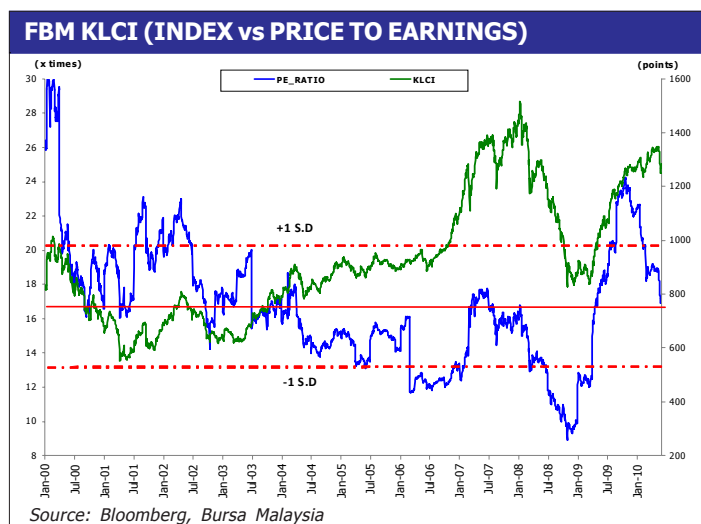


### MONTHLY REVIEW

- Global stock markets took a further beating in May after falling in April as threats to the global economic recovery heightened. The European sovereign debt crisis continued to drag stock benchmarks during the month despite the US\$1 trillion rescue package announced by the EU. At the same time, inflation risks and asset price bubble in China and a few other emerging countries had forced tightening measures to be implemented and spurred concern of further withdrawals of policy stimulus. The selloff during the month was despite a number of positive economic data announced throughout the month which saw almost all countries continued to grow firmly in 1Q10 and also chartered robust corporate earnings result in the same quarter.
- The MSCI World Index plunged 9.9% in May after a 0.2% drop in April. The decline, which began in mid April, took almost all major and regional stock indices more than 10% lower than their most recent peak, a level which technically indicates a correction phase. Major indices which were more exposed to the European markets and economy such as the UK FTSE100 Index and Germany's DAX Index plunged as much as 15% before stabilising at -6.6% and -2.8% respectively for the month. European Central Bank decision to purchase sovereign bond directly from the debt market had eased selling pressure towards the end of the month although skepticism remains high over the short to medium term solution of the crisis.

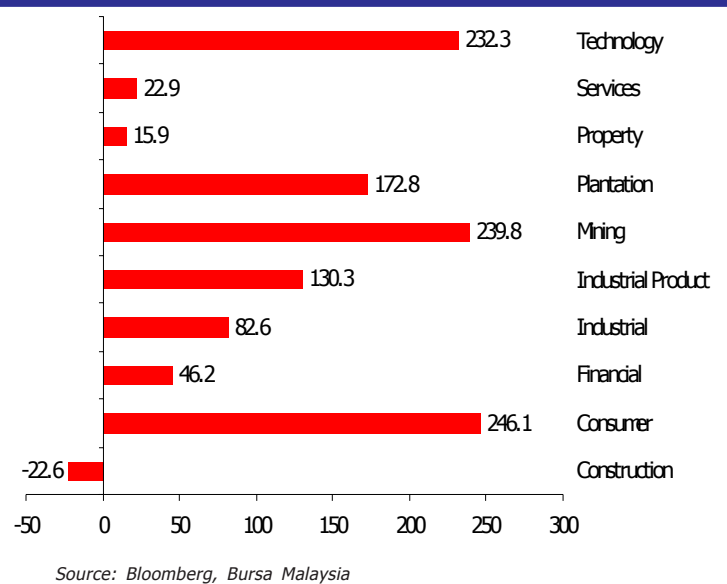


### GLOBAL STOCK MARKET BENCHMARKS' PERFORMANCES

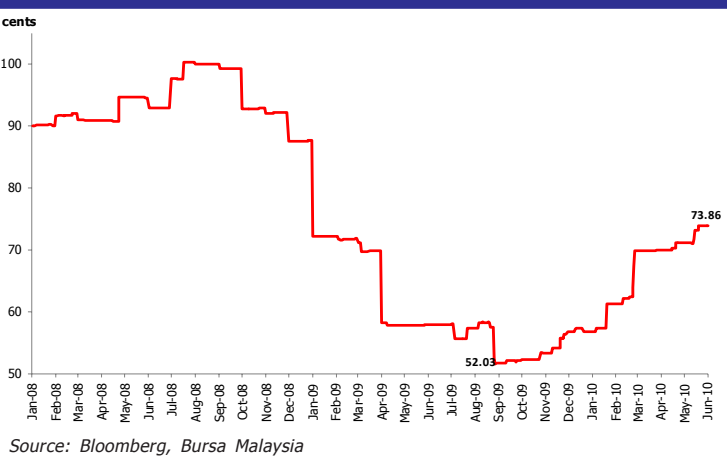
	31-May-10	%mom	%yoy	%ytd	%from most recent peak	% from pre-crisis peak	%from bottom	P/E
MSCI WORLD	1079.8	(9.9)	11.3	(7.6)	(13.0)	(35.8)	56.8	16.2
FBM KLCI	1285.0	(4.6)	23.1	1.0	(4.6)	(15.2)	54.9	17.4
Dow Jones	10136.6	(7.9)	19.2	(2.8)	(9.5)	(28.4)	54.8	14.1
Germany DAX	5964.3	(2.8)	20.7	0.1	(5.8)	(26.4)	62.7	14.3
UK FTSE100	5188.4	(6.6)	17.4	(4.1)	(10.9)	(22.9)	47.7	12.5
Nikkei225	9768.7	(11.7)	2.6	(7.4)	(13.9)	(46.5)	38.5	32.5
Shanghai Comp.	2592.1	(9.7)	(1.5)	(20.9)	(22.2)	(57.5)	51.9	19.7
Hang Seng	19765.2	(6.4)	8.8	(9.6)	(12.4)	(37.5)	79.4	14.3
Aussie All Ord	4453.6	(7.9)	16.8	(8.8)	(11.4)	(35.0)	43.1	33.9
S'pore FSTAS	677.7	(8.0)	19.0	(5.2)	(9.6)	(33.2)	94.1	15.1

Source: Bloomberg, Bursa Malaysia

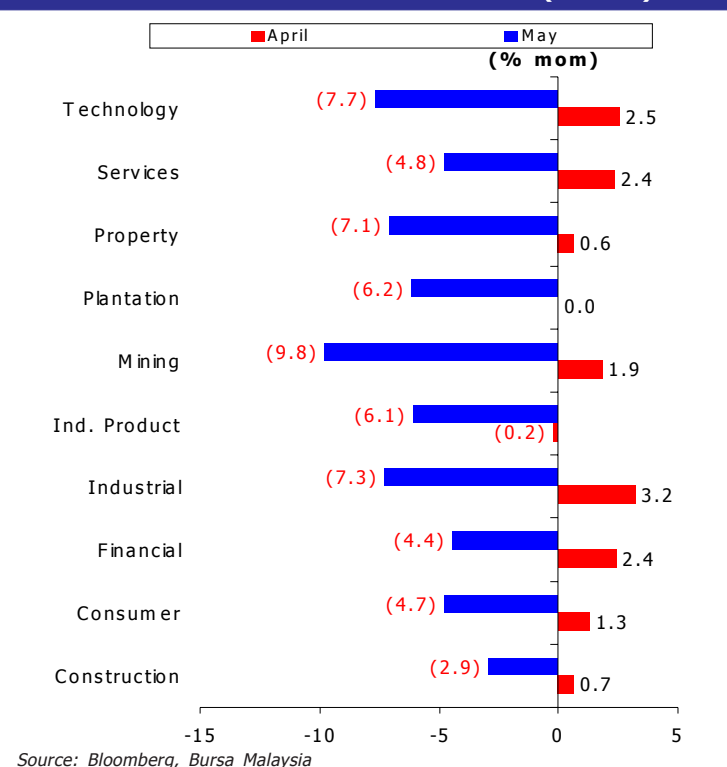
### 1Q 2010 EARNINGS BY SECTOR (% yoy)



### FBM KLCI (EARNINGS PER SHARE)

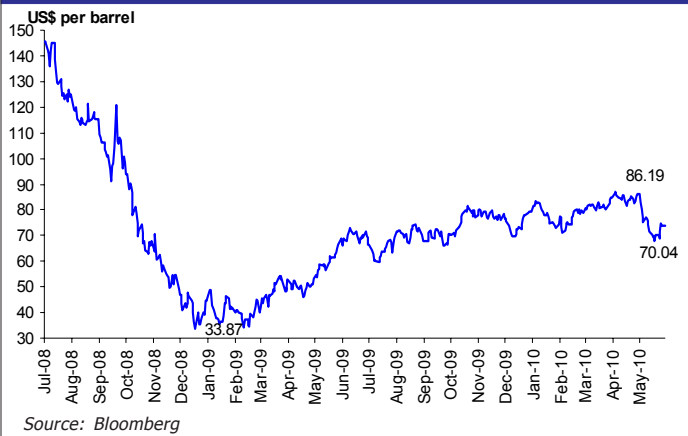


### STOCK MARKET PERFORMANCE BY SECTOR (%mom)



- In the US, the stock market decline which was triggered by the contagion effect of the European debt crisis was further exacerbated by the proposed reforms in financial regulations and the massive oil spill at the Gulf of Mexico. The Dow Jones Industrial Index fell 7.9% during the month led by financial companies such as Goldman Sachs and Bank of America. Technology and consumer based companies were also battered as the expectation of moderation in economic growth heightened while oil and gas companies were hit by the recent oil spill which would possibly tightened oil drilling regulations and crimp future earnings.
- The European debt crisis however had led into a massive flight to safety where investors sold European government bonds in favour of the US sovereign papers. Yields of US Government bonds across all maturities plunged while European Government bonds spiked, widening the yield gap between the two region with the spread between 3 month LIBOR rate and the US 3 month treasury bill increased to 38 bps in the end of May from a low of 11 basis points in March. As investors continued to sell European bonds and stocks, the Euro had also weakened substantially against the US dollar where it fell to 1.231 on May 31 from 1.432 in the beginning of the year.
- Japan's stock market was the worst performer among major stock benchmarks with a 11.7% plunge in May. The continued uncertainty in the US together with the stronger Yen were seen as significant risks to heavyweight companies such as Sony and Toyota which have large sales exposure in the US. Furthermore, the possible slowdown in China's economic expansion might also threaten future profit growth as trade to China had increased substantially since last year.
- China's stocks continued its downtrend in May and entered a technical bear market after the 9.7% drop in May took the Shanghai Composite index lower by 22.2% from its post-crisis peak reached in November last year. Concerns over property prices bubble and higher inflation were replaced by slower economic growth after the Government raised bank reserve requirements three times this year and increased down payments on homes to curb the price increase. In addition, the debt crisis in Europe was also seen as a significant risk to its economy given that Europe is China's biggest export destination, which makes up 20% of its total overseas sales.
- The weakness in global stock market had also affected major commodity prices. Crude oil spot price slumped by 14.1% to US\$74.0 per barrel in May from US\$86.2 in April as a slower global economy expansion could also mean lower demand for energy. Similarly, industrial metal prices also declined with the London Metal index, which

## NYMEX SPOT CRUDE OIL (US\$ PER BARREL)



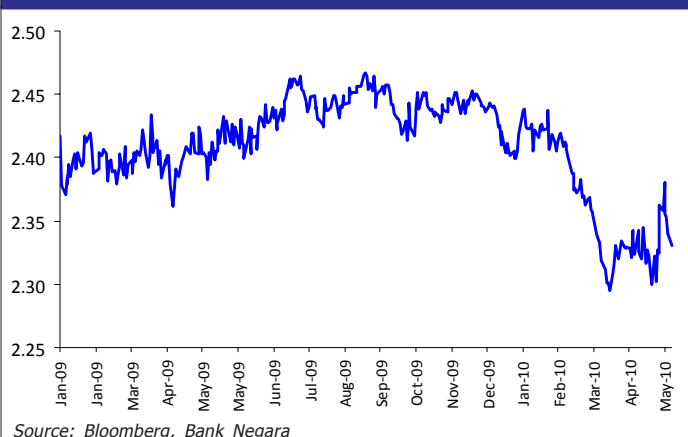
## CRUDE PALM OIL (MYR PER TONNE)



## US DOLLAR AGAINST RINGGIT



## RINGGIT AGAINST SINGAPORE DOLLAR

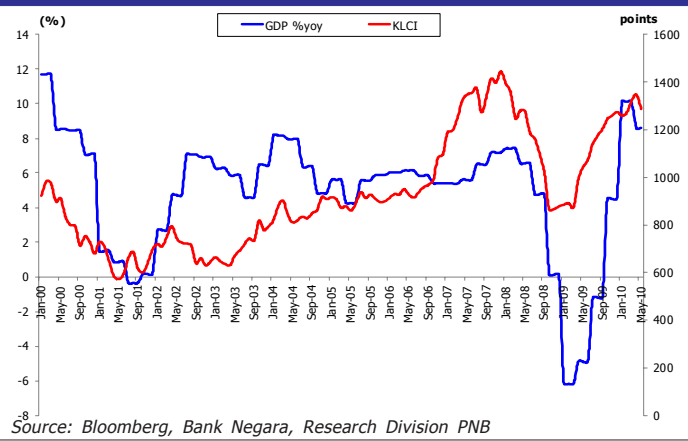


includes prices of six primary metals, dropped by 9.5%. In contrast, prices of precious metal such as gold continued to rise in the month to an all time high of US\$1,216 per ounce as investors sought to protect their investment value against economic slowdown and higher inflation.

## MALAYSIA STOCK MARKET REVIEW

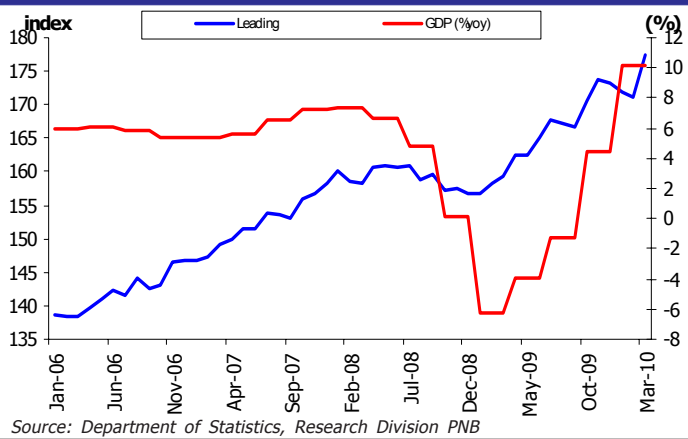
- In tandem with global stock market movements, the FBM KLCI also registered a decline of 4.6% to 1,285.01 points in May. The drop however was comparatively smaller compared to its regional peers and maintained its position as one of the best performing index year to date. The lower participation of foreign holdings in local equities as well as the robust economic growth of 10.1% yoy in 1Q10 and the 86.4% average annual earnings growth during the same quarter could have cushioned the selling pressure in May. Year to date, the local benchmark was still in a positive territory with a 1.0% gain and was just 4.6% lower than its most recent peak, still far from the technical correction level.
- Apart from the external pressure, local developments had also contributed to the fall of Malaysia's equities. Sime Darby Bhd., the largest company listed by market capitalization, tumbled by 11.7% after reporting a RM1bn in total cost overruns from carrying out the oil and gas services works in middle east and civil works contract for the Bakun hydroelectric project. PPB Group Bhd. in turn recorded the biggest loss during the month by 12.7% after its subsidiary Wilmar International Ltd was investigated on suspected fraudulent tax claims for its operations in Indonesia. On a more macro scale, the 25 bps hike in OPR on 13 May and the proposed subsidy rationalisation by PEMANDU had also affected investor confidence on the prospect of domestic demand in the short to medium term.
- As a group, technology sector recorded the biggest decline of 7.7% as the heightening uncertainty of the global recovery and the strengthening of the Ringgit weighted on the prospect of global demand for local E&E products. Industrial sector was the second worst performer, bogged down by the losses of Sime Darby Bhd., which posted a decline of 7.3%. The decline in crude palm oil by 1.5% to RM2,535 per tonne in May dragged plantation stocks lower together with the strengthening of the ringgit during the month which was reported to erode the revenue of palm oil exporters. Construction sector registered the smallest losses among other sectors as comments from Government officials to expedite public infrastructure projects and the announced joint venture between Khazanah and Temasek Holdings on the Iskandar Development Region cushioned losses by construction stocks.

## M'SIA REAL GDP (%yoy) vs FBM KLCI



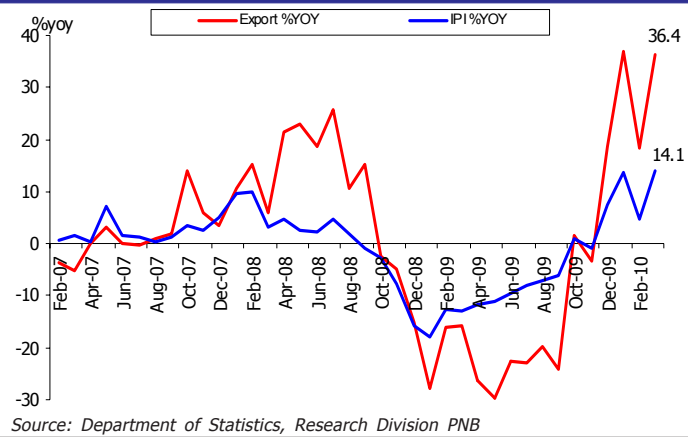
Source: Bloomberg, Bank Negara, Research Division PNB

## M'SIA COMPOSITE LEADING INDICATOR



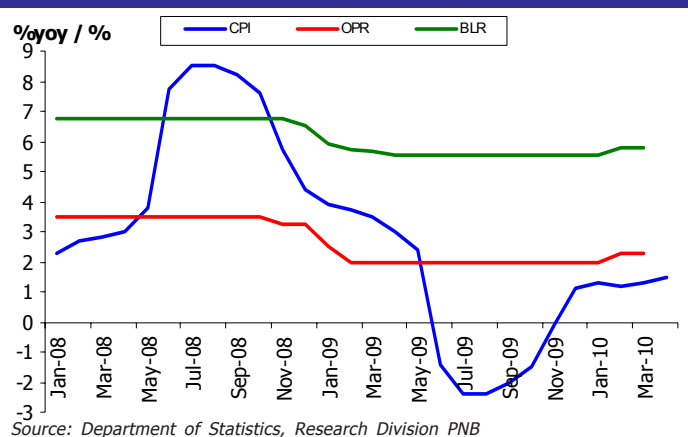
Source: Department of Statistics, Research Division PNB

## M'SIA EXPORT & INDUSTRIAL PRODUCTION (%yoy)



Source: Department of Statistics, Research Division PNB

## MALAYSIA CPI vs OPR vs BLR



Source: Department of Statistics, Research Division PNB

## MALAYSIA STOCK MARKET OUTLOOK

- The continued volatility in the global markets, stemming from the ongoing sovereign debt crisis in Europe, uncertainty over the US economy and asset price bubble in emerging countries, will continue to dominate the local stock market movements in the short to medium run. Risks to global recovery has increased since the eruption of the European debt crisis, with the pace of economic expansion globally expected to moderate in 2H10 after peaking in 4Q09 and 1Q10. However, the risks of a second downturn or a double-dip is fairly remote in our view, given the cautious and swift approach by global policy makers in ensuring that the contagion effect of the crisis in Europe is contained while economic recovery is well entrenched.
- Given the backdrop of a moderation in global recovery, Malaysia's economic expansion in the 2H10 will also slow. Furthermore, the possibility of subsidy withdrawals in 2H10 could also mean slower household spending and consumption, in addition to the expected slower external demand. At this juncture, we are expecting the rate of GDP expansion in 2H10 to slow to 5.5%-6.0% from 9.1% to 9.4% in 1H10. This could translate into a potential deceleration in corporate earnings growth going forward, after expanding significantly in the past two quarters.
- In terms of valuation however, Malaysia's equity market position remains higher as compared to regional markets. FBM KLCI price to earnings ratio (PE) is still close to its 10 years average while earnings per share (EPS) had increased to 73.9 in May from 56.8 early this year. Although consolidations in earnings could push valuations higher in the medium run, Malaysia's gross dividend yield of almost 5% continues to be one of the highest in the region.
- Domestically, the strong policy newsflow is expected to provide growth catalysts over the medium-term. Following the announcement of Government Transformation Programme (GTP) roadmap in January and the outline of the New Economic Model (NEM) in March, markets are now focused to scheduled announcement of the 10<sup>th</sup> Malaysia Plan (10MP) on June 10. The 10MP is expected to propose policy measures and incentives to enable the private sector as the main engine of growth. This would also include government privatization programme which would lead to more mergers and acquisition activities as already announced during the outline of NEM.
- Monetary conditions in the country will remain supportive of growth and is not expected to be a major influence in the local stock market. Thus far, the two interest rate hikes in March and May of 25bps each did not have a significant impact on the local bourse. Growth in consumption is still expected to be sustained given the improvement in labor market while average lending rates remained low. In addition, we expect BNM to maintain the OPR rate in its next meeting in July to access the global economic environment and will only continue

to raise the interest rate in September by 25bps. The OPR is then expected to remain unchanged at 2.75% until the end of the year, which represents an increase of 75bps in 2010.

- To a significant extent, Malaysia's stock movements will continue to track the development of major indices, particularly the US stock market given its historically high correlation with the market. After dipping briefly below 10,000 mark in late May and valuations in terms of PE dropped to the cheapest level since September last year, the Dow Jones index is widely expected to have already priced in the contagion effect of the European debt crisis and the uneven global economic growth. Although US stock indices could remain volatile in the short run, the market could possibly enjoy renewed strength in 2H10 due to improving economic fundamentals and challenge the peak

reached in April. This progress could potentially be imitated by Malaysia's stock benchmarks.

- In the long run, the performance of the local bourse would depend on the strength and sustainability of the economic recovery going forward. As the recovery momentum slows and the stock market could have already priced in the expected recovery, a more selective stock picking and sector allocation would be vital. Although the local stock market is not expected to repeat last year's strong performance, the FBM KLCI could surpass its recent peak and potentially surpass the 1,400 level before correcting towards the end of the year. Currently, the consensus of FBM KLCI year-end target as compiled by Bloomberg stood at 1,395.0 points, providing a 7.7% upside potential for the remaining of this year. This would take the benchmark's overall growth in 2010 to 19.4% from 27.0% in 2009.