MARKET COMMENTARY

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CONTRIBUTOR:

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We remain cautious on stock markets but incrementally positive after the stock market sell-off.

Having benefitted from our defensive position, we will take opportunities of weakness in the stock markets to add to our portfolios.

CARTOON BY: INKCINCT

OUR HOUSE VIEW

Emerging Policy Clarity Clears Market Uncertainty

- The drag-out of the lift-off in US interest rate has been a bugbear for the stock market. Notwithstanding a hike in December 2015, the US Fed has continued to guide for a benign upcycle in Fed fund rate. A hike will be an endorsement of a sustainable recovery path for the US economy, but more importantly, the removal of a major uncertainty for the stock market.
- Equally important for Asia, China's economic growth projection of 6.5% annually for the next five years has now been anchored lower on more realistic grounds. Much uncertainty has been removed and that should allow the stock market to move forward.
- We continue to see more stimulus measures from Asian countries aimed at supporting near-term economic momentum. We are cautiously optimistic of an improvement in economic performance for 2016.
- Fund flows have started to trickle back to the Asian stock markets. Improving economic data-points should continue to sustain the stock markets.
- Historically, in the month of November, the main index declined 12 of the past 20 years but average return was flat. However, this would be offset by the year-end window dressing rally. December enjoyed the best average gain of 2.98% with the index rising 17 of the past 20 years.

PERFORMANCE OF KEY INDICES

FIGURE 1

	AS AT 30.10.15	1 MTH (% change)	YTD 2015 (% change)	PER 2015
D. JONES	17,663.5	8.5	-0.9	16.0
NASDAQ	5,053.8	9.4	6.7	30.1
DAX	10,850.1	12.3	10.7	19.7
KLCI	1,665.7	2.8	-5.4	17.5
USD / MYR	4.30	2.2	-18.5	-

SOURCE: BLOOMBERG (AS AT 30/10/2015)

JOYOUS END TO THE YEAR FOR THE STOCK MARKET?

The year-end festive season is a time to be looking positive.

We have taken a look at history going back 20 years and indeed, the performance of our FBM KLCI has been much more stellar in the months of October, November, and December, sustaining into January and February of the following year.

FIGURE 2: THE EVIDENCE OF YEAR-END WINDOW DRESSING

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	4Q Return
Avg Return %	(0.12)	3.05	(0.69)	0.16	(0.11)	(0.81)	0.04	(3.65)	(1.31)	0.79	(0.06)	2.98	3.70
Gain	11	13	10	11	11	12	10	6	10	15	8	17	14
Loss	9	7	10	9	9	8	10	14	10	5	12	3	6
Total	20	20	20	20	20	20	20	20	20	20	20	20	20
Gain Ratio	0.55	0.65	0.5	0.55	0.55	0.6	0.5	0.3	0.5	0.75	0.4	0.85	0.7
Loss Ratio	0.45	0.35	0.5	0.45	0.45	0.4	0.5	0.7	0.5	0.25	0.6	0.15	0.3

SOURCE: AISB RESEARCH

Not only have returns been generally positive but the hit rate has been consistently high in the period of analysis. In particular, the month of December over the past twenty years produced a return of 2.98% on average, with 17 of those 20 years producing positive returns.

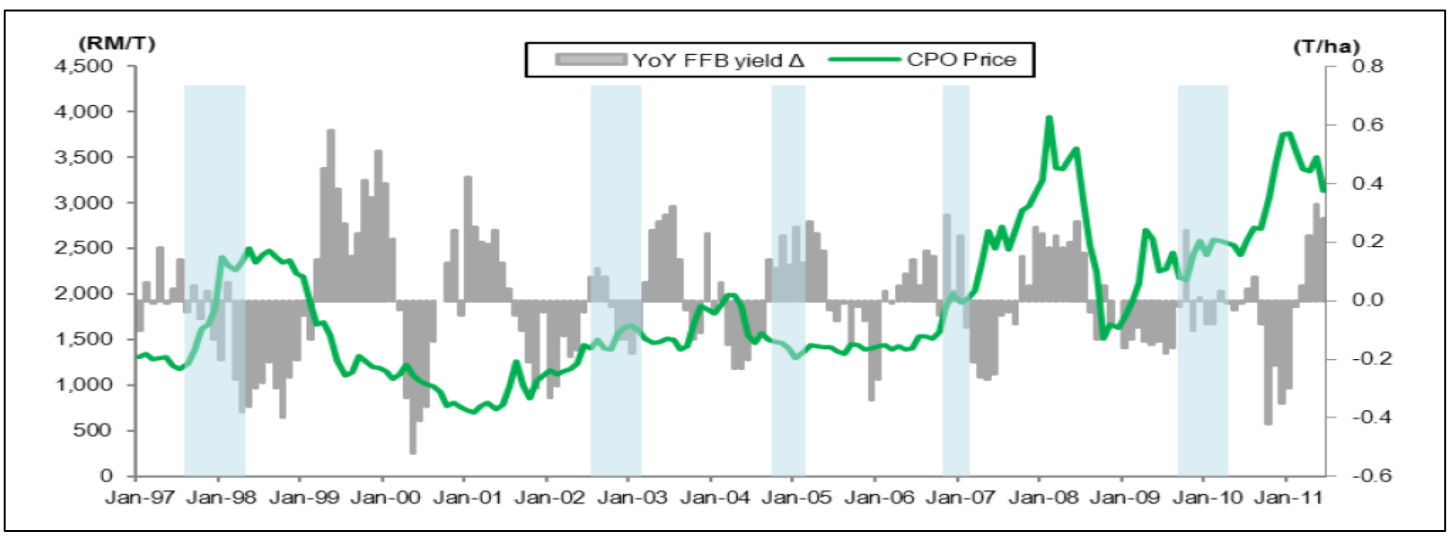
If you missed the stock market recovery in October, historically, the stock market consolidation in November has generally been a good opportunity to build positions.

HERE COMES EL-NINO

El-Nino occurrence is the prolonged warming in Pacific Ocean sea surface temperature when compared to the average. In this part of the world, El-Nino is characterized by extensive dry spells, putting stress on crops and causing a stunt in growth.

El-Nino occurs at irregular intervals of 2 to 7 years with its development and strength very difficult to predict until it has started. However, once confirmed, the effect last anywhere from 9 months to 2 years. It has now been confirmed that El-Nino 2015-2016 will be as serious as the one experienced last in 1997-1998.

FIGURE 3: THE IMPACT OF EL-NINO FALLING YIELDS AND RISING PRICES



SOURCE: MPOB, CREDIT SUISSE

FIGURE 4: EL-NINO IS SAID TO BE AS BAD AS 1997-1998

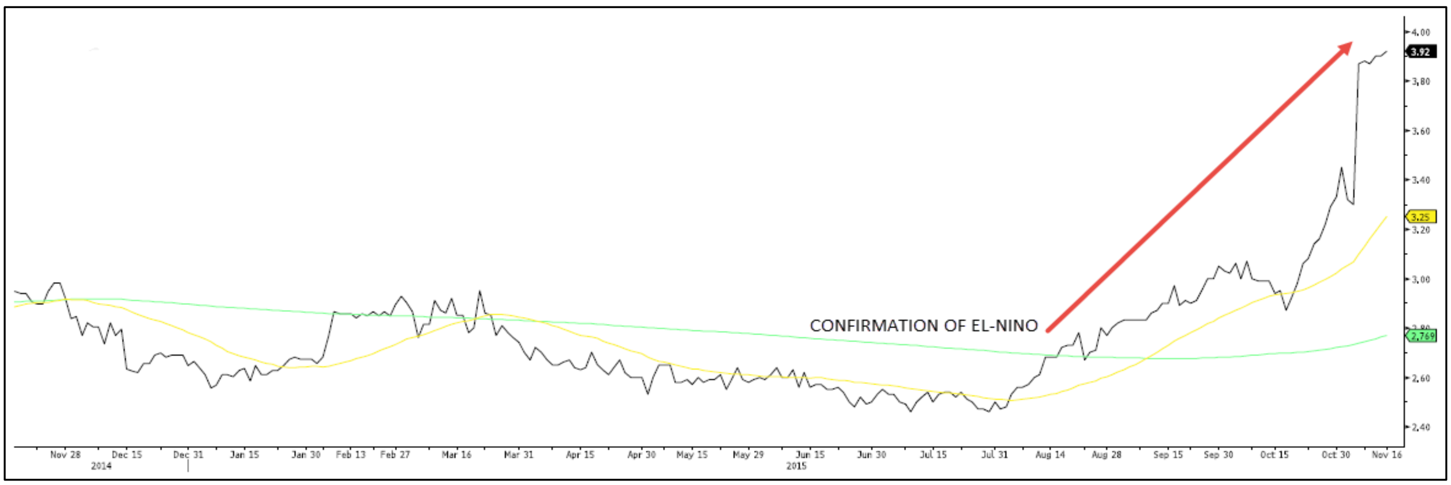
El Niño	CPO price	RM/tonne	KLPLN	
1997-98	CPO trough	1,159	KLPLN trough	9%
STRONG	CPO peak	2,604	KLPLN peak	31%
	Δ	125%	Δ	22%
1994-95	CPO trough	1367.0	KLPLN trough	-3.6%
MODERATE	CPO peak	1838.5	KLPLN peak	21.7%
	Δ	35%	Δ	25%
2002-03	CPO trough	1,315	KLPLN trough	-1%
MODERATE	CPO peak	1,701	KLPLN peak	22%
	Δ	29%	Δ	23%
2009-10	CPO trough	2,089	KLPLN trough	-8%
MODERATE	CPO peak	2,682	KLPLN peak	1%
	Δ	28%	Δ	9%
2004-05	CPO trough	1,481	KLPLN trough	-1%
WEAK	CPO peak	1,583	KLPLN peak	5%
	Δ	7%	Δ	6%
2006-07	CPO trough	1,516	KLPLN trough	5%
WEAK	CPO peak	2,000	KLPLN peak	28%
	Δ	32%	Δ	23%

EL-NINO UPGRADE

SOURCE: CREDIT SUISSE, USDA, MPOB

One particular industry that will be affected by El-Nino is the palm oil industry. Production disruptions translate into lower yields and therefore higher prices 12 months later. Indonesia's biodiesel program has also kicked off and if successfully executed should absorbed 14% of Indonesia's and 7% of the global supply. Palm oil prices have started to pick up and that has been reflected in the share prices of plantation stocks.

FIGURE 5: KULIM'S SHARE PRICE (1 YEAR)



SOURCE: BLOOMBERG (AS AT 16/11/15)

SELECTED HOLDINGS

FIGURE 6

STOCKS	BLOOMBERG TICKER	PRICE (RM)	PER 2015	EPS ($) 2015	GROWTH (%) 2015	P/BVPS 2015	DY (%) 2015
IJM PLANTATION	IJMP MK EQUITY	3.65	26.1	0.1	32.7	1.9	1.6
KULIM	KUL MK EQUITY	3.87	77.4	0.1	59.3	1.3	12.2

SOURCE: BLOOMBERG CONSENSUS DATA (AS AT 06 /11/15)

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