

# Further upside for FBM KLCI

## Market Outlook

By Kaladher Govindan

LAST week, shares on Bursa Malaysia recouped most of the previous week's fall with financial stocks leading gains for the FTSE Bursa Malaysia Kuala Lumpur Composite Index (FBM KLCI) after some banks increased mortgage rates to improve profitability.

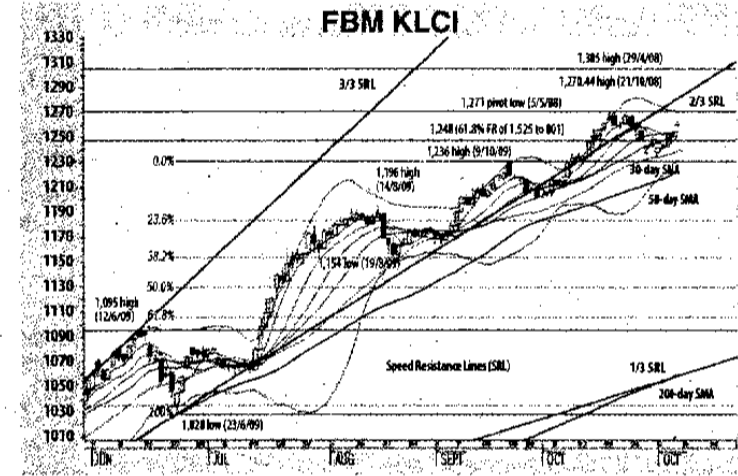
As a result, the FBM KLCI rose 17.53 points, or 1.4 per cent, for the week to close at 1,260.76, with CIMB (+30 sen), Maybank (+17 sen), Public Bank (+18 sen) and Hong Leong Bank (+61 sen) contributing more than half of the index's gain. Average daily traded volume and value improved to 1.31 billion shares worth RM1.34 billion from 917 million shares worth RM1.2 billion in the previous week. Daily average volume surged to the highest since the last week of June.

Market movement this week will continue to be news driven. On the economic data front, industrial production and manufacturing sales figures are due tomorrow. They are expected to mirror September trade numbers, which fell 0.9 per cent month-on-month and 22.4 per cent year-on-year.

China now ranks second in the list of our top 10 export destinations and is the largest source of imports. The fact that China has overtaken the US as the second most important market for our exports underscores its importance to trade-oriented nations like Malaysia. Thus, the Chinese president's visit to Malaysia this week is an important milestone. This could lead to vital bilateral trade and investment agreements. This in turn could trigger market speculation on companies that can benefit from agreements at government-to-government level.

There are many Malaysian players that have exposure there through their own manufacturing facilities or joint-venture agreements with local Chinese companies. Some of the listed players are MPI, Unisem, UMW, Sino Hua-An, Top Glove, Proton and Goldis.

Stocks like Sime Darby may also come to



investors' minds due to talk that a Chinese state-owned company would be taking a 10 per cent stake in the plantations giant that could open up huge growth opportunities in the downstream palm oil industries in China. Little-followed Lityan Holdings, which became an instant hit on speculative interest at its relisting after freeing itself from PN17 status, may draw some interest again due to its tie-up with China's leading telco Huawei Technologies to bid for contracts under Telekom's high-speed broadband project.

Externally, the 0.5 per cent fall in US consumer spending for September, the first fall in five months, has rekindled worries about a double-dip in the economy. A 3.1-point fall in the Reuters/University of Michigan final index of consumer sentiment to 70.6 reflected the current mood of US consumers, who are becoming increasingly thrifty on the back of a poor job market, no pay increase and potential pullback in government emergency relief measures.

While this is a temporary setback, manufacturing numbers are still pointing towards a healthy recovery and the expected continued weakening in the US dollar could lead to sustained expansion in the sector that would be vital for job creation and a recovery in consumption.

Maintain a bullish view on the local market and expect the FBM KLCI to hold up well ahead of the Maxis listing next week. A healthy consolidation around current levels can prepare the index to test new highs real soon as local institutions seize the opportunity to dress up their books. More positive news flows from the private financial initiative front, infrastructure contracts, and oil and gas projects are expected to sustain the positive momentum for the next six months that will give the FBM KLCI more clout to test 2010 index target of 1,370.

### Technical outlook

Shares on Bursa Malaysia recovered from early losses on Monday triggered by the 250-point drop in the Dow Jones Industrial Average the previous Friday, encouraged by regional rebounds due to keen buying interest from retailers. The domestic stock market ended mixed the next day, tracking the showing on the external front.

The market ended significantly higher last Wednesday, shored up by strong gains in banks on reports of better margins after they raised mortgage rates, causing the FBM KLCI to gain 11.5 points or 0.9 per cent for the day. The market again ended mixed the next day as blue chips consolidated gains

while rotational plays switched to spark strong gains in the ACE market. Stocks gained further last Friday, lifted by the overnight 200-point rally in the Dow average to close above 10,000 due to improving economic data from lower jobless claims and higher productivity numbers.

The FBM KLCI rose from an intra-week low of 1,233.45 Monday morning to peak at a high of 1,263.03 by mid-morning trade last Friday, contracting mildly to a 29.6-point trading range last week, against the 31.2-point trading range the previous week.

A buy signal was triggered on the daily slow stochastics indicator for the FBM KLCI late last week, paving the way for further short-term upside bias. However, the weekly indicator stayed flat at the highly overbought region. The 14-day Relative Strength Index (RSI) indicator has rehooked upwards for an improved reading of 65.03, but the 14-week RSI rehooked up for an overbought reading of 72.45.

On trend indicators, the daily Moving Average Convergence Divergence (MACD) has levelled off to indicate lessening downward momentum after the previous week's sell signal, but the weekly MACD signal line is still declining to suggest further consolidation ahead. Meantime, the ADX line on the 14-day Directional Movement Index trend indicator has levelled for a reading of 33.95 as of last Friday, but the +DI and -DI lines have expanded outwards, signalling an uptrend resumption.

### Conclusion

The marked improvement in momentum and trend indicators for the FBM KLCI suggests further upside room for the local stock market this week. Nevertheless, investors should look for profit-taking and selling opportunities as market conditions could quickly turn overbought if sharp rallies sustain.

For this week, the October 21 pivot high of 1,270.44, which matches the significant pivot low on May 5 2008, will be the critical level to break to improve upside chances towards the next significant resistance coming in at 1,305, the April 29 2008 pivot high. The next higher hurdle will be at 1,340. On the downside, immediate support is upgraded to 1,243, the 38.2 per cent Fibonacci Retracement of the breakout rally from 1,200.65 low of September 30 to the recent pivot high of 1,270.44.

Stronger retracement supports are available at 1,235, 1,227, and 1,217, the respective 50 per cent, 61.8 per cent, and 76.4 per cent retracement levels, which provide stronger support platforms.

As for stock picks, chart wise, continue to favour blue chips such as AMMB, Axiata, CIMB, Gamuda, Public Bank, Sime Darby and Tenaga as the recent market correction has fully neutralised overbought technical conditions. Meantime, steel and construction related stocks like Sino Hua-An, Kinsteel and MRCB may outperform blue chips in the medium term. As for the ACE market, IRCB, Vastalux, Malaysia Steel, Notion VTEC and Carotech are expected to attract buyers looking for medium-term gains.

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