

Equity Market Review & Outlook

REVIEW

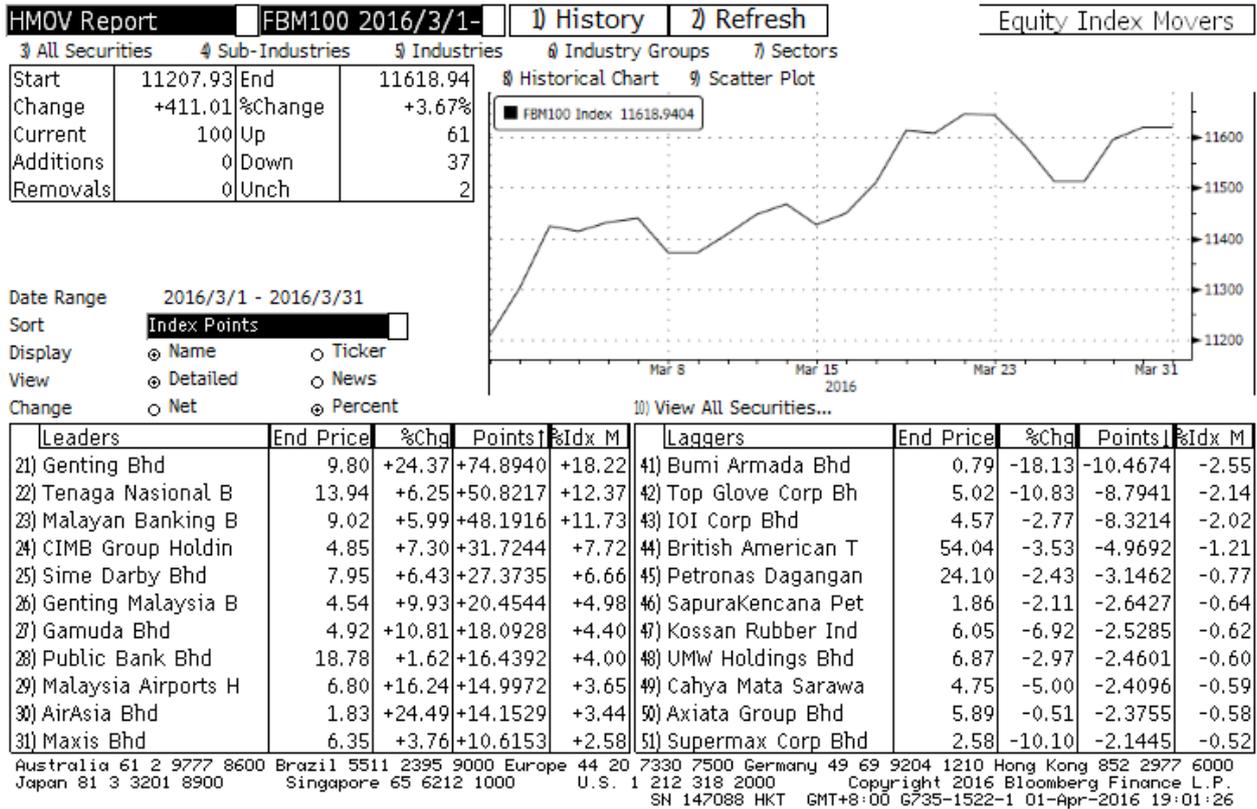
- ▶ Global markets continued its positive momentum in March as oil prices rallied from a low of US\$29/bbl in January to US\$43/bbl in March as the US dollar weakened on the back of dovish statements from the US Federal Reserve. The softer US dollar has provided some relief for emerging market equities, providing the boost to commodities. China's National People's Congress was held without much negative incidence, but China watchers continued to be concerned over the sharply declining foreign exchange reserves. Emerging market currencies have had a good bounce year-to-date, as developed market currencies corrected, on the back of the US Federal Reserve Chairman's dovish speech and UK's Brexit discussions.
- ▶ Domestically, the local bourse rallied above the 1,700 psychological mark as Malaysia benefited from foreign fund flows with the weaker US dollar, and crude oil prices rallying. During the month, at the BNM's Annual Report 2016, the central bank is also projecting economic growth to grow by 4-4.5%. BNM highlights headwinds from higher cost of living and weak consumer sentiment, but believes that the OPR is at an appropriate level currently, and is only likely to cut rates should growth come in below expectations. Household debt remains high but the share of lending to the vulnerable lower income group has declined, and BNM opined that macro-prudential measures remain instrumental towards maintaining property sustainability. The KLCI ended the month higher at 1,717.6 points up 3.8%. The broader market underperformed the KLCI as the FBM Emas Index gained 3.64%. The FBM Small Cap Index gained 3.25%. Average value traded on Bursa in March rose 15% mom to RM2.15bn.
- ▶ The sector indices on the local bourse closed higher for March with the best performing sectors being Construction (7.25%) as a slew of contracts were announced, and Property (5.49%), with big cap Finance Sector gaining 5.33%. The sectors that performed the worst were Industrial production (-0.14%), and Technology (0.18%).

OUTLOOK

- ▶ We are expecting global monetary policy to remain in focus in 2016, and markets are likely to remain volatile with investors second guessing the timing of policy events as they did for most of 2015. Expectations for the US rate hike in 2016 have been tampered down to either 1-2 hikes in 2H 2016 from initially 4 hikes. This could be further complicated by the UK's referendum in June on the whether to leave the European Union or not, which polls seem to indicate it is fairly divided. The US Presidential race thus far has surprised investors given Trump's popularity which may have implications on whether the TPPA will be ratified should he be elected President. The robust supply of oil indicates that the recent rally cannot last, but we may have seen the bottom already. Crude palm oil prices have also been boosted due to the El Nino phenomenon's impact on production.
- ▶ On a macro level for Malaysia, we remain relatively cautious as we continue to expect a challenging environment for the Malaysian economy in 2016. The strength in the MYR may continue in the short term, but may not be as sustainable with the supply of oil still an issue, the US still likely to hike rates in the 2H 2016, and with about one month till the end of Governor Zeti's term, the government still has not announced her successor. Weak consumer demand and the repercussions of ongoing cost cutting measures which include retrenchment of staff will continue to affect consumer sentiment. Despite recent negative international media coverage on Malaysia in regards to 1MDB, the Malaysian equity bourse has held up well, but trades at expensive valuations.
- ▶ Despite the lack of macro catalysts, any correction in the market would serve as an opportunity to accumulate fundamentally strong stocks on weakness.

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INDEX PERFORMANCE & MOVERS



Source: Bloomberg

Indices	Last Price		MoM Changes	
	29-Feb-16	31-Mar-16	+/-	%
FBMKLCI	1,654.75	1,717.58	62.83	3.80%
FBMMES	5,702.03	5,636.98	-65.05	-1.14%
FBM100	11,207.93	11,618.94	411.01	3.67%
FBM70	12,810.57	13,227.78	417.21	3.26%
FBMSCAP	15,118.90	15,609.69	490.79	3.25%
FBMEMAS	11,501.97	11,920.78	418.81	3.64%
FBMSHA	12,249.24	12,498.31	249.07	2.03%
FBMHJRAH	13,686.57	13,989.33	302.76	2.21%
MSCI APxJ	374.72	417.11	42.39	11.31%

Source: Bloomberg