



Q&A WITH UEM BUILDER MD: INFRASTRUCTURE PROJECTS TO SHAPE CONSTRUCTION SECTOR	1
Q&A WITH MAS, AIRASIA EXECS: AIRLINES BRACE FOR TOUGHER CHALLENGES	4
BAT MD WRITES: CURBING ILLICIT TRADE A KEY CHALLENGE	7
PLENTY OF ROOM FOR GROWTH	9
Q&A WITH CEO LUNDAL: DIGI TO ENHANCE CUSTOMER EXPERIENCE	12
Q&A WITH MRA PRESIDENT: RETAIL INDUSTRY NEEDS BIGGER PIE	14
A CHALLENGING YEAR FOR FINANCIAL MARKETS, SAYS AZMAN	16
Q&A WITH BURSA MALAYSIA CEO: FACING THE CHALLENGES AHEAD WITH CONFIDENCE	21

Q&A with UEM Builder MD:
Infrastructure projects to shape construction sector

January 9 2008

QUESTION: What will be the main challenges for the construction industry in 2008?

Ridza: The main challenges for the construction industry in Malaysia will be to overcome the issues related to the increase in price of construction materials such as bitumen, steel, cement and fuel. The increase of these raw materials is partially due to the global economic environment which, to a certain degree, is caused by the volatility of fuel prices. Another challenge will involve the shortage and loss of human resource/skilled workers in the construction industry to other parts of the world due to more attractive offers especially in the Middle East. These shortages of skilled manpower resources can affect the bottomline of the projects in terms of cost overruns and delays.

Q: How do you plan to overcome these challenges?

Ridza: As one of the major players in the construction industry in Malaysia and nation-building partner to the government in delivering mega projects such as the PLUS Expressway, Malaysia-Singapore Second Crossing, National Sports Complex and Putra LRT, we have to do our part to contain the situation by reducing the company's construction cost through a more efficient way of conducting and improving operations.



One of the methods is by improvement of systems and processes with the use of information and technology (IT) to enhance efficiency.

As a leader, UEM Builders will endeavour to cascade these efficient methods to all the sub-contractors and suppliers for our projects. There is a critical need to cut red tapes, eliminate unnecessary bureaucracies, make fast decisions, communicate well through paperless methods and technology to execute works on the ground. A good example of innovation and technology in UEM Builders is the use of SMSes for approval and fast decision-making, which can be done anytime and anywhere. Hence, the use of IT in communications to obtain approval and to expedite decision-making processes on the ground with the objective of completing any project within the shortest time possible. This will help to a certain extent to counter the issues of the price increase. The challenges in the construction industry require the co-operation of the major players in the industry. The key players in the industry will also need to come together as a team to draw policies, strengthen and highlight construction issues especially in relation to the increase in material prices. For example, the reinstatement of price fluctuation clauses in the contract will enable the contractor to focus on the completion of the project. This will entail the support of the government as well as private sector in implementing such policies.

Q: What are the trends that can shape the construction industry in 2008?

Ridza: Infrastructure projects will be fundamental in shaping the construction industry in 2008. As such, the growth of this sector will be derived from the implementation of major transport-related infrastructural projects such as the Second Penang Bridge, Penang Monorail, Ipoh-Padang Besar double-tracking rail project and the extension of Ampang and Kelana Jaya light rail transit lines.

Efforts to develop southern Johor, on-going development in the Northern Corridor Economic Region together with the newly-launched East Coast Economic Region stand to add further impetus to the overall growth within the construction sector and many

other related industries. However, we will need to overcome the inertia associated with major projects which requires strong commitment and skills of various decision makers, planners and engineers.

Q: What are the future prospects for the industry in 2008?

Ridza: Based on the Economic Report 2007/2008, the Malaysian economy is anticipated to strengthen further to between six per cent and 6.5 per cent, as against six per cent in 2007, with positive contribution from all industry sectors. The construction sector is also poised to strengthen further with a growth of 6.3 per cent (2007: 5.2 per cent). With the announcement of the corridors, there is a strong commitment to make the construction industry as the contributor to the Malaysian economic growth. As such, it is expected the future prospects for the industry in 2008 to be certain and bright, especially in the context of the Ninth Malaysia Plan projects proposed by the government which includes projects such as the Northern, Southern and Eastern Corridors Economic Region. However, there must still be a concerted effort by the government and private sectors to overcome issues, one of which is the escalation of material prices.

Q: How will the industry be affected by the expected rise in fuel and electricity?

Ridza: We foresee that the rise in fuel and electricity will definitely push the price of construction materials. This will have to be addressed by making provisions in the contracts and providing sufficient allowances for the price increase when undertaking the project. UEM Builders' other approach to mitigate the issue is by diversifying and broadening its base. We have plans to diversify into the construction of civil and engineering works for the oil & gas sectors and property development not only in Malaysia but overseas as well. We will use and ride the wave of these sectors to enable us to insulate ourselves from the potential increase of material prices. In addition, we intend to venture into smart partnership basis projects to reduce company's risks especially for oversea markets. Under this scenario, we will be able to manage our risk through a wider distribution of resources and spread our business portfolio into one of which is equitable and not place all the eggs into one basket.

Q&A with MAS, AirAsia execs: Airlines brace for tougher challenges

January 8 2008

QUESTION: What would be the main challenges for the aviation industry this year?

Tengku Azmil: There are two challenges. Firstly, the high oil price, which is an industry challenge. The oil price is already at the highest level ever seen. Even if it comes down, there will be a lag with whatever response we come up with.

Secondly, overcapacity. According to Airbus and Boeing's data, some 800 plus new aircraft will be coming to Asia Pacific, South Asia and Middle East. This situation of overcapacity, the proliferation of low-cost carriers (LCCs) and the liberalisation of Asean skies will lead to erosion on prices and margins.

Fernandes: From AirAsia's point of view, the main challenges for the airline this year would be airports, not oil. Looking at the robust growth of budget travel in this part of the world, we are in dire need of infrastructure to support and compliment this. I feel the growth of the airline industry is being constraint by inability of the airports in Malaysia to keep up with the pace.

We are not that worried about the projected rise in oil prices. Oil we can deal with, but we can't do much when it comes to airports.

Q: How do you plan to overcome these challenges?

Tengku Azmil: Airlines that succeed have to do one or two things ... either you reduce cost drastically so that at lower cost margins, you will remain profitable, or you pitch your offers and products in such a way that is distinctively unique to attract a lot of customers.

At MAS, we are positioning ourselves to do both, offering premium products and services, and reducing cost. We have a new charter. It is to transform our-selves into a Five Star airline @ LCC cost (FSLCC).

How can we do this? There are five key steps: Step 1: We will continue to maintain high-quality products and services (Five Star); Step 2: We must structurally reduce our costs; Step 3: With a lower cost base, we will be able to offer even lower and more competitive fares, and still be able to make a profit; Step 4: with high quality products and services at low/competitive fares, more passengers will fly on MAS and this translates into more



TENGGU AZMIL:
Any increase in oil prices
will impact the industry's
financial position

revenue; and Step 5: With more revenue and profit, we can invest in growing our network and building our capacity.

These steps are repeated until we get an upward spiral ... we call it the virtuous cycle of profitable growth. Details will be announced in our Business Transformation Plan, to be launched this month.

Fernandes: I hope that the government would allow the participation of private investors in building more private airports in the country. We are not just talking about Kuala Lumpur or KLIA (KL International Airport) areas. There are other potential sides in the country, such as in Kota Kinabalu, Sabah.



FERNANDES: The main challenges for the airline would be airports, not oil

I believe that privatisation can improve the current situation and develop many routes. Senai airport in Johor is a good example of a well-run private airport. It is easier to deal with them and because of that, AirAsia managed to develop so many routes via our Johor hub.

Q: What are the trends that could shape the industry this year?

Tengku Azmil: High oil prices, overcapacity and the possible global slowdown, all of which will unfavourably impact the industry. However, according to the International Air Transport Association (IATA), Asian markets are expected to continue to grow, driven by China economy. Another key factor would be increased liberalisation, from which there will be winners and losers.

Fernandes: I think more liberalisation would probably among the main factor that is going to shape the industry this year. In line with the Asean open-sky initiatives, scheduled to take place by early 2009, more member countries are moving towards opening up their skies ... countries such as Indonesia, Thailand, Vietnam. Such a development bodes well for airlines with network like AirAsia. The fact of the matter is that people want to travel and our flight enable them to do so.

Q: What are the prospects for the industry this year?

Tengku Azmil: The year 2008 will be a challenging year. IATA has revised downward its global industry outlook for this year to US\$5 billion (RM16.4 billion) from the previously forecast US\$7.8 billion (RM25.6 billion) due to the high fuel price, slower-than-expected growth in global economy and acceleration of capacity with an increase in aircraft deliveries to 1,281 (up from 1,041 in 2007). However, robust traffic growth to and within Asia is expected to partially insulate Asian carriers from the impact of the downturn.

Fernandes: I think there is a lot of pent-up demand for air travel. If more investments are being put in airports, then airlines like us can offer more destinations, and eventually, this would significantly contribute towards our growth.

Q: How will the industry be affected by the expected rise in fuel and electricity prices this year?

Tengku Azmil: We do not believe that the oil price will continuously stay at high levels. It will come down. It's a question of when. Fuel is the single largest cost element for airlines, and any increase in oil price will unfavourably impact the industry's financial position.

For MAS, fuel represents over 30 per cent of our operating cost. To mitigate the impact, we have implemented three measures. Firstly, hedging. We practice a competitive hedging policy, that is hedging in line with the industry average in our market. For 2007, we hedged 60 per cent of our fuel requirements at US\$62 (RM203) per barrel. For 2008, we have hedged over 30 per cent based on the average market competitors in the area we operate.

Secondly, we recover part of the fuel cost through fuel surcharge, at fair and competitive rates in line with the industry. Thirdly, we implement the best practices on fuel efficiency. The really important thing is to ensure that you attract more customers to fly with you as that will mitigate the price of fuel.

Fernandes: I am all for end of subsidies, and I believe that people should be paying for the right price. Nevertheless, it is crucial for the government to make sure that people who need subsidies should get them. I am optimistic that the government will put money to necessary areas such as education and public infrastructure. Whether the fuel price increase would affect us, I don't think so. The last time when the government reduced oil subsidies, we didn't feel any difference. I think the impact will be minimal.

BAT MD writes:
Curbing illicit trade a key challenge

January 4 2008

COMPETITION is a good thing. It challenges companies to deliver added value to consumers and to continuously find new ways of operating efficiently and effectively to remain profitable. However, this poses a problem when those you are competing with are not playing by the same rules.

For the tobacco industry, 2007 was a challenging year.

Industry volumes continue to decline year-on-year while excise taxes are at 300 per cent of the level it was pre-September 2004. Rising inflation, interest rates and oil prices have elevated the cost of living with a dampening effect on general private consumption.

Over and above all these, the unprecedented 25 per cent excise duty increase in July 2007 has led to significantly higher prices of legal cigarettes, causing consumer to down trade. Hence, it has significantly increased the viability of the illicit tobacco trade in the country - recording an all-time high of 25 per cent of total tobacco sales in the country in March 2007.



BOWLES: The illegal tobacco trade will continue to grow unless enforcement efforts continue in intensity

At this level, the illicit tobacco trade has a far-reaching effect throughout the industry and the general community. It deprives the government of taxation revenue, promotes criminality within our society, harms legitimate brands which subsequently reduces the demand for Malaysian-grown tobacco and also misleads consumers into buying tobacco products of dubious quality.

We understand that the government will continue to increase taxes on tobacco products to reduce the health impact of tobacco consumption.

However, in order to curb the growth of illegal cigarettes, which if unchecked will defeat the health intent of the government, we hope the government will adopt a gradual and moderate approach to tobacco taxation.

On top of this, due to the illicit-led decline in demand for legal cigarettes, the marketplace experienced intensified competitive pricing and brand launch activities in 2007.

Despite the challenges, our key brands have proven resilient and continue to gain market share. This is testament to BAT Malaysia's commitment to defending our leadership position.

With all that we have experienced in 2007 and the previous years, there is no doubt that 2008 will continue to serve the tobacco industry with more challenges.

In 2008, our biggest challenge remains the same - illegal tobacco trade.

Prices of cigarettes in Malaysia are now the most expensive in the region after Singapore, fuelled mainly by significant excise driven price increases over the past few years. It is this price differential between the cigarettes in Malaysia and the cigarettes outside Malaysia that has exacerbated the lucrative smuggling problem in the country.

The illegal tobacco trade will continue to grow unless enforcement efforts continue in its intensity and tax increases are gradual and moderate. To date, we are encouraged by the increased enforcement efforts by the authorities, particularly the Royal Malaysian Customs. Their efforts have foiled many attempts to smuggle illicit cigarettes into the country and we hope that such commendable efforts will continue.

Besides the illicit tobacco trade challenge, the legitimate cigarette market in 2008 will continue to be very competitive and we do anticipate further regulatory restrictions being introduced as the government works towards alignment to the Framework Convention on Tobacco Control.

Though faced with these challenges, BAT Malaysia intends to continue creating value for our shareholders through our strategic focus of generating growth, enhancing productivity, running our business responsibly and building a winning organisation.

We will continue to protect the market share of our leading premium brand, Dunhill, by strengthening its presence in the marketplace and enhancing its brand equity. We also aim to focus our resource on reinforcing our position in the value for money segment.

Over the past year, Pall Mall has become the fastest-growing value-for-money brand in the country and we are confident we can take it further.

In order to achieve these objectives, we will step up implementation of innovative productivity and efficiency enhancement programmes, and continue to invest in our talent and to cultivate a high-performing organisation.

Q&A with Great Eastern CEO:

Plenty of room for growth

January 4 2008

QUESTION: What would be the main challenges for your industry this year and how do you plan to overcome these challenges?

Answer: One, low Insured ratio and customers' awareness/education

The insured ratio is still low at 39 per cent, measured in terms of total number of policies against total population, as compared to other more developed countries like Japan that has insured ratio of more than 100 per cent.

However, after discounting multiple policies, the insured ratio percentage is actually much lower at 27 per cent.

The challenge in enlarging market share is also largely due to a lack of the public's awareness and education, especially among the younger crowd, on the importance of sound financial planning, especially on wealth protection.

There will also be demands in meeting the needs of an ageing population living longer with medical conditions.

Thus, demand for better healthcare will provide the impetus for growth in medical insurance.

As such, we recognise the need for a comprehensive yet affordable product to suit the lifestyles and pockets of the younger generation that has just entered the workforce to encourage them to start financial planning early.

As life cycle changes, so does protection and financial needs, Great Eastern's extensive range of products is more than sufficient to cater to the needs of different life stages.

Moving forward, Great Eastern launched in November 2007 its year-long branding campaign - "live100percent", to mark its 100th anniversary in 2008 by rewarding our policyholders.

With "live100percent", knowing that their interests are safe and protected with us, we have created 52 amazing experiences to reward our policyholders.



“After discounting multiple policies, the insured ratio is actually much lower, at 27 per cent”

Alex Foong
Chief executive officer
Great Eastern Life Assurance

Some of the amazing experiences are the trek up Machu Picchu in Peru, the penguin march in Antarctica and the drive on the Nurburgring F1 circuit in Germany.

This campaign also helps to raise the awareness and education level on the importance of insurance by illustrating its benefits of protection and financial security for illnesses and old age.

Two, the distribution channel.

The industry is constantly challenged in keeping quality and productive agents in the main distribution channel.

Reason being they are exposed and driven by other income opportunities such as direct marketing. Hence, agents have the tendency to venture over to these fields, deemed more profitable.

The agency force while prominent and play an integral role in growing the industry, still have to continuously upgrade their professionalism and acquire a holistic exposure and knowledge on financial planning.

Hence, they may not be fully equipped to offer the best financial planning advice or further advice and offer alternatives to potential customers.

There is also the emergence of financial advisers who may represent at least four companies. This may further enable them to indulge in other non-insurance related financial products such as mutual funds, mortgage, credit cards and will writing.

Following which, Great Eastern had earlier launched its "Life Planning Advisor" programme (LPA) - an in-house programme with the objective to help transform our agents into life planning specialist.

This is to further enhance the professionalism and development of our agency force.

LPA will help prepare the agency force with the core knowledge and skills of financial planning and also keep them updated with the latest development in the financial planning arena and the volatile changing market environment.

As such, LPA candidates are better equipped and knowledgeable in financial planning and needs-based selling - gives them the edge in understanding the customers' needs better and allows them to offer customers financial solutions that meet their goals and needs.

We hope to have about 3,000 qualified LPA graduates this year. In fact, the first batch of LPA graduates will soon celebrate their graduation in a month's time.

Q: What are the trends that could shape your industry next year?

A: Malaysians are now living longer, on average 72 years and 76 years for men and women respectively.

Retirement years can stretch up to more than 21 years and it is said that 99 per cent of EPF contributors would have less than RM100,000 in their accounts.

It is also estimated that 81 per cent of the elderly population will suffer from at least one chronic medical condition and the elderly population may face challenges in meeting inflation and rising medical costs.

Most Malaysians are also facing the risk of suffering from illnesses such as heart attacks, diabetes and cancer.

Close to 39 per cent of Malaysians are overweight and only a mere 15 per cent of Malaysians have individual medical insurance.

Great Eastern will continue its long-term goal to reinforce its position as the premier health protection provider.

Besides that, we foresee increased demand for retirement plans in the form of savings - build up cash value with life insurance protection.

We will also continue to see a push for investment-linked plans that are more affordable and flexible - offering both protection and investment means by allowing customers to save and wealth generating opportunities to suit the individual's investment style and risk appetite.

With longer life expectancy and the impending rise of cost of living, there is a need to meet this retirement income gap.

Hence, if appropriate tax rules can be amended or relaxed, we can see growth of private pension fund scheme in the future to meet this need.

Q: What are the prospects for your industry this year?

A: Looking at the low penetration rate, we believe that there is still room to grow and further expand into new market segments.

With the onset of risk-based capital (RBC) framework, we would expect a boost in customers' confidence in the insurance industry as it would help enhance the risk management practices of insurers and only stronger capitalized insurance companies would remain in operation.

2008 marks the 100th anniversary for Great Eastern.

With the strength of our network of 17,000 agents nationwide coupled with our training programmes to better prepare them to serve the needs of customers and in the pipeline, introduction of the Great Care 100 and Great Life 100 series of products that caters to the demands of the market, we are positive and confident that we will achieve our 2008 financial goals of RM5 billion premium and asset size of RM40 billion.

Q&A with CEO Lundal: DiGi to enhance customer experience

January 2 2008

QUESTION: What would be the main challenges for your industry this year?

ANSWER: In 2008, the industry will introduce MNP, a code name for Mobile Number Portability, which means that you can take with you your current number to any mobile operator. I think that will shift the power further to the end-consumer and force the industry to take service and quality even more seriously. This will lead to improved performance and more satisfied mobile users in Malaysia. We hope for positive impact on DiGi, because we know there are a lot of people who would love to change to DiGi but love their numbers even more. Soon, with MNP, they can take their numbers and join us.

Q: How do you plan to overcome these challenges?

A: We are focusing on competing well, developing our people and to prepare for the future. Competition is our key mindset and people development our competitive advantage. When it comes to preparing for the future, we are going through a fundamental upgrade of all core technical platforms in DiGi. The bad news is that it's a lot of work, but the good news is that DiGi, in 2008 and forward, will be able to do much more, and that should lead to even better customer experiences.

We want to create excellent customer experiences. It is as simple as that, and also as difficult as that. And then we think our financial performance will benefit as a consequence of that. We intend to give the best customer experience so that customers would trust us, and for that reason stay with us. We would like to see the DiGi brand being used more often. We want it to be a household brand, not just a mobile brand.

Q: What are the trends that could shape your industry this year?

A: If you asked that question to someone in the mobile industry a few years ago, they (we) would all say, "we are about to go through dramatic change very soon", but that hasn't happened. The industry tends to overhype trends. We think we know what consumers want but it is always difficult to change people's behaviour. Most advanced

services are insignificant revenue contributors. Of course, there are some successful new services but only in some segments and in some countries; it's not at a global level. However, what is proven globally is that people love to be able to call anyone wherever they are or whenever they want, and SMS. So, voice and SMS will remain strong, but both broadband and a few other services will start to actually impact the mobile operators' performance.

Q: What are the prospects for your industry this year?

A: As we say every time we look forward, it's going to be more challenging and even more competitive; that's the mindset we have to have. We expect to continue to innovate, and also to focus even more on individual customer experiences.

More and new competition in an industry with low overall growth is going to challenge all the players. At the same time, MNP will reduce the barriers for customers to shift away from the underperformers. And the broadband ambitions we all have are promising, but actually very challenging. But we are working with areas that have reached must-have status for most Malaysians - the access to a mobile phone and the Internet. So, I am optimistic, especially long-term.

Q: How will your industry be affected by the expected rise in fuel and electricity prices this year?

A: If this happens, operating costs will be marginally impacted, but we can manage that. Rising fuel prices and power rates will obviously affect the consumer's wallet, but I do not think it will drastically change mobile spending habit given the overall low pricing of our services.

Q: How would you describe 2007?

A: We enjoyed 2007. We reached important milestones we set years ago. One of those was our target set in 2004 to reach 25 per cent mobile revenue share. I had to deliver on my promise to eat durians when that happened, and the taste (of success) was not as bad as some people had warned me about. So yes, we have been doing well in exciting our customers both with new and improved services, leading to continued momentum in growth of revenue and profit. The full-year financial results will be out in February, so let's wait a bit with the full history writing for 2007.

Q: What were the challenges?

A: We are working in a fast-changing industry with very competent and ambitious competitors. When everyone wants a bigger pie of the cake, then it does become a bit heated and intense. The mobile industry is very visible in Malaysia and it's a challenge to get through the general 'noise level' with important messages like our best-value offers to customers and also spreading the word of our high-quality network. But I do think we are getting there.

Q&A with MRA president: Retail industry needs bigger pie

January 2 2008

QUESTION: What would be the main challenges for the local retail industry this year?

ANSWER: There are a number :

There are too many shopping complexes that have just been completed, or under construction or being planned. For last year alone, we expect to see retail space in shopping complexes in Kuala Lumpur to increase by 20 per cent, with the opening of six new malls and the expansion of one existing mall.

The retail industry could not expand in tandem support this sudden explosion of retail space.

This will result in a drop in productivity.

With the explosion in retail space, the shortage of retail staff is worsening. This would pressure to salary and costs of operations to the retailers.

The growth in the retail industry would also capped by the higher cost of living, which has been escalating despite the low CPI (consumer price index) number released by the government.

With oil prices touching the US\$100 (RM331) per barrel mark, the worsening rising cost of living expenses would post a major challenge to the industry.

With the government already announcing highways and warnings on possible hikes in the electricity tariff and the price of cooking gas, the worst is yet to come, as far as the rising cost of living is concern.

Q: How do you plan to overcome these challenges?

A: One way of overcoming the retail woes from the sudden explosion of retail space would be to enlarge the retail pie. An effective way of enlarging the retail pie would be through tourism.

From the number of tourist arrival figure released by the authorities, the Visit Malaysia Year 2007 (VMY 2007) has so far been successful in bringing in more tourists to the country, and 25 per cent of the total tourist receipts is from shopping.



“An effective way of enlarging the retail pie would be through tourism ... we would support the suggestion to extend the VMY 2007 to 2008 to add

*Tah Peng Koon
President
Malaysia Retailers
Association* be

In view of the challenging situation, we would support the suggestion to extend the VMY 2007 to 2008.

In the country's quest to develop Malaysia as a preferred shopping destination in the region, it is mandatory that retailers should keep up with the latest development in store layout, design, materials, concept, fixtures, current hot brands of merchandise (that would require realignment of layout), as well as appropriate maintenance to keep the store fresh and presentable.

However, many of these expenses in upgrading are not recognised as expenses by the Inland Revenue Department.

We hope that the government would heed the call from retailers to help them reduce costs of operations by allowing the full cost of refurbishment to be tax-deductible.

Q: What are the trends that could shape the retail industry this year?

A: The past years had seen increased interest from the Malaysian and foreign institutional investors and property funds in commercial properties in Malaysia.

A number of shopping complexes in major cities were transacted.

Sell and lease-back activities were also common. This would help improve the overall complex management standard.

Most, if not all, major retailers are on aggressive expansion trail, including the hypermarkets, supermarkets and department stores. Hypermarkets are mushrooming everywhere and department stores are making significant tenancy commitment as anchor tenants in the major shopping complexes. This could add pressure to productivity.

Q: What are the prospects for the retail industry this year?

A: Retail sales have been growing at an average rate of eight per cent in the past three years, with 2006 retail sales growing 8.4 per cent year-on-year.

In 2006, hypermarkets topped the value sales growth. This was due partly to the authorities' relaxation in the ruling governing the opening of hypermarkets and the fierce competition for market share among the major hypermarket operators.

We believe the growth rate for 2007 could be sustained because of the many positive factors; such as the VMY 2007, salary adjustment for civil servants, increased public spending and a buoyant stock market. The non-grocery sectors are also expected to perform better for 2007. With growth for the first quarter 2007 at 8.2 per cent, we expect eight per cent growth by year-end.

We are, however, not so optimistic for 2008. We expect retail to perform more or less in tandem with the country's GDP (gross domestic product) growth.

Q: How will the industry be affected by the expected rises in fuel and electricity prices this year?

A: See answer above.

A challenging year for financial markets, says Azman

January 1 2008

THE goldilocks years of this decade seem to be fading away as 2007 heralded in many unknowns stemming from the legacy of easy credit in the US and the effects of over-leveraging.

Events following the pricking of the US housing bubble brought to surface the very speculative behaviour in credit markets and the prospects of a global financial turmoil.

The underlying financial risks materialised in the subprime mortgage loans crisis which has plagued the banks ever since.

With it comes the impending threat of a nationwide recession, especially if employment generation and consumption spending slows down rapidly in the coming quarters.

The impact of the bad loans manifested beyond imagination as the ingenuity of leveraging technology through Collateralised Debt Obligations (CDOs) resulted in multifold losses, as the tsunami of credit fear rolled from its Wall Street epicentre to the far corners of the global financial markets, culminating in the near collapse of global hedge funds and investment banks.

The severity of the subprime troubles prompted not only the resignation of two powerful Wall Street investment banks' CEOs but also the opening of liquidity spigots by central banks around the world to avoid a global credit meltdown.

The Federal Reserve, in a concerted intervention with other major global central banks,



“Three factors which could be disruptive to financial markets include further blow-ups in the US housing market, rising crude oil prices and possibility of massive unwinding of yen carry-trades.

*Tan Sri Azman Hashim,
Chairman
AmBank Group*

injected in excess of US\$1 trillion (RM3.30 trillion) to avert a global credit crunch.

The question is: Are we at a defining moment typically associated with an economic downturn and a looming global recession? Will 2008 be a year of "back-up" or "pack-up"?

The answer is we are not sure, but what we do know for certain is that 2008 will be a challenging year.

Three factors which could be disruptive to financial markets include further blow-ups in the US housing market, rising crude oil prices and possibility of massive unwinding of yen carry-trades.

The worst in the US housing market is clearly not over yet. There are troubling signs that credit will be scarce and expensive to get going forward.

The US Federal Deposit Insurance Corporation (FDIC) reported loan-loss provision in the US ballooning to US\$16.6 billion (RM54.8 billion) in Q3 2007, the largest quarterly loss provision since Q2 1987, while the OECD forecasted losses from US subprime mortgage foreclosures reaching US\$300 billion (RM990 billion).

The slump in global credit markets may force banks, brokerages and hedge funds to cut lending by US\$2 trillion (RM6.6 trillion), potentially triggering a recession in the US.

The Fed, in acknowledging such risk, has significantly downgraded its 2008 GDP forecast to a range of 1.8 per cent to 2.5 per cent from 2.5 per cent to 2.75 per cent previously.

The Fed also sees rising unemployment rate, estimated at 4.8 per cent to 4.9 per cent in 2008/2009 from a likely 4.7 per cent to 4.8 per cent in 2007.

Heightened risk aversion, interest rate cuts by the Fed and weakening US dollar could precipitate massive unwinding of yen carry-trades. Anecdotal evidence suggests that the amount of yen carry-trades are in excess of US\$2 trillion.

Any herding effects of such unwinding would disrupt global financial markets as it carries the potential risk of a collapse of the equity market; as the latter seems to have lagged the bond market in pricing in potential credit hazards.

Ultimately, the wealth destruction would lead to downward spiral in consumption and production, feeding back into higher layoffs.

Compounding the effects of an economic slowdown is the worry of a persistent escalation of crude oil prices. Geopolitical tensions, market speculations and the weak US dollar have resulted in oil prices touching an all-time highs.

The immediate impact of a persistently high energy price is its implications on inflation. Could the world economy, while going through a slowdown and tightening of credit standards, afford high price levels? Such a scenario seem to be a prelude towards stagflation!

The US government appears to have recognised the severity of its housing crisis and the attendant consequences on the credit situation. So far it has demonstrated its keen commitment to fix the problem by undertaking several measures.

Fed interest rate cuts and liquidity injection as well as the establishment of a "super fund" are part and parcel of the medication. The US Treasury has also reached an agreement with lenders to suspend the fixed-to-floating rate resets next year; further into the future by another five years.

While some may argue that such actions only defers the problem, at the very least it does provide some cushion to the sagging economy.

The other positive development is the latest decision by Opec in maintaining its crude oil production at 31.5 million barrels per day at least until their next meeting in February 2008. It may not be Armageddon after all.

Unlike the oil shocks that triggered world recessions in 1973, 1980-81 and 1990 attributed to voluntary embargo by Opec or wars which choked supply, the current situation is one which is demand-led.

As Daniel Yergin, chairman of Cambridge Energy Associates and author of best-seller "The Prize: The Epic Quest for Oil, Money and Power" highlighted: "This is a demand shock, not a supply shock caused by extraordinary economic growth of the past few years.

"The economy is having a greater impact on oil prices than oil prices are having on the economy."

If this is true, then the cooling off in the global economy would also prompt re-adjustments in oil prices.

As such, inflation in Asia should be well under control in the second half of 2008. A quick examination around the region reveals that food and energy prices were contributors to headline inflation. However, core inflation remains reasonably stable.

Though Asia should start the year 2008 with headline inflation being uncomfortably high, prices should trend lower as we move deeper into 2008 for three reasons.

Firstly, higher food prices in 2007 should encourage stronger agricultural production in 2008. As supply increases, food prices should stabilise if not decline.

Secondly, the recent surge in oil prices is likely to reverse, not from improvement on the supply side, but on the back of a slowdown in the global economy.

We estimate oil price (WTI) to average US\$75 in 2008, thus pushing headline inflation down by the second half of 2008.

Finally, as the slowdown in the global economy deepens toward mid-2008, demand pressures should fall, not rise.

This is in consonance with the Fed's forecasts for core PCE prices to decline to a range of 1.7 per cent to 1.9 per cent for 2008/2009 and to remain subdued within a range of 1.6 per cent to 1.9 per cent in 2010.

Now from an investment perspective, the challenges highlighted does present opportunities. Within the fixed income universe, we are of the view that the US Fed will ease further to support growth.

As such, we believe that the yield curve will exhibit a "bullish steepening" trend and as such, recommend shortening portfolio duration. This is also in line with the view that headline inflation would remain high in the beginning of 2008.

Given the combination of a volatile global credit environment, our broad strategy is to remain defensive by maintaining an overweight position in high grade corporate bonds.

As global markets are expected to remain volatile, we will continue to pursue active management strategy to capitalize on any misalignment of valuations.

Finally, we also believe that cash is "king" in such an uncertain environment and as such, will keep a comfortable buffer to enable purchases when the opportunity is ripe!

As volatility is here to stay and no models can rightly pre-empt any herding unwinding of yen carry-trades, we see value in investments in principal protected structured products, particularly those linked to volatility, global indices and precious metals.

These investment vehicles could potentially generate returns better than traditional fixed deposit by participating on the upside of underlying assets or indices while preserving capital when held till maturity.

The Domestic Bond Market

The total issuance in the Malaysian bond market has grown from an average of below RM40 billion per annum in recent years to above RM50 billion as anticipated for 2007.

The trend of high issuance amount in the bond market is expected to continue into 2008. One important factor driving the increased issuance size is the myriad of mega merger and acquisition (M&A) deals such as the privatization of Malakoff Bhd and Maxis

Communications Bhd, which involved bond issuance in the billions.

Amidst the turmoil in the global financial market, the relatively-insulated local bond market continues to offer ample liquidity to facilitate bigger and more sophisticated corporate transactions, thus deepening the market.

Going forward, we expect increasing adoption of sophisticated bond structures/instruments such as hybrid capital, subordinated debt and securitization in the local bond market.

In 2008, the Ninth Malaysia Plan development spending is likely to replace mega M&A transactions as the key source of supply for the local bond market.

The potential mega privately-financed projects such as double-tracking rail project and the Bakun project will challenge the sophistication of the local bond market in evaluating and absorbing these mega green-field initiatives.

The first half of 2007 witnessed strong performance in the domestic bond market, driven by a relatively robust global economy, benign interest rate environment and strong local liquidity.

Nonetheless, on account of deteriorating global credit conditions, the local bond market started to weaken in the second half of 2007, amidst re-pricing of risks which sparked increased volatility and broad loss of market liquidity.

At the time of writing the global financial climate still remains unsettled as global risk appetite moves towards risk aversion ahead of the reduction in year-end positions and as liquidity dries up.

Near term, we expect to see more of this risk aversion behaviour given the fragile risk appetite which is so widely prevalent in the financial landscape.

In addition to the global headwinds, on the domestic front, the prospect of a resurgence in inflationary pressures arising from the potential hike in petrol prices and electricity tariffs seem to suggest that monetary policy tightening may be plausible in the coming year.

A close examination, however, reveals that its impact seems to be muted by the combination of administered prices/subsidies along with the imported component of inflation.

As such the impact on inflation coming from domestic fuel hikes may be blurred as the subsidies and administered prices move to ease the pain on consumers.

In addition, BNM may utilise exchange rate as an additional policy tool to curb imported inflationary pressures.

In any case, if fuel price hike takes place early next year, then the full impact on consumer inflation will most likely be seen over the subsequent quarters.

We will not be surprised to see BNM acting to stem inflationary pressure once inflation becomes apparent.

Until then; we expect BNM to hold the present accommodative interest rate environment for as long as possible given the growing risk on the global growth front.

We are of the view that only robust economic growth can give BNM room to manoeuvre as any tinkering with interest rate policy also carries a risk of restraining credit growth especially in a slowing economy.

The other factor which adds onto the challenging environment ahead for the domestic bond market are the high levels of supply issuance in the pipeline which suggests a continuity of the challenging trends seen in 2H07 persisting in 2008.

In the interim, the near term driver for domestic bond market remains the USD/MYR factor and our prognosis suggests that this factor would continue to be supportive of the shorter tenors.

Q&A with Bursa Malaysia CEO: Facing the challenges ahead with confidence

December 31 2007

QUESTION: What would be the main challenges for you next year?

Answer: We are in a very competitive environment, but we want our market to grow. We want to see liquidity grow in the market, so we need to ensure that there are sufficient attractive companies for investors to invest in.

And we also need to have companies profiling themselves properly in the market through investment relations activities.

We need to ensure that the investor pool also grows, and that includes the local retail investors and foreign investors.

So, there is more promotional marketing to be done to all these categories of people. But there is a big pool of investors out there and everybody is trying to attract them, not just Malaysia.

We need to work together with all parties - the intermediaries, brokers, remisiers - to convince these people that we have very good companies for them to invest in.

Q: How do you plan to overcome these challenges?

A: We plan to work closely with our partners. For example, we've done the retail programme this year (2007). The Bursa Pursuit challenge was very successful, we got more than 50,000 participants.

In 2008, we hope to attract a bigger crowd. So we hope to do more of these kind of programmes. That's our plan to reach out to the younger generation of investors.

As far as foreign investors are concerned, we'll continue with all the programmes we have. But we also urge our companies to improve their profile to foreign investors by participating in roadshows, appearing in the media, etc.

It's very important that they tell their story to the world because I believe we have some very good companies in Malaysia but we need people to know that these companies are available.



YUSLI: We need to ensure that the investor pool grows

And then we'll continue to work with potential partners around the world so that we can reach out to other markets.

For example, our crude palm oil (CPO) contract. When we launch our US-dollar CPO contract in early 2008, we want to reach out to a bigger group of investors globally. So we want to work with other partners to do that.

Q: What are the trends that could shape your industry next year?

A: With the growing pool of liquidity that is happening every day, enormous amounts of funds are looking for places to invest in. So, we need to tell the world that the Malaysian investment story is a very compelling one.

There's no shortage of funds for investments, but we need to reach out and tap that.

Also, given the fact that Malaysia is increasingly seen to be a fundamentally strong country, stable politically and with good economic fundamentals, we want to attract foreign companies to come and list here.

Q: What are the prospects for you next year?

A: I think it's very promising. Our market is showing signs that it's going to be growing from strength to strength. But as I said, we need all the stakeholders to be working together. We have a very good story to tell but we need to be working in unison.

The Securities Commission (recently) announced a lot of liberalisation measures to make the initial public offering (IPO) market more attractive. So we need to convert that into IPO listing opportunities for companies so that investors will have more companies to invest in.

Q: How will your industry be affected by the expected rise in fuel and electricity next year?

A: I think rising fuel prices has certainly created a lot more volatility in the market. But it's certainly been quite interesting for the palm oil companies because as the fuel price goes up, you find that palm oil prices also go up.

And of course, as prices are volatile, it also creates volatility in that space - both for our CPO futures contracts and also for the plantation firms that we have.

But I think Malaysian companies appear to be managing the escalating prices quite well. They're still reporting very strong earnings numbers even in this environment where the oil price has touched US\$100.

I think in Malaysia, it's not cheap, but it's still affordable to do business. Companies are showing that they can cope very well.