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Profit-taking correction likely

BULLISH INDICATORS: Investors should look ahead to take profit on blue chips, which will be overbought on further gains

WINDOW-dressing activities picked up steam in the latter part of last week to lift blue chips higher, shoring up the FTSE Bursa Malaysia KLCI (FBM KLCI) to end at another record high. Improving United States economic data, the International Monetary Fund's (IMF) upgrade on the economic outlook for the US, sharper-than-expected drop in weekly US jobless claims and China's reduction of its money-market rates managed to overshadow the reverse capital flows from neighbouring stock markets in the early part of the week.

Last week, the FBM KLCI surged 23.03 points, or 1.25 per cent, to settle at 1,861.06, a record closing high, with Tenaga (+78 sen), Public Bank (+46 sen), SapuraKencana Petroleum (+26 sen) and Petronas Chemicals (+30 sen) contributing nearly 90 per cent of the index's gain. Average daily traded volume and value slowed to 984.8 million shares and RM945.9 million, compared with the 1.07 billion shares and RM1.52 billion average, respectively, the previous week as window dressing featured prominently on blue chips and trading momentum on lower liners and small caps slowed considerably.

This could be a mixed week with the benchmark index trending higher early in the week with sustained momentum in blue chips ahead of year-end closing before being subjected to profit-taking pressure post-window dressing. While traders could follow technical charts and sell blue chips like AMMB Holdings, Axiata, CIMB, Genting, Maybank, RHB Capital, Tenaga and Telekom Malaysia upon further window-dressing strength, all of them except Genting and RHB Capital are good fundamental picks that could provide further capital appreciation potential over the long run. So, it is worth monitoring the price movements and accumulating these stocks at lower levels as the bench-

mark index is expected to trend higher next year on the back of strengthening external sector and resilient domestic activities.

However, the FBM KLCI's target for end next year is only 1,910 based on calendar year 2015 price-earnings ratio of 15.4 times. It is difficult to attach a higher target for the FBM

KLCI at this juncture as its price-to-earnings and price-to-book ratios are steep vis-à-vis its return-on-equity, unless earnings outlook improves. So far, FBM KLCI component stocks' next year and 2015 earnings growth (weightage adjusted) of 8.9 per cent and 6.3 per cent, respectively, are not attractive enough to be overly bullish about the local market's prospects next year.

As cost pressures mount next year with progressive removal of certain subsidies and slated increase in toll rates, the eventual impact on prices of goods and services and demand has the tendency to weigh down on corporate profit unless the demand is inelastic. Throw in the possibilities of unwinding of US dollar carry trades in the fourth quarter of next year in anticipation of interest rate hikes in the US in 2015 and policy response by our central bank, which could already skew to tightening measures in the second half of next year in view of the inflationary pressures to stem outflows of funds, there are no signs of cost pressures abating.

Thus, it is imperative to separate the wheat from the chaff. A stronger outlook for the US dollar and improving external sector will be good for exporters, especially for those with inelastic demand like the glove companies. Electrical and electronics, and oil and gas companies that largely issue invoices in US dollar are clear winners here with an additional catalyst for the latter in the form of multibillion domestic spending, in line with the Economic Transformation Programme. Benchmark crude palm oil prices that are

priced in ringgit will naturally go up as well to compensate for the stronger US dollar, which will benefit plantation companies. Besides, high beta plays with strong earnings growth prospects are also expected to outshine mostly overvalued defensive plays (especially consumer-related stocks).

Banks will also largely benefit from a potential increase in Overnight Policy Rate with earnings expected to rise by an average 4.8 per cent with every 25 basis point increase in average lending rate.

Technical Outlook

Spot month December FBM KLCI futures contract traded on the Bursa Malaysia Derivatives Bhd climbed 31 points, or 1.7 per cent, to 1,863.50 week-on-week, reversing to a 2.44-point premium to the cash index, compared with the 5.53-point discount to the previous Friday, supported by short-covering interest, given the strong window-dressing rally on the cash index last Friday.

Blue chips on Bursa Malaysia ended lower on Monday. The FBM KLCI fell 5.17 points to settle at 1,832.86, off an early high of 1,840.17 and low of 1,829.22, as losers swarmed gainers 456 to 293 on cautious trade totalling 919.9 million shares worth RM919.4 million. Stocks staged mild rebound the subsequent day as investors returned to selective bargain blue chips on Christmas Eve, following the stronger US economic data and after the IMF upgraded the outlook for the US. The FBM KLCI rose 2.63 points to 1,835.49, off an opening low of 1,833.52 and high of 1,840.34, as gainers edged losers 373 to 346 on slow trade of 925.2 million shares worth RM758.9 million.

Window-dressing activities lifted blue chips higher on Thursday led by Maybank (+9 sen), Public Bank (+10 sen), Axiata (+5 sen) and Felda

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Global Ventures (+12 sen) while lower liners extended low-volume consolidation.

The KLCI was up 8.61 points to close at 1,844.10, off an opening low of 1,828.48 and high of 1,846.49, as gainers led losers 414 to 338 on lacklustre trade totalling 905 million shares worth RM818.2 million.

Blue chips extended their rallies ahead of the weekend, thanks to follow-through window-dressing interest and optimism on external markets after US posted a bigger-than-expected drop in jobless claims and China reduced its money-market rates to boost domestic liquidity. At the close, the blue-chip benchmark surged nearly 17 points to a record high of 1,861.06, off an intraday record of 1,862.63, as gainers swarmed losers 496 to 261 on improved trade totalling 1.19 billion shares worth RM1.28 billion.

Trading range for the local blue-chip benchmark index expanded to 34.15 points last week, compared with the 17.8 points range the previous week. For the

week, the FBM Emas Index gained 137.85 points, or 1.1 per cent, to 12,815.83, while the FBM-Small Cap Index rose 171.26 points, or 1.1 per cent, to 15,648.52.

The daily slow stochastic indicator for the FBM KLCI hooked up to trigger a buy signal in the neutral zone last week, while the weekly indicator extended higher into the overbought territory. Meantime, the 14-day Relative Strength Index (RSI) indicator recovered to a more bullish reading at 69.36, reinforced by the positive 14-week RSI which registered a reading of 68.75.

The daily Moving Average Convergence Divergence's (MACD) signal line has re-hooked upwards and is poised to trigger a buy on further strength, while the weekly MACD indicator's signal line continued its upward extension. The 14-day Directional Movement Index (DMI) trend indicator's +DI and -DI lines expanded again, with the ADX line levelling with a still trending reading of 36.69.

Conclusion

Technical indicators for the FBM KLCI have turned bullish following the strong window-dressing surge

on blue chips last week, with a fresh daily stochastics buy signal and daily MACD poised to trigger a buy supporting further upside momentum. However, investors should be aware that window-dressing buying may peak on Tuesday, hence profit-taking correction could follow in the first few trading days next year. As such, investors should look ahead to take profit on blue chips, which will be overbought on further gains.

As for the index, immediate support is upgraded to the rising 10-day moving average currently at 1,843, followed next by the 30-day moving average at 1,823, close to 1,822, the October high resistance-turn-support level, with stronger support cushion from the 50-day moving average now at 1,816. The 100-day moving average at 1,790 acts as a strong support buffer. Immediate resistance will now come from 1,880, the 123.6 per cent Fibonacci Projection (FP) of the rally from 1,597 low of February to the May high of 1,826. The subsequent hurdle would be 1,913, the 138.2%FP.

Finally, wishing all readers a happy and prosperous new year.

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

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