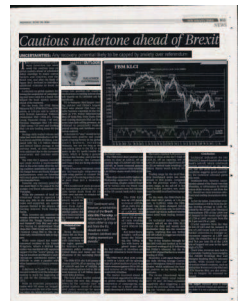


Headline	Cautious undertone ahead of Brexit		
MediaTitle	New Straits Times		
Date	20 Jun 2016	Language	English
Circulation	74,711	Readership	240,000
Section	Business Times	Page No	11
ArticleSize	754 cm <sup>2</sup>	Journalist	KALADHER
PR Value	RM 40,908		



# Cautious undertone ahead of Brexit

**UNCERTAINTIES:** Any recovery potential likely to be capped by anxiety over referendum



**T**HE local stock market underwent correction last week amid the cautious tone on global markets ahead of scheduled policy meetings by major central bankers and concerns over the Brexit vote, and after the Bank of Japan (BoJ) declined to introduce additional stimulus to boost its economy.

A rebound on global markets following the suspension of campaigning and lower odds for a Brexit vote helped the local market recover ahead of the weekend.

For the week, the FTSE Bursa Malaysia KLCI (FBM KLCI) lost 17.04 points, or 1.04 per cent to 1,624.18, with British American Tobacco (Malaysian) Bhd (-RM1.10), Hong Leong Financial Group (-40 sen), Petronas Dagangan Bhd (-30 sen), CIMB Group (-24 sen) and Genting Bhd (-24 sen) leading losses for the index.

Average daily traded volume and value last week dwindled to 1.43 billion shares and RM1.45 billion, compared with the 1.71 billion shares and RM1.65 billion average in the previous week, as more investors were sidelined due to the increased uncertainty and cautious sentiment.

The FBM KLCI appears oversold and could receive a much-needed shot in the arms today after the ruling coalition maintained its grip on the Sungai Besar and Kuala Kangsar parliamentary seats on Saturday with much greater majority than the previous elections.

However, any recovery potential this week likely to be capped by the anxiety over Brexit referendum this Thursday.

While the presence of local institutional funds is expected to keep any falls in the benchmark index well supported, any upside appears limited in the absence of buying interest from foreign

funds.

Thus, investors are cautioned to remain defensive with exposure to utilities like Tenaga Nasional Bhd and Malakoff Corp Bhd and selective buying in undervalued blue chips like CIMB Group and Petronas Chemical Group Bhd to ride on a relief rally should Brexit fails to happen.

While some expect last week's untoward incident in the United Kingdom, where a British law maker was murdered will suppress support for the "Leave" group, rising nationalism attributed to anti-immigrant sentiments makes it difficult to draw a parallel with what happened in Greece eventually.

A decision to "Leave" is dangerous as it is likely to set the wheels in motion to mark the beginning of an end for the European Union (EU).

From an economic perspective, trades with UK alone are insignificant for us and the rest of the world, but when the whole economic pact comes into question, the negative implications on trading nations that rely heavily on EU demand can be significant.

EU is Malaysia third largest trading partner and China's largest. Stock wise players that have notable business exposure in the UK, such as YTL Power International Bhd, SP Setia Bhd, Sime Darby Bhd and Genting Malaysia Bhd can face some knee-jerk selling pressure, attributed to potentially weaker pound sterling and lacklustre economic outlook.

A decision to "stay" would be immediate-term positive and could spark a buying frenzy in the global equity markets, including Malaysia, but not for long as the concession given to the UK to remain in the EU spells trouble for Spain, which is facing a general election this Sunday, and other key member countries like Germany and France that are facing elections next year.

This is because European voters are increasingly empowering right-wing parties to counter the EU's goal of becoming a much closer pact than just a monetary union.

This would exert more pressure on mainstream politicians to secure better deals from EU for their own nations to remain relevant, failing which would increase the pressure from right-wing groups to try similar paths that have been trodden by Greece and the UK.

## Technical Outlook

Bursa Malaysia shares fell on Monday in sympathy with corrections in the region sparked by worries over monetary policy meetings in the United States and Japan and implications of the upcoming Brexit vote.

The FBM KLCI slid 11.45 points to close at 1,627.99, off an opening high of 1,634.59 and low of 1,622.88, as losers trashed gainers 643 to 203 on total turnover of 1.48 billion shares worth RM1.21 billion.

The local share market extended losses the next day, dragged lower by the cautious tone on global markets ahead of scheduled policy meetings by major central bankers and concerns over the Brexit vote.

The FBM KLCI shed another 3.66 points to close at 1,626.11, off an opening high of 1,629.69 and low of 1,619.48, as losers trounced gainers 486 to 278 on cautious trade totalling 1.46 billion shares worth RM1.61 billion.

Blue chips closed mildly higher on Wednesday supported by light bargain hunting, despite caution clouded by worries over the Brexit vote and uncertainties over the outcome of the US central bank policy meeting.

The FBM KLCI was up 1.85 points to close at 1,627.96, off an early low of 1,619.78 and high of 1,629.05, but

Headline	Cautious undertone ahead of Brexit		
MediaTitle	New Straits Times		
Date	20 Jun 2016	Language	English
Circulation	74,711	Readership	240,000
Section	Business Times	Page No	11
ArticleSize	754 cm <sup>2</sup>	Journalist	KALADHER
PR Value	RM 40,908		

losers beat gainers 409 to 311 on muted trade totalling 1.53 billion shares worth RM1.44 billion.

Key index heavyweights suffered losses the following day, falling in line with heavy regional losses after

the BoJ refused to introduce additional stimulus to boost its economy.

The FBM KLCI shed 13.06 points to settle at 1,614.9, off the opening high of 1,629.47 and low of 1,613.79, as losers swarmed gainers 591 to 195 on total turnover of 1.57 billion shares worth RM1.55 billion.

The market recovered ahead of the weekend supported by rebound on global markets following the suspension of campaigning and lower odds for a Brexit after the tragic shooting of a British lawmaker.

The index climbed 9.28 points on Friday to close at the day's high of 1,624.18, off an opening low of 1,614.29, as gainers edged losers 357 to 331 on muted trade totalling 1.12 billion shares worth RM1.42 billion.

Trading range for the local blue-chip benchmark index last week shrank to 20.8 points, compared with the previous week's 30.66 points range, as the sell-off in key index-linked counters was cushioned by mild local fund buying support.

For the week, the FBM-EMAS Index shed 143.15 points, or 1.24 per cent, to 11,357.42, while the FBM-Small Cap Index slumped 343.34 points, or 2.32 per cent, to 15,071.51, as small-cap stocks suffered heavier losses amid weak buying momentum.

On technical indicators, last week's sell-off on the FBM KLCI forced the daily and weekly slow stochastics deep into the oversold region, implying that any further sell-off is likely to trigger an oversold rebound ahead.

The 14-day Relative Strength Index (RSI) indicator hooked up for an improved reading of 41.55 following last Friday's rebound, but the 14-week RSI slipped further to a weaker reading of 39.92.

Meantime, a sell signal flashed on the daily Moving Average Convergence Divergence (MACD) trend indicator, which reinforced the bearish position on the weekly MACD indicator.

The 14-day Directional Movement Index (DMI) trend indicator's -DI and +DI lines expanded negatively after triggering a sell signal the previous week, sustaining the bearish short-term momentum.

### Conclusion

Technical indicators for the FBM KLCI stayed bearish after last week's sell-off, which reinforced bearish momentum on the market, but the short-term oversold condition suggests good possibility for technical rebound gains this week.

Sentiment-wise, however, uncertainties ahead of the Brexit vote this Thursday, or referendum by British voters either to stay or exit from the EU, should see most investors sidelined and trading momentum dwindle.

As for the index, immediate overhead resistance will be from the 10-day moving average at 1,638, followed by the 50 per cent Fibonacci Retracement (FR) of the 1,600 low of January to the recent April high of 1,729 at 1,665, and next from the 38.2 per cent FR at 1,680.

Crucial supports from the May 16 low of 1,611 and the January 21 low of 1,600 must hold to prevent further correction to stronger retracement supports at 1,589 and 1,556, the respective 61.8 per cent and 76.4 per cent FR of the 1,503 low of August last year to the April high of 1,729.

Chart-wise, investors may look to accumulate banking heavyweights like AMMB Holdings Bhd and Malayan Banking Bhd for rebound upside, while second liner construction-related counters, such as Malaysian Resources Corp Bhd and UEM Sunrise Bhd, are also attractive to bargain for oversold rebound.

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

“Sentiment-wise, however, uncertainties ahead of the **Brexit vote this Thursday**, or referendum by British voters either to stay or exit from the EU, should see most investors sidelined and trading momentum dwindle.”

Headline	Cautious undertone ahead of Brexit		
MediaTitle	New Straits Times		
Date	20 Jun 2016	Language	English
Circulation	74,711	Readership	240,000
Section	Business Times	Page No	11
ArticleSize	754 cm <sup>2</sup>	Journalist	KALADHER
PR Value	RM 40,908		

