

# MARKET COMMENTARY

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Our last newsletter of 2016 painted a cautiously optimistic view of a turnaround for Malaysia.

In this issue, we further expound on the fundamental reasons why we should remain constructive on our positioning into 2017.

## OUR HOUSE VIEW

### Maintaining Our Positive Stance on Asian Equity Markets

- January 2017 has kicked off on a positive note. Market movements across asset classes have been extreme after Donald Trump's US Presidential victory, in particular the dichotomous direction of the US equity market to Asia's. Trump's inauguration on 20<sup>th</sup> January 2017 could potentially lead to a bout of profit taking.
- The fundamental investment case for Asia remains as it is; irregardless of anti-trade rhetoric, the underlying economic recovery is still in place and gaining momentum. Currency cross-rates were largely undermined by the relative perception of the US Dollar strength. At some point, our own strong economic fundamentals should reflect on our currencies.
- Fast money has heightened volatility in Asian equity markets. Stability should eventually lend support to returning interest for Asian equity markets.
- Likewise, Malaysian equities have tracked the positive sentiment on emerging markets in 2017. There are good reasons to be cautiously optimistic on the equity market again following a period of disappointment that saw the KLCI registered a 3<sup>rd</sup> year of consecutive negative returns.

## PERFORMANCE OF KEY INDICES

FIGURE 1

	AS AT 31.12.16	1 MTH (% change)	YTD 2016 (% change)	PER 2016
D. JONES	19,762.6	3.3	12.3	18.8
NASDAQ	5,383.1	1.1	6.3	34.5
DAX	11,481.1	7.9	6.9	18.2
KLCI	1,641.7	1.4	-3.0	16.7
USD / MYR	4.49	0.5	4.5	-

SOURCE: BLOOMBERG (AS AT 31/12/2016)



CARTOON BY: HEDGEYE

## GLOBAL ECONOMIC IMPROVEMENT TO LIFT ALL BOATS

It makes for an interesting study that even as the Malaysian Ringgit came under significant depreciating pressure following Donald Trump's shocking win at the US Presidential Election, this tied in with a period of relatively good equity market performance into December 2016, even if part of the reason is due to year-end window dressing activities.

The question we need to ask ourselves is whether if this weakness in the Malaysian Ringgit is a reflection of deteriorating fundamentals. Our conclusion is that while the Malaysian Ringgit depreciated more than most other Asian currencies, the cross-rate movements are more a reflection of the relative expectations on the part of a stronger US economy and US Dollar.

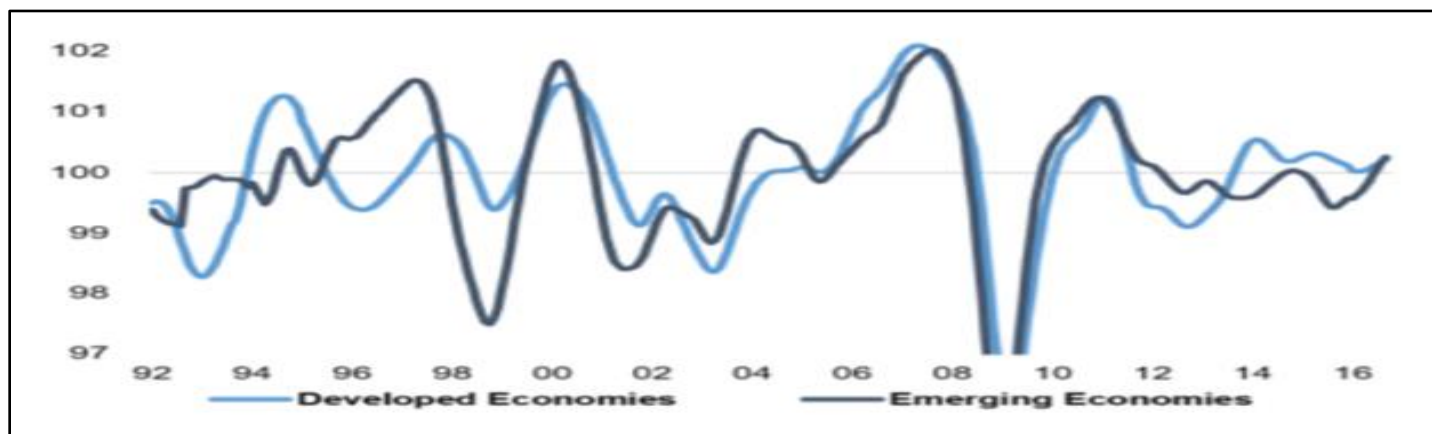
What is encouraging will be that the improvements in fundamentals remain intact and therefore there is a likelihood that the Malaysian Ringgit may be due for a reprieve.

We do acknowledge that there remains a dire need to address many structural deficiencies to make for a sustainably stronger Malaysian economy but tactically and in the shorter-term, there are reasons to hope for some bottom from hereon.

### The Reasons Why We Are Cautiously Optimistic

Resynchronization of global economic growth is positive for a Malaysia with high dependency on trade for growth.

**FIGURE 2: EM vs DM LEADING ECONOMIC INDICATORS**

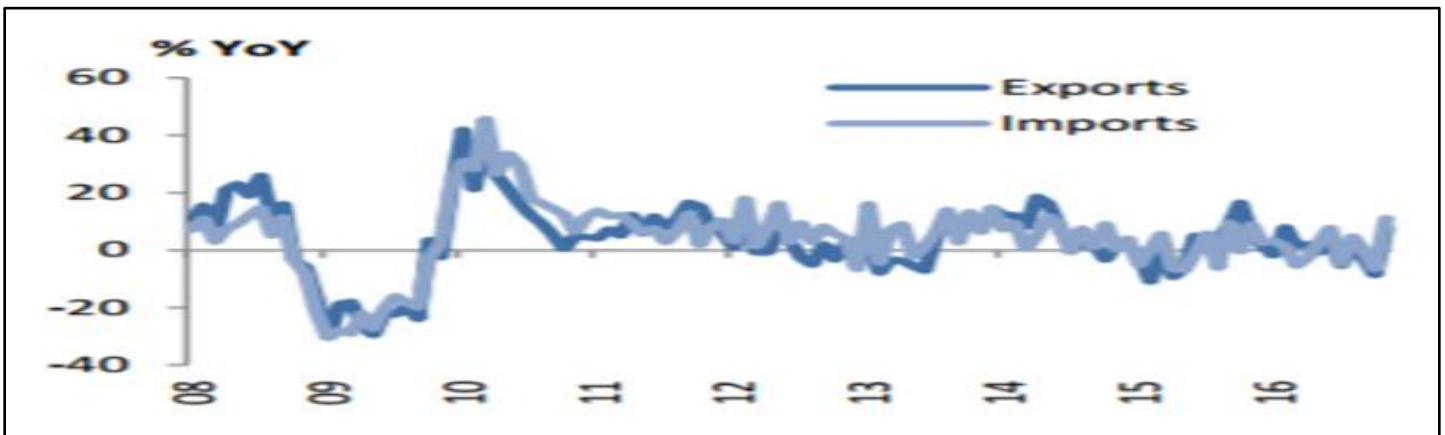


<i>Ranked from most to least vulnerable</i>	<b>Manufacturing Exports as % Total Exports</b>	<b>Manufacturing Value Added % GDP</b>	<b>Exports as % GDP</b>
<b>CNY</b>	94.3	29.7	22.1
<b>KRW</b>	89.6	29.5	45.9
<b>THB</b>	77.8	26.9	69.1
<b>SGD</b>	77.0	19.8	176.5
<b>PHP</b>	84.8	20.1	28.2
<b>MYR</b>	66.9	22.8	70.9
<b>VND</b>	76.3	13.7	89.8
<b>JPY</b>	88.0	18.7	17.9
<b>HKD</b>	65.7	1.2	201.6
<b>IDR</b>	40.9	20.8	21.1
<b>INR</b>	70.6	16.2	19.9

SOURCE: TOPDOWN CHARTS, DATASTREAM, OECD, DEUTSCHE BANK & WORLD BANK DEVELOPMENT INDICATORS

On top of a growing market pie, the weakness of the Malaysian Ringgit will make Malaysia even more competitive, as evidenced by the rebound in exports kicking through.

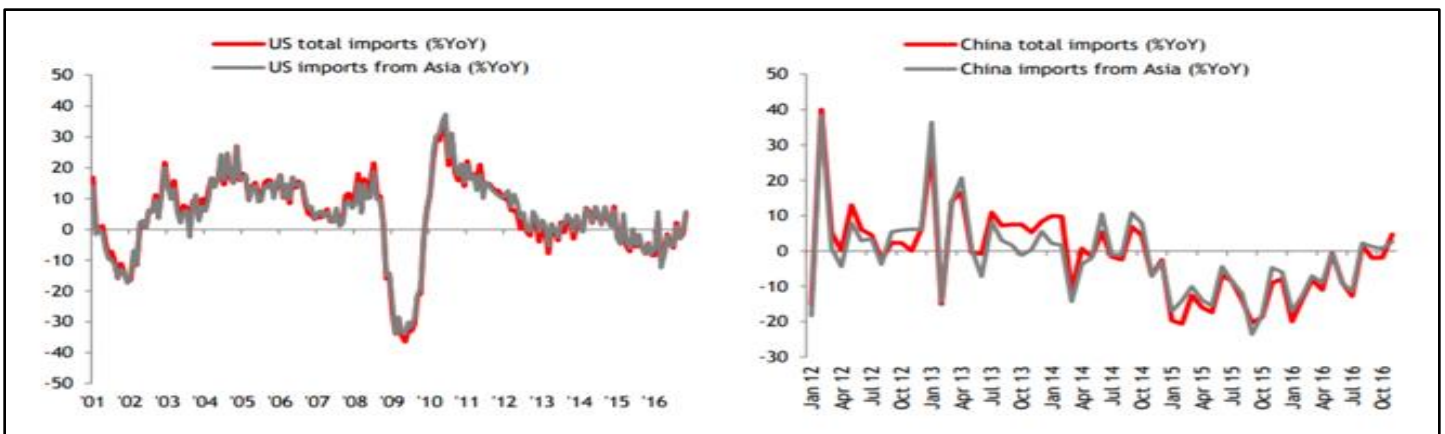
FIGURE 3: EXPORTS & IMPORTS



SOURCE: BLOOMBERG & RHB

Which is consistent with recoveries in two of the world's largest economies.

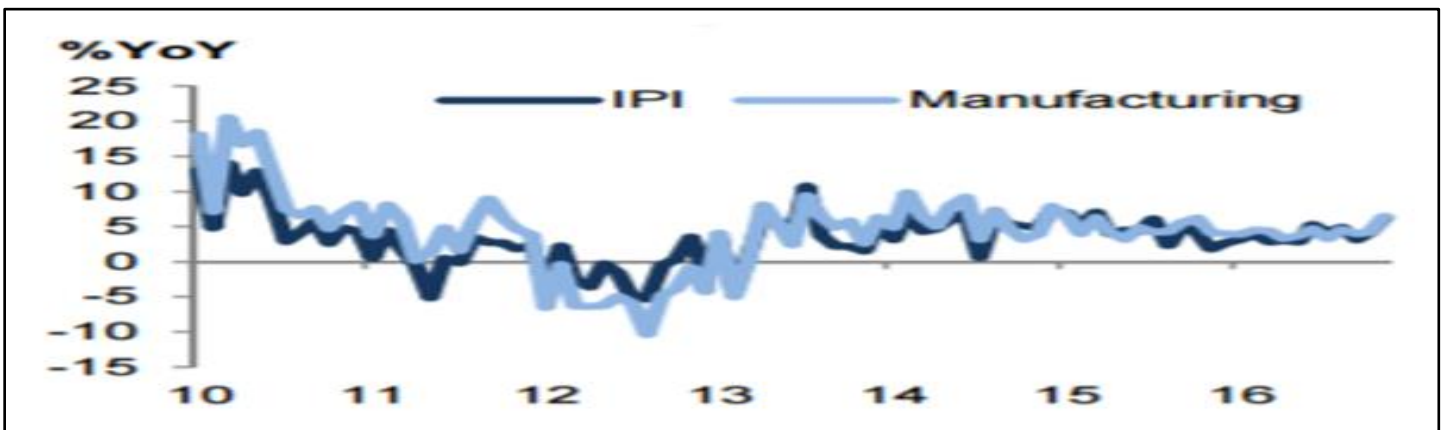
FIGURE 4: US IMPORTS ARE FINALLY PICKING UP & CHINA IMPORTS ARE ALSO IMPROVING



SOURCE: CEIC & MAYBANK KE

A pickup in industrial production portends to continuing momentum on the trade front.

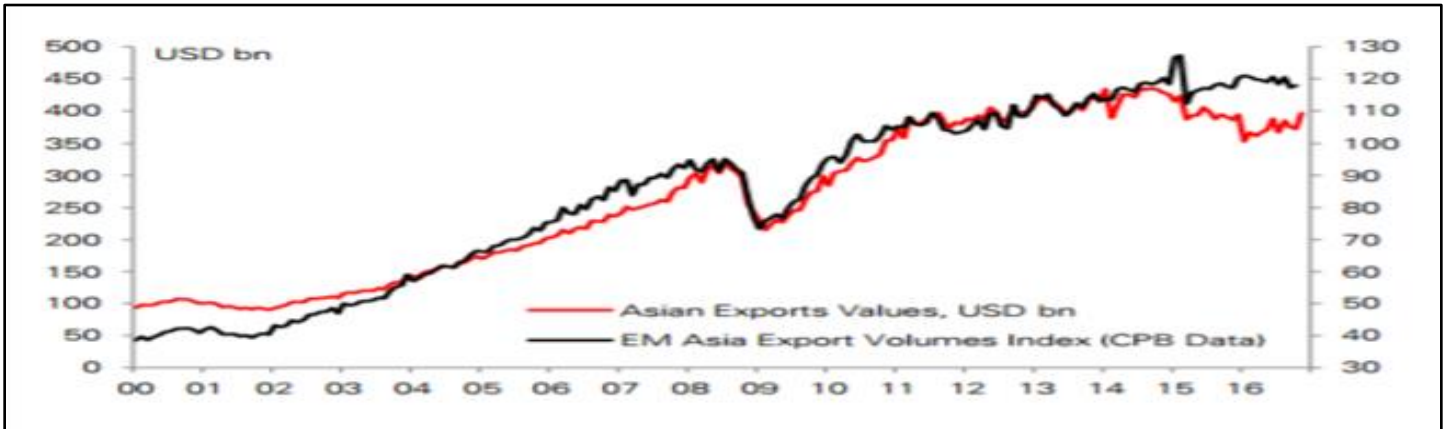
FIGURE 5: IPI & MANUFACTURING



SOURCE: BLOOMBERG & RHB

This is potentially a virtuous scenario of reflationary forces adding to the turnaround in demand. The yoy improvement from a depressed price environment can be doubly significant.

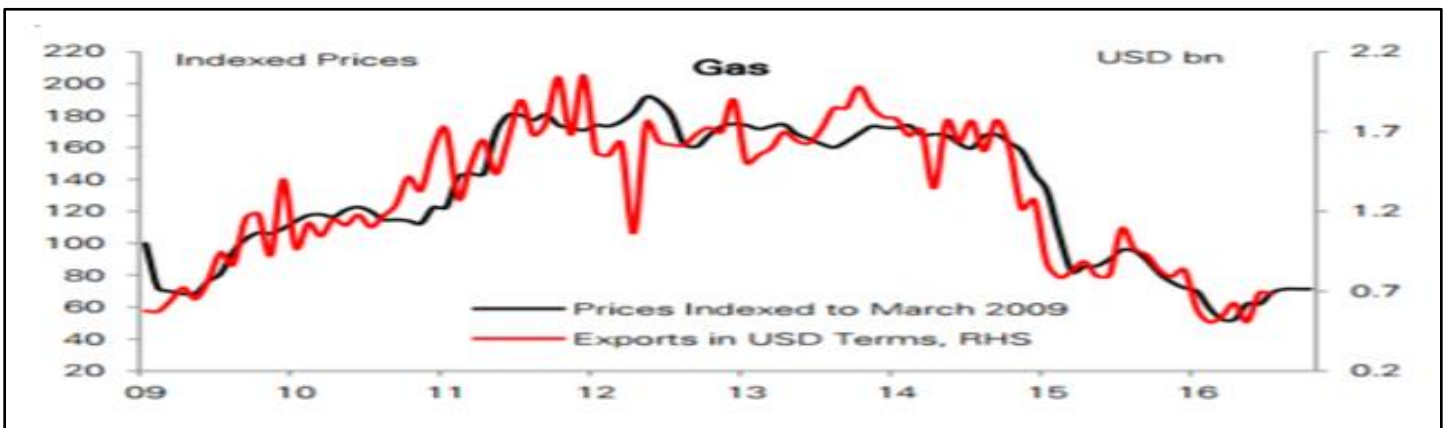
**FIGURE 6: EXPORT VALUES HAVE FALLEN A LOT MORE THAN VOLUMES DUE TO THE COMMODITY PRICE EFFECT**



SOURCE: DEUTSCHE BANK, CPB, & HAVER ANALYTICS

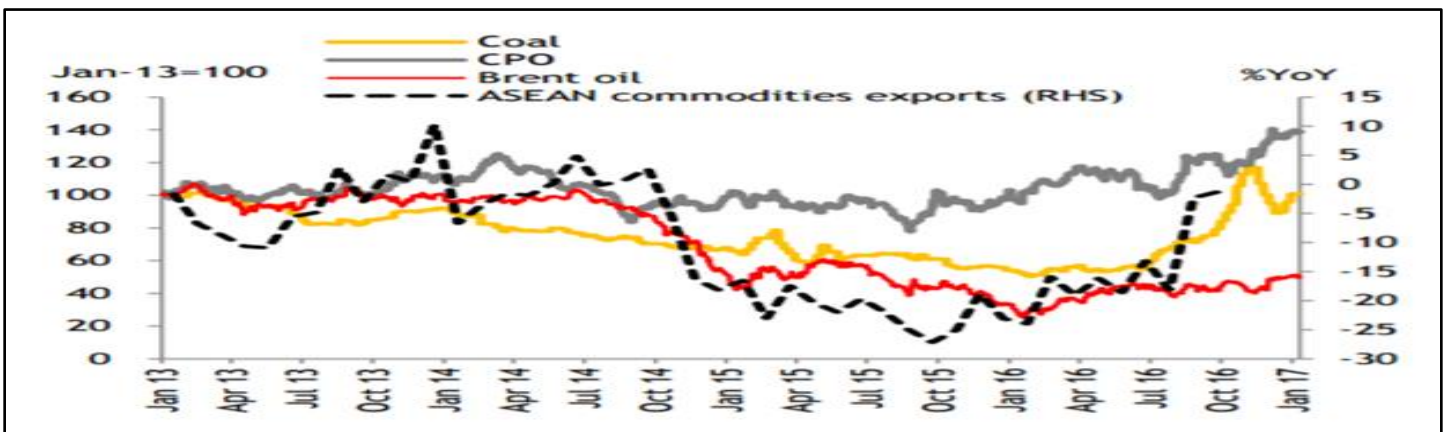
A sustainable oil price, as do crude palm oil, key export sectors for Malaysia, will also arrest capital deterioration, with the budget premised on a US\$45/barrel oil price, another reason for hope.

**FIGURE 7: THE TURN HIGHER IN ENERGY PRICES MIGHT HELP TO ARREST THE RELENTLESS COMPRESSION IN MALAYSIA’S CURRENT ACCOUNT**



SOURCE: DEUTSCHE BANK & HAVER ANALYTICS

**FIGURE 8: HIGHER COMMODITY PRICES LIFTING ASEAN COMMODITY EXPORTS**



SOURCE: BLOOMBERG, CEIC, & MAYBANK KE

## SELECTED HOLDINGS

FIGURE 9

STOCKS	BLOOMBERG TICKER	PRICE (RM)	PER 2017	EPS (\$) 2017	GROWTH (%) 2017	P/BVPS 2017	DY (%) 2017
GENTING BHD	GENT MK EQUITY	8.38	15.40	0.54	21.16	0.87	0.42
GENTING MALAYSIA BHD	GENM MK EQUITY	4.73	16.25	0.29	14.57	1.29	1.54

SOURCE: BLOOMBERG CONSENSUS DATA (AS AT 16/01/2017).

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