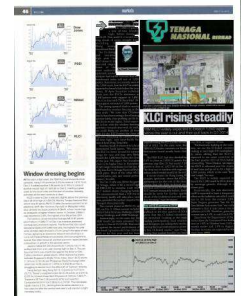


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KLCI rising steadily

FBM KLCI widely expected to breach 1,840 again before the year is out and then pull back in Q1 2014



by Dinesh Immanuel



ON Tuesday, Dec 3, the benchmark FBM KLCI soared to 1,840.12 points, a new all-time intraday high, before closing at

1,824.29. That made it a record winning streak of seven straight days, according to Hong Leong Investment Bank.

Dec 3's closing and intraday high puts the KLCI closer to its year-end target. Some of the more cautiously optimistic market analysts had earlier forecast that the benchmark index will rest at 1,850 points. Resistance is currently seen at the 1,840 mark, but the KLCI is widely expected to breach this before the year closes. JF Apex Securities' technical chart sees the KLCI's resistance at 1,840 points with support at 1,800. This is in line with TA Securities' 30-day support estimate of 1,805 points.

The strong upward climb is mostly attributed to window dressing as the year ends. "We note that CI-linked stocks have been seeing a lot of buying activity lately, thus pushing up the index [to its recent highs]. This is expected, in line with the window-dressing activities towards year-end. As such, we could likely see another all-time high for the KLCI before the close of

the year, breaching the current 1,840 all-time high," says Inter-Pacific Research head Pong Teng Siew.

Another head of research in a local investment bank agrees. "We expect the KLCI to hover around its current range for now and may very likely breach the 1,840 level before the close of the year. We expect the December close to be higher than in November. A very large contributor for the Dec 3 rally was due to Tenaga Nasional Bhd's stock price. Most of the other KLCI constituents only saw mixed performance," he adds.

The Dec 3 rally was driven by gains by Tenaga, when it hit a record high of RM12.60 in intraday trade with 46.7 million shares changing hands. The announcement that a 15% rise in electricity tariffs will take place next year, provided the perfect impetus for Tenaga's share price rally.

The counter closed at RM10.72, up 8%, on Dec 3. Other movers included Felda Global Ventures Holdings, CIMB Group Holdings, and UMW Holdings.

Interestingly, on the same day, the FBM Small Cap index retreated 73.1 points to close at 15,529.88. This trend is against the recent performance of the Small Cap index which has climbed 10% so far this year and has been outperforming the KLCI in the second half of 2013. On the same note, the FBM KLCI futures contracts on Bursa Derivatives closed mostly lower that day.

The FBM KLCI had also climbed by 0.3% to close at 1,818.15 points the previous day (Dec 2), but eased 2.39 points to close at 1,821.90 on Dec 4. The drop was in tandem with regional indices which ended mostly in the red.

A recent report by Hong Leong IB remains optimistic about the KLCI's performance for the rest of this year. "Given that the daily technical mo-

mentum and trend indicators for the KLCI remain reasonably bullish, there should be room for further upside ahead of the traditional year-end window dressing," says the report.

How will KLCI perform in 2014?

"We could see the possibility of a pullback in the first quarter of 2014 given that the CI-linked valuations are stretched. Looking at the daily trading participation, local retailers and foreigners are selling their stocks, leaving the local institutions to actively buy CI-linked stocks," says Pong, noting that market breadth has been very thin, or negative, of late.

"Furthermore, looking at the numbers, we see the CI-linked counters trading at very high P/E [multiples]," he notes, adding that the KLCI is expected to see some correction in the first quarter (Q1) of 2014 before rebounding. "Nevertheless, we expect the KLCI to rebound over the course of next year and go on to hit a high of 1,960 points, which is the next 'best case' target," he says.

The KLCI is widely expected to breach the 1,900 mark in 2014, driven by earnings growth, although at a slower pace.

Economically, the new electricity tariff is expected to have a temporary effect on the inflation rate which could rise to 3% from the current 2.8%. Bank Negara governor Tan Sri Dr Zeti Akhtar Aziz notes that "our early estimate is that it may cause a rise in inflation of 0.4%. Therefore, given the current rate is 2.8%, it could touch 3%."

Data from the Department of Statistics show the Consumer Price Index rose to 2.8% in October from 2.6% a month earlier and 1.9% in August. Further increases are expected as the year closes. **FocusM**

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The Dec 3 market rally was largely driven by Tenaga shares, which hit a record intraday high of RM12.60

