

Market Commentary

Regional markets opened on a weak note in March as signs of an inconclusive general election in Italy sparked worries around the world that another chapter in Europe's debt crisis could be opening. In addition, Chinese data showed growth in manufacturing activity had slowed while US lawmakers failed to prevent the imposition of USD85 bn in spending cuts. Markets fell further as domestic headwinds in each individual markets, led the region into negative territory. Markets remained weak throughout the month with few catalysts to drive buying. Fortunately, it rebounded as new US data suggested a steady recovery in the world's largest economy, bolstering investors' risk appetite. Investor's optimism about the economy pushed regional markets higher after Wall Street logged in more gains and the U.S. job market showed further signs of strengthening. However, gains were short-lived as a controversial bank bailout in Cyprus brought concerns about Europe's debt crisis back to the fore. Investors have been spooked by news that Cyprus agreed to a levy of up to 10% on bank depositors as part of a deal with fellow eurozone countries and international creditors in order to qualify for a USD13 bn bailout. Share markets across most of the region and the euro continued to struggle after a bailout plan for Cyprus fell into disarray whereby Cyprus's parliament overwhelmingly rejected a proposed tax on bank deposits as a condition for aid, pushing the Mediterranean island a step closer to the brink of financial meltdown. Losses were however limited as investors clung to hopes that a last minute deal will be knocked out and as the European Central Bank (ECB) offered some comfort by saying it was committed to providing liquidity within certain limits, even after having threatened to end emergency lending assistance for teetering Cypriot banks. Markets inched up after the US Federal Reserve maintained its commitment to a very accommodative monetary stance, and as market nerves over the Cyprus bailout wrangling calmed. Markets were pushed higher following news that Cyprus and its international creditors have reached a bailout deal that puts an end to over an uncertainty over the fate of the Mediterranean Island. Unfortunately, markets couldn't sustain its rally and declined as investors fretted about the implications of the Cyprus bailout agreement for the other euro-zone countries, with commodity and financial stocks leading the retreat. Moreover, back in Asia, Chinese policy makers revealed new curbs on wealth management products sold by banks, which further dented market sentiment. Fortunately, at the end of the month, markets mostly advanced on a day of relatively light trading on Good Friday, a trading holiday for many stock markets around the globe, as investor sentiment was buoyed after the S&P 500 posted a new record-closing high on the previous day. Asean40 Index remained resilient, up 1.4% m-m, gaining 167.12 points and closed at 11,717.58 (in USD terms). All bourses, with the exception of the HSI (-3.2%), closed in positive territory and SET was the best performing market for March, up 2.9%. Major gainers were Perusahaan Gas Negara (+24.0%), Advanced Info Service (+15.9%) and United Overseas Bank (+6.8%), while major losers were Capitaland (-9.7%), Bank Rakyat Indonesia (-7.4%) and PTT Pcl (-6.9%).

Corporate News

Indonesia

Unilever Indonesia called on its strategic overseas-based suppliers to invest in establishing production outfits in the country to cut the production materials bind straining the company. The group had invited 32 key suppliers from countries such as the US and Latin America to Indonesia to reviews investment possibilities in the country. According to management, the mood among the suppliers had been positive and they think they will see 10-20 people come up with concrete plans soon.

Perusahaan Gas Negara announced it has concluded a transaction to acquire a 20% participating interest in the Ketapang oil and gas block in East Java from Sierra Oil Services. This marks the company's first foray into upstream activities to support its core natural gas distribution business. The block contains some 84 million barrels of oil equivalent in reserves and production is expected to commence in 2014. The block is estimated to be able to produce 25,000 barrels of oil per day and 50 million standard cubic feet per day during its peak.

Malaysia

Sime Darby Bhd has proposed to establish a joint venture (JV) between its healthcare division and Australia's Ramsay Health Care Ltd. Sime will end up with 50% of the jointly owned entity and MYR390 mn in cash. The deal, subject to regulatory approvals, will combine Sime Darby's entire portfolio of healthcare and education assets in Malaysia with Ramsay's three hospitals in Indonesia.

Corporate News

CIMB Group Holdings Bhd had received approval from Malaysia's central bank for a dividend reinvestment scheme (DRS) aimed at strengthening its capital position. The scheme will provide shareholders the option of reinvesting their cash dividends into new shares. It will allow CIMB to conserve capital while maintaining its dividend payout of 40% to 60% of its earnings and as it looks to implement cost controls after having spent USD3.7 bn on expansion.

Public Bank's succession plan is in place as the banking group seeks to continue expanding overseas, particularly in Hong Kong and Indochina. In line with the Public Bank group's objective of building long-term and sustainable performance excellence, the group has an on-going succession planning for senior management staff in all key business areas. The earmarked candidates are nurtured with relevant training, skills development programme and job-related exposure to groom such candidates in order to assume higher responsibilities."

Maxis announced its new 21Mbps Home WiFi modem to provide customers with a superior and enhanced online experience. The new 21Mbps Home WiFi modem is easy to set up with plug-and-play convenience and allows multiple users to go online simultaneously. The 21Mbps Home WiFi modem, which is available for free with 20GB, 28GB and 48GB Maxis Home Wireless Internet packages.

Singapore

Singapore's **Wilmar International Ltd** is the sole receiver of the ICE futures US March raw sugar contract, taking advantage of declines in global prices. It will be the first time Wilmar takes delivery of sugar since foraying into the sweetener market three years ago. The actual amount delivered, as well as delivering and receiving parties, will be reported by the exchange. The company was the receiver of an estimated 3,007 lots, or roughly 152,762 tonnes. A move that is more common for trading giants such as Cargill or Louis Dreyfus.

The possibility of **CapitaLand** divesting its investment in Australand Property Group has attracted several parties, who have expressed an interest in either the whole or parts of the Australian subsidiary's business. Australand is making certain information available to selected parties to determine whether any proposal can be developed. But both Australand and CapitaLand emphasized that the expression of interest by the parties did not mean that any definitive proposal was forthcoming. CapitaLand's strategic review of its investment in 59.3%-owned Australand is part of a broader move unveiled by the property giant earlier this year to streamline the group's business and focus on China and Singapore. CapitaLand also recently announced that it has appointed JP Morgan (SEA) as its financial adviser to help with the Australand review.

Thailand

Siam Cement Group is consolidating its cement and building-materials businesses to strengthen its competitiveness for further regional expansion. There is strong synergy among the cement, building materials and distribution businesses, which are related to the construction industry.

Advanced Info Service Plc (ADVANC), Thailand's major mobile phone service provider, is set to start rendering 3G service in major cities in April. ADVANC has spent the money to the tune of THB20-30 bn from investment budget of THB70 bn that will be spent on three years investments.

Despite greater business and investment opportunities on the back of the robust Asian economy and bright prospects for the Asean Economic Community (AEC) in 2016, **Bangkok Bank (BBL)** is maintaining its international loan portfolio at 18% of its outstanding credit this year. BBL's proportion of offshore loans is in line with international opportunities and the bank's risk management. BBL plans to open only one foreign branch this year, in Medan, Indonesia. It is awaiting approval from that country's central bank.

Economic News

Indonesia

Indonesia's consumer confidence index inched up to 116.8 in February from 116.2 in January.

Indonesia's Jan retail sales index grew 7.2% year-on-year, compared with a revised 15.1% a month earlier.

Indonesia's central bank left its **benchmark rate** at a record low 5.75%, as expected, despite a surge in headline inflation in February and pressure on the rupiah from the country's trade and current account deficits.

Indonesia's inflation rate in February was recorded at 5.31% year-on-year (4.57% in January).

Indonesia's exports fell 1.2% year-on-year in January (-9.9% in December) while **imports** rose 6.8% (-5.4% in December).

Malaysia

Bank Negara Malaysia decided to maintain the **Overnight Policy Rate (OPR)** at 3%, citing the current stance of monetary policy to be appropriate given the outlook for inflation and growth. In addition to domestic conditions, the MPC will continue to carefully assess the global economic and financial developments and their implications on the overall outlook for inflation and growth of the Malaysian economy.

The annual growth of **leading index** remained unchanged at 1.3% in January. The **coincident index** rose 3.7% year-on-year in January (+3.3% in December 2012) while the **lagging index** increased 3.3% (+3.2% in December 2012).

The **industrial production index (IPI)** expanded 4.6% year-on-year in January (+3.5% in December 2012) across all indices: manufacturing (+4.9% vs. +4.3% in December), mining (+2.4% vs. +0.9% in December) and electricity (+9.8% vs. +5.6% in December). Economists had projected the IPI would increase by 5.4% in January.

Gross exports turned around to increase by 3.5% year-on-year in January (-5.8% in December 2012) while gross imports surged 16% (-6.5% in December), leaving a trade surplus of MYR3.3 bn (MYR8.2 bn in December). January's export growth came in line with market expectations of a 3.7% gain.

The **manufacturing sales** rose 7.4% year-on-year to MYR52.4 bn in January (+7.5% to MYR52.6 bn in December 2012). On a month-on-month basis, it declined 0.5%.

Philippines

Philippine imports declined 8% year-on-year in January (+14.4% in December) while the **trade deficit** shrank to USD714 mn from USD1.33 bn in December.

The Philippines' unemployment rate rose to 7.1% in January higher than the 6.8% registered in October.

Inflation in the Philippines edged up to 3.4% year-on-year in February from 3% in January, a touch above consensus expectations of 3.3%.

Singapore

Singapore's consumer prices rose 4.9% year-on-year in February (3.6% in January), ahead of forecasts of 4.1%.

Singapore's retail sales declined a seasonally adjusted 1.4% month-on-month in January, contrary to economists' expectations for a 1.7% increase. In December, sales had decreased by 0.4%. On an annual basis, sales declined 2% year-on-year in January. Economists had forecast a 0.1% decrease. The rate of fall was faster than 1.5% recorded in December.

Economic News

Singapore's Purchasing Managers' Index (PMI) dipped 0.8 pt month-on-month to 49.4 in February. At the same time, the electronics sector PMI for February surprised with its first gain in five consecutive months, rising 2.2 pts month-on-month to 52.1.

Singapore's unemployment rate remained unchanged at 1.8% in 4Q12, from the preceding quarter.

Thailand

Thai consumer confidence rose to 84.0 in February (81.7 in January) for the fifth straight month, the highest level since August 2011. The upward trend is likely to continue as another index that projects confidence over the next six months also increased to 90.1 in February from 87.1 in January.

Thailand's inflation rate slowed to 3.23% year-on-year in February (3.39% in January), while **core inflation** was flat at 1.57% (1.59% in February)

Thailand's industrial output rose 10.1% year-on-year in January from the low base a year earlier when severe flooding devastated industry. The rise was just below the 11.7% forecast by economists and compared with a revised 23.0% increase in December. **Capacity utilisation** rose to 67% from 63.5% in December.

Thailand's total exports gained 15.6% year-on-year in January (13.6% in December) to USD17.9 bn. **Imports** surged 38.4% year-on-year in January (1.3% in December) to USD20.7 bn, resulting in a **trade deficit** of USD2.8 bn (USD0.3 bn in December). The **current account** dipped into a deficit of USD2.2 bn from surplus of USD0.7 bn in December. However, the **overall balance of payments** still posted a surplus of USD1.0 bn (USD0.8 bn in December).

Thailand's business sentiment index climbed to 51.1 in January, an improvement from 50.6 in December.

	31 March 2013	YTD (USD) %	M-M (USD) %
INDU Index	14,578.54	11.3%	3.7%
MXAPJ Index	472.74	1.4%	-1.8%
Asean40 Index	11,717.58	4.7%	1.4%
Hang Seng Index	22,299.63	-1.7%	-3.2%
HSCEI Index	10,896.22	-14.2%	-4.7%
JCI Index	4,940.99	13.3%	2.4%
KLCI Index	1,671.63	-2.2%	2.0%
KOSPI Index	2,004.89	-3.9%	-3.6%
PSEi Index	6,847.47	18.5%	1.5%
SENSEX Index	18,835.77	-2.5%	-0.3%
SET Index	1,561.06	17.1%	2.9%
STI Index	3,308.10	2.8%	0.7%
TWSE Index	7,918.61	0.0%	-0.4%

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 clearly lies above the “Efficient frontier” as shown in the charts below except for comparisons to ASEAN country indices as it falls slightly lower from the “Efficient frontier”.

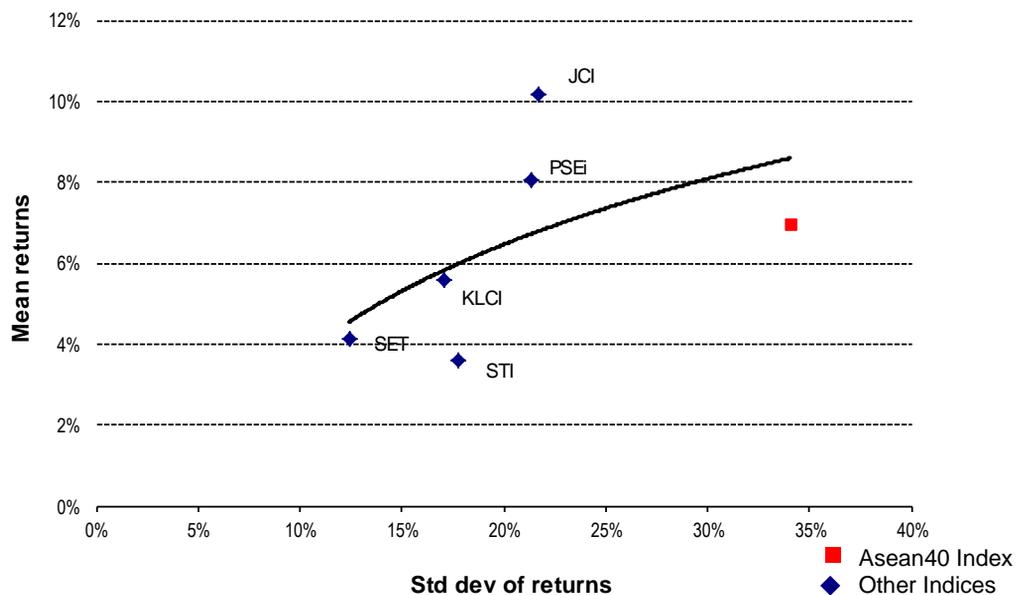


Figure 1: Asean40 Index compared to ASEAN country indices of KLCI, FSSTI, JCI, SET and PSEI

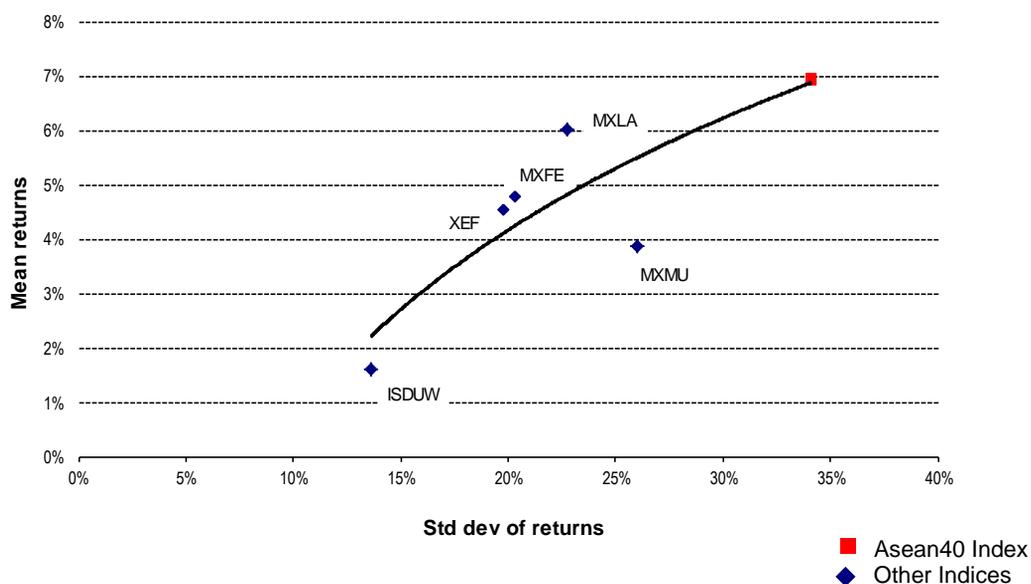


Figure 2: Asean40 Index compared to MSCI country and global indices

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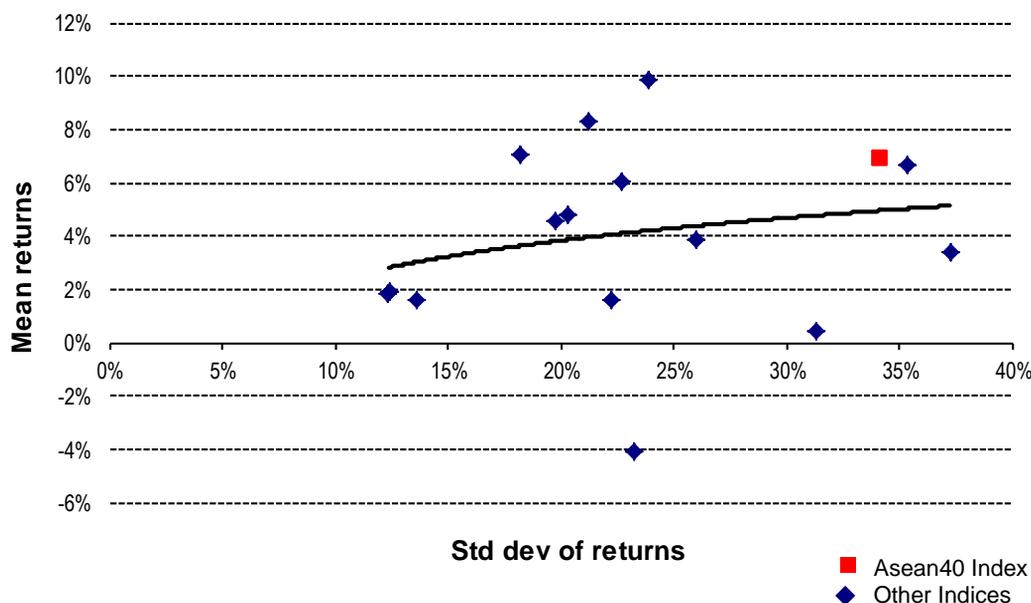


Figure 3: Asean40 Index compared to MSCI country, regional and global indices

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