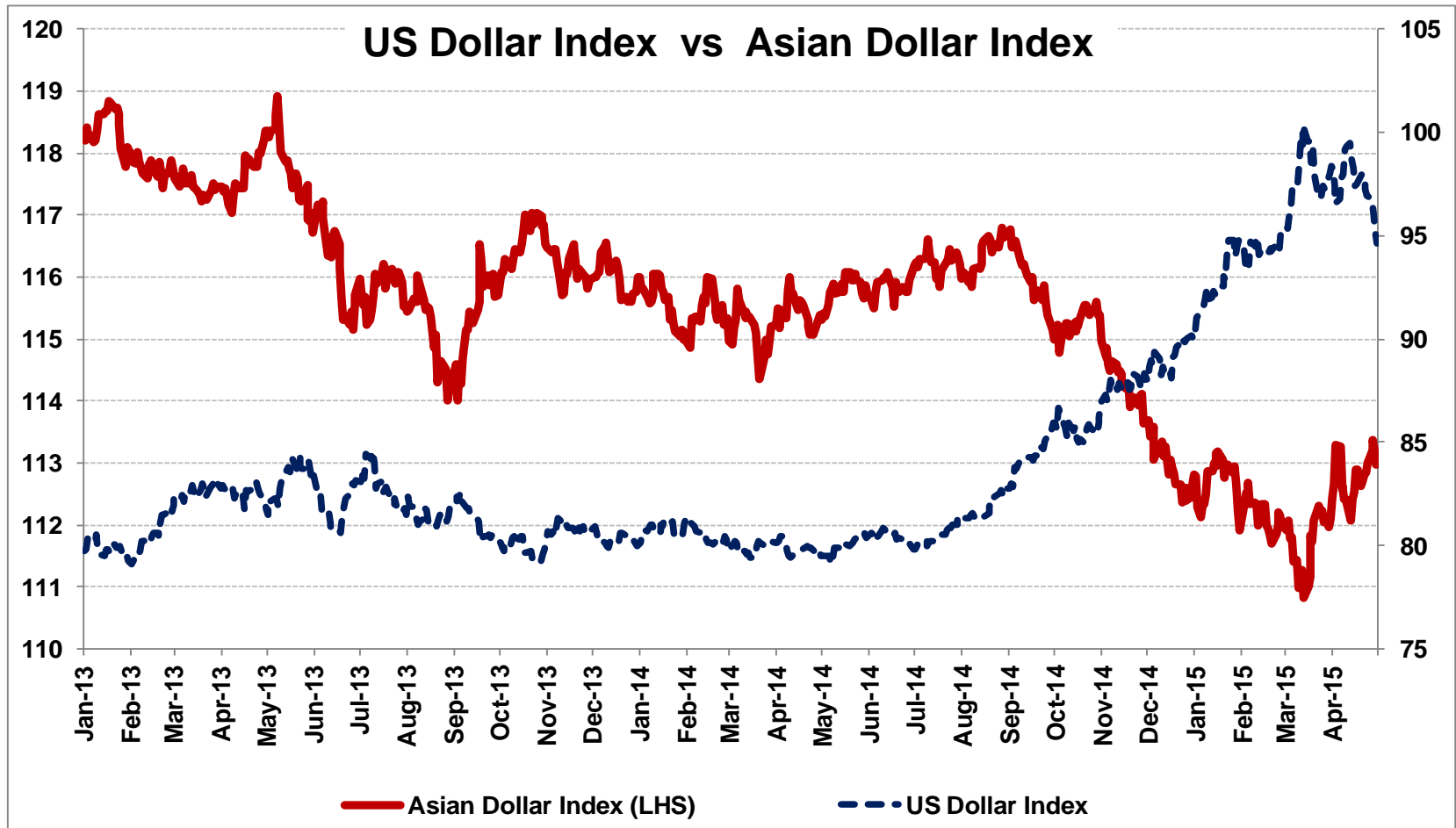
- **EU slowing down.**
- **Japan fell into recession.**
- **US is the only stronger economic block -> USD strengthens.**
- **QE in US ended in Oct `14 but QE started in EU and Japan.**
- **China economy is slowing down but no hard landing. Started to cut interest rates & reserve requirements**
- **Inflation still low, interest rates are low.**
- **Global commodity prices coming down. Oil price plunged.**

More Quantitative Easing (QE)

- US stopped its QE of **US\$85bn** per month in Oct '14.
- ECB just announced its 1.1tn euro from Mar '15 to Sep '16 at a rate of **US\$72bn** per month (higher than initial estimate and more than present scheme of 10bn euro).
- BOJ to start **US\$14bn** per month.
- More QE -> weaker euro and yen, -> stronger USD.



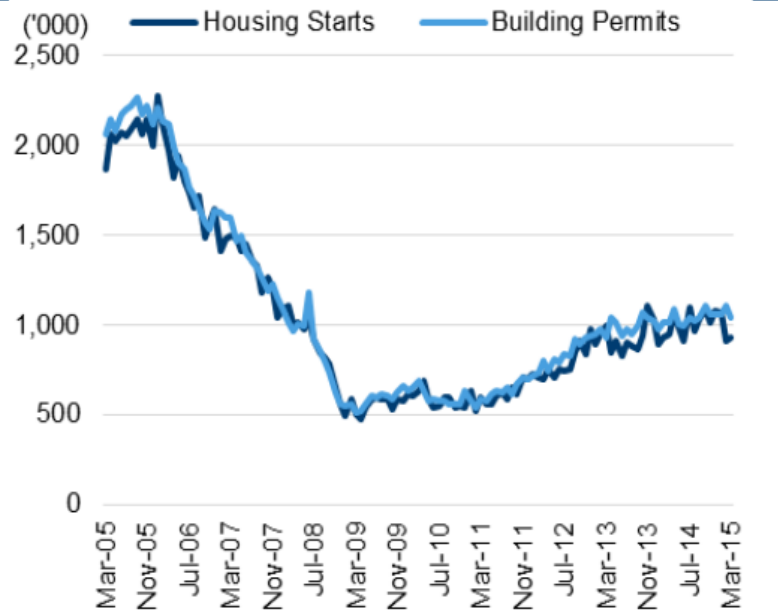
Inverse Correlation (DXY index still trending upwards)



Source: Bloomberg

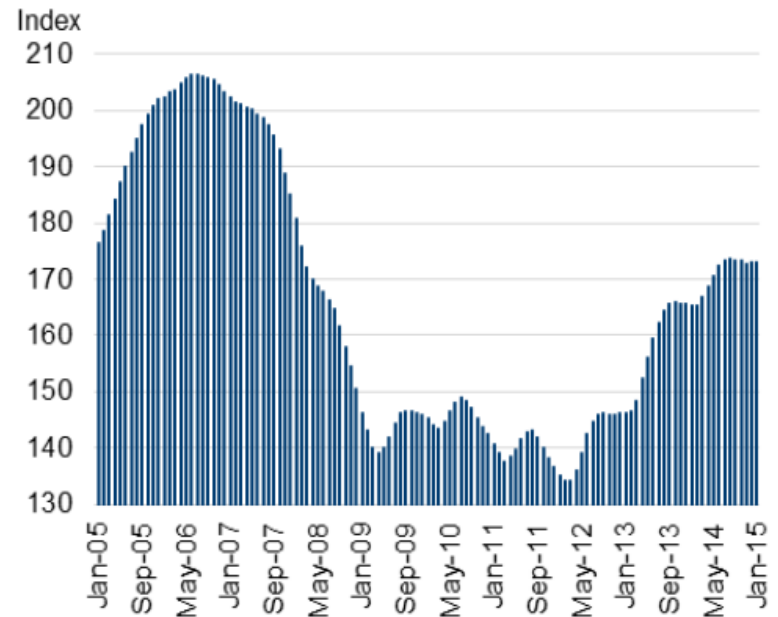
US Housing Market Recovering

Chart 5: Housing starts



Source: All data for charts sourced from CEIC and Bloomberg

Chart 8: House price index



Confidence Fully Recovered

Chart 6: U. of Mich. consumer confidence index

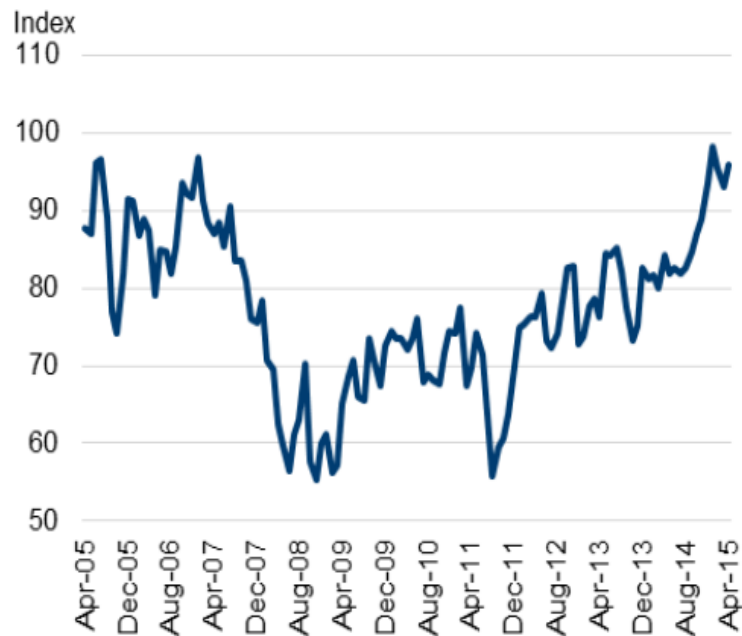
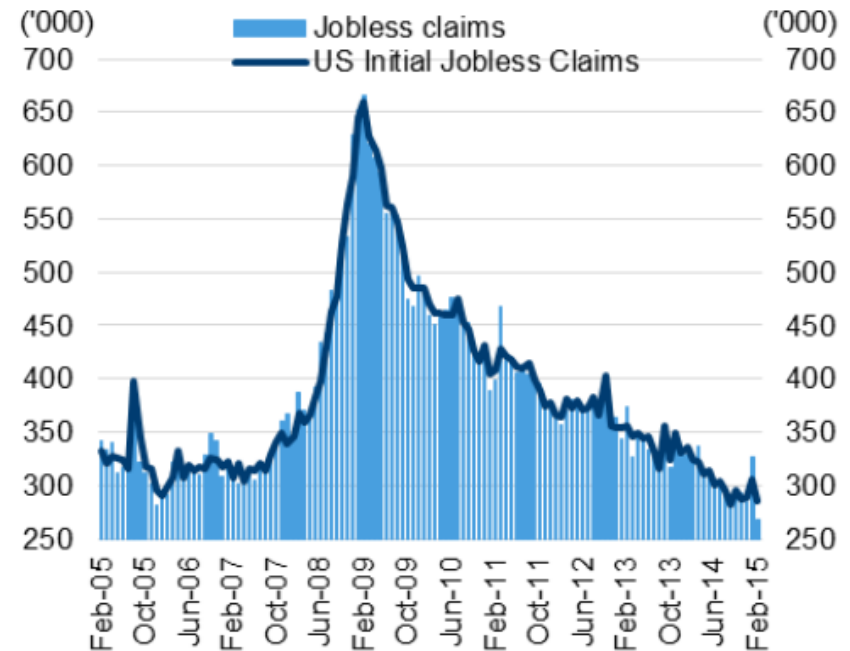


Chart 10: Initial jobless claims



Malaysia Dilemma

- **As a net exporter of oil & gas, plunging oil px is negative to Malaysia.**
- **Fear of twin deficit caused ringgit to fall. Possible Fitch may downgrade Msia sovereign rating on possible default by 1MDB worsen the situation.**
- **Msian government revenue to fall but will still reduce budget deficit to 3.2%.**



Rating – One +ve, One -ve

(Fitch intends to downgrade M'sia sovereign rating)

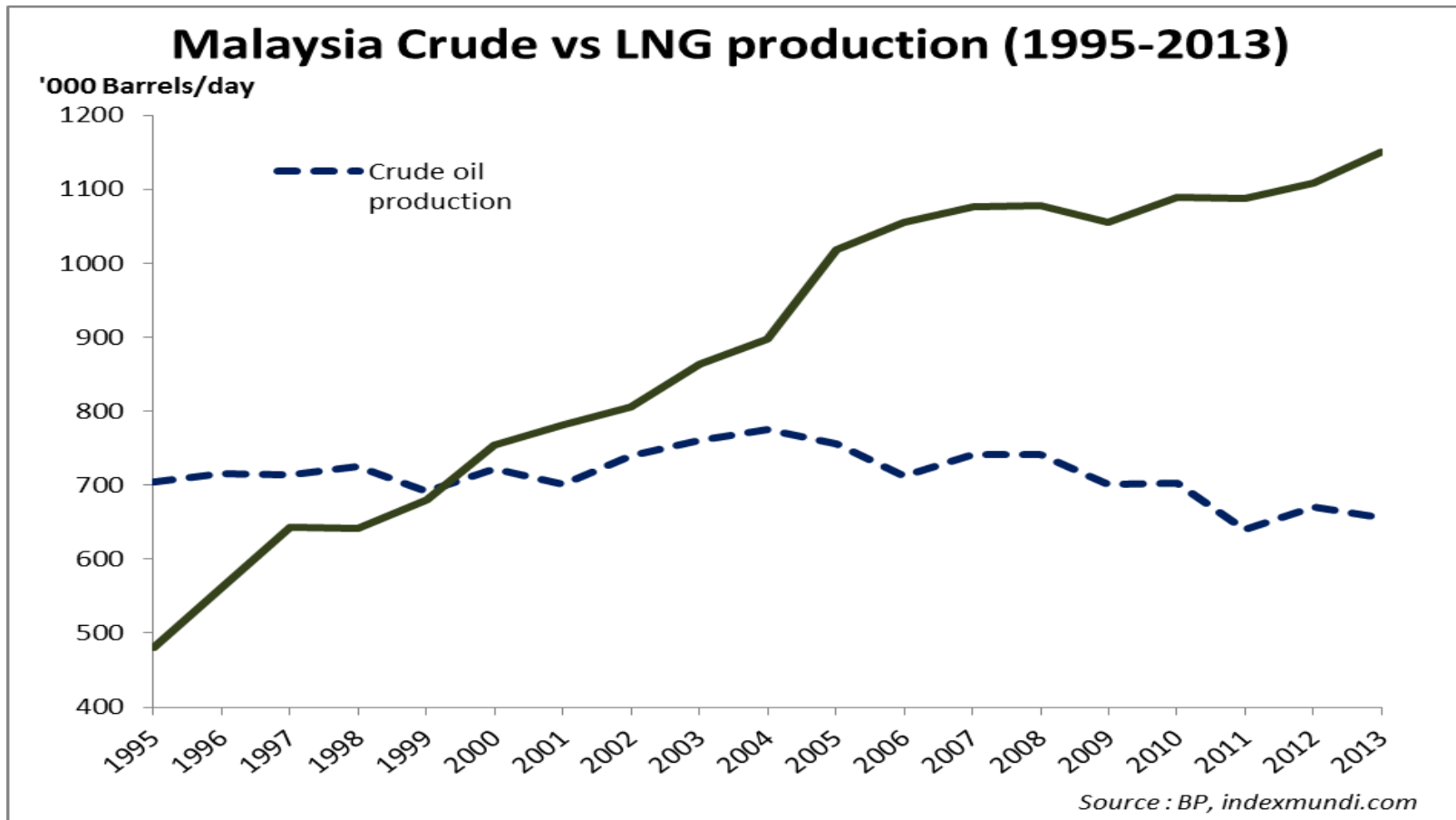
Malaysia: Foreign Currency Sovereign Debt Rating & Outlook

Moody's			Standard & Poor			Fitch		
Date	Ratings	Outlook	Date	Ratings	Outlook	Date	Ratings	Outlook
20-Nov-13	A3	Positive	24-Jul-11	A-	Stable	30-Jul-13	A-	Negative
24-May-06	A3	Stable	15-May-08	A-	Stable	10-Nov-08	A-	Stable
16-Dec-04	A3	Stable	31-Jul-07	A-	Positive	20-Nov-06	A-	Positive
29-Sep-04	Baa1	Positive	08-Oct-03	A-	Stable	08-Nov-04	A-	Stable
25-Sep-02	Baa1	Stable	20-Aug-02	BBB+	Stable	07-Aug-02	BBB+	Stable
24-Jun-02	Baa2	Positive	04-Mar-02	BBB	Positive	07-Dec-99	BBB	Positive
17-Oct-00	Baa2	Stable	04-Apr-01	BBB	Stable	09-Sep-99	BBB-	Positive
12-Jul-00	Baa3	Positive	01-Sep-00	BBB	Positive	26-Apr-99	BBB-	Neutral
03-Dec-98	Baa3	Stable	10-Nov-99	BBB	Stable	09-Sep-98	BB	Negative
14-Sep-98	Baa3	Negative	15-Sep-98	BBB-	Negative	13-Aug-98	BBB-	Neutral
23-Jul-98	Baa2	Stable	24-Jul-98	BBB+	Negative			
04-Jun-98	A2	Negative	17-Apr-98	A-	Stable			
21-Dec-97	A2	Stable	23-Dec-97	A	Stable			
15-Mar-95	A1	Stable	29-Dec-94	A+	Stable			
20-Jan-95	A2	Positive	13-Sep-90	A-	Stable			
15-Mar-93	A2							
12-Mar-90	A3							
18-Nov-86	Baa1							

 Upgrade in actual rating & rating outlook
 Downgrade in actual rating & rating outlook

Source: Rating Agencies, Bloomberg

Malaysia Produces More LNG Than Oil (LNG reserves > oil reserves)

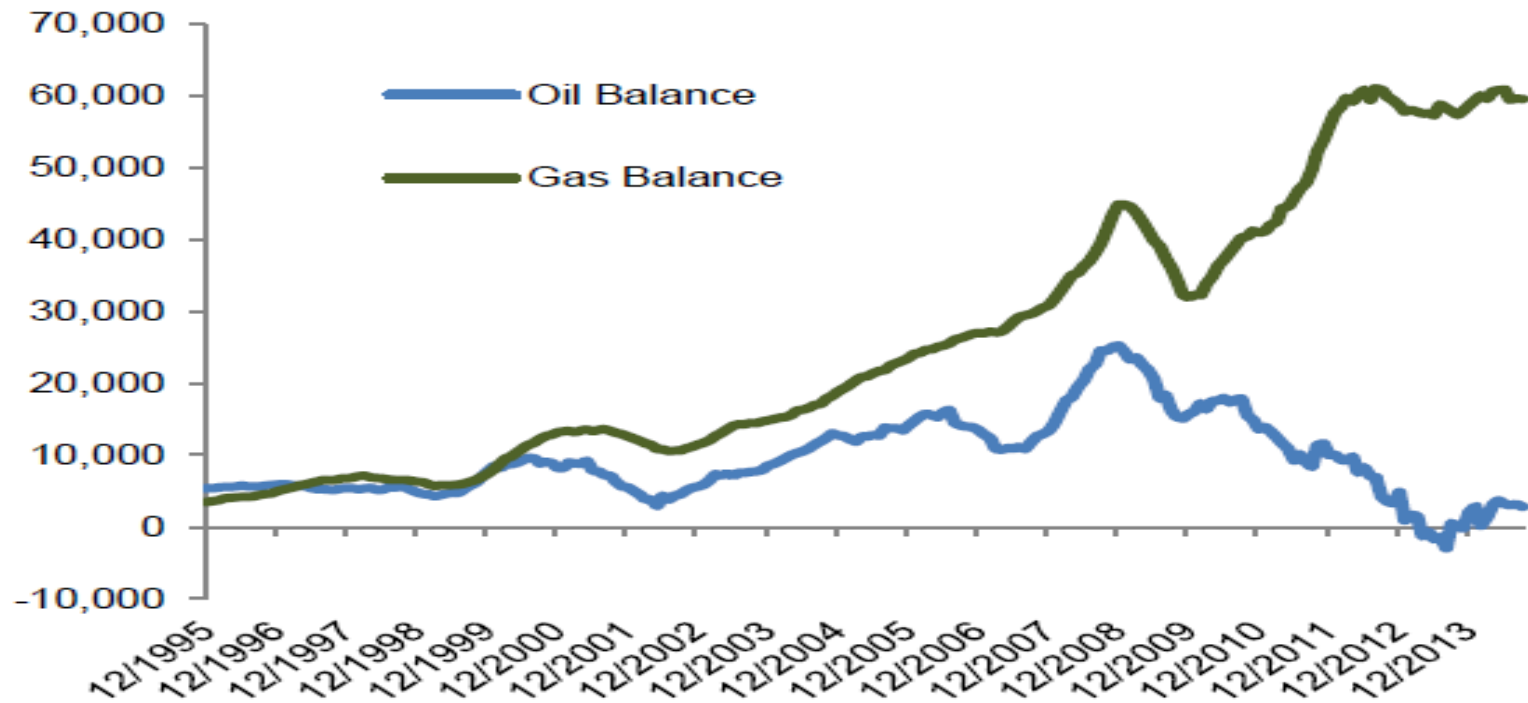


We are Net Exporter of LNG

(>50% LNG exported, earning RM63bn a year)

Figure 36. The trade balance in LNG is a key contributor to the current account

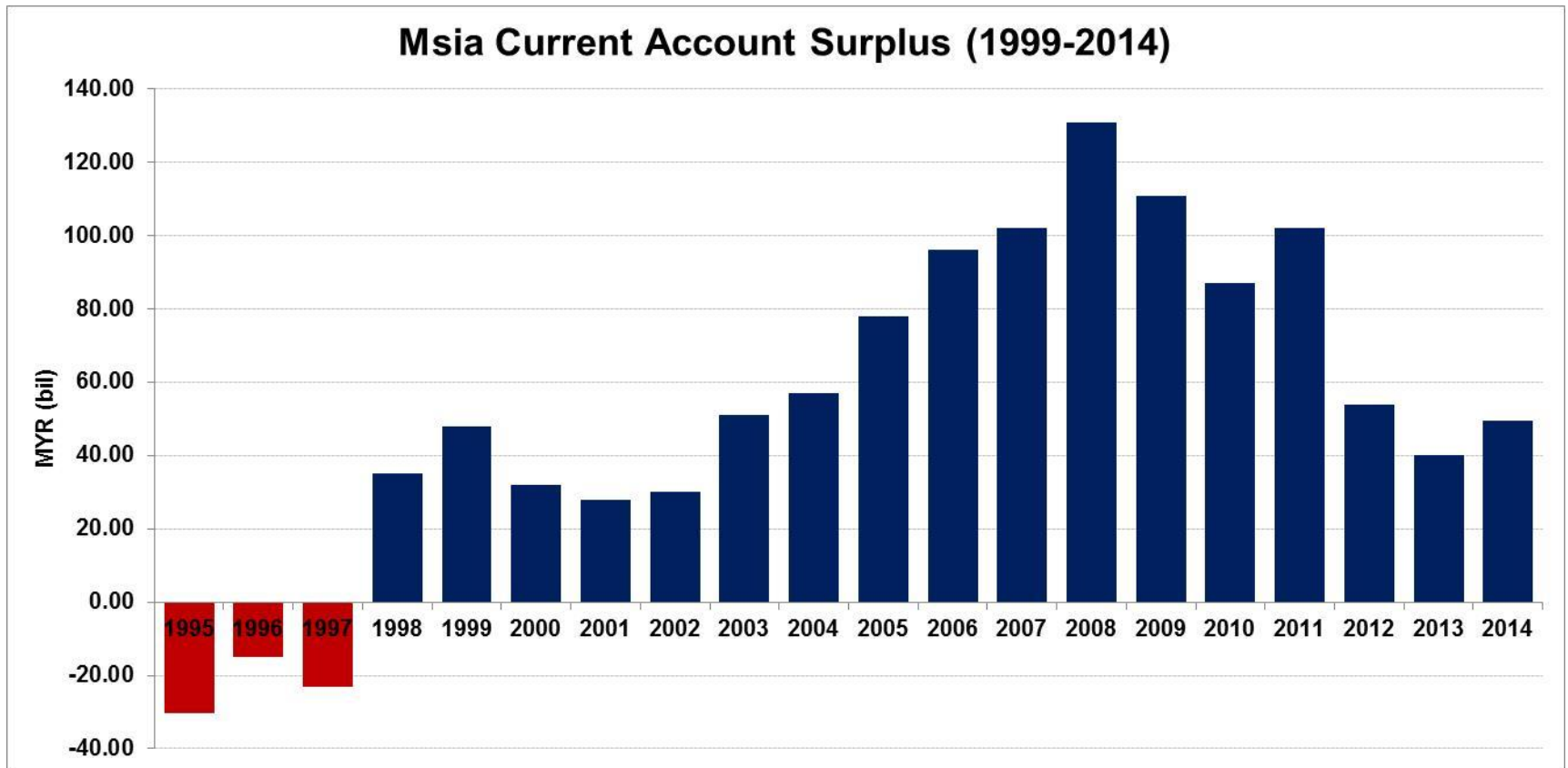
12-month moving sums, RM million



Source: CEIC, World Bank staff calculations

Still Strong Current Account Surplus

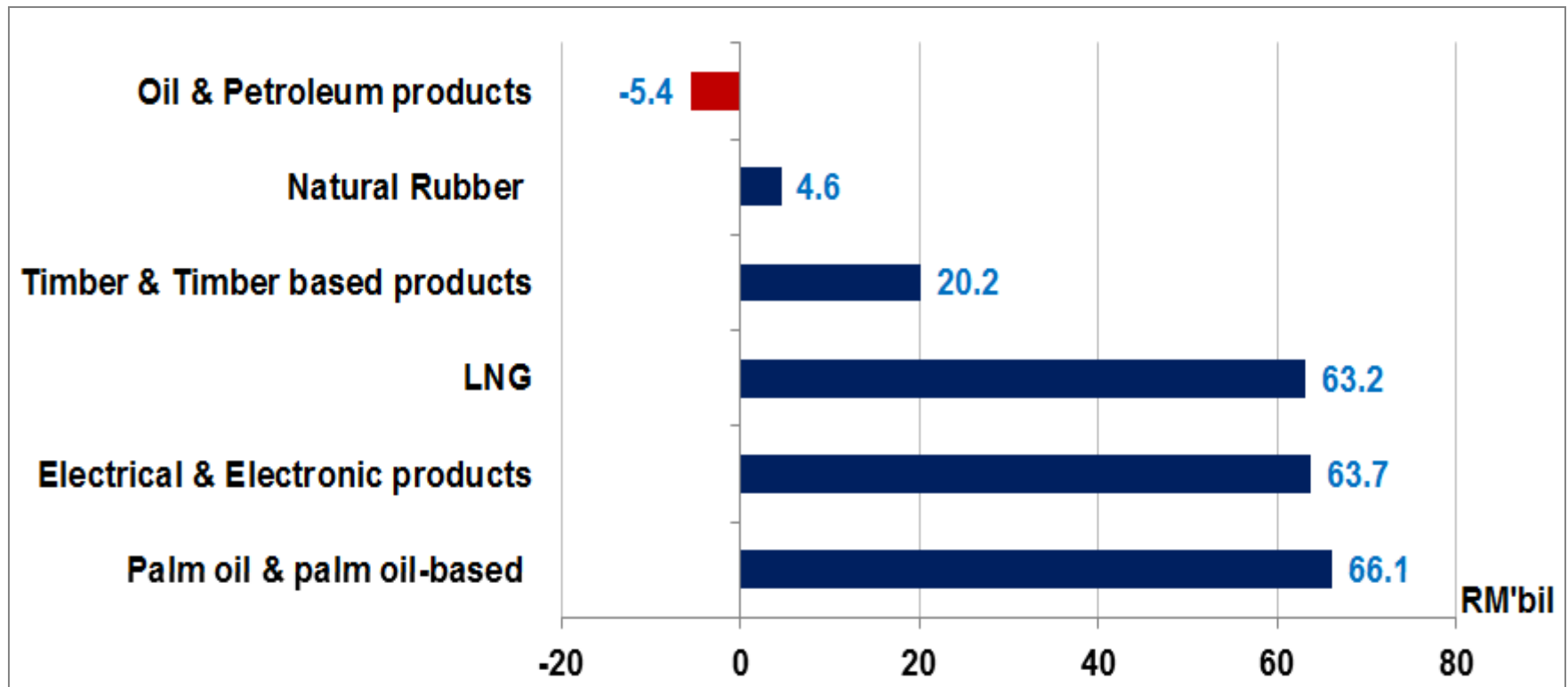
(RM58bn CA surplus sufficient to cover fall in LNG revenue.
CA surplus likely to fall from 5% GDP in '14 to 2-3% in '15)



Source: Department of Statistics

Breakdown of Malaysia Major Net Exports (2014)

(LNG, E&E and Palm Oil are our major export drivers)



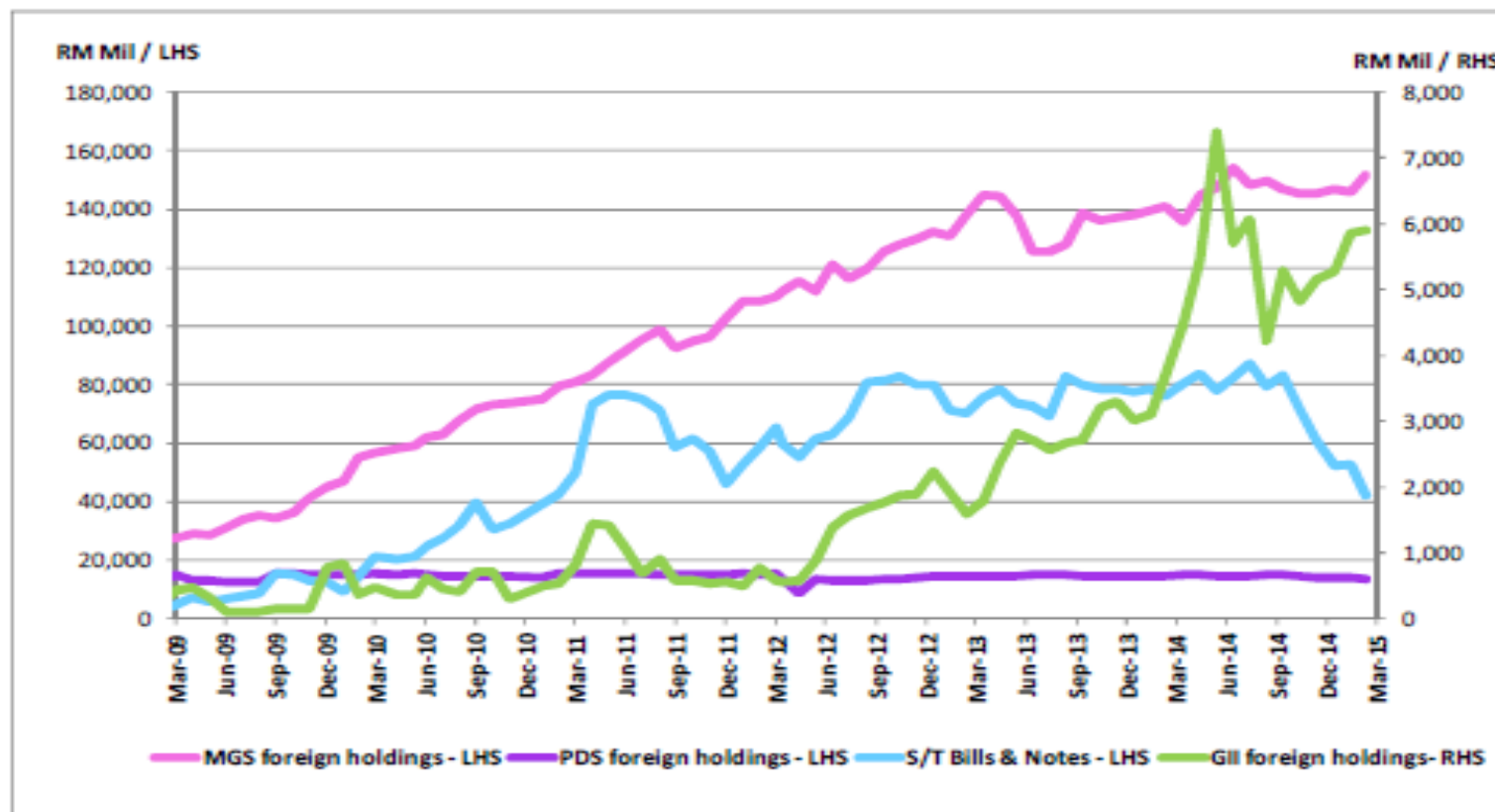
Source : Department of Statistics
* Annualised based on 11 month data

Market View

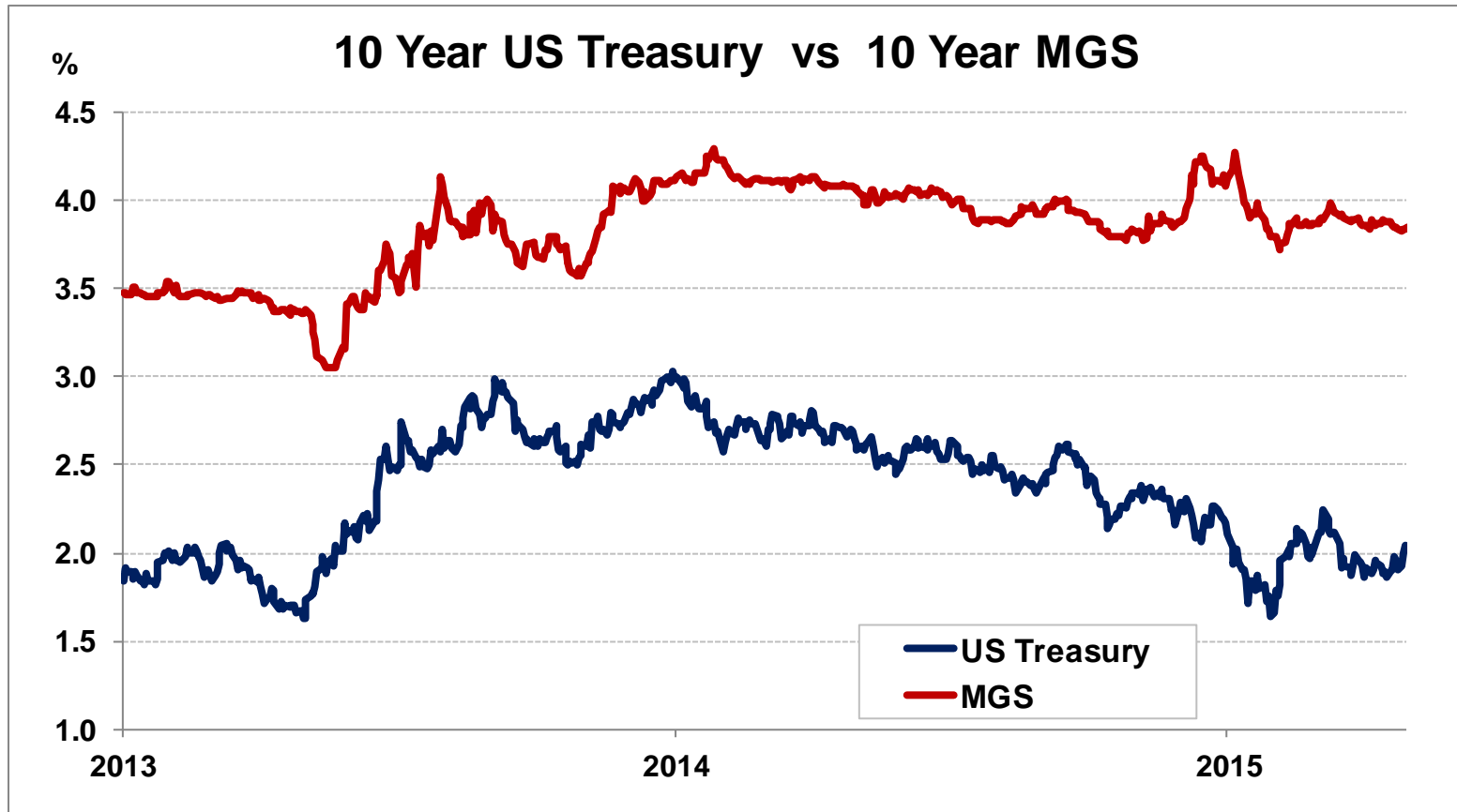
- Interest rate will stay low for many years. Low interest rate is positive for stock market generally.
- US may defer raising interest rate or in milder way.
- US forecast 2015 GDP at 2.6-3.0% and lower its unemployment rate from 5.4-5.6% to 5.2-5.3%.
- Low interest rates means market can trade at higher PE.
- Our strategy is always concentrate on good companies, good management and good business models.
- World Bank cut **Msia 2015 GDP to 4.7%** from 4.9%.
- Need to monitor foreign selling of MGS.

Foreigners Still Hold a lot of our MGS But sold short-term papers

Foreign holdings of MYR Bonds (in MYR absolute amount)



Large Yield Gap Makes 10-yr MGS Attractive (Some foreign funds attracted by the large yield pick up)



Source, Bloomberg



**Thank you
and
Happy
Investing**