

# MARKET COMMENTARY

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## CONTRIBUTOR:

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Equity markets have recovered strongly from the beginning of the year sell-off. There have been some fundamental justification for this recovery.

Sustainability of this recovery hinges on further improvement in our economy. If so, we may just be at the beginning stage.

## OUR HOUSE VIEW

### Market Crossroad, Asian Fundamentals Improving

- The strong rebound in equity markets have brought indices to technical resistance levels. In particular, the US equity market appears vulnerable with macro data-points pointing to modest growth even if the concern is balanced out by a benign interest rate normalization cycle.
- In Asia, China's foreign reserves increased in March. Also, the improvement in various macro indicators points to a stabilization in China's economic environment even if investors are yet convinced of a recovery. Sustained improvement will be a key sentiment driver for Asian economies as well as equity markets.
- Ringgit and KLCI strength were due to the inflow of China funds and the Fed Chairman's affirmation of a gradual approach to Monetary tightening.
- Nevertheless, the short term outlook remains challenging with question marks on China's recovery and the sustainability of crude oil prices. To top it all, the current valuation of the KLCI is not relatively cheap against its regional peers.

## PERFORMANCE OF KEY INDICES

FIGURE 1

	AS AT 31.03.16	1 MTH (% change)	YTD 2016 (% change)	PER 2016
D. JONES	17,685.1	7.1	0.5	16.9
NASDAQ	4,869.9	6.8	-3.9	31.5
DAX	9,965.5	5.0	-7.2	21.0
KLCI	1,717.6	3.8	1.4	18.6
USD / MYR	3.90	-7.2	9.1	-

SOURCE: BLOOMBERG (AS AT 31/03/2016)

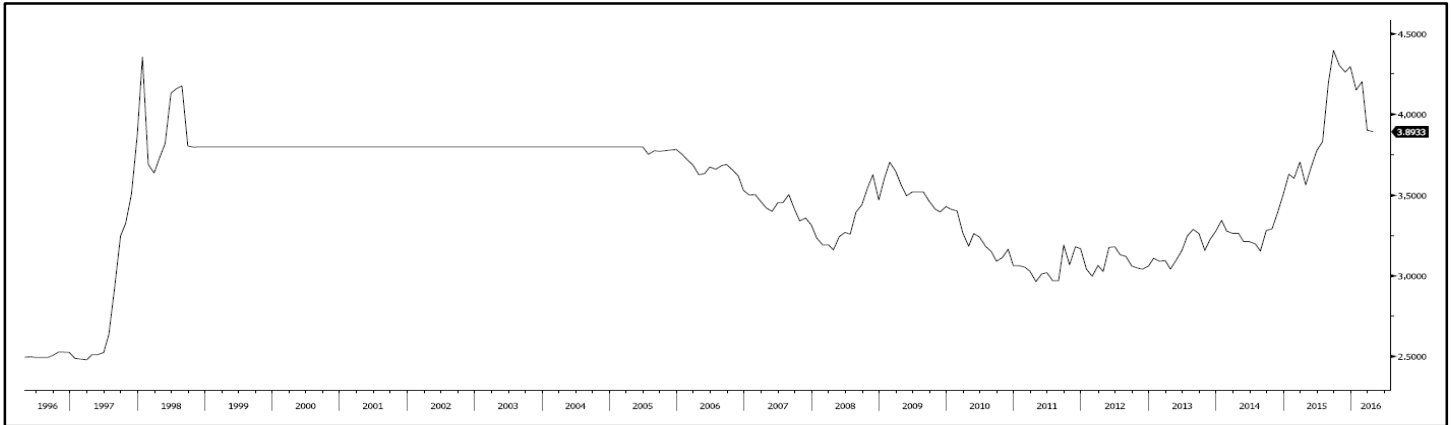


CARTOON BY: HEDGEYE

## WILL THE KLCI FOLLOW THE STRENGTH OF THE MALAYSIAN RINGGIT?

Our contrarian view for a stronger Malaysian Ringgit has been extensively discussed in past Issues 1, 2, 3, 5, 7 and 8 of our newsletter. This view has also been the driving force behind the change in investment position, from US Dollar benefitting exporters to domestic consumption plays, for our portfolios.

**FIGURE 2: USD/MYR CHART (1996 – 2016)**



SOURCE: BLOOMBERG (AS AT 20/04/2016)

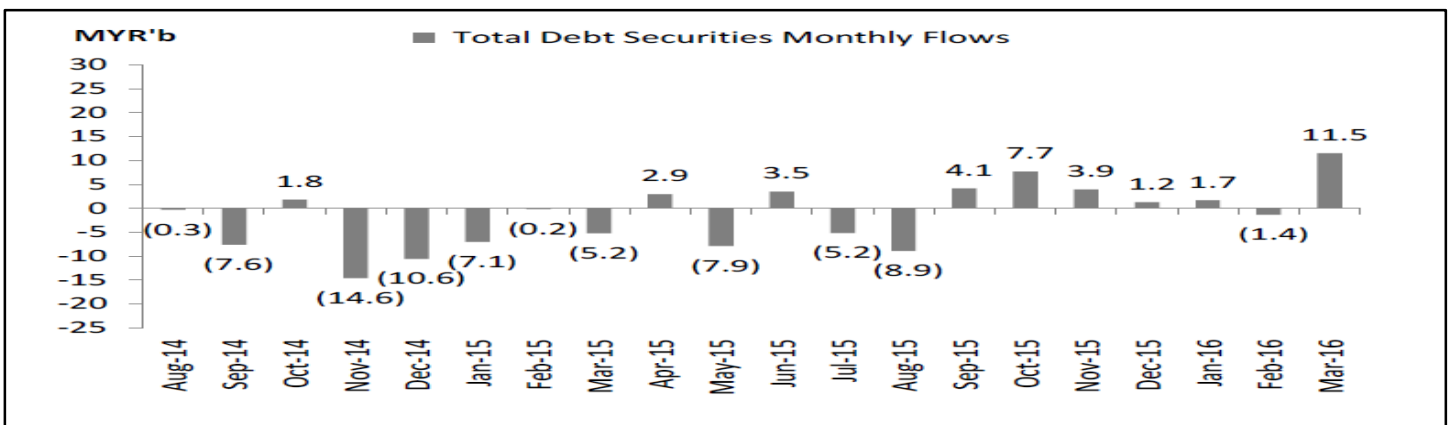
The reasons for our view are simple; (1) Prime Minister Najib appears to have consolidated his position, (2) the sale of 1MDB assets to foreign investors have alleviated the concerns of a potential debt hole, and (3) the recently calibrated Budget brought into alignment a more realistic fiscal deficit.

It is no wonder that the Malaysian Ringgit has overtaken Indonesia as Asia's best performing currency!

### Returning Foreign Interest Has Largely Flowed Into Fixed Income

In March 2016, Malaysia's debt markets experienced inflows of RM11.5bn, vs RM1.4bn of outflows in February, which makes it the largest monthly inflow since May 2014.

**FIGURE 3: TOTAL DEBT SECURITIES – MONTHLY INFLOWS/OUTFLOWS**

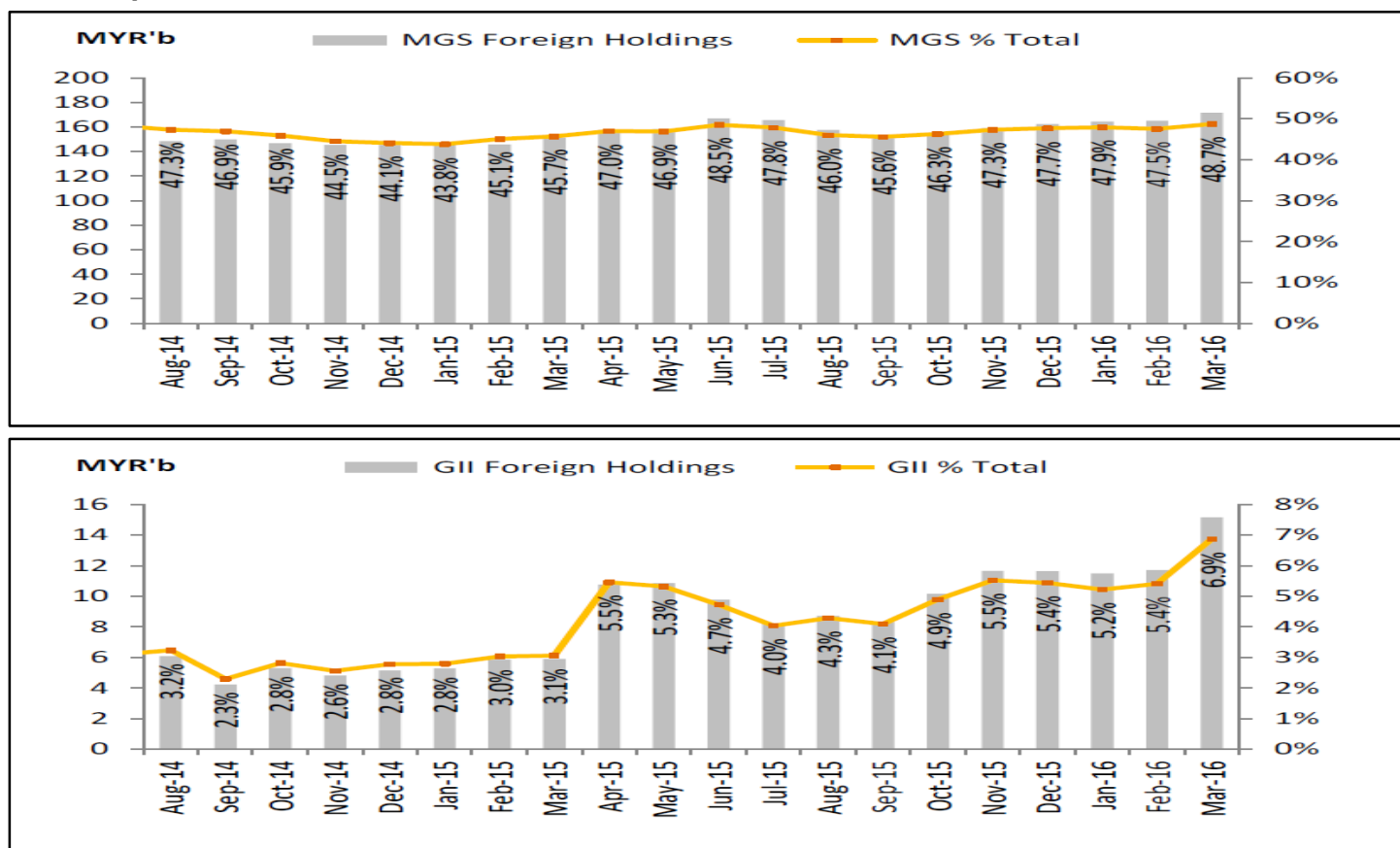


SOURCE: BANK NEGARA MALAYSIA, CEIC, MAYBANK IB

More importantly, foreign investors have been buyers since the beginning of the year, but particularly so in the month of March, increasing the holdings of Malaysian government bonds by RM10bn, the largest monthly increase since April 2015.

Foreign ownership as a percentage of outstanding rose to 48.7% for Malaysia Government Securities (MGS), the highest since the taper tantrum and 6.9% for Government Investment Issues (GII), the highest level in the past ten years!

FIGURE 4: MGS & GII – FOREIGN HOLDINGS LEVEL



SOURCE: BANK NEGARA MALAYSIA, CEIC, MAYBANK IB

**Further Interest Expected To Broaden Through To The Equity Market**

Foreigners have been sellers of the Malaysian equity market for two years in a row, 2014 and 2015. Understandably, there had been fundamental reasons for staying away.

FIGURE 5: NET FOREIGN BUYING



SOURCE: MALAYSIA STOCK EXCHANGE, CREDIT SUISSE

However, in 2016 year-to-date, Malaysia has benefited from returning foreign interest. Year-to-date net foreign buying is US\$1.5bn, surpassing inflows into larger equity markets such as India and Korea. Nonetheless, foreign investors are still underweight Malaysia. We expect this foreign interest to sustain.

## SELECTED HOLDINGS

FIGURE 6

STOCKS	BLOOMBERG TICKER	PRICE (RM)	PER 2016	EPS (\$) 2016	GROWTH (%) 2016	P/BVPS 2016	DY (%) 2016
TNB	TNB MK EQUITY	14.40	11.65	1.24	14.81	1.55	2.01
GENTING BHD	GENT MK EQUITY	8.99	19.05	0.47	26.54	1.01	0.33
GENTING M'SIA	GENM MK EQUITY	4.50	18.91	0.24	7.21	1.38	1.40

SOURCE: BLOOMBERG CONSENSUS DATA (AS AT 19/04/2016)

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