

## Equity Market Review & Outlook

### REVIEW

- ▶ The US equity markets rallied as the US FOMC meeting in December surprised the market somewhat with the announcement that their monthly bond buying program will be reduced by US\$10bn to US\$75bn a month starting January 2014, reflecting the cumulative progress and the improved outlook for the US job market. Future tapering will be data dependent, and if there is progress in terms of inflation and continued job gains, similar tapering of QE can be expected at each FOMC meeting. The FOMC reiterated that the Fed Fund rate will remain low even if the unemployment rate declines below 6.5%, “especially if projected inflation continues to run below the Fed’s 2% goal”.
- ▶ December was a strong month for the KLCI, scaling new all-time highs on numerous occasions throughout the month. December is traditionally a strong month for equity performances, as investors build positions ahead of 2014. Investors ploughed into Tenaga on the back of the earlier than expected announcement of electricity tariff hikes, which should save the government about RM4bn in subsidies in 2014. The KLCI ended the month at 1,867 points, gaining 2.99% mom or 54.2 points. The broader market underperformed the KLCI slightly as the FBM Emas gained 281.6 points or 2.24% mom. FBM Small Cap index underperformed the KLCI gaining only 0.36% during the month. Average value traded on Bursa in December increased 58% mom to RM3.21bn (including a 4bn volume off-market transaction for Maxis).
- ▶ The sector indices on the local bourse closed generally higher for December, with the best performing sectors being Technology (+3.35%) and Services (+3.13%). The worst performing sectors were the Construction (-0.68%), and Industrial Production (+0.69%).

### OUTLOOK

- ▶ Thus far the reaction towards the commencement of the QE tapering has been quite controlled and manageable. This event should bring some optimism that the global economic recovery is on track, whilst being reassured of a low interest rate environment. The tapering scare in May 2013 had been the wakeup call much needed by many of the emerging markets to start focusing on strengthening their fiscal and current accounts, and hence we expect the impact of this latest decision to have less of an impact than before.
- ▶ Domestically, the Malaysian government has continued on their subsidy rationalization stance with the hikes in electricity tariff, and talks about allowing the toll concessionaires to raise the tolls as stipulated in their concession agreements. However, consumers have started to tighten their belts in light of suppliers raising their prices, passing on the effects of the subsidy rationalization. The BR1M payment will likely be distributed early in the 1H14, which should alleviate some of the increases in cost of living, but the government’s political will, will be under pressure. Staying true to the fiscal consolidation path should deter rating agencies from downgrading Malaysia’s sovereign rating, and improve Malaysia’s balance sheet strength.
- ▶ With recent developments, we have turned slightly more positive on the Malaysian equity market, at least for the next few months. Any corrections in the market would serve as an opportunity to accumulate selective fundamentally strong stocks with attractive valuations.

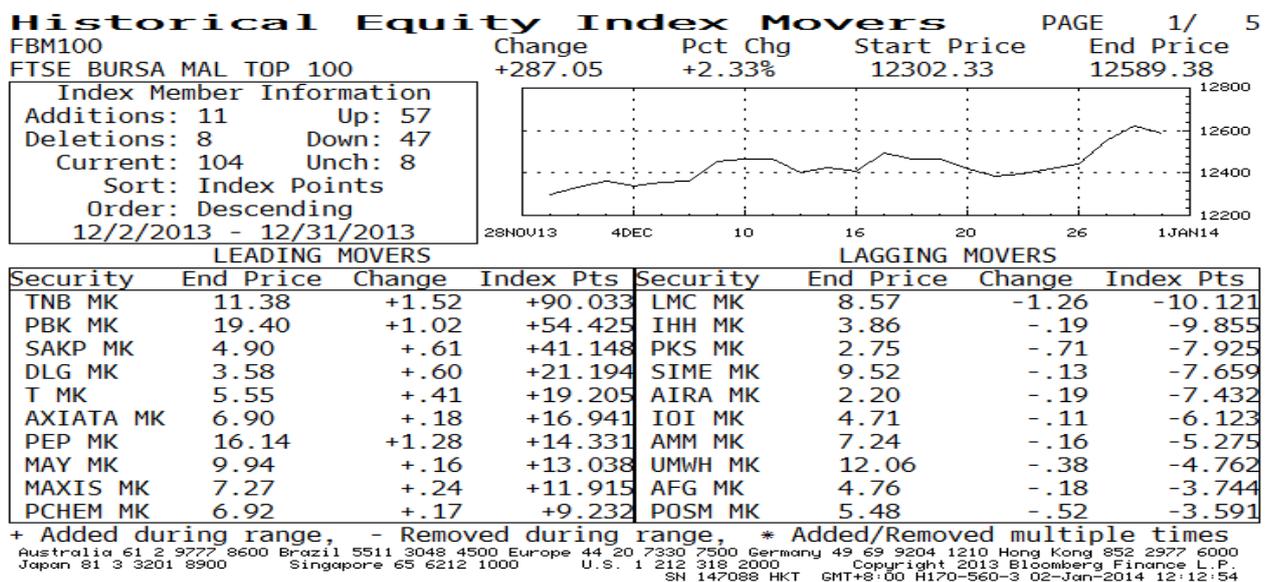
## Equity Market Review & Outlook

### NEWS HIGHLIGHTS

- ▶ Electricity tariffs would rise by 14.89% on average effective 1 Jan 2014, to compensate for the 11% natural gas price hike to RM15.20, imported LNG price set at RM41.68/mmbtu, higher coal base price and a 3% base tariff increase.
- ▶ Datuk Mokhzani Mahathir has relinquished all his executive duties in Sapura Kencana, in which he has a 13.27% stake. He is now a non-executive, non-independent director.
- ▶ Kumpulan Peransang Selangor has accepted the takeover proposal from KDEB (Selangor State Government), Puncak Niaga has accepted the offer subject to imposing certain conditions, and Gamuda has rejected the offer as they view the offer to be lower than the previous one, as receivables outstanding were not included in the offer.

### INDEX PERFORMANCE & MOVERS

RPT



Source: Bloomberg

Indices	Last Price		MoM Changes	
	30-Nov-13	31-Dec-13	+/-	%
<b>FBMKLCI</b>	<b>1812.7</b>	<b>1867.0</b>	<b>54.2</b>	<b>2.99%</b>
<b>FBMMES</b>	<b>5592.5</b>	<b>5675.8</b>	<b>83.3</b>	<b>1.49%</b>
<b>FBM100</b>	<b>12302.3</b>	<b>12589.4</b>	<b>287.0</b>	<b>2.33%</b>
<b>FBM70</b>	<b>14181.3</b>	<b>14182.1</b>	<b>0.9</b>	<b>0.01%</b>
<b>FBMSCAP</b>	<b>15637.5</b>	<b>15694.2</b>	<b>56.7</b>	<b>0.36%</b>
<b>FBMEMAS</b>	<b>12572.0</b>	<b>12853.6</b>	<b>281.6</b>	<b>2.24%</b>
<b>FBMSHA</b>	<b>12734.2</b>	<b>13051.6</b>	<b>317.4</b>	<b>2.49%</b>
<b>FBMHJRAH</b>	<b>13899.7</b>	<b>14323.6</b>	<b>423.9</b>	<b>3.05%</b>
<b>MSCI APxJ</b>	<b>474.5</b>	<b>468.2</b>	<b>-6.3</b>	<b>-1.33%</b>

Source: Bloomberg