

Market Commentary

Regional markets opened negatively in August. PCOMP and SET were the only positive performers before the former slipped on weak economic data that showed the country's budget swung back to deficit in June. Other markets were closed for Eid Mubarak with FSSTI opening on Tuesday, KLCI on Wednesday and JCI closed for the entire week. Regional markets continued to be muted, as investors turned cautious ahead of the U.S. Federal Reserve policy decision. Towards the end of the week, weak Eurozone data, news of Argentina's second debt default in 13 years, weakness in the Portuguese banking system and impact of sanctions against Russia caused the Dow Jones Industrial Average to post its biggest sell-off since February shaking markets worldwide. The selloff in Asian bourses were limited though, on the back of upbeat data on Chinese manufacturing from China's official PMI and HSBC/Markit PMI. During the second week, regional markets became more positive amidst cautiously optimistic forecasts for the Asian markets. Additionally, fears of a bank run and another financial mess in Europe were alleviated as Portugal's central bank announced a plan to rescue troubled lender Banco Espirito Santo. However, PCOMP faced some headwinds as Indonesian investors responded negatively to the country's 2nd quarter GDP report that revealed the slowest growth since 2009 as the nation grew 5.12%. Towards the end of the second week, most markets dipped amidst growing geopolitical uncertainties. Russian troop build-up in Ukraine, possible U.S. air strikes in Iraq, worsening trouble in Gaza as well as disappointing earnings reported by U.S. firms which resulted in negative lead from Wall Street. An unexpected surge in China's exports, which jumped 14.5% failed to offset the jittery mood among investors, although the data did help to contain losses in the region. Regional markets rebounded at the start of the third week amidst easing geopolitical tensions as Russia ended military drills near Ukraine, Israel and Palestine agreed to a truce, and US destroyed some Iraqi military positions to keep militants in check. SET was closed for the Queen's birthday on Monday and resumed trading on Wednesday. Subsequently, regional markets were mixed as investors awaited cues on the global economy. Investors were concerned over the health of the global economy due to lower Chinese July credit figures which put more pressure on the Chinese economy, combined with softer Eurozone GDP and US initial job claims. During the last week, regional equity markets opened on a mixed note amidst further easing of geopolitical tensions with Ukraine-Russia meeting for talks and Kurdish forces making progress against militants in Iraq. Malaysia and Thailand both reported stronger than expected GDP, expanding 6.4% and 3.5% respectively. Though, other fresh leads and news-flow were still lacking to provide direction to regional markets. Thereafter, regional markets turned mostly positive on positive leads from Wall Street and Europe. U.S. stocks were boosted by tame inflation data, a sharp rebound in house construction, strong retailer earnings results and sliding oil prices as the S&P posted its 28th record all-time closing high of 2Q14. However, regional markets saw mixed returns amidst disappointing China and Europe PMI data. Most markets were relatively quiet on Friday ahead of U.S. Fed Chair Yellen's speech later on that night. The Jackson Hole meeting did not reveal anything new as Yellen remained cautious on the US labor market and Draghi emphasized the need for further policy action. The results season in Malaysia has been disappointing with most companies reporting below market expectations. In Indonesia, investors remained concerned on a widening of the current account deficit and a potential fuel subsidy revision next year. In Thailand, General Prayuth has been officiated as the 29th prime minister of Thailand. He revealed his cabinet faster than the market expected, keeping pace with the transition timeline that he set out. After a strong rally since early Aug, PCOMP saw some profit taking ahead of month end and 2Q GDP numbers. Markets ended the month of August mixed with strength in the SET and PCOMP while other markets were flat. The Asean40 Index decreased -0.4% MoM, losing -46.03 points and closed at 11,513.17 (in USD terms). The best performer SET increased +4.7% MoM and the worst performer FSSTI decreased -1.5% MoM. Major gainers were Philippines Long Distance Telephone Co (+13.1%), Kasikornbank (+7.7%) and CIMB Group Holdings (+5.4%), while major losers were Genting Singapore (-8.6%), Petronas Chemicals Group (-5.1%) and United Overseas Bank (-5.1%).

Corporate News

Indonesia

Bank Mandiri continued to strengthen its trade finance services to support trade transactions in Indonesia. As of June 2014, Bank Mandiri recorded export-import transaction of USD60.6 bn, higher than the same period last year of USD59.8 bn. The achievement also increased Bank Mandiri market share to 33.93%.

Bank Mandiri, pension insurer Taspen and postal company Pos Indonesia signed a cooperation agreement on 21st August, marking the legal beginning of their joint venture (JV) partnership. As previously reported, Mandiri, Pos and Taspen have agreed to provide loans to Taspen's customers through Bank Sinar. The three companies had spent more than a year-and-a-half discussing the details of the JV, after signing a memorandum of understanding (MoU) in January 2013. Now that the agreement has been signed, Bank Sinar will be authorized to hold a rights issue to allow Taspen and Pos subscribe to its shares, according to Mandiri president Budi Gunadi Sadikin.

PT Telekomunikasi Indonesia Tbk, Indonesia's biggest telecom operator, plans to spend IDR1.0 tn (USD85.8 mn) to expand into several Middle Eastern nations including Saudi Arabia, said CEO Arief Yahya. The company is allocating IDR20 tn for capital expenditure this year.

Despite challenges such as difficulties in installing pipes, state-owned gas distributor **Perusahaan Gas Negara (PGN)** is hoping to expand the provision of liquefied natural gas (LNG) to households. PGN spokesperson Ridha Ababil said during a press conference recently that his company aimed to install gas in between 5,000 and 7,000 households in 2014.

Malaysia

Sime Darby Bhd has hired four banks to arrange a stock market listing for its auto business that could raise USD500 mn (MYR1.6 bn) by 2Q15, sources familiar with the matter said. CIMB Investment Bank Bhd, Deutsche Bank, Maybank Investment Bank and Morgan Stanley are working on the IPO, the sources said. "The deal could be bigger, it depends on the valuation at that point of time," one of the sources said. Sime Darby had invited banks to pitch for the IPO mandate last month.

The planned merger between **CIMB**, RHB Capital and Malaysia Building Society Bhd (MBSB) is still at the stage of management discussion and looking optimistic. CIMB Group Chief Executive said Datuk Seri Nazir Tun Razak said the merger proposal had been well received by the management team as it can enhance value for all concerned.

Petronas Gas has selected Finland-based Metso Corp to provide cutting-edge flow control technology to its gas processing plant modernization project in Kerteh, Terengganu. Metso said the new flow control solutions will replace the plant's existing equipment and enable the plant to reach a higher safety integrity level, while improving its environmental performance.

Public Bank Bhd's renounceable rights issue of 350.2 mn new shares was oversubscribed by about 30.5%. Public Investment Bank Bhd said that at the close of acceptance and payment for the rights issue on July 18, it had received applications for 457.1 mn rights shares. This was an over-subscription of 106.9 mn rights shares or about 30.5% over the total 350.2 mn shares made available for subscription. The corporate exercise was on the basis of one rights share for every 10 held at an issue price of MYR13.80 per rights share.

IOI Corp Bhd is upbeat on the prospects of its palm oil-derived nutritional additive Betapol, which is increasingly being used to fortify infant milk powder globally, especially in China. Betapol is the first and foremost vegetable fat blend created specifically to mimic the human milk fat structure, said IOI Corp, adding that it offers the same nutritional benefits and positive health effects as breast milk.

Corporate News

Singapore

CapitaLand Treasury Limited, a wholly owned subsidiary of **CapitaLand**, has priced the offering of SGD500 mn, 3.80% fixed-rate notes due 2024. The notes will be issued under a SGD5 bn Euro Medium Term Note Programme established in August 2012 and updated in September last year. The net proceeds will be used for refinancing existing borrowings and for financing the investments and general corporate purposes of CapitaLand and CapitaLand Treasury Limited.

OCBC on Monday announced a SGD3.37 bn rights issue, which will go towards funding its acquisition of Hong Kong's Wing Hang Bank. It has proposed to sell 440 million new shares at SGD7.65 on the basis of one rights share for every eight existing shares. The issue price represents a 25% discount to the closing price of SGD10.20 per share on August 15, 2014. OCBC had earlier guided that the SGD6.2 bn offer for the Hong Kong bank - which will be fully taken over by the Singapore lender - will be funded through a mix of existing cash, new debt, and equity.

Singapore Telecommunications, Southeast Asia's largest telecommunications operator, reported a 17 per cent fall in its first-quarter profit, hurt by one-off items and adverse currency movements. SingTel earned SGD835 mn in the three months ended in June, compared with SGD1.01 bn a year ago. The latest quarter included one-off losses of SGD46 mn, compared with net exceptional gains of SGD114 mn in the year-ago period. Its underlying net profit was SGD881 mn, compared with SGD897 mn in the year-ago period. Analysts on average were expecting a net profit of SGD916 mn, excluding one-time items, according to a Reuters poll of four brokerages.

DBS Group Holdings, Singapore's biggest bank, on Friday said second-quarter net profit climbed 9%, beating expectations with the help of 10% growth in loans. The result meant Southeast Asia's biggest lender, which earns most of its profit from Singapore and Hong Kong, achieved a record first-half net profit of SGD2.2 bn (USD1.76 bn). Unlike rival United Overseas Bank, which doubled its bad debt charges in the second quarter, DBS saw a 48% decline in similar charges.

Thailand

National oil and gas conglomerate **PTT Plc** expects to start unloading its gas pipeline business this year. Chief operating officer Sarun Rungkasiri said PTT was ready to spin off the business in response to a call by the National Energy Policy Council, which last week agreed with the energy flagship's new board, chaired by Piyasvasti Amranand, that the pipeline business should no longer be part of the PTT empire.

PTTEP South Asia, a wholly owned subsidiary of **PTT Exploration and Production**, Palang Sophon Offshore, and Win Precious Resources (WPR) have signed a production sharing contract (PSC) with Myanmar Oil and Gas Enterprise (MOGE) for onshore exploration and production rights of the MOGE3 block.

Kasikornbank, Thailand's fourth-largest bank by assets, expects its 5,000 SME customers to be members of Alibaba.com in the first year after KBank signed a cooperation agreement with the Chinese e-commerce company to support Thai SMEs entering China's e-commerce market.

Bangkok Bank (BBL) expects corporate loan growth of 5-6% this year, driven by short-term loans and following the country's improving economy. Senior executive vice-president Chansak Fuangfu said demand for wholesale loans, largely short-term working capital loans, started picking up in June along with the brighter economic prospects.

The telecom committee of the National Broadcasting and Telecommunications Commission yesterday approved an additional 51,000 fixed-line telephone numbers for Advanced Wireless Network, a subsidiary of **Advanced Info Service (AIS)**.

Economic News

Indonesia

Indonesia's HSBC manufacturing PMI remains at 52.7 in July.

Indonesia's consumer confidence index in July rose to 119.8, the highest level since 2012, from 116.3 in June.

Indonesia's consumer price index (CPI) rose 4.5% YoY in July (+6.7% YoY in June). On a MoM basis the CPI rose 0.93% MoM (+0.43% MoM in June). **Core inflation** slowed to 4.6% YoY in July (+4.8% YoY in June).

Indonesia's foreign exchange reserves rose to USD110.5 bn at the end of July (USD107.7 bn at the end of June). It was the highest level since December 2012.

Indonesia's debt service ratio jumped to 48.3% at the end of 2Q14, from 46.4% at the end 1Q14, according to data from Bank Indonesia (BI). External debt to GDP ratio increased to 34% at the end of 2Q14 from 32% in 1Q14.

Malaysia

Malaysia's industrial production index (IPI) increased by 7% YoY in June from a year ago, boosted by stronger manufacturing output, exceeding economists' forecast of a 5% rise.

Malaysia's Consumer Price Index (CPI) increased 3.2% YoY to 110.3 in July (+3.3% YoY in June). CPI rose by 0.1% MoM in July (+0.2% MoM in June) due to increases in food and non-alcoholic beverages, as well as health. Cumulatively, the CPI rose 3.3% YoY YTD from January to July (+3.4% YoY YTD in 6M14).

Malaysia's higher economic growth of 6.4% recorded in 2Q14 (vs. 6.2% in 1Q14) has exceeded analysts' expectations. Growth was driven by higher exports and continued strength in private domestic demand. This exceeded market estimates of 5.8%.

Malaysia's current account balance posted a lower surplus of MYR16.0 bn for 2Q14 compared with MYR19.8 bn in 1Q14. The lower surplus in 2Q was mainly contributed by lower surplus of MYR30.1 bn on goods account, due mainly to higher imports of intermediate goods.

Philippines

Philippines' inflation rate settled at 4.9% YoY in July (+4.4% YoY in June). On month, inflation rose 0.6% MoM in July (+0.4% MoM in June). **Core inflation** stood at 3% YoY (+2.8% YoY in June).

Philippines' balance of payments (BOP) position registered a USD501 mn surplus in July (USD24 mn deficit in June and a USD1.099 bn surplus a year earlier).

Philippines' cash remittances recorded a 5.9% YoY growth in June (+5.4% YoY in May) to USD2.0 bn in June (+1.98 bn in May).

Philippines' exports in June amounted to USD5.444 bn, a 21.3% YoY leap (+6.9% YoY in May to USD5.483 bn).

Philippines' foreign exchange reserves in July expanded to USD81.0 bn (USD80.7 bn in June).

Economic News

Singapore

Singapore's industrial output accelerated 3.3% YoY in July (+0.8% YoY in June). Measured month over month on a seasonally-adjusted basis, manufacturing output rose 2.7% MoM in July (+0.2% MoM in June).

Singapore's manufacturing Purchasing Managers' Index (PMI) rose to 51.5 in July (50.5 in June). The corresponding index for the electronics sector also climbed, hitting 52.4 in July (50.7 in June).

Singapore's consumer price index (CPI) rose 1.2% YoY in July (+1.8% YoY in June) and fell 0.3% MoM (-0.7% MoM in June). **Core inflation**, which excludes the cost of accommodation and private road transport, inched up to 2.2% YoY in July (+2.1% YoY in June).

Singapore's foreign reserves in July were USD273.66 bn, down from USD277.97 bn in June.

Singapore's GDP rose an annualized 0.1% QoQ in 2Q14 (+1.8% QoQ in 1Q14) and expanded 2.4% YoY in 2Q14 (+4.8% YoY in 1Q14).

Thailand

Thailand's GDP rose 0.9% QoQ in 2Q14 (-1.9% QoQ in 1Q14). From a year earlier, the economy expanded 0.4% YoY in 2Q14 (-0.5% YoY in 1Q14).

Industrial sentiment in Thailand rose for a third straight month to 89.7 in July from 88.4 in June.

Thailand's Consumer Price Index (CPI) in July grew 2.16% YoY (+2.35% YoY in June), and only 0.08% MoM (-0.10% MoM in June). **Core inflation** was 1.81% YoY in July (+1.71% YoY in June).

Thailand's coup leader, Gen. Prayuth Chan-ocha, was officially appointed the country's 29th prime minister on August 25th, saying that he would appoint members of his new cabinet in September.

Economic News

	31 August 2014	YTD (USD) %	M-M (USD) %
INDU Index	17,098.45	3.1%	3.2%
MXAPJ Index	511.38	9.2%	0.4%
Asean40 Index	11,513.17	10.2%	-0.4%
HSCEI Index	10,963.59	1.4%	-1.5%
HSI Index	24,742.06	6.2%	-0.1%
JCI Index	5,136.86	25.5%	-0.2%
KLCI Index	1,866.11	3.7%	1.2%
KOSPI Index	2,068.54	6.8%	1.2%
PSEi Index	7,050.89	21.9%	2.9%
SENSEX Index	26,638.11	28.4%	3.3%
SET Index	1,561.63	23.7%	4.7%
STI Index	3,327.09	6.2%	-1.6%
TWSE Index	9,436.27	9.4%	1.9%

Risk Reward Trade-off Charts: 6 Months Risk vs Returns

The Asean40 Index has a superior risk return profile over a 6-month period compared to other major indices. The Asean40 Index is above the "Efficient frontier" as shown in the charts below except for comparisons to ASEAN country indices where it lies slightly below the "Efficient frontier".

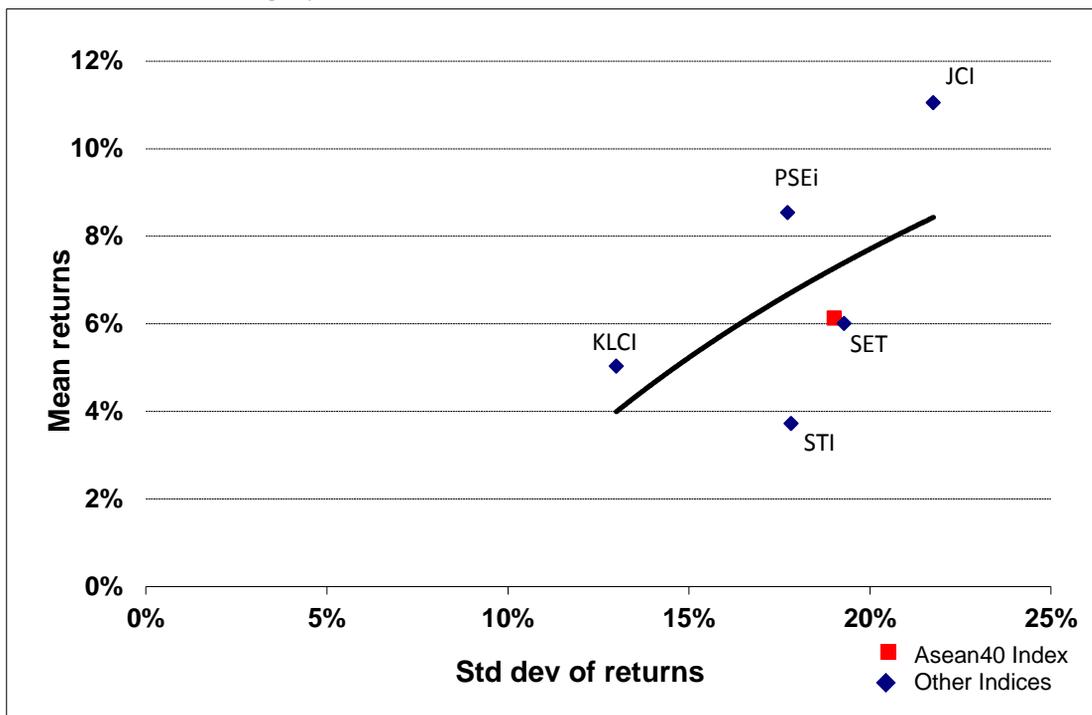


Figure 1: Asean40 Index compared to ASEAN country indices of KLCI, FSSTI, JCI, SET and PSEi

Risk Reward Trade-off Charts: 6 Months Risk vs Returns

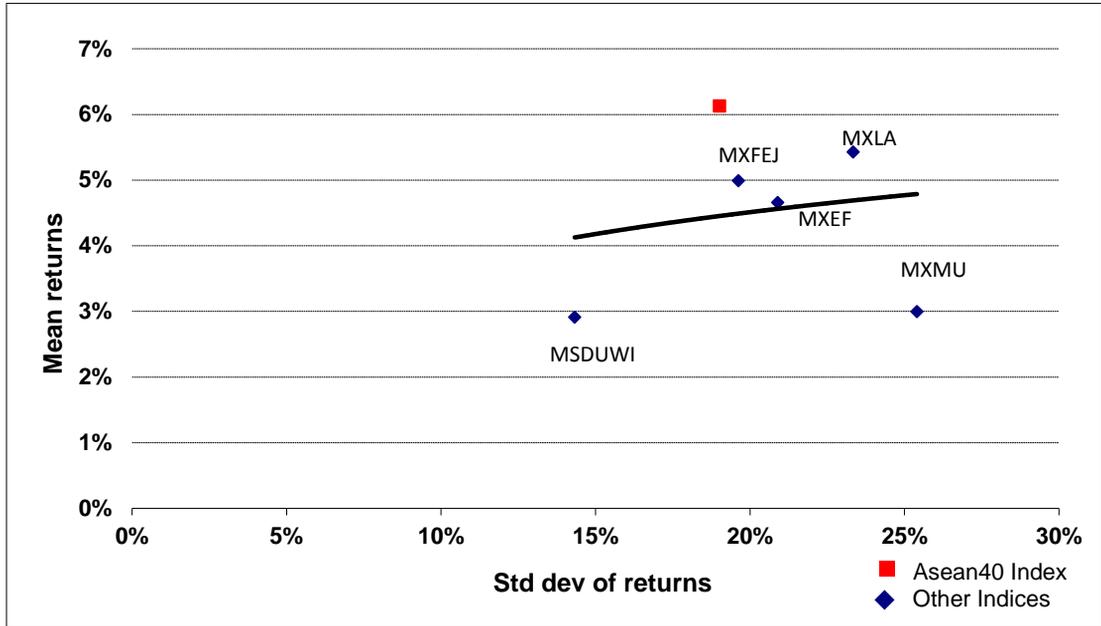


Figure 2: Asean40 Index compared to MSCI country and global indices

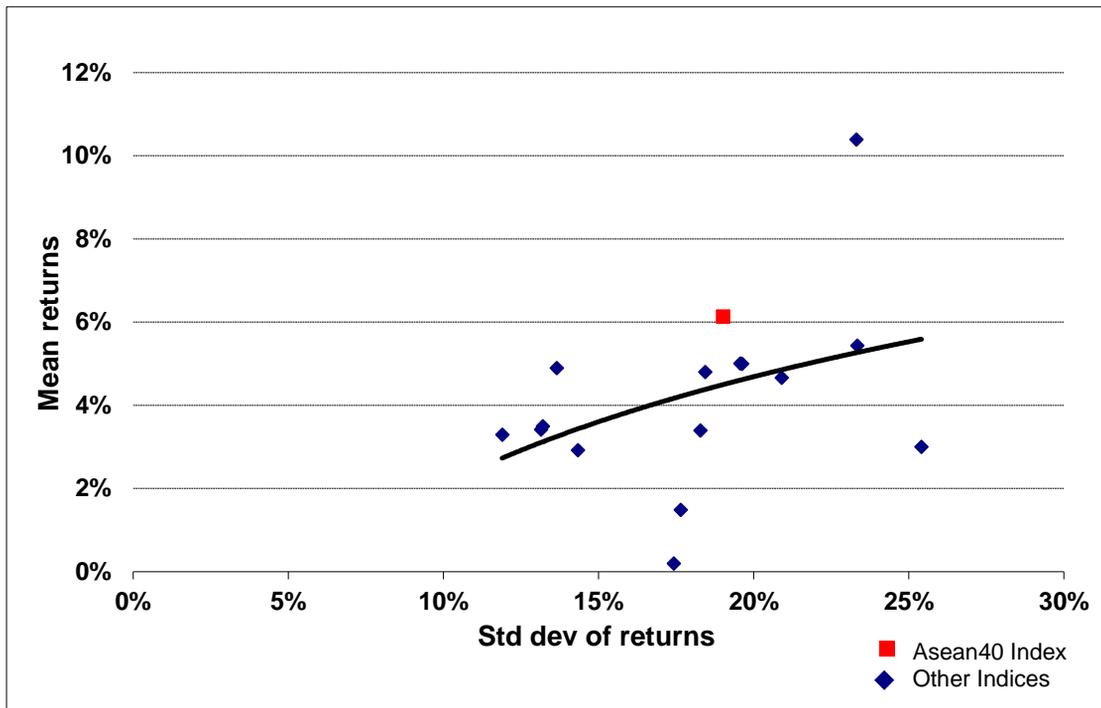


Figure 3: Asean40 Index compared to MSCI country, regional and global indices

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