Weekly Digest

2015/34 | 26 August 2015 Amanah Mutual Berhad

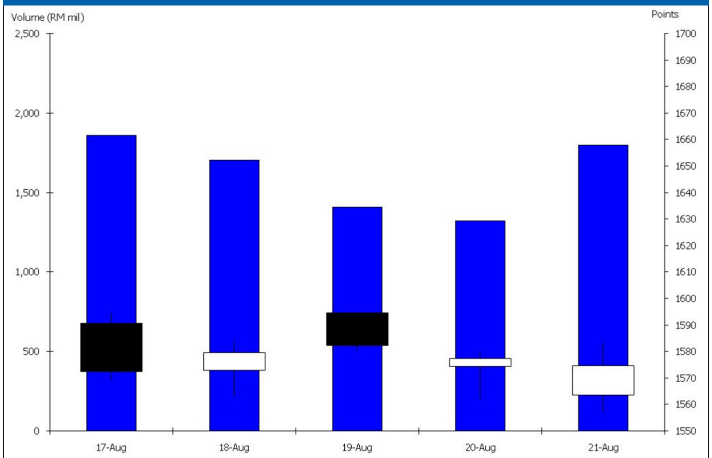
Weekly Factsheet ended August 21: Markets end mixed

TABLE 1: WEEKLY CLOSING IN MAJOR MARKET INDICES

	14-Aug	21-Aug	%wow	%ytd
KL Composite	1596.82	1574.67	-10.6	-1.4
Dow Jones	17477.4	16459.75	-7.6	-5.8
Nikkei 225	20519.45	19,435.83	11.4	-5.3
DAX Index	10985.14	10124.52	3.3	-7.8
UK FTSE100	6550.74	6187.65	-5.8	-5.5
AUS ORD 30	5360.009	5224.814	-3.0	-2.5
STI Index	3114.25	2971.01	-11.7	-4.6
Hang Seng	23991.03	22409.62	-5.1	-6.6
SSE Index	3965.335	3507.744	8.4	-11.5

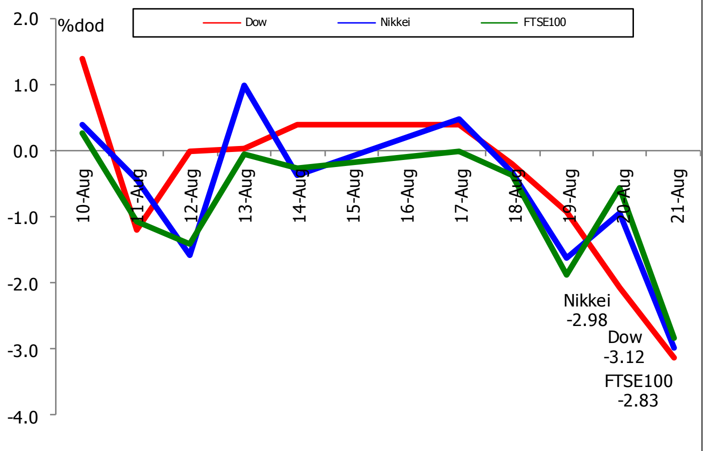
Source: Bloomberg

CHART 1: KLCI DAILY PERFORMANCE



Source: Bloomberg

CHART 2: MAJOR STOCK INDICES (DAILY % CHANGE)



Source: Bloomberg

Equity markets ended the week on a mixed note. European stocks posted their worst week in 4 years following a slowdown in China and resignation of Prime Minister Alexis Tsipras on Thursday. Meanwhile, FBM KLCI dropped by 10.6% wow as ringgit continued to weaken against the U.S. dollar. Year-to-date, the ringgit has already fallen by more than 14%, the worst performer in the region. The continuous depreciation in ringgit is seen to boost price of imports and add upward risks to current inflation rate.

STOCK MARKET HIGHLIGHTS

- **US stocks: China fears hand Wall Street its worst day since 2011.** Fears of a China-led global economic slowdown drove Wall Street to its steepest one-day drop in nearly four years on Friday and left the Dow industrials more than 10% below a May record. The Dow Jones industrial average closed down 530.94 points, or 3.12%, to 16,459.75, the S&P 500 lost 64.84 points, or 3.19%, to 1,970.89 and the Nasdaq Composite dropped 171.45 points, or 3.52%, to 4,706.04. *(Economic Times)*

- **European stocks post worst week in 4 years, slide into correction territory.** European stocks fell into correction territory Friday, enduring their worst week of the year as downbeat Chinese data and Greek uncertainty weighed. The Stoxx Europe 600 fell 3.3% to close at 361.28. The pan-European index is down 12.7% from its all-time high of 414.06, hit on April 15. A loss of 10% or more from a recent high is often labeled as a correction. *(MarketWatch)*

- **Japan's Topix nears correction as global equities rout deepens.** The Topix fell 2.7 to 1,531.11 as of 9:54 a.m. in Tokyo, down nearly 10% from its high on Aug. 10, which would define a correction. The Nikkei 225 Stock Average dropped 2.1% to 19,023.95, heading for its lowest close since March 12. The yen strengthened 0.2% against the dollar after surging 1.9% last week. U.S. shares fell the most in almost four years on Friday. *(Bloomberg)*

- **SE Asia stocks: Vietnam, Indonesia lead declines on week.** The Jakarta composite index dropped 2.4% to 4,335.95, the lowest close since January 2014, sliding 5.4% on the week. The Thai SET index declined 0.5% to 1365.61, its lowest close since March 2014. It fell 3.4% on the week. Singapore closed at 2,971.01 while The Philippine stock market was closed on Friday for a national holiday. *(Reuters)*

- **Bursa Malaysia ends week on negative note.** Bursa Malaysia, which closed mixed, ended the week on a negative note weighed by last-minute selling in selected index-linked stocks led by Petronas Chemicals, dealers said. At 5 p.m., the FTSE Bursa Malaysia KLCI (FBM KLCI) stood at 1,574.67 points, down by 2.74 points, after hovering between 1,557.01 and 1,583.38 throughout the day. *(Malay Mail)*

CHART 3: REGIONAL STOCK INDICES (DAILY % CHANGE)

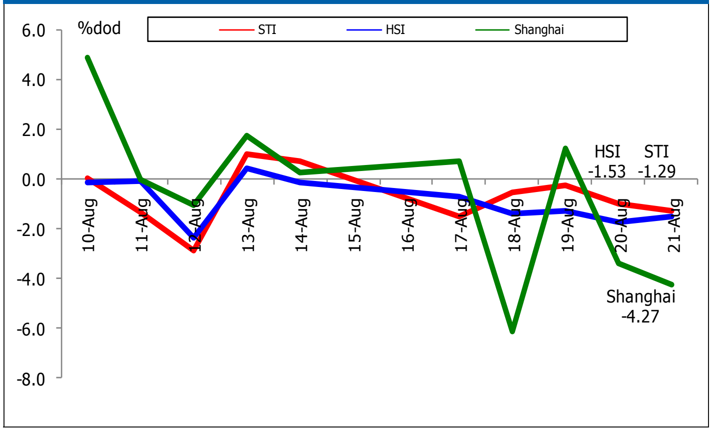


CHART 4: RINGGIT vs MAJOR CURRENCIES (% W-O-W)

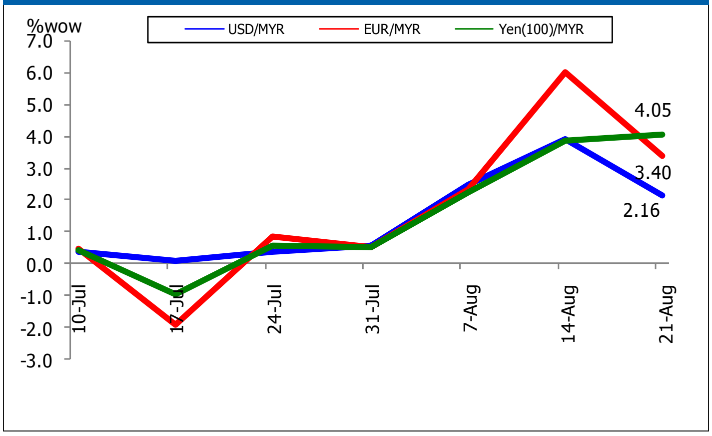
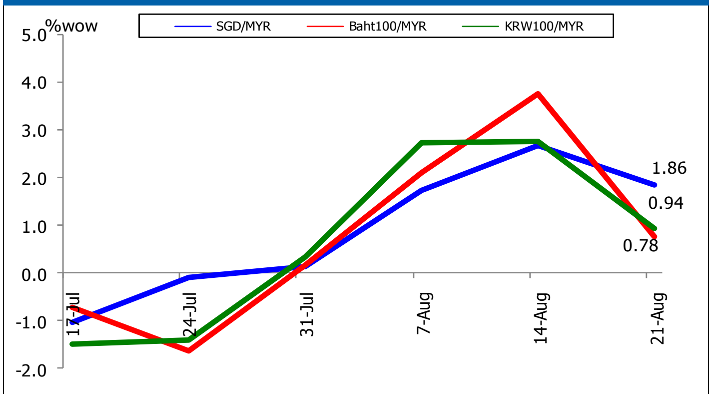
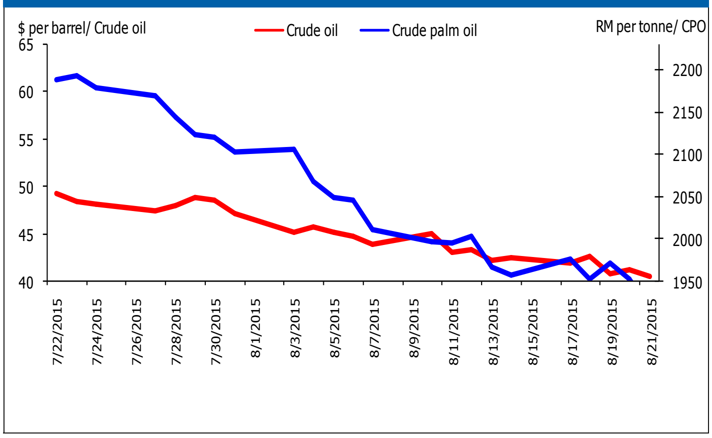


CHART 5: RINGGIT vs REGIONAL CURRENCIES (% W-O-W)



Source: Bloomberg

CHART 6: CRUDE OIL vs CRUDE PALM OIL



ECONOMIC HIGHLIGHTS

- **Malaysia: Spike in government bond yields.** A weaker ringgit coupled with external headwinds have caused yields for Malaysian Government Securities (MGS) to climb to as much as 50 basis points (bp) since July. In over a month, the yield for 10-year MGS rose over 40bp from 3.9% to 4.31% – the highest since January 2010. The yield for seven-year MGS increased by 50bp from a low of 3.8% to 4.3% yesterday. Outflows were seen across all debt instruments, which saw Government Investment Issues and MGS down by RM3bil in total in the month of July. Including bonds issued by the private sector, foreign holdings reported net outflows of RM5.2bil as at end-July. Total foreign ownership came down by 2.45% to RM206.8bil from RM211.93bil in June. *(The Star)*

- **Malaysia: Pegging ringgit costly for Malaysia: S&P.** Pegging the ringgit to counter the weakening currency trend using Bank Negara Malaysia's (BNM) reserves could be expensive for Malaysia, according to Standard & Poor's Ratings Services. Its Asia-Pacific Economist Vincent Conti said that emerging market currencies are all likely to face a weakening trend over the next few years. In Malaysia, this will be amplified by the low commodity prices, given its status as a net energy exporter. Using up reserves to artificially strengthen the currency would be detrimental to Malaysia's competitiveness relative to other emerging markets and commodity exporters. The ringgit closed at 4.0820 to the U.S. dollar on Tuesday. *(Bernama)*

- **Malaysia: July inflation picks up more than expected to 3.3%.** Malaysia's inflation rate accelerated more than expected in July to 3.3% from a year earlier as prices rose during Ramadan and the subsequent Eid al-Fitr celebrations. A weaker ringgit, which has lost over 14% of its value against the dollar so far this year, also boosted prices of imports. Economists polled by Reuters had expected the consumer price index (CPI) to rise 2.9% in July from 2.5% in June. *(The Malaysian Insider)*

- **Malaysia: RM113.5 billion investment approved in H1 2015: Mustapa.** Total approved investments in the first half of the year rose to RM113.5 billion from RM112 billion in the same period last year, out of which 81.1% was contributed by domestic investors. International Trade and Industry Minister Datuk Seri Mustapa Mohamed said the RM113.5 billion worth of investments were for 2,487 projects, which were expected to generate about 101,780 job opportunities. *(Bernama)*

- **U.S.: Fed move is no sure thing for bank profits.** The Fed will likely raise its target rate to a range of 0.25% to 0.5%. But changes in the way deposit insurance fees are calculated, along with new capital and liquidity rules, make overnight deposits less attractive to banks. This will have a downward pressure on short-term interest rates, so actual interest rates will likely trade near the bottom of the range. This puts pressure on the banks' net interest margins, as well as lackluster trading activity. *(WSJ)*

- **U.S.: Housing starts near eight-year high, but permits fall.** U.S. housing starts rose to a near eight-year high in July as builders ramped up construction of single-family homes, suggesting that the economy was firing on almost all cylinders. The Commerce Department report on Tuesday added to solid payrolls, retail sales and industrial output data in suggesting the economy got off to a strong start in the third quarter. The steady flow of upbeat economic reports has bolstered views that the Federal Reserve will raise interest rates in September. *(Reuters)*

- **U.S.: U.S. economy on track to grow 1.3% in third quarter: Atlanta Fed.** The U.S. economy is on track to grow at an annualized rate of 1.3% in the third quarter following news of a stronger-than-expected 0.6% rise in industrial output in July, the Atlanta Federal Reserve's GDPNow forecast model showed on Tuesday. This was stronger than the regional Fed bank's prior estimate on Aug. 13 of a 0.7% rise in gross domestic product, the Atlanta Fed said on its website. *(Reuters)*

- **U.S.: U.S. consumer prices up slightly, airfare weighs.** U.S. consumer prices rose only slightly in July as airline fares recorded their biggest drop since 1995, but tame inflation pressures will probably not discourage the Federal Reserve from raising interest rates this year. The Labor Department said on Wednesday its Consumer Price Index edged up 0.1% last month, with gasoline and food prices increasing marginally. July's rise marked a sixth straight monthly increase. *(Reuters)*

- **U.S.: Housing starts near eight-year high, but permits fall**. U.S. housing starts rose to a near eight-year high in July as builders ramped up construction of single-family homes, suggesting that the economy was firing on almost all cylinders. The report added to solid payrolls, retail sales and industrial output data in suggesting the economy got off to a strong start in the third quarter. The steady flow of upbeat economic reports has bolstered views that the Federal Reserve will raise interest rates in September. Housing starts have now been above a one million-unit pace for four straight months. Economists had forecast ground-breaking on new homes rising to a 1.19 million-unit pace last month. *(Reuters)*

- **U.S.: Home sales near eight-and-a-half-year high, brighten economic outlook**. U.S. home resales rose to a near 8-1/2-year high in July and factory activity in the mid-Atlantic region picked up this month, fresh signs of steady economic growth that likely keeps the Federal Reserve on track to raise interest rates this year. Existing home sales increased 2% to an annual rate of 5.59 million units last month, the highest pace since February 2007. Demand for housing is being boosted by a strengthening labour market. But supply remains tight, pushing up home prices and sidelining first-time buyers, who are a key part of a strong housing market. The share of first-time buyers fell to a six-month low of 28% last month. *(Reuters)*

- **E.U.: ECB reduces maximum Greek bank aid as bailout eases cash tension**. The European Central Bank reduced the maximum level of emergency aid available to Greek banks in a sign the country's financial tensions are easing after a rescue package was agreed with creditors. In a conference call on Tuesday, the ECB's Governing Council decided to cut the ceiling on Emergency Liquidity Assistance provided by the Bank of Greece to 89.7 billion euros ($98.9 billion) from 90.4 billion euros, according a person familiar with the decision. The move is the first such reduction since lenders were forced to rely on the facility in February. *(Reuters)*

- **E.U.: ECB cannot count on swift rebound in inflation**. The European Central Bank cannot count on a swift rebound in inflation as factors such as a slump in oil and weak growth in China keep a lid on prices, governing council member Ewald Nowotny said. The ECB, which launched an aggressive stimulus program in March, said in its June forecasts that it expected headline inflation of 0.3% this year, 1.5% in 2016 and 1.8% in 2017. But these estimates have come under pressure in recent weeks as oil prices slumped and the Chinese economy stuttered. Asked whether he expected the ECB's inflation forecasts to be cut, Nowotny said: "It's too early to say but we can definitely not count on a swift return to our price stability objective (of near 2% inflation)." *(Reuters)*

- **E.U.: Tsipras resigns, paving way for snap Greek election.** Prime Minister Alexis Tsipras resigned on Thursday, hoping to strengthen his hold on power in snap elections after seven months in office in which he fought Greece's creditors for a better bailout deal but had to cave in. Tsipras submitted his resignation to President Prokopis Pavlopoulos and asked for the earliest possible election date. Government officials said the aim was to hold the election on Sept. 20, with Tsipras seeking to crush a rebellion in his leftist Syriza party and seal public support for the bailout program, Greece's third since 2010 that he negotiated. *(Reuters)*

- **Japan: Japan's economy contracts as consumption, investment decline.** Japan's economy contracted last quarter as consumers and businesses cut spending, putting pressure on the prime minister to return his focus to Abenomics. Gross domestic product fell an annualized 1.6% from January-March, ending two quarters of growth, the Cabinet Office said on Monday. The median estimate in a Bloomberg survey was for a 1.8% drop. Bank of Japan Chief Haruhiko Kuroda is counting on weakness to fade this quarter as he chases a distant 2% inflation target with unprecedented monetary stimulus. *(Bloomberg)*

- **Japan: Japan's holdings of treasuries dip to lowest level since 2013.** Japan's holdings of U.S. Treasuries dipped below $1.2 trillion for the first time since 2013 even as purchases of the government debt accelerated among foreigners as a whole. Japan, the second-largest foreign holder, saw its holdings fall by $17.8 billion in June, the biggest drop in two years, to $1.197 trillion, according to Treasury Department data released Monday in Washington. China's holdings of Treasuries rose by about $900 million to $1.27 trillion. *(Bloomberg)*

- **Japan: July export growth slows as global demand shows signs of weakening**. Japan's export growth slowed in July on reduced shipments of cars and electronics to Asia in a sign that the global demand outlook may be losing its luster. The 7.6% annual increase in exports in July was bigger than the median estimate for 5.5% annual growth expected by economists in a Reuters poll, but still slower than June's robust 9.5% year-on-year rise. Slowing export growth in July suggests overseas demand in third quarter may not be strong enough to help Japan's gross domestic product recover from a annualized 1.6% contraction in April-June as exports slumped and consumers cut back spending, raising questions about the need for more official economic stimulus. *(Reuters)*

- **Japan: Japan business mood up, signals recovery after Q2 GDP slump: Reuters Tankan.** The Reuters Tankan - which closely tracks the central bank's quarterly tankan survey - could be a source of comfort for policymakers under pressure to deploy fresh stimulus to spur growth after Monday's negative second-quarter growth data. The poll of 516 big and mid-sized firms between Aug. 3 and 17, of which 277 responded, showed business managers were cautiously optimistic about pick-up in domestic demand, although a slowdown in China - Japan's biggest trading partner - clouds the outlook. *(Reuters)*

- **China: PBOC chief economist says yuan may move in both directions.** The yuan will probably move in both directions in the future following last week's devaluation as the economy stabilizes, according to Ma Jun, chief economist at China's central bank. Under the PBOC's new system to set the daily fixing, market makers who submit contributing prices must consider the previous day's close, foreign-exchange demand and supply, as well as changes in major currency rates. The International Monetary Fund, which is considering adding the yuan to its basket of reserve currencies, said the mechanism should allow market forces a greater role. *(Bloomberg)*

- **China: China GDP slower than official data helps explain stimulus moves.** China's economy is growing more slowly than official data suggests and below potential, a Bloomberg survey indicates, helping explain why policy makers have stepped up stimulus and the move to boost exports with a weaker yuan. The economy expanded 6.3% in the first half, compared to the officially reported 7%, according to the median estimate of 11 economists surveyed last week. For the full year, a 6.6% pace was the median forecast of respondents, who were asked to nominate real growth rates, not what they expect the official data to show. They estimate the economy's potential expansion pace for this year is 7%. *(Bloomberg)*

- **China: China reserves seen dropping $40 billion a month on yuan support.** China's foreign-exchange reserves are expected to drop by some $40 billion a month as the central bank intervenes to support the yuan, a Bloomberg survey shows. The holdings, the world's largest, will decline to $3.45 trillion by year-end from $3.65 trillion at the end of July, based on the median estimate of 28 strategists and traders surveyed following last week's surprise devaluation of the currency. The forecasts ranged from $3 trillion to $3.71 trillion. The currency is seen weakening 1.6% to 6.50 a dollar in the remainder of 2015, the survey showed. *(Bloomberg)*

RELEASE FOR THE WEEK (AUGUST 24 — 28 , 2015)

U.S.

- August Markit United States Composite PMI on Aug 25
- August Markit United States Services PMI on Aug 25
- July New Home Sales by U.S. Census Bureau on Aug 25
- August Consumer Confidence Index by University of Michigan Survey Research on Aug 25
- Weekly Mortgage Applications by Mortgage Bankers Association on Aug 26
- Weekly Initial Jobless Claims by Department of Labor on Aug 27
- July Pending Home Sales by National Associate of Realtors on Aug 27
- July Personal Income by Bureau of Economic Analysis on Aug 28
- July Personal Spending by Bureau of Economic Analysis on Aug 28

Eurozone

- July Money Supply (M3) by European Central Bank (ECB) on Aug 27.
- August Economic Confidence Indicator by European Commission on Aug 28
- August Business Climate Indicator by European Commission on Aug 28
- August Industrial Confidence Indicator by European Commission on August 28
- August Services Confidence Indicator by European Commission on August 28
- August Consumer Confidence Indicator by European Commission on Aug 28

Japan

- June Leading Index by Economic and Social Research Institute (ESRI) on Aug 24
- July Jobless Rate by Ministry of Internal Affairs on Aug 27
- July Job-to-Applicant Ratio by Ministry of Health, Labour& Welfare on Aug 27
- July Retail Trade by Ministry of Economy, Trade and Industry on Aug 27

China

- July Conference Board Leading Economic Index on Aug 24
- July Leading Index by National Bureau of Statistics on Aug 27

Malaysia

- July Money Supply (M3) by Bank Negara Malaysia (BNM) on Aug 28