TENAGA NASIONAL

Better. Brighter.

NEW STRAITS TIMES

DATE	4/5/2015	PAGE	B10
DAY	MONDAY	SECTION	PORTFOLIO

Index seen extending correction

LACK OF DOMESTIC DRIVERS: Though indicators show bearish reading, further losses may attract bargain hunters

KALADHER GOVINDAN

MARKET**OUTLOOK**

FOLLOWING a spike up to a fresh seven-month high last Monday, the blue-chip benchmark FTSE Bursa Malaysia KLCI (FBM KLCI) tumbled to a one-month low on keen and sustained profit-taking interest on overbought blue chips, with caution on investors reducing exposure due to the weak United States growth outlook and ahead of the long four-day holiday weekend.

Week-on-week, the FBM KLCI slumped 44.3 points, or 2.4 per cent, to 1,818.27, with Axiata Group Bhd (-25 sen), CIMB Bhd (-19 sen), Malayan Banking Bhd (-21 sen), Petronas Chemicals Bhd (-34 sen), DiGi.com Bhd (-24 sen) and Tenaga Nasional Bhd (-24 sen) representing more than one-third of the index's loss. Average daily traded volume and value contracted to 1.85 billion shares and RM2.06 billion, compared with the 2.6 billion shares and RM2.08 billion, respectively, the previous week, as trading momentum on small cap and ACE Market stocks deteriorated.

The FBM KLCI is expected to extend correction this week on lack of domestic drivers and increasing external noises, especially with deadline for Greece to meet its debt obligation is around the corner while it is still haggling with creditors on the terms and conditions to receive fresh funding. It is still anybody's guess whether an agreement can be reached on time for it to meet two deadlines on May 6 and 12 to pay close to €1 billion (RM3.97 billion) to the International Monetary Fund.

To add to the woes it has €4 billion worth of debt payments due this month and another €7 billion will be due to the European Central Bank by July and August.

A successful deal could provide a short-term reprieve for the benchmark index after the sharp plunge last Friday. A failure would grease the downside further as worries about a Greece default would induce panic selling as investors weigh the consequences and contagion effect of a Greece exit from the eurozone.

In the United States, the lower-than-expected first-quarter gross domestic product growth affected market sentiment last Thursday. The US consumers showed signs of caution and trimmed their spending in the first three months of this year, which was reflected in their savings rate that climbed to 5.5 per cent during the period, which was the highest since the end of 2012.

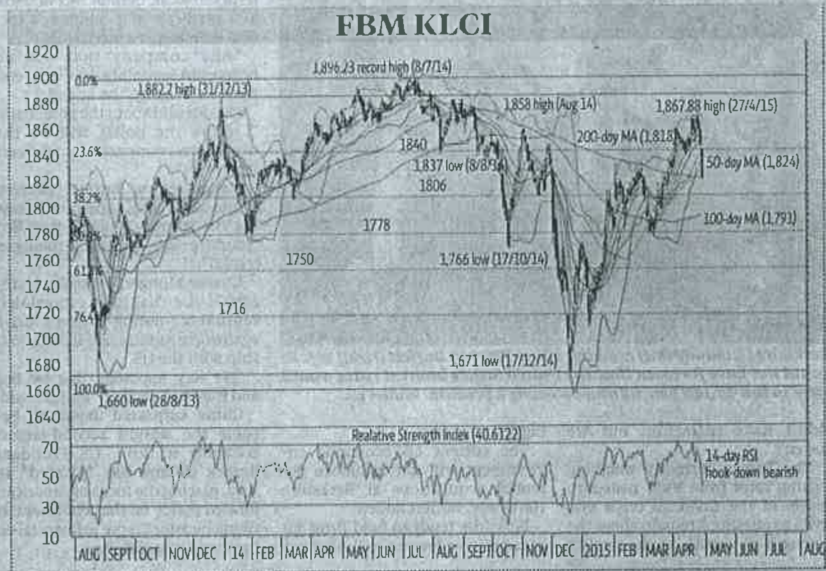
With improving labour market and weak crude oil prices contributing to higher disposable income, consumers could start spending again after a cold winter. While positive for economic growth, this could prompt the Federal Reserve chairwoman, Janet Yellen, to raise the interest rate in her mid-year review in July instead of the widely speculated September.

> "Worries about a **Greece default** would induce **panic selling** as investors **weigh the consequences**."

Locally, the trade numbers for March and Bank Negara Malaysia's decision on the overnight policy rate (OPR) will be revealed on Thursday. Consensus expectations are for an improvement in trade balance as the contraction in exports narrows to -3.4 per cent from -9.7 per cent and the OPR to remain at 3.25 per cent. The outcomes are likely to fall within market expectations as higher number of workdays compared with February are likely to cushion the blow from weaker crude oil prices, and the central bank maintaining its policy rate based on its earlier guidance and the need to prevent the ringgit from weakening.

Besides, construction- and property-related stocks could receive a shot in the arm this week if the two-day meeting today and tomorrow between the Prime Ministers of Malaysia and Singapore yield positive results with regards to improving connectivity between both countries. Among the topics that will be discussed are the High Speed Railway (HSR) jobs, Rapid Transit System and a new bridge.

While the HSR project, which is estimated to cost around RM40 billion, may not sound financially feasible in relation to passenger numbers and competitive fares provided by a slew of airlines, the socio-economic impact from developments surrounding the indicated seven stations could be significant. The second rail link connecting Johor Baru and Woodlands is positive for developments in the Southern Corridor.



Technical Outlook

Blue chips fell last Monday as overbought momentum encouraged investors to take profits or reduce exposure, spilling over to the broader market.

The FBM KLCI slipped three points to settle near session lows at 1,859.58, off an early high of 1,867.53, as losers beat gainers 639 to 250 on cautious turnover of 2.12 billion shares worth RM2.05 billion. Profit-taking interest on blue chips sustained the next day and spread to the broader market, with most investors staying cautious and sidelined ahead of the US Federal Open Market Committee (FOMC) two-day monetary policy meeting.

The key index shed another 4.52 points to close at 1,855.06, off an early high of 1,862.14 and low of 1,850.04, as losers swamped gainers 762 to 183 on total turnover of 2.17 billion shares worth RM2.15 billion.

The local market extended losses last Wednesday due to sustained profit-taking interest on overbought blue chips and amid caution ahead of the US FOMC policy statement.

The FBM KLCI lost 12.13 points to end at the day's low of 1,842.93, off the opening high of 1,855.46, as gainers narrowly edged losers 410 to 407 on cautious trade, totalling 1.58 billion shares worth RM1.89 billion.

The profit-taking correction persisted the following day, as investors reduced exposure amid the weak US growth outlook and ahead of the long four-day holiday weekend. The index slumped 24.66 points, or 1.34 per cent, on Thursday to close at the day's low of 1,818.27, off an early high of 1,841.06, as losers beat gainers 422 to 372 on lacklustre trade totalling 1.51 billion shares worth RM2.17 billion.

Trading range for the local blue-chip benchmark index last week more than doubled to 49.26 points, compared with the 22.51 points range the previous week, as trading became extremely choppy as expected last week.

The FBM Emas Index fell 273.7 points, or 2.1 per cent, last week to 12,539.04, while the FBM Small Cap Index slumped 355.9 points, or 2.1 per cent, to close the week at 16,522.27, dragged down by aggressive profit-taking and selling on small-cap stocks, which had enjoyed huge gains.

The daily slow stochastic momentum indicator for the FBM KLCI hooked down sharply following last Thursday's steep losses, while the weekly indicator issued a fresh sell signal in the overbought zone, reinforcing a bearish outlook this week. The 14-day Relative Strength Index (RSI) indicator hooked down for a bearish reading of 40.61, while the 14-week RSI slipped to a weak reading of 50.87.

The signal line of the daily Moving Average Convergence Divergence (MACD) trend indicator turned south sharply, while the signal line on the weekly MACD hooked down for an initial bearish reading. As for the 14-day Directional Movement Index (DMI) indicator, the -DI line crossed above the +DI line to register a fresh sell signal, suggesting further weakness ahead.

Conclusion

Given the extreme bearish readings noted on momentum and trend indicators for the FBM KLCI last Thursday, expect further losses this week. Nonetheless, further sharp losses should bring out bargain hunters waiting at the sidelines to begin nibbling since overbought momentum has been fully neutralised, paving the way for recovery going forward.

A decisive breakdown below 1,818, the crucial 200-day moving average support level, will trigger further correction towards 1,806, which represents the 38.2 per cent Fibonacci Retracement (FR) level of the 1,660 low of August 28 2013 to the 1,896 record high of July 8 last year, and subsequently 1,791, the 100-day moving average level, followed by 1,778, the 50 per cent FR.

On the flipside, immediate resistance was revised down to 1,840, the 23.6 per cent FR level, with stronger upside hurdles seen at 1,867, the April 27 peak, and then 1,882, the December 31 2013 peak.

The subject expressed above is based purely on technical analysis and opinions of the writer. It is not a solicitation to buy or sell.