

Equity Market Review & Outlook

REVIEW

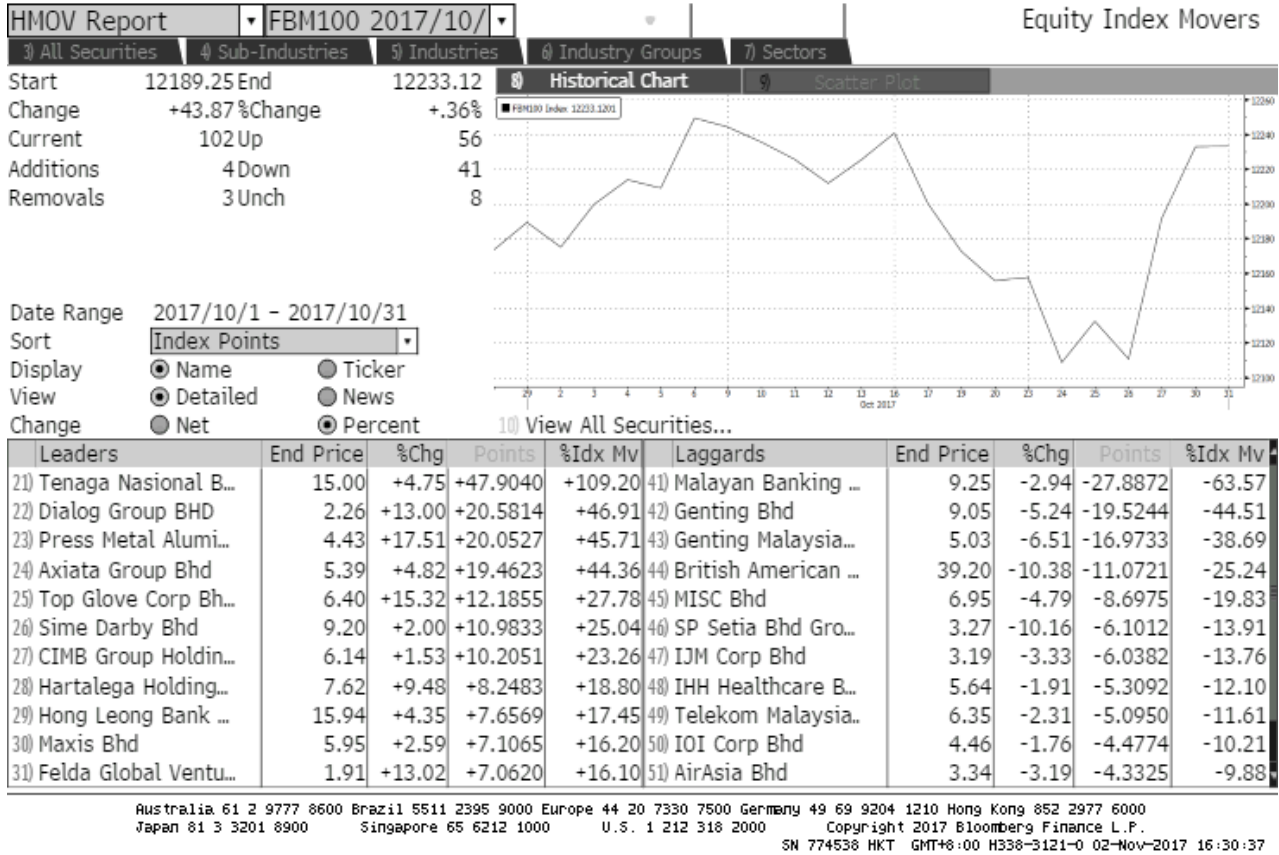
- ▶ The Malaysian equity market closed the month slightly lower, as the big cap stocks succumbed to some sell down, despite the rising Brent crude oil prices and the tabling of Budget 2018. Increasing acceptance of the US president's tax reform proposals and the potential change in the US Federal Reserve's chairperson temporarily made the global markets jittery. Banks underperformed especially those with regional exposure such as Maybank and CIMB. Results season for the 3Q is also underway, which have been generally in line. Tenaga reported decent results and increased their dividend as promised earlier. The Budget 2018 announcement on the 27th October was as expected, focused on implementing measures to increase households' disposable income, in particular the bottom 40% (B40) income group, with special cash payments to be made to the 1.6m civil servants and civil servant retirees.
- ▶ The KLCI ended the month lower at -0.44% mom to close at 1,747.92 points. The broader market gained by 0.53%, outperforming the KLCI. The best performing sectors were Technology (+6.56%) and Plantation (+0.61%), whilst the worst performing sectors were Finance (-1.04%) and Property (-0.82%). The FBM Small Cap Index gained 2.85%. Average value traded on Bursa in Oct was RM2.6b vs September of RM2.5b.

OUTLOOK

- ▶ Global growth outlook and recovery getting more positive with potential tax reform being pushed through in the US, albeit later than expected, and inflation expected to pick up globally with quantitative easing tapering amid higher commodity prices. Crude oil prices continue to trend up with OPEC expected to maintain their production cuts until end 2018, and the latest Saudi Arabia's actions to detain some of the Saudi princes on corruption allegations, increased uncertainty for the region. The 19th China's National Congress saw President Xi renewing his term as General Secretary of the Party. Japan's elections also went ahead without any hitches for Prime Minister Abe. Hence the major economies seem to have set the platform for continued growth and recovery.
- ▶ With the Budget 2018 focused on improving disposable income in the face of higher cost of living, we expect consumer related sectors to benefit as the propensity to consume for B40 group is high. The surprise MRT3 open tender documents announced early November suggests the government is taking efforts to contain their government guaranteed portion of debt by inviting participation of contractors with expertise and the ability to help finance the project. With oil prices recovering, it has provided some breathing room to ensure we meet our fiscal deficit targets.
- ▶ Equity markets have had a good rally year to date, and whilst fundamentals of the economy remain relatively positive, we are concerned that there seems to be some disconnect between the reported robust economic growth for Malaysia in 1H2017 and reported corporate earnings for the same period. We would be more positive should the government continue with their commitment to fiscal consolidation, and move to more market friendly measures to encourage competition. Nevertheless, any market corrections serve as an opportunity to accumulate fundamentally strong stocks on weakness.

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Source: Bloomberg

Indices	Last Price		MoM Changes	
	30-Sep-17	31-Oct-17	+/-	%
FBM KLCI	1,755.58	1,747.92	-7.66	-0.44%
FBM MES	6,568.86	6,940.17	371.31	5.65%
FBM 100	12,189.25	12,233.12	43.87	0.36%
FBM 70	15,057.13	15,474.10	416.97	2.77%
FBM SCAP	16,950.99	17,433.83	482.84	2.85%
FBM EMAS	12,531.29	12,597.27	65.98	0.53%
FBM SHA	12,797.37	13,082.72	285.35	2.23%
FBM HIJRAH	13,995.76	14,273.57	277.81	1.98%
MSCI APxJ	529.75	551.11	21.37	4.03%

Source: Bloomberg