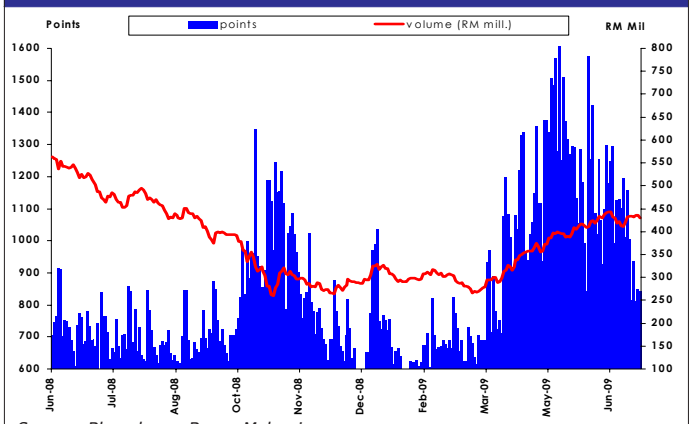
Stock Market Report

AMB

JULY - Contemplating its next move...

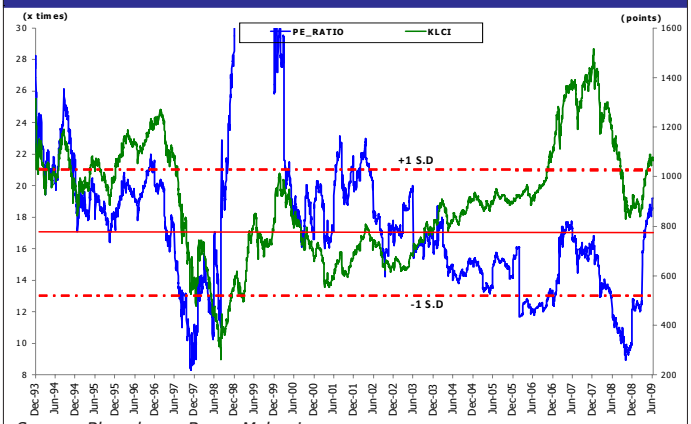
13 JULY 2009
2009/0001

FBM KLCI (PRICE MOVEMENTS vs VOLUME)



Source: Bloomberg, Bursa Malaysia

FBM KLCI (PRICE vs PRICE TO EARNINGS)



Source: Bloomberg, Bursa Malaysia

STOCK MARKET OUTLOOK

- The Kuala Lumpur Composite Index (KLCI) has been in a consolidation mode for almost 25 trading days now albeit only 3% to 4% off its recent high reached in mid June. Volume has also dried up comparatively ever since, reflecting participants' uncertainty on the stock market's next direction while waiting on the sidelines for any strong signal to emerge. With other major and regional markets, except for China, also going through the same cold, the question lies on whether the market has overworked itself and rallied beyond fundamental reasons or has it reached its full short term potential and taking a breather before moving higher?

- Looking back at the stock market movement during the 1997/98 crisis, the KLCI went through the first leg of collapse by 61.3% in the span of almost a year, taking its price to earnings ratio (PE) down to 9.3x from 20.4x. The index then retraced back losses by 54.3% in three months time while PE jumped back to 14.2x. While many had hoped the benchmark was beginning to recover, it proved to be a bear market rally as the market resumed its plunge by another 50% in a six month period (PE back to 11.0x), before market had actually begun to recover.

- Similarly, the current bear market charted quite the same price movements, where the first downward phase pulled the index lower by 82.8% in 10 months, before the recent rebound pulled the benchmark 31.5% higher. But whether or not stocks will resume its losses such as the second leg in the 1997/98 crisis, technically, the answer might lay in the differences of valuations of each leg between the previous crisis and the current one.

GLOBAL STOCK MARKET BENCHMARKS' PERFORMANCES

	14-Jul-09	%MOM (June 30)	%YOY (June 30)	%YTD (June 30)	% from peak	% from bottom	PE (x times)
MSCI WORLD	934.78	-0.6	-31.2	4.8	-44.4	35.7	17.26
FBM KLCI	1071.75	3.0	-9.4	22.6	-29.3	29.2	19.27
Dow Jones	8331.68	-0.6	-25.6	-3.8	-41.2	27.3	11.11
Germany's DAX	4722.34	-2.7	-25.1	0.0	-41.7	28.8	26.18
FTSE100 UK	4202.13	-3.8	-24.5	-4.2	-37.6	19.6	31.93
Nikkei225	9267.43	4.6	-26.1	12.4	-49.3	31.4	25.98
Shanghai Comp.	3128.484	12.4	8.2	62.5	-48.6	83.3	32.51
Hang Seng	17638.91	1.1	-16.8	27.7	-44.2	60.1	15.78
Aussie All Ord.	3839.7	3.5	-26.0	7.9	-44.0	23.4	30.89
S'pore FSTAS	557.23	-0.4	-23.9	34.2	-45.1	59.6	11.80

Source: Bloomberg, Bursa Malaysia

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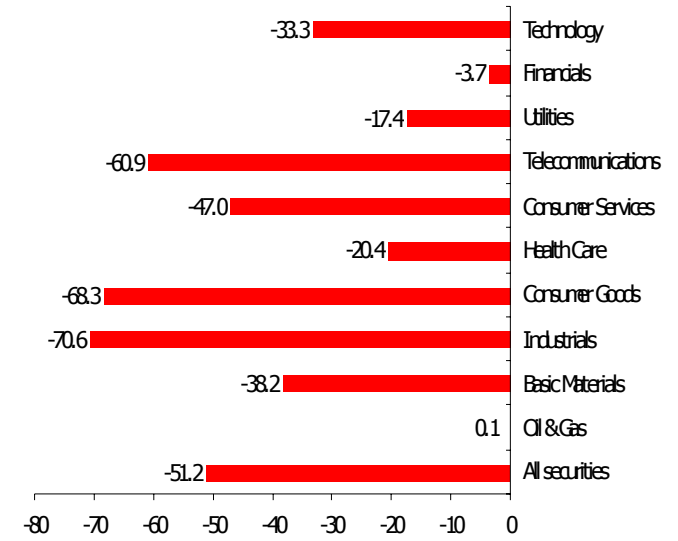
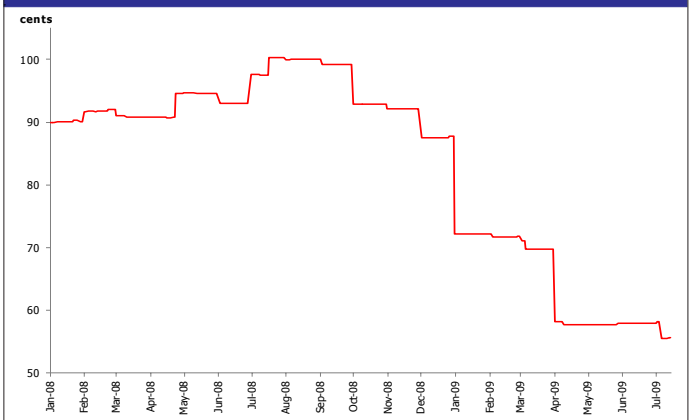
2Q 2009 EARNINGS BY SECTOR (%qoq)



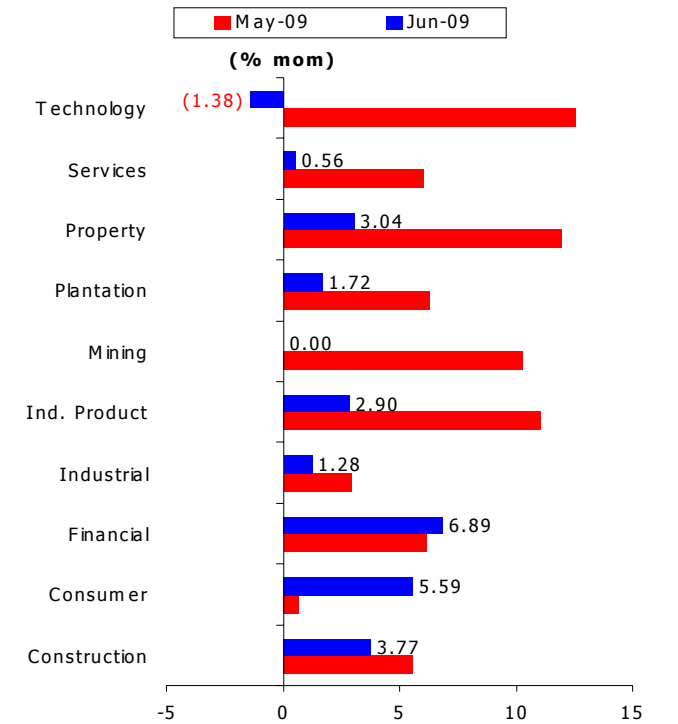
Source: Bloomberg, Bursa Malaysia

FBM KLCI (EARNINGS PER SHARE)



Source: Bloomberg, Bursa Malaysia

STOCK MARKET PERFORMANCE BY SECTOR (%mom)



Source: Bloomberg, Bursa Malaysia

- The recent rebound started from a distressed valuation of 8.9x PE, as compared to 9.3x in 1997/98 and now trading at 19.2x, still in the region of +1 standard deviation from the 15 year average. While there are potential downside risks for 2009 earnings which would translate into a higher PE going forward and re-adjusting stock prices lower, there are minimal chances for stocks to re-test the previous bottom given the current PE is already close to its long term average. Thus, from valuation perspective, we believe KLCI is currently going through a mid-cycle correction and currently focused on the next round of earnings season for a better view on future earnings.

- The current short term stock market weakness could also be attributed to declines in commodity prices, especially crude oil and crude palm oil, which could hamper earnings prospects for plantation and oil and gas stocks. However, given the accommodative monetary policy worldwide and various ongoing measures to pump in liquidity into the financial system, we believe this to be temporary as there are emerging inflationary risks in the long run which could push commodity prices higher. The reflation process has started to show its impact as governments bond yields are steepening globally, pricing in investors' expectation of faster inflation going forward.

- As far as the local economy is concerned, we believe that the 1Q09 was the bottom and will continue to improve, albeit slowly, from here on. Despite a still fragile external demand outlook, the slower pace of yearly decline in domestic production may signal a beginning of restocking activity by manufacturers given the renewed interest and demand from overseas importers. As such, we expect 2Q09 to post a slightly lower contraction, boosted by domestic production before domestic and external demand recovers in the later stage of 2H09.

- Given the dissipating cyclical risk to earnings due to an expected recovery in the economy and the forward looking nature of the stock market, we believe the stock market has established its bottom in October last year and will most probably undergo a temporary correction before moving higher. Together with significant policy liberalisation measures announced by the Prime Minister and the two stimulus packages which has yet to show its full impact, we believe there will be positive flow of foreign and domestic funds into the stock market towards the end of the year.

- However, based on the 1997/98 crisis and 2000/01 slowdown, the mid-cycle correction normally drags the index by 15%-20%, although we do not expect this to be the case as stated earlier. The correction might pull the KLCI to test its immediate support level of 1,050 points with possibilities of going lower to test the 1,000 psychological support. Overall, we expect the benchmark to range between 1,040 to 1,060 in the short run, before moving closer to our year-end target of 1,100 points.

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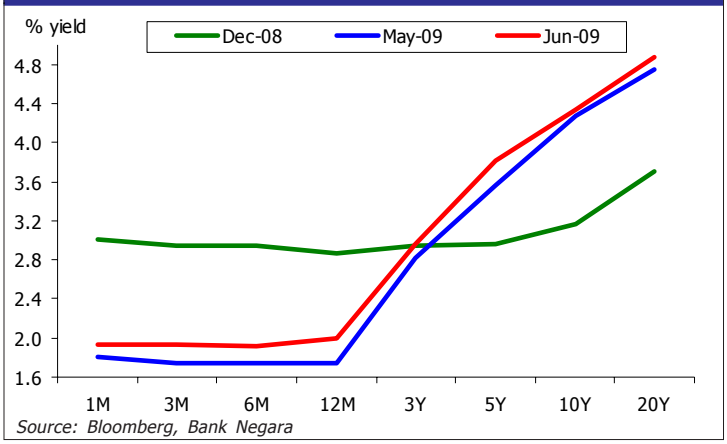
OTHER CAPITAL MARKET INDICATORS

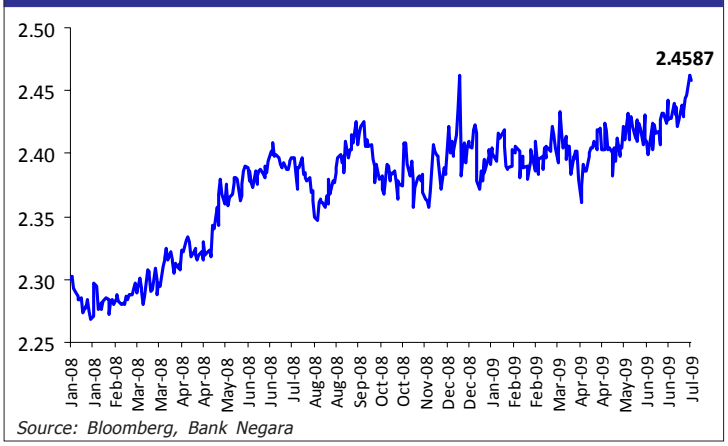
LONG TERM NOTES' CURVE STEEPENED, INDICATING BETTER PROSPECT ON ECONOMIC GROWTH WHILE HIGHER INFLATIONARY PRESSURE IN THE LONG RUN:

MGS YIELD CURVE (% YIELD)



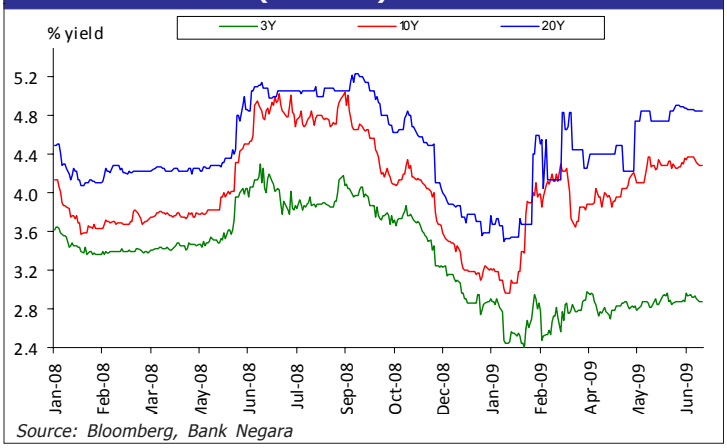
RINGGIT CONTINUES TO WEAKEN AGAINST SINGAPORE DOLLAR FOLLOWING BETTER ECONOMIC RECOVERY PROSPECT FOR SINGAPORE:

SINGAPORE DOLLAR AGAINST RINGGIT



YIELD SPREADS WIDENED AS INVESTORS SOLD LONGER TERM NOTES AS STOCK MARKET RECOVERS, SIGNALING A SHIFT TOWARDS RISKIER ASSETS:

MGS YIELD SPREAD (% YIELD)

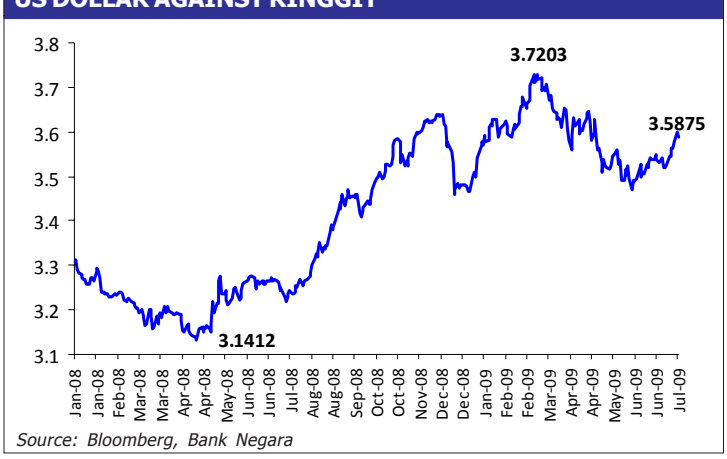


GLOBAL CRUDE OIL RETURNED TO BELOW US$60 PER BARREL AS THE UNCERTAINTY OF THE STRENGTH OF GLOBAL ECONOMIC RECOVERY HEIGHTENS:

NYMEX SPOT CRUDE OIL PRICE (US$ PER BARREL)

RINGGIT ON A SHORT TERM WEAKNESS AGAINST THE US DOLLAR FOLLOWING WEAK EXPORTS DATA, EXPECTED TO RECOVER AS RESERVES ACCUMULATES AND THE DOLLAR WEAKENS:

US DOLLAR AGAINST RINGGIT



CRUDE PALM OIL WEAKENS FOLLOWING WEAKNESS IN GLOBAL COMMODITY PRICES AND SEASONAL INCREASE IN OUTPUT :

CRUDE PALM OIL PRICE (MYR PER TONNE)

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