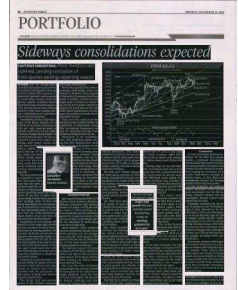


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Sideways consolidations expected

CAUTIOUS UNDERTONE: Most investors seen sidelined, pending conclusion of third-quarter earnings reporting season

OPTIMISM over the stronger-than-expected third quarter gross domestic product (GDP) growth of five per cent and China's bold economic reforms early last week were tempered by profit-taking interest, driven by gloomy regional sentiment following weaker China manufacturing activity and the United States Federal Reserve's (Fed) latest meeting minutes, which hinted at an earlier timeline for stimulus tapering.

Nonetheless, the blue-chip benchmark FTSE Bursa Malaysia KLCI (FBM KLCI) recouped 4.65 points, or 0.26 per cent, week-on-week to 1,794.52, as IOI Corp (+12 sen), MISC (+30 sen), Tenaga Nasional Bhd (+14 sen) and Petronas Gas (+44 sen) accounted for most of the index's rise. Average daily traded volume and value were at 1.79 billion shares and RM2.12 billion, compared with the 1.97 billion shares and RM1.9 billion average respectively the previous week, as the blue chips sector attracted more trading participation last week.

The benchmark index is expected to consolidate with some downward bias this week as investors await the conclusion of third-quarter results reporting season on Friday. About 70 per cent of listed companies being tracked have reported their earnings. Most of them fell within expectations but the percentage of outperformers have improved by three percentage points to 13 per cent and the underperformers edged lower to 18 per cent from 25 per cent in the previous quarter.

Nonetheless, as core earnings still alluded to a low single-digit growth this year, investors would be watching closely on earnings guidance for next year. So far, the cost pressure is apparent with operating margin reducing slightly from 22.7 per cent in the fourth quarter of last year to 21.9 per cent in the third quarter of this year and it could trend lower next year if the increase in energy prices

cannot be transferred to consumers in a timely manner.

Consumers, on the other hand, are already feeling the impact of recent increase in fuel, tobacco and sugar prices as traders and service providers took the opportunity to hike prices of goods and services along the supply chain.

The 2.8 per cent year-on-year growth in the October consumer price index reflected this.

While this is good for the nation's sovereign credit rating, which was implied by Moody's recent upgrade of Malaysia's A3 rating outlook from stable to positive, productivity and wages need to increase to compensate for the rise in prices. Otherwise, demand for goods and services will suffer unless indebtedness rise/savings reduce to fill up the reduction in disposable income.

Thus, next year could be an adjustment period, justified further by possibilities of quantitative easing (QE) cuts gaining momentum, not only for consumers but also firms and Bursa Malaysia-listed stocks.

Meanwhile, in the immediate-term, with conflicting signals coming from Fed chairman-elect Janet Yellen and Fed policymakers on the timing of first scale back in loosening measures, investors would probably wait on the sideline for more details on the state of US economy from Beige Book report scheduled for release on December 4 and the outcome of Fed meeting on December 18. A delay in QE cuts would be timely to drive a year-end/new year rally.

Technical Outlook

Spot month November FBM KLCI futures contract traded on the Bursa Malaysia Derivatives Bhd declined another 4.5 points, or 0.25 per cent, last week to 1,787.5, reversing to a seven-point discount the cash index, against the 2.1-point premium to the previous Friday, as the futures mar-

ket was depressed by profit-taking correction on blue chips.

Bursa Malaysia shares sustained cautious rebound last Monday, buoyed by optimism over the stronger-than-expected third-quarter GDP growth of five per cent and likelihood the US Fed would extend its bond-buying programme to next year.

The FBM KLCI gained 2.52 points to settle at 1,792.39, off an early low of 1,789.39 and high of 1,795.14 as losers edged gainers 439 to 351 on cautious trade totalling 1.51 billion shares worth RM1.88 billion.

The local blue-chip benchmark jumped higher the next day, boosted by sharp gains on key index heavy-weight plantation stocks IOI Corp (+19 sen), Sime Darby (+18 sen) and KL Kepong (+RM1.04), and optimism over China's bold economic reform measures. The index climbed 14.77 points, or 0.8 per cent, to close at 1,807.16, off an early low of 1,794.39 and high of 1,813.51, as gainers led losers 412 to 386 on stronger volume totalling 1.82 billion shares worth RM2.59 billion.

The local stock market slumped for profit-taking correction on Wednesday, dampened by investor caution ahead of the release of the latest Fed meeting minutes and after the Organisation for Economic Cooperation and Development downgraded global growth forecast.

The FBM KLCI shed 8.47 points to end at 1,798.69, off an early high of 1,814.73 and low of 1,795.10, as losers overcame gainers 562 to 246 on steady trade totalling 1.79 billion shares worth RM2.31 billion.

Blue chips extended correction the following day, pulled down by gloomy regional sentiment. The FBM KLCI slipped another 4.04 points to close at 1,794.65, off an early high of 1,797.89 and low of 1,790.94, as losers beat gainers 519 to 258 on more robust trade totalling 2.32 billion shares worth RM2.11 billion.

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Stocks fell into cautious range-bound trade ahead of the weekend, with external headwinds from weaker global growth and stimulus tapering by the Fed clouding local sentiment, and as investors stay sidelined amid lingering concerns over foreign selling on blue chips.

The FBM KLCI ended last Friday flat at 1,794.52, after oscillating between low of 1,791.31 and high of 1,795.75, as gainers edged losers 416 to 324 on slower trade totalling 1.5 billion shares worth RM1.69 billion.

Trading range for the local blue-chip benchmark index was at 25.34 points last week, compared with the 25.7 points range the previous week. The FBM-Emas Index added 19.11 points, or 0.15 per cent, to 12,494.75 for the week, but the FBM-Small Cap Index lost another 95.85 points, or 0.61 per cent to 15,705.

The daily slow stochastic indicator for the FBM KLCI is hooking down again at the neutral region, while the weekly indicator stayed bearish with a hook down after flashing a sell signal the previous week.

The 14-day Relative Strength Index (RSI) indicator has eased to a reading of 48.69 as of last Friday, while the 14-week RSI flattened to a neutral reading of 56.64.

As for trend indicators, the daily Moving Average Convergence Divergence (MACD) also retained its bearish posture with the signal line drifting lower, reinforcing the bearish hook down position on the weekly MACD indicator that suggests downward bias for the index.

While the 14-day Directional Movement Index (DMI) trend indicator's +DI and -DI lines crossed for a buy last week, the signal is weak and unconfirmed due to the weak reading on the ADX line.

Conclusion

As most momentum and trend indicators for the FBM KLCI remain bearish, a protracted consolidation with downside bias is expected on the last trading week for November. Most investors are also expected to be sidelined pending the conclusion of the current third-quarter earnings reporting season, as they digest and subsequently forecast the earnings growth trend for the next quarter.

In the meantime, the cautious

market undertone should persist given uncertainty over the Fed tapering stimulus timeline and the consequent adverse impact from capital flow reversals.

Immediate resistance for the index is retained at last Wednesday's high of 1,814, followed by the October high of 1,822, and subsequently the record intra-day high of 1,826 as tougher upside hurdles. Immediate support is at 1,791, the current 50-day moving average, with 1,784, the 23.6 per cent retracement of the 1,660 low of August and 1,822 high of October, and 1,778, the 100-day moving average, providing better support buffers.

Nonetheless, investors with longer-term outlook should look to accumulate on weakness blue chips like AirAsia, AmBank, CIMB, Genting Bhd, RHB Capital and Tenaga for further upside, but recent strength on Dialog Group and Hiap Teck Ventures could be prone to profit-taking corrections given their overbought momentum, which need to be corrected in the immediate term.

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

"As core earnings still alluded to low

single-digit growth this year, investors would be watching closely on earnings guidance for next year."

