

Equity Market Review & Outlook

REVIEW

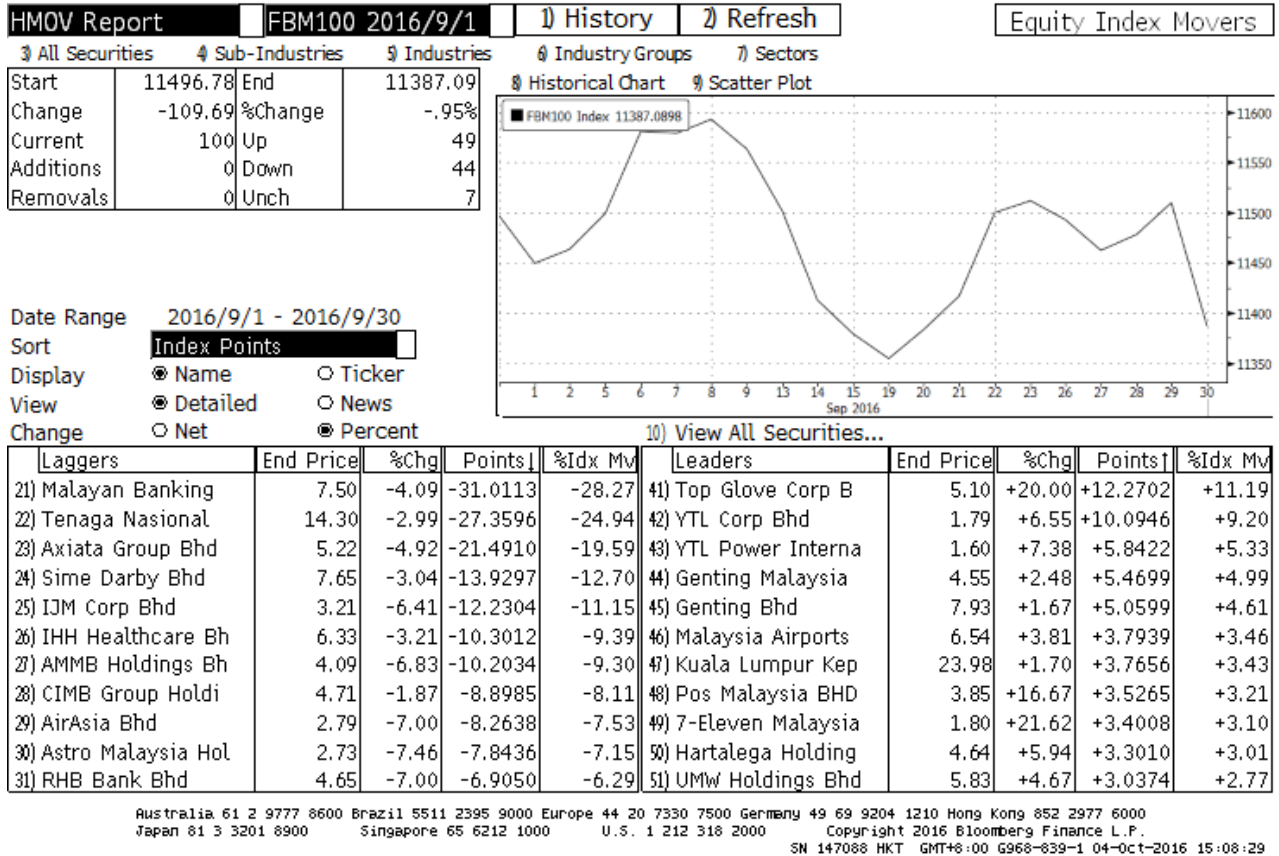
- ▶ The US equity market started off the month on a positive note with Apple unveiling their latest iPhone 7 and other new updates. However this gain was short lived as markets corrected mid month on the back of concerns regarding US Presidential candidate Clinton's illness, 8 weeks before the elections; and the seemingly higher probability of a US rate hike when the Federal Open Market Committee (FOMC) met in September. Asia Pacific equity markets rallied initially from the technology related plays but corrected sharply mid month as Samsung issued a recall on their newly launched Galaxy Note 7 due to their batteries exploding. Nevertheless, regional markets managed to stage a recovery towards the end of the month, as the US Federal Reserve held rates, the first US Presidential debate saw Clinton seemingly coming out on top, and OPEC's meeting in Algiers have come to an agreement of sorts to freeze production with the exception of Iran, but the finer details of such agreement to be discussed in November's meeting.
- ▶ Malaysian equities had a volatile month, starting off with news that the government requires the telcos to pay a collective sum of almost RM3b by November for the assignment of 900Mhz and 1800Mhz spectrum. The risk of a US rate hike and any hint of Trump winning this Presidential bid, meant that the Malaysian ringgit remained weak during the month, closing at RM4.1385/USD on 30 Sept. This was despite a bounce in crude oil prices in the last few days of the month when OPEC talked about a production freeze. With the 2017 Budget slated to be announced on the 21 Oct, the spotlight was on Malaysia's finances and whether the fiscal target of 3.1% would be met this year. The KLCI declined 1.52% mom in September to close at 1,652.55 points. The broader market declined 0.81% outperforming the KLCI, as plantation (+1.06%) and technology (+2.04%) stocks gained during the month, whilst Finance (-1.87%) and Industrial Production (-1.65%) were the worst performers. The FBM Small Cap Index gained by 1.53%. Average value traded on Bursa in September was up 4% mom to RM1.982bn.

OUTLOOK

- ▶ With about 5 weeks to go to the US Presidential Elections to be held 8 November 2016, we expect this to dominate news flow globally. Currently a Trump win generally implies that future global economic growth may slow as the US adopts a more protectionist policy towards global trade, and would likely result in the Trans-Pacific Partnership Agreement (TPPA) not being ratified by the US Congress at the end of the year. In addition, global markets will be impacted by the Deutsche Bank contagion risks, ECB's quantitative easing (QE) tapering discussions, UK's BREXIT concerns, OPEC production cuts and oil prices, and the US Federal Reserve's tightening expectations. The latter now seems more likely given the recent economic data, and probability of a rate hike in the US in the last FOMC meeting in December is rising.
- ▶ October is a month when the focus in Malaysia is on the upcoming budget announcement (due 21 October 2016). Investors will be considering how expansionary can the coming budget be, if we are facing fiscal constraints. 1H16 reported fiscal deficit raised concerns that the 3.1% target for 2016 may not be met, however, the government has indicated that 2H should see revenue improve with increased dividend payments from Petronas, payment from Telcos for their spectrum assignment fee, and from GST collection. With consumer spending still an important driver of Malaysia's GDP growth, we do not rule out another OPR cut by year end should the growth outlook weaken.
- ▶ We expect markets will remain volatile, compounded by the other risks we mentioned above. We remain cautious on Malaysian equities, but any correction in the market would serve as an opportunity to accumulate fundamentally strong stocks on weakness.

Equity Market Review & Outlook

INDEX PERFORMANCE & MOVERS



Source: Bloomberg

Indices	Last Price		M o M Changes	
	31-Aug-16	30-Sep-16	+/-	%
FBM KLCI	1,678.06	1,652.55	-25.51	-1.52%
FBM MES	5,259.03	5,219.91	-39.12	-0.74%
FBM 100	11,496.78	11,387.09	-109.69	-0.95%
FBM 70	13,615.66	13,722.13	106.47	0.78%
FBM SCAP	15,163.02	15,394.33	231.31	1.53%
FBM EMAS	11,783.40	11,687.58	-95.82	-0.81%
FBM SHA	12,430.50	12,348.18	-82.32	-0.66%
FBM HIJRAH	13,935.08	13,740.53	-194.55	-1.40%
MSCI APxJ	444.11	450.90	6.79	1.53%

Source: Bloomberg