

Weekly Newsletter

For the week ending 27 September 2013

Fund Management Research



RHB INVESTMENT MANAGEMENT SDN. BHD.
(174588-X)

Market Review

Markets getting reprieve from Fed, but volatile swings intact

- The FBMKLCI (KLCI)** ended the week on a strong note after it was able to cut above the 1,800 psychological barrier to close at 1,801.83. Average trading volume rose to 1.8bn shares vs. 1.6bn shares the previous week, an indication that investors buying appetite has improved after the U.S. Federal Reserve (US Fed) maintained the bond buying program at its recent meeting. For this week, we are expecting a volatile trend despite the move by the U.S. Fed not to taper with the bond stimulus package that has brought some reprieve and a strong relief rally as there are still uncertainties in the market. There's no doubt the program will come to a temporary halt and markets will continue to move in volatile gyrations due to this. The local KLCI will not be spared either despite crossing above the 1,800 level almost nonchalantly and we are taking a slight cautious tone before going extremely bullish. To that effect, any downside risk will be supported at the 1,760-1,750 level whilst further buying will see the KLCI test the 1,800-1,810 level ahead.
- Crude Palm Oil (CPO)** prices decreased 1.74% WoW to close at RM2316.00/tonne, on speculation that rain in the U.S. Midwest will halt deteriorating conditions of the soybean crop, boosting supplies of the oilseed crushed to make substitute oil.
- Crude oil** ended the week 3.27% lower to US\$104.67/barrel as Libya's oil production rebounded and the threat of military strikes against Syria receded, damping concern that Middle East supplies may be disrupted.
- The Ringgit** ended the week 3.80% higher at RM3.1650/USD after the Federal Reserve unexpectedly refrained from cutting its monetary stimulus.

KLCI Top 5 Weekly Gainers		
	Last Price	% Change
UEM Sunrise Bhd	2.72	9.68
CIMB Group Holdings Bhd	8.08	6.74
UMW Holdings Bhd	12.90	5.22
Saparakencana Petroleum Bhd	3.78	4.71
Petronas Gas Bhd	21.88	3.70

KLCI Top 5 Weekly Losers		
	Last Price	% Change
Genting Malaysia Bhd	4.31	-2.05
PPB Group Bhd	14.08	-1.54
IOI Corp Bhd	5.40	-0.55
Maxis Bhd	7.01	-0.43
Telekom Malaysia Bhd	5.37	-0.37

Sector Key Indicators

Key course performance	Price						% Change					
	Last	1 day ago	3 days ago	5 days ago	1 month ago	3 month ago	1D	1W	1M	3M	MTD	YTD
DOW JONES INDUS. AVG	15451.09	16636.65	16529.73	16376.06	16010.51	14799.40	(1.19)	0.49	2.94	4.40	4.33	17.91
HANG SENG INDEX	23502.51	23117.45	23252.41	22953.72	21970.29	20382.87	1.67	2.39	6.97	15.31	8.15	3.73
JAKARTA COMPOSITE INDEX	4583.83	4670.73	4517.62	4375.54	4169.83	4515.37	(1.88)	4.76	9.93	1.52	9.27	6.19
KOSPI INDEX	2000.84	2005.68	1994.32	2003.85	1920.11	1900.62	(0.24)	(0.15)	4.20	5.27	3.87	0.19
FTSE Bursa Malaysia KLCI	1801.83	1792.91	1774.94	1772.40	1721.07	1755.85	0.50	1.66	4.69	2.62	4.30	6.68
FTSE BURSA MALAY TOP 100	12233.68	12181.89	12060.11	12038.21	11701.19	11945.17	0.43	1.62	4.55	2.42	4.30	8.24
FTSE MALAYSIA EMASSHARI	12492.99	12492.66	12339.68	12328.66	11984.08	12218.39	0.00	1.33	4.25	2.25	3.70	8.44
NASDAQ COMPOSITE INDEX	3774.73	3789.38	3745.70	3722.18	3657.79	3357.25	(0.39)	1.41	3.20	12.44	5.15	25.01
NIKKEI 225	14742.42	14766.18	14311.67	14387.27	13660.55	13230.13	(0.16)	2.47	7.92	11.43	10.11	41.82
PSEI - PHILIPPINE SE IDX	6424.45	6511.70	6344.14	6133.24	6161.21	6182.17	(1.34)	4.75	4.27	3.92	5.75	10.52
S&P 500 INDEX	1709.91	1722.34	1704.76	1687.99	1663.50	1592.43	(0.72)	1.30	2.79	7.38	4.71	19.99
STOCK EXCH OF THAI INDEX	1486.76	1489.06	1443.78	1401.08	1338.13	1400.50	(0.15)	6.12	11.11	6.16	14.87	6.81
FTSE STRAITS TIMES INDEX	3237.53	3251.78	3180.92	3120.30	3088.85	3124.45	(0.44)	3.76	4.81	3.62	6.89	2.22
TAIWAN TAIEX INDEX	8209.18	8249.78	8142.48	8225.36	7900.21	8007.39	(0.49)	(0.20)	3.91	2.52	2.33	6.62

Source Bloomberg/RHBIM

Key Sector Indicators

Plantation	Price						% Change					
	Last	1 day ago	3 days ago	5 days ago	1 month ago	3 month ago	1D	1W	1M	3M	MTD	YTD
Spot Palm Oil (RM/tonne)	2,316.00	2,336.50	2,357.00	2,367.50	2,389.50	2,430.50	(0.88)	(2.18)	(3.08)	(4.71)	(3.44)	3.81
Generic Palm Oil futures (RM/tonne)	2,305.00	2,322.00	2,363.00	2,361.00	2,380.00	2,457.00	(0.73)	(2.37)	(3.15)	(6.19)	(4.24)	(0.65)
Rubber												
Malaysian Rubber Board Centrifuged Latex (RM/kg)	5.80	5.63	5.65	5.65	5.33	5.54	(0.62)	(0.89)	4.97	1.13	1.63	(7.48)
Oil & gas												
West Texas Intermediate (WTI) Cushing Crude Oil	104.67	106.39	105.42	108.21	104.96	95.40	(1.62)	(3.27)	(0.28)	9.72	(2.77)	13.99
Currency												
Ringgit to USD	3.18	3.17	3.23	3.23	3.30	3.22	(0.37)	1.83	3.90	1.35	3.40	(3.73)
Transportation												
Baltic Dry Index	1,904.00	1,860.00	1,740.00	1,636.00	1,145.00	1,012.00	2.37	16.38	66.29	88.14	68.20	172.39
Gold												
Gold Spot (USD/oz)	1,328.51	1,325.95	1,363.77	1,312.79	1,397.73	1,282.39	0.20	1.20	(4.95)	3.60	(4.78)	(20.70)
Silver												
Silver Spot (USD/oz)	21.88	21.78	22.95	21.82	24.07	19.69	0.45	0.30	(9.08)	11.14	(6.98)	(27.89)
Palladium												
Palladium Spot (USD/oz)	719.50	716.50	718.30	704.15	751.35	661.90	0.42	2.18	(4.24)	8.70	(0.38)	2.19
Platinum												
Platinum Spot (USD/oz)	1,431.25	1,430.65	1,465.55	1,435.75	1,541.13	1,334.90	0.04	(0.31)	(7.13)	7.22	(6.00)	(7.06)
Steel												
CRB Commodities Index	470.93	471.14	469.88	470.60	471.32	472.52	(0.04)	0.07	(0.08)	(0.34)	(0.43)	(2.71)
Computer Chips												
Dramexchange	6020.88	6016.21	5787.12	5646.59	4763.08	5249.27	0.08	6.63	26.41	14.70	27.19	84.56

Source Bloomberg/RHBIM

Notable events during the week

- Eco World Development Holdings Sdn Bhd is taking control of Focal Aims Holdings Bhd with the purchase of 65.5% or 164 million shares for RM230mil or RM1.40 a share which will see it launching a takeover for the remaining stake. *Source: The Star Online*
- Westports Holdings Bhd's initial public offering (IPO) price could be fixed between RM2.30 and RM2.50, judging from the demand indicated by cornerstone and institutional investors thus far. The book-building exercise for the IPO is this week but a source said institutional investors, such as funds, usually indicated the prices they were willing to pay for the IPO leading up to the book-building. *Source: The Star Online*
- Malaysian long-haul budget carrier AirAsia X Bhd said it had agreed to set up a joint venture in Thailand with the chief of sister company Thai AirAsia and an advisor to the Thai prime minister. The joint venture, called Thai AirAsia X, marks the first overseas foray by AirAsia X, the long-haul arm of Asia's largest low cost airline by passengers, AirAsia Bhd. *Source: The Star Online*

U.S. & global news round up

- The Federal Reserve stuck to its massive bond-buying strategy, citing softer U.S. growth in a move that stunned financial markets. By a 9-to-1 vote, the Fed chose to keep buying \$85 billion a month in debt and said it would wait for more evidence of economic progress. Stocks hit intraday records on news the Fed wouldn't taper its bond-buying plan. The bank cited rising mortgage rates and reduced federal spending as headwinds that "could slow the pace of improvement in the economy. *Source: MarketWatch Online*
- Manufacturing in the Philadelphia region expanded in September at the fastest pace since March 2011, a sign factories are picking up momentum. The Federal Reserve Bank of Philadelphia's general economic index jumped to 22.3 this month from 9.3 in August. *Source: Bloomberg*
- Jobless claims in the U.S. rose less than forecast last week as two states began working through a backlog of applications that were caused by computer-system changeovers. Applications for unemployment benefits climbed by 15,000 to 309,000 in the week ended Sept. 14 from a revised 294,000 in the prior period. *Source: Bloomberg*

Equity Market Outlook

- Without a shadow of doubt, the overall markets saw a strong performance as the U.S. Federal Reserve provided temporary relief for not tampering with the bond buying program that markets expected Ben Bernanke to announce in the FOMC meeting last week. The KLCI was able to stage a strong upside, climbing 1.75% to record its highest WoW rise since early May-13 (+4.58% WoW) as investors welcomed the news with a huge sigh of relief. Average trading volume for the KLCI also surged 12.2% WoW to 1.8bn as investors were seen buying most of the key heavyweights on the back of a global and regional market run up. For this week, we are expecting a slightly volatile market after the recent steep climb as there are still worries in terms of the U.S. Fed scaling down the program in the longer term. As for the local catalyst, the nomination for the much-awaited UMNO election also almost turned into a non-event as the President and Deputy President's post returned unchallenged. This is strong indication that Prime Minister Dato' Seri Najib Tun Razak and Tan Sri Muhyiddin Yassin have obtained the full support from their party members and will ensure that the party remain stable in the near future. To that effect, we are expecting a slight easing trend for the KLCI with the downside objective of 1,760-1,750 whilst any further buying will see the 1,800-1,810 level being tested.
- Most of the Asian indices ended on a bullish note as the move by the U.S. Fed caused regional investors to move into a buying frenzy. The biggest gainer for the week was the Thailand Composite Index which climbed 6.12% to end at 1,486.76 followed by the Jakarta Composite Index that rose 4.76% to end at 4,583.83 whilst the Philippines Stock Exchange added 4.75% WoW. Only China's major indices showed mixed performances after the Shanghai Composite Index fell 2.20% to 2,191.85 whilst the Hang Seng Index climbed 2.39% to end at 23,502.51. As stated earlier, most of the Asian markets were moving in tandem with the global market recovery whilst China's performance has been slightly volatile. On the economic front, China is seen improving especially in the manufacturing sector after the industrial output climbed to the fastest pace in 17-months an indication that export gains have also picked up pace in the month of August. Factory production rose 10.4% YoY surpassing economist forecast of 9.9%. Retail sales also gained 13.4% an indication that the overall economic situation in China has improved. While most of the market actions were shrouded by the U.S. Fed, we believe that the investors will be more focused on the domestic and regional economies in the near-term. The foreign equity fund net flow has also turned positive in the last two weeks particularly for Korea, Taiwan, India (Sensex+2.69% WoW) and other parts of the region, an indication that foreign investors still has the confidence in the regional markets. For this week, we are expecting the overall market to remain slightly volatile and any upside trend should be slightly vulnerable to accelerated selling activities due to the steep upside in recent days.
- U.S. indices were able to end on a positive tone this week after most of the major indices staged further upward trend. The Dow Jones Industrial Index rose 0.49% vs. 3.04% the previous week to end at 15,451.09 whilst the S&P500 added 1.30% vs. 1.98% the previous week to end at 1,709.91. The overall trading remains bullish for the major indices except for last Friday when the Dow Jones fell 1.19% wiping out most of its weekly gains due to excessive profit taking activities. The previous rally in the U.S. indices after the U.S. Fed kept its US\$85bn bond buying stimulus caused some of the investors to take significant profit particularly on Friday. Although the U.S. economy is showing further signs of recovery, we still believe that growth will come at a more gradual pace. Last weeks weekly jobless claims came in short of expectations as it rose to 309k vs. 292k the previous week, an indication that the jobs market has yet to fully recover. U.S. inflation remains flat at 1.5% YoY, an indication that retail and consumer markets have yet to improve above expectations to warrant the U.S. Fed to scale down the bond buying exercise. With that intact, we are expecting a slightly volatile pace for this week with a maximum trajectory of 15,650-15,850 whilst any downside risk will see the 15,200-15,000 psychological level providing a buffer against any accelerated selling activities in the near-term.

Equity Investment Tactics and Strategy

- At this juncture, the KLCI remains vulnerable to further downside as the recent steep run up has pushed all the technical indicators to the upper band of the overbought region. Technically speaking, this is an indication that the KLCI will encounter a short-term downside swing at least towards the 1,760-1,750 level. On the economic front, August CPI rose to 1.9% YoY vs. 2.0% in July. We do not foresee any impact to the overall market as inflation remains benign to warrant any changes to the current monetary policy. With that intact, we are expecting the overall trend for the KLCI to remain positive in the mid-term but the short-term trend will see the KLCI encountering strong resistance at the 1,800-1,810 level due to the expensive technical indicators. Investors should wait for the KLCI to stabilize at the stipulated support zone before buying aggressively or at least when the overbought technical indicators have been neutralized.
- As stated earlier, the outcome of the U.S. Federal Reserve meeting saw no action from them to taper off the bond buying program. The FOMC Committee voted to maintain its US\$85bn monthly bond buying program. One reason was that the Committee did not see the kind of growth that most economists and analysts have projected for 2013 onwards. In our opinion, this would have caused the markets to remain volatile but with more upside bias at least in the short-term especially for the emerging markets. The Dow Jones have reacted strongly to this rising 147.21 points to end at 15,676.94 (in line with our previous weekly resistance target of 15,600-15,700) whilst the 10-year U.S. treasury yields fell 16-basis points to end at 2.69% last week. Although the move by the U.S. Fed was not widely expected, this is certainly a strong statement that the U.S. Federal Reserve will not pander out or fulfill market expectations. We believe that one of the reasons that led the Fed to postpone the tapering is the growth which was not up to their expectations. Despite the second quarter GDP being revised to 2.5%, the growth rate is far lower than what the U.S. needs to recover. The long-term average growth rate for the U.S. is >3.0% and the U.S. needs to register a stronger growth in the third and fourth quarter to make up for lost ground.
- There is no doubt that the Federal Reserve will put this 'accommodation' to rest but most probably by mid-2014. Markets will continue to remain volatile in the near-term and economists will continue to speculate in the next coming meetings expected in October and December. To that effect, we will likely see more added speculation in the market and there will be significant market swings until the end of the year. For our KLCI, there is a possibility of a relief recovery at least in the short-term but more domestic issues i.e. shrinking current account balance, fiscal tightening and sustainability of the growth will shape up the market in the long-term. We are expecting the KLCI to hover towards the 1,760-1,800 level in the short-term whilst any sporadic selling activities will see the KLCI being strongly supported at the 1,750 level. Our asset allocation remains at 85%-90%.

Weekly Technical Outlook

FBM KLCI Technical Chart



Technical Indicators Scoresheet:

MACD: 8.45-level. Negative region – Retreating signal line

Exponential Moving Averages: Above 50-day EMA

Outlook: The performance for the KLCI is expected to remain volatile at this juncture. There is no clear indication that the trend will continue to see further trajectory as the technical indicators are now locked in the upper band of the overbought region. As the KLCI has recovered from its previous low of 1,660 level, the current trend remains strong for a sustainable an upward phase. Nonetheless, sporadic selling activities will likely occur due to the steep upticks in recent days and we are expecting the KLCI to remain slightly volatile in the near-term. Investors should only purchase shares on technical dips as any downside swing will be significant (+10-15-points) due to the steep upward trend for the KLCI since recovering from its low of 1,660 on late August-13.

Strategy wise, investors should continue to sell into any strong upticks and purchase more on significant dips as the current movement of the technical indicators are already at the middle to upper band of the overbought region. Investors should take advantage of any significant correction this week as we are expecting the 1,760-1,750 level to provide a strong barrier for the sellers to overcome. The reading for the RSI signal line is now seen flattening at the 60-65-region whilst the Stochastic signal line is already seen flattening at the 90-95 overbought level indicating an early signal for a volatile trend in the near-term.

Dow Jones Industrial Index Technical Outlook



Technical Indicators Scoresheet:

MACD: 106.11-level. Negative region. Slow recovery trend

Simple Moving Averages: Below the 100-day SMA.

The Dow Jones was trading on a recovery trend last week to close above the 15,451.09 level. Although the Dow Jones has managed to stage a recovery, any further buying support will be slightly vulnerable to the downside due to the flattening momentum indicators. For this week, we are expecting a volatile trend with a slight neutral bias and any buying activities for the Dow Jones should be capped at the 15,650-15,750 level whilst any downside risk will see the index easing towards the 15,250-15,000, support level. Failure to cut above the 15,650 level again will see further selling activities ahead.

At this juncture, the RSI and Stochastic signal line is seen hovering at the middle band of the neutral region (60-65-level) an indication that the index will continue to trend within the stipulated trading range but with volatile swings. Any further trajectory above the 15,650 level will also see accelerated selling activities but we do not expect any dips to be significant or alter the long-term underlying bullish trend of the index as the index is now hovering above all the key moving averages. The index is strongly supported by the 200-day SMA (14,600) and we do not foresee any significant downward swings to alter the upward trend for the Dow Jones in the mid-term.

FBM KLCI Weekly Statistics
List of FBMKLCI Stocks

SECTOR	Last Price (RM)	% Change		FBMKLCI INDEX WEIGHT (%)
		WoW	YTD	
Automobiles				
UMW HLDG BHD	12.90	5.2%	11.3%	1.7%
				1.7%
Banking & Finance				
PUBLIC BANK BHD	17.92	1.1%	13.6%	10.0%
CIMB GROUP HOLDI	8.08	6.7%	8.5%	7.8%
MALAYAN BANKING	10.30	1.8%	15.9%	8.8%
AMBANK HLDG BHD	7.66	1.2%	15.0%	2.6%
HONG LEONG BANK	14.34	1.7%	-2.0%	1.7%
RHB CAPITAL BHD	7.80	2.6%	3.4%	1.1%
HONG LEONG FINAN	15.20	1.5%	16.9%	0.6%
				32.6%
Construction				
YTL CORP BHD	1.55	0.0%	-17.7%	1.6%
UEM SUNRISE BHD	2.72	9.7%	30.8%	0.8%
				2.5%
Gaming				
GENTING BHD	10.26	2.6%	12.0%	4.5%
GENTING MALAYSIA	4.31	-2.0%	23.1%	2.5%
				7.0%
Healthcare				
IHH HEALTHCARE B	4.27	2.4%	26.7%	2.3%
				2.3%
Media				
ASTRO MALAYSIA	2.99	0.3%	1.2%	0.9%
				0.9%
Oil & Gas				
PETRONAS GAS BHD	21.88	3.7%	14.7%	3.4%
PETRONAS DAGANGA	28.70	2.5%	26.5%	1.7%
PICHEM	6.93	2.7%	11.9%	3.9%
SAPURAKENCANA	3.78	4.7%	20.0%	2.7%
				11.8%
Plantations				
SIME DARBY	9.52	0.0%	0.8%	5.9%
IOI CORP BHD	5.40	-0.6%	9.1%	4.0%
KUALA LUMPUR KEP	22.32	1.4%	-4.1%	2.4%
PPB GROUP BERHAD	14.08	-1.5%	23.3%	1.6%
FELDA GLOBAL VEN	4.28	-0.2%	-5.6%	1.6%
				15.4%
Power				
TENAGA NASIONAL	9.04	0.4%	31.8%	5.6%
				5.6%
Transportation				
MISC BHD	5.25	2.3%	22.1%	1.5%
Telecommunications				
AXIATA GROUP BER	6.91	0.3%	9.1%	6.8%
TELEKOM MALAYSIA	5.37	-0.4%	-9.1%	2.7%
DIGI.COM BHD	5.00	3.5%	-3.2%	3.7%
MAXIS BHD	7.01	-0.4%	10.5%	3.6%
				16.8%
Tobacco & Liquor				
BRIT AMER TOBACC	64.10	2.7%	6.9%	1.8%
				1.8%

Source : Bloomberg

Weekly US and Global Economic Calendar

Monday, September 16, 2013	Empire State Index – Sept Industrial Production – Aug Capacity Utilization – Aug
Tuesday, September 17, 2013	Consumer Price Index – Aug Core CPI – Aug Home Builders' Index – Sept Real Median Income – 2012
Wednesday, September 18, 2013	Housing Starts – Aug Building Permits – Aug FOMC Statement & Projections Bernanke Press Conference
Thursday, September 19, 2013	Weekly Jobless Claims – 9/14 Current Account – Q2 Existing Home Sales – Aug Philly Fed – Sept Leading Indicators - Aug
Friday, September 20, 2013	None Scheduled

The Disclaimer:

This document is prepared by RHB Investment Management Sdn Bhd (RHBIM). The opinions and information contained herein are based on available data believed to be reliable. It is not to be construed as an offer, invitation or solicitation to buy or sell the securities covered by this newsletter. RHBIM does not warrant the accuracy of anything stated herein in any manner whatsoever and no reliance upon such statement by anyone shall give rise to any claim whatsoever against RHBIM. RHBIM and/or its associated persons may from time to time have an interest in the securities mentioned in this newsletter. This newsletter may not be reproduced, copied or circulated without the prior written approval of RHBIM.