

Equity Market Review & Outlook

REVIEW

- ▶ The US equity market ended the month of August higher after a weak start to the month due to heightened geopolitical risk with the conflict in Gaza region, and the increasing tensions with Russia post the MH17 tragedy.
- ▶ The month of August was a volatile one for Malaysia, with the local market under selling pressure early in the month, but rebounded in tandem with the US equity market. Corporates that released their financial results during the month were generally either in line or disappointing versus consensus expectations. Key sectors that disappointed were the oil and gas, banking and finance, and plantation sectors. The KLCI ended the month closing at 1,866 points, declining 0.28% mom or 5.3 points. The broader market underperformed the KLCI slightly as the FBM Emas Index declined 90.6 points or 0.69% mom. FBM Small Cap index underperformed the KLCI declining 2.42% during the month. Average value traded on Bursa in August increased 19% mom to RM2.52bn.
- ▶ The sector indices on the local bourse closed lower for August, with the best performing sectors being Financials (0.71%) and Industrial (0.41%). The worst performing sectors were the Plantation (-4.96%) and Properties (-1.96%).

OUTLOOK

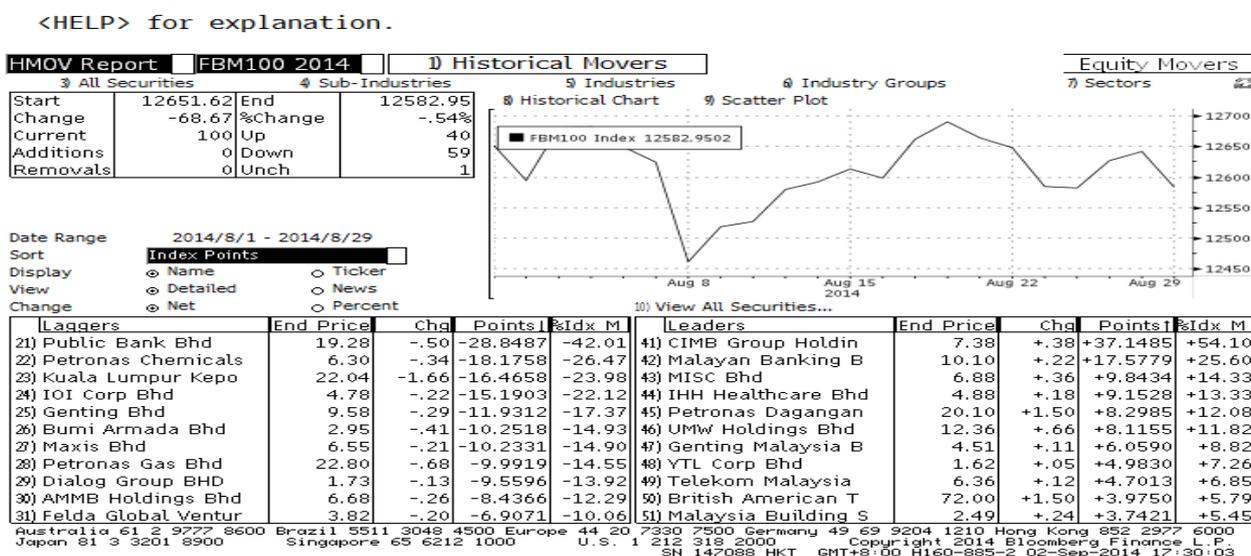
- ▶ Global markets will likely take their cue from the expected improvement in economic data from the US and euro area. However, investors' complacency has been swapped with uncertainty given the unexpected tragedy of the MH17 crash, and the resulting tensions between the US and Russia as a result. Geopolitical tensions are compounded with the tensions surrounding Gaza.
- ▶ Domestically, post the August results reporting season, consensus earnings estimates has been downgraded to between 2.5%-8% for FY14, from double digit growth early in the year. Consensus is still expecting about 11% growth for 2015, however, with the onset of the GST, we believe earnings downside risk remains high for 2015 as well. With the strong 1H 2014 GDP growth numbers, expectations are high for another OPR hike post 18 September MPC meeting. Nevertheless, there is an abundance of liquidity in the system, and domestic equity markets should remain well supported. Cost of living issues will continue to remain in the limelight as the government prepares for Budget 2015, scheduled to be tabled on 10 Oct 2014, with the theme: Accelerating growth, Ensuring Fiscal Sustainability, and Prospering the Rakyat.
- ▶ Any corrections in the market would serve as an opportunity to accumulate selective fundamentally strong stocks with attractive valuations.

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NEWS HIGHLIGHTS

- Crude palm oil prices fell about 15% mom in August as the probability of an El Nino occurring dwindled and production remains healthy as palm oil moves into its peak production period. CPO futures prices fell to below RM2000/tonne by the end of the month the first time in five years, as supply of global edible oil are projected to be strong in the coming months, and Chinese buyers are apparently facing difficulty in raising financing given the crack down on shadow banking activities.
- 1Malaysia Development Bhd's (1MDB), which planned to float its energy unit, 1MDB Power, in the second half of this year may be postponed to early 2015 as the sovereign wealth fund has to make adjustments to its financial books, according to media reports.
- SapuraKencana Petroleum has discovered more gas at its SK408 production sharing contract area, located in offshore Sarawak. This came less than three months after the company made four gas discoveries in SK408.

INDEX PERFORMANCE & MOVERS



Source: Bloomberg

Indices	Last Price		MoM Changes	
	31-Jul-14	31-Aug-14	+/-	%
FBMKLCI	1871.4	1866.1	-5.3	-0.28%
FBMMES	7044.6	6903.7	-140.9	-2.00%
FBM100	12651.6	12583.0	-68.7	-0.54%
FBM70	14378.9	14173.5	-205.5	-1.43%
FBMSCAP	19066.4	18604.6	-461.8	-2.42%
FBMEMAS	13085.7	12995.1	-90.6	-0.69%
FBMSHA	13384.0	13219.7	-164.2	-1.23%
FBMHJRAH	14604.5	14485.5	-119.0	-0.81%
MSCI APxJ	509.5	511.4	1.9	0.37%

Source: Bloomberg