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Volatility ahead: Bearish earnings data and risk-averse sentiment among investors could trigger renewed volatility on Bursa Malaysia's benchmark FTSE Bursa Malaysia KL Composite Index, according to analysts. > See page 2

Volatile market ahead

Bearish earnings, possible US rate hike weigh on FBM KLCI

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PETALING JAYA: Bearish earnings data and risk-averse sentiment among investors could trigger renewed volatility on Bursa Malaysia's benchmark FTSE Bursa Malaysia KL Composite Index (FBM KLCI) ahead of the next US Federal Reserve meeting this month, say analysts.

The conclusion of the latest corporate earnings season in November, which saw the majority of blue-chip companies recording lower net profits compared with last year's quarter, had a major impact on the benchmark index.

The FBM KLCI fell 10.43 points yesterday to close at 1,672.16 points.

It had earlier fallen by as much as 19 points in early morning, but recouped part of the losses thereafter in a day of volatile trading.

While global markets have been relatively stable over the past month, concerns related to China's economy and capital markets have roiled prices across asset classes globally.

The Shanghai Composite Index fell by 5.5% last Friday to record its biggest one-day drop since September.

Key commodities such as copper and gold continue to trade at multi-year lows due to continuing concerns over China's slowing economic growth.

The decline was attributed to the country's top brokerages that are being investigated for alleged breaches of rules on margin accounts and short-selling.

Affin Hwang Investment Bank chief economist Alan Tan said aside from uncertainty over the Fed's interest rate decision on Dec 16, the concerns have largely been priced in by the markets.

"While there may be greater volatility and some capital outflows, we do not believe that the effects will linger for the long-term. Asean economies remain fundamentally sound, which makes it a strong incentive for foreign investors to keep their funds here," he told *StarBiz*.

The FBM KLCI remained flattish over the month of November, finishing the month with a marginal 0.5% gain. It has failed to break the 1,700-point barrier during this time.

Tenaga Nasional Bhd (TNB), which has one of the largest weightage among the FBM KLCI component stocks, led the decliners yesterday after losing 1.76% to close at RM13.36.

The utility giant faces a tax bill of RM2.07bil by the Inland Revenue Board for the past two years of assessment. Paying for the taxes could involve either taking a large chunk out of its cash pile or by TNB forfeiting its claims for future reinvestment allowances.

SapuraKencana Petroleum Bhd was among the largest decliners yesterday, falling 4.9% to close at RM2.14. The oil and gas group is expected to announce its latest quarterly results soon.

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Furthermore, banking stocks were largely weak due to lower earnings reported over the third quarter. A large part of the decrease was due to increased provisions for loan losses, as well as from one-off costs for mutual separation schemes.

However, in a Nov 30 note, MIDF Research said overall third-quarter results showed a marked improvement compared with the preceding quarters.

"Based on our provisional assessment, the third-quarter results season would fare comparatively better than the previous ones. The trend seems to be pointing towards the beginning of the end to the prolonged drought in earnings performance."

The research house added that December was a historically good month for the FBM KLCI, which had recorded monthly gains in 12 out of the past 14 years.

Going forward, Affin's Tan explained that currency markets would be the focal point for investors over the near term.

"The Fed is likely to increase interest rates by 25 basis points in December, while the yuan is set to be included as an international reserve currency by the International Monetary Fund.

"This increases the likelihood of greater stability in terms of China's monetary policy," he said.

Small gain: The lower net profits recorded by the majority of blue-chip companies have a major impact on the benchmark index. – AP

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