

# MARKET COMMENTARY

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Our funds remain defensively positioned.

The postponement of the US rate hike is a temporary reprieve for the Ringgit. Sustained momentum needs to come from an improvement in Malaysia's economic fundamentals.

We continue to look for opportunities to buy quality names in periods of market weakness.

## OUR HOUSE VIEW

### Short-Term Reprieve from a Consolidating US Dollar Supporting a Technical Market Rebound

- US Federal Reserve Chairman Janet Yellen has repeatedly guided the market for a benign interest rate upcycle. However, recent subdued US economic data points and emerging market uncertainties have put a US interest rate hike in December 2015 at risk, supporting a recovery in Asian currencies.
- Monetary easing and counter cyclical economic measures are now being rolled out by a number of Asian governments to support their economies. These measures will take time to show results but we expect economic condition to be a progressive improvement through the course of the year 2016.
- The decline in Asian markets has brought valuations to levels that are comparable to past trough cycles. While we remain cautious, we are looking for opportunities to accumulate quality names at attractive valuations for the medium to long-term.
- In the short to medium term, Malaysia's benchmark index is expected to remain volatile against the backdrop of uncertainties surrounding the local equities market especially in relation to the current political turmoil.

## PERFORMANCE OF KEY INDICES

FIGURE 1

	1 MONTH (% CHANGE)	2015 (% CHANGE)	PER 2015
DOW JONES	-1.5	-8.6	14.9
NASDAQ	-3.3	-2.5	27.5
DAX	-5.8	-1.5	16.0
KLCI	0.5	-8.0	17.5
USD / MYR	-4.8	-20.2	-

SOURCE: BLOOMBERG (AS AT 13/10/2015)



CARTOON BY: B. RICH, HEDGEYE

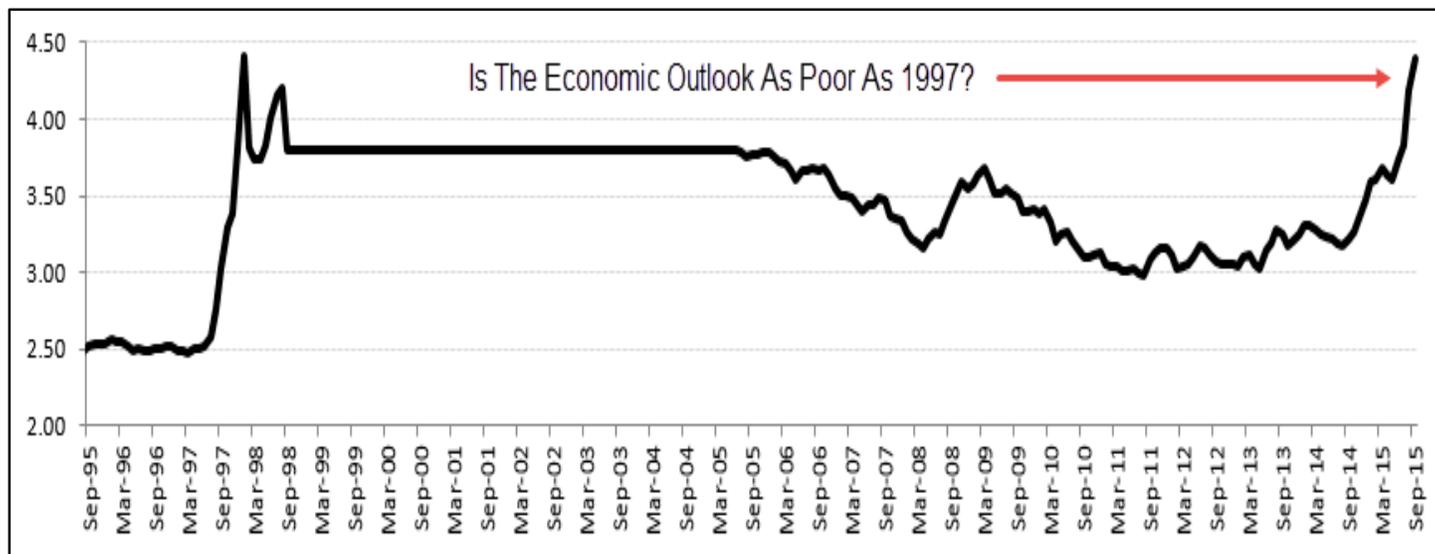
## BETWEEN A WEAKER RINGGIT OR HIGHER INTEREST RATES

Faced with FX reserves falling below US\$100 million and the bout of competitive currency easing across the Asian region, Bank Negara abandoned its currency defense, opting to let the Malaysian Ringgit follow regional currencies weaker.

As macro-economic momentum continues to deteriorate, putting further pressure on the Malaysian Ringgit, the question may become how weak is the tolerable level before Bank Negara steps in to hike interest rate and support the currency.

The delay in the US Fed rate hike cycle will be a short term reprieve for the Malaysian Ringgit. Directionally, the uptrend of a stronger US Dollar remains intact though interestingly, the Malaysian Ringgit is right at the level during the 1997 Asian Financial Crisis where then Prime Minister Dr. Mahathir pegged the cross rate to MYR3.80/US\$.

FIGURE 2:



SOURCE: IMF/ WORLD BANK/ BANK NEGARA/ MAYBANK KE

Fundamentally speaking, our economic health is relatively better than in 1997. There is justification for a stronger currency. However, we are also facing unprecedented political uncertainty.

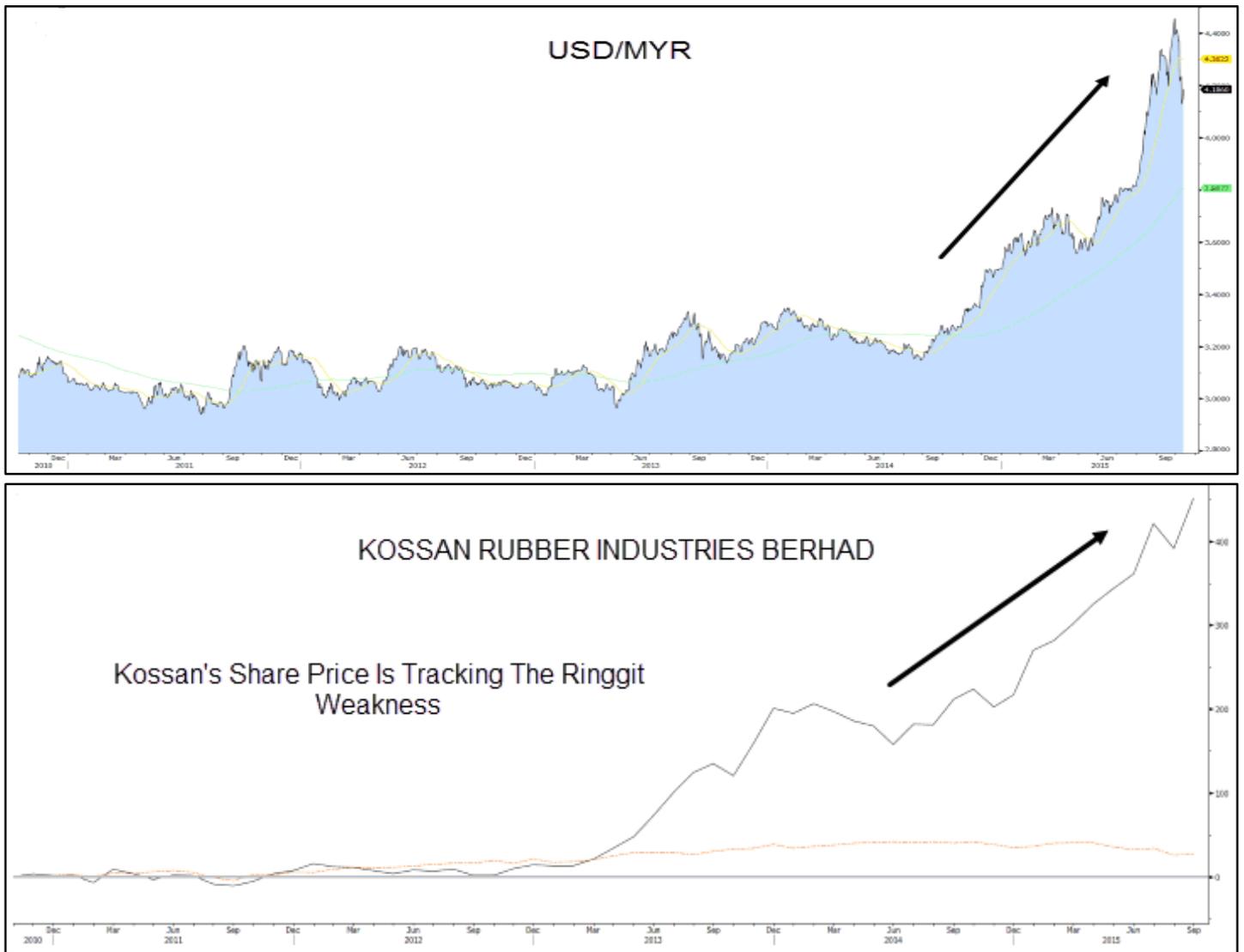
## WE CONTINUE TO LIKE EXPORTERS

We expect a persistently stronger US Dollar. We also see the likelihood of a long-drawn political uncertainty. Taking these factors into consideration, we expect our multi-year upcycle theme for export oriented industries to remain intact. We prefer well managed companies that are already competent and will be ready to capitalize on this competitive advantage.

We like the rubber glove sector. Not only has demand for rubber gloves grown at a steady pace, but demand has also become less sensitive to price increases, driven by rising ageing population, increasing healthcare spending, and generally more hygiene awareness from the emergence of pandemics.

In the case of Kossan, management has focused on both R&D and production process optimization, introducing innovative and better quality products at lower costs and competitive prices. The currency benefit is an added bonus.

FIGURE 3:



SOURCE: BLOOMBERG (AS AT 13/10/2015)

## PLAY ON USD STRENGTH – SELECTED HOLDINGS

FIGURE 4

STOCKS	BLOOMBERG TICKER	PRICE (RM)	PER 2015	EPS (\$) 2015	GROWTH (%) 2015	P/BVPS 2015	DY (%) 2015
KOSSAN	KRI MK EQUITY	8.09	25.4	0.3	14.8	5.5	1.0
MISC	MISC MK EQUITY	8.84	16.1	0.5	5.7	1.3	1.5

SOURCE: BLOOMBERG CONSENSUS DATA (AS AT 13/10/15)

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