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# Index may keep upwards momentum

**BULLISH SIGNALS:** More dovish hints from policymakers can improve investors' risk-on appetite



**T**HE FTSE Bursa Malaysia KLCI (FBM KLCI) surged to close at a more than two-month high last Friday, fuelled by strong United States jobs data and regional strength after Japanese Prime Minister Shinzo Abe's landslide elections win boosted hopes for more economic stimulus.

Bank Negara Malaysia's unexpected 25 basis points reduction of its Overnight Policy Rate (OPR) to three per cent acted as added catalyst and overwhelmed concerns about slowing domestic growth momentum and weaker earnings.

Week-on-week, the local bourse climbed 1.45 per cent to close at 1,668.4, with Genting Bhd (+79 sen), PPB Group (+28 sen), Sime Darby (+23 sen), Tenaga Nasional (+20 sen) and Axiata (+20 sen) contributing the most to the index's gains.

The average daily traded volume and value last week surged to 1.63 billion shares and RM1.87 billion last week, compared with the 957.3 million shares and RM1.12 billion in the previous week, as more investors returned from the long Hari Raya Puasa break to commit fresh positions given the more dovish mood in local and global equity markets.

Bank Negara has emphasised that the preemptive cut in interest rate was to boost the economy so that second half can deliver the better growth than the first half to achieve the official gross domestic product (GDP) growth target of four to 4.5 per cent.

Meanwhile, it has brushed off market speculations about a series of rate cuts in the future but stressed that it will keep an open eye on local and external factors to decide on future policy options.

The denial is timely to neutralise any downside pressure on the resilient ringgit, thanks to funds flow into the government bonds, which held up well post the OPR cut announcement.

The rate cut had some positive impact on property stocks last week but the upbeat sentiment is unlikely to sustain as the 20-basis-point reduction in base rate by banks should have a very minimal impact on monthly instalments to influence buying decisions.

A monthly savings of about RM17 for every RM100,000 loan is not really exciting for a long-term commitment like real estate investment.

Under current uncertain macroeconomic environment, job security, loosening property cooling measures imposed by the government and incentives from property players will have better impact in arresting the decline in property sales.

Ultimately, if external demand continues to weaken and growth prospects dampened, we may see a reversal in some of these property tightening measures in the 2017 Budget on October 21 to prop up the domestic economy.

In such a scenario, property stocks could appear more appealing but in the interim period it would be wise to remain defensive and scout for opportunities in other sectors.

For instance, construction players like Gamuda and Sunway Construction are sure winners in the local construction scene with more than RM100 billion worth of projects earmarked for launches over the next five years.

The fruition of High speed rail project linking Malaysia and Singapore, where a news flow indicates that signing of a memorandum of understanding is due tomorrow, could add more lustre to the sector, which is already witnessing strong order flows from the Mass Rapid Transit Line 2 project.

That aside, investors need further assurance about the external economic conditions to sustain interest

in the equity market, especially after the 13-point gain in the benchmark index on Friday post announcement of China's slightly stronger-than-expected second-quarter GDP growth of 6.7 per cent.

China has sacrificed on its long-term debt restructuring efforts and has embarked on credit expansion again to sustain short-term growth. It will be releasing its June property prices and leading economic index this week.

The US will be releasing some forward indicators like the housing starts and building permits this week that would provide some insight on the housing market and the US Federal Reserve's leaning in the next monetary policy meeting.

## Technical Outlook

Bursa Malaysia shares rose on Monday, helped by strong US jobs data and a regional rally after Abe's landslide elections win boosted hopes for more economic stimulus.

The local benchmark index gained 9.33 points to close at 1,653.87, off an early low of 1,645.49 and high of 1,656.49, as gainers led losers 439 to 327 on moderate turnover of 1.61 billion shares worth RM1.6 billion.

Blue chips closed mixed in range bound trade the next day, as profit-taking and weak buying momentum overshadowed a regional rally fuelled by optimism for more stimulus from Japan. The FBM KLCI ended up 0.1 point at 1,653.97 after ranging between early high of 1,655.35 and a low of 1,647.88, as gainers edged

losers 374 to 369 on cautious trade totalling 1.4 billion shares worth RM1.59 billion.

The local market rose on Wednesday led by property stocks, boosted by Bank Negara's surprise 25 basis points reduction in OPR.

The local bourse climbed up 6.42 points to close at the day's high of

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1,660.39, off a low of 1,652.07, as gainers swarmed losers 523 to 280 on improved turnover totalling 1.71 billion shares worth RM2.37 billion.

Stocks fell the following day with banks leading losses amid concerns over margin compression and economic growth following the unexpected interest rate cut by Bank Negara. The FBM KLCI slid 5.61 points to settle at 1,654.78, off an early high of 1,659.52 and low of 1,652.23, as losers edged gainers 383 to 382 on slower turnover of 1.58 billion shares worth RM1.89 billion.

Blue chips bounced back strongly ahead of the weekend, as optimism on more stimulus measures from key global central bankers to boost global growth offset concerns over slowing domestic growth momentum and weaker earnings.

The index climbed 13.62 points Friday to end at the day's high of 1,668.4, off the opening low of 1,659.4, as gainers led losers 476 to 310 on improving turnover totalling 1.89 billion shares worth RM1.91 billion.

Trading range for the local blue-chip benchmark index last week improved to 22.91 points, compared with the previous week's 17.09 points range, as more blue chips staged breakouts on higher trading interest.

For the week, the FBM-EMAS Index rose 190.22 points, or 1.66 per cent, to 11,657.87, while the FBM-Small Cap Index climbed 275.21 points, or 1.83 per cent to 15,310.15, as small-cap stocks bounced back strongly on improving trading momentum.

Even as the daily slow stochastics momentum indicator for the FBM

KLCI rose deeper into the grossly overbought zone following last Friday's strong closing, implying high profit-taking correction potential this week, the weekly indicator hooked up from the oversold region to issue a healthy buy signal.

The 14-day Relative Strength Index (RSI) indicator also hooked up to a bullish reading of 61.71, while the 14-week RSI recovered to a stronger reading of 51.71 last Friday.

On trend indicators, while the daily Moving Average Convergence Divergence (MACD) signal line expanded higher to indicate a strengthening uptrend, the weekly MACD indicator's signal line hooked up strongly and is set to trigger a buy signal on further strength.

On the 14-day Directional Movement Index (DMI) trend indicator, the -DI and +DI lines crossed for a fresh buy signal, implying an extended uptrend ahead.

### Conclusion

While the daily slow stochastics indicator is grossly overbought and suggesting high profit-taking correction potential this week, all other momentum and trend indicators for the FBM KLCI are issuing bullish signals, suggesting further upside going forward.

Additionally, the more dovish hints from local and global central bankers and policymakers on further stimulus options available to cushion the adverse economic impact from Brexit will improve the risk-on appetite from investors.

On the index, breakout confirmation above 1,666 and 1,670, the respective 200-and 100-day moving averages, will aim for next hurdle from 1,676, the 23.6 per cent Fibonac-

ci Retracement (FR) of the 1,503 low of August last year to the recent April high of 1,729, and subsequently the 1,700 psychological level.

Next significant resistance will be at 1,729. Immediate support is at 1,654, the rising 10-day moving average, followed by 1,642, the 30-day moving average, with the 50-day moving average at 1,639 providing a more formidable downside cushion.

Strategy-wise, investors may like to bargain for defensive blue chips like Genting Berhad, Genting Malaysia and Sime Darby for rebound upside, but property related stocks such as Hua Yang, Mah Sing, MRCB and UEM Sunrise may suffer profit-taking dips given the attractive gains enjoyed from steep rallies after Bank Negara's surprise interest rate cut last week.

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

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