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GAINS MAY BE SUSTAINED

SHARES in the property and construction sectors rallied last week on speculation major infrastructure developments and policy tweaks could benefit these sectors. This was supported by the firm regional tone on hopes China's measures to stimulate its stock market and economy will spill over into the region.

While investors reduced trading commitments ahead of the National Day holiday, technology, property and construction sectors stayed resilient to outperform the broader market.

For the week, the blue-chip benchmark FTSE Bursa Malaysia KLCI (FBM KLCI) rose 19.02 points, or 1.32 per cent, to 1,463.43, as gains on Public Bank (+16 sen), CIMB (+13 sen), Maybank (+13 sen), Petronas Chemicals (+22 sen) and Petronas Dagangan (+RM1.36) overcame falls on Axiata (-9.0 sen) and IHH Healthcare (-9.0 sen).

Average daily traded volume last week surged to 4.51 billion shares, compared with 3.42 billion shares the previous week, while average daily traded value rose to RM3.38 billion, against the RM2.14 billion average the previous week.

Last Friday's rally pushed up the FBM KLCI slightly above the pre-state election closing of 1,457.16. But it was still 2.9 per cent below end-2022's 1,495.49.

Apart from domestic issues, uncertainties created by the aggressive monetary tightening in the United States and the softer-than-expected economic growth in China contributed to the weaker market sentiment. The huge interest rate differential between the US and Malaysia (5.5 per cent versus 3.0 per cent) and the stronger outlook for the US dollar versus the ringgit have also contributed to the exodus of foreign funds from Malaysian shores.

Market expectations are rising for the government to focus on economic matters and introduce roadmaps to achieve targets under the Madani Economy framework. Initiatives announced so far were encouraging, with various long-term plans such as the National Energy Transition Roadmap and New Industrial Master Plan (NIMP). In fact, the launch of the NIMP last Friday was a key factor for the FBM KLCI's strong performance.

Measures taken to achieve these long-term targets will benefit various economic sectors and bode well for corporate Malaysia.

This is crucial as corporate earnings of companies listed on

FBM KLCI



Bursa Malaysia have failed to excite for many quarters. In the recently concluded second-quarter results reporting season, core earnings of 107 stocks that are being monitored contracted by 3.6 per cent year-on-year versus +0.5 per cent year-on-year in the first quarter due to weaker demand, higher operating cost and lower average selling prices.

Commodity and exports-related sectors like plantations, oil and gas (O&G), gloves and technology underperformed but were cushioned by improved performance from banks, transportation, power and utilities and gaming. Nonetheless, earnings of these stocks for calendar years 2023 and 2024 have been cut by 4.8 and 0.2 per cent, respectively, which is the sixth consecutive quarters of downgrade.

As a revival in the global economy is vital to shore up demand for exports and stronger commodity prices, developments in the US and China will be closely watched.

Based on the CME FedWatch Tool, the US Federal Reserve (Fed) is expected to hold its rate steady in the September meeting. This expectation, along with the tame inflation, should influence Bank Negara Malaysia to maintain its Overnight Policy Rate at 3.0 per cent this Thursday.

There is also a growing consensus that China may miss its 5.0 per cent growth target this year due to property sector woes, soft domestic demand and weak exports. All eyes will be on its trade data this week.

Technical outlook

While blue chips stayed range-bound last Monday, shares in the property and construction sectors surged. The FBM KLCI ended flat at 1,444.06, as gainers led

losers 580 to 478 on robust trade totalling 4.46 billion shares worth RM2.85 billion.

Blue chips rose on Tuesday, led by utility, banking and O&G heavyweights. The index gained 10.38 points to close at 1,454.44, as gainers edged losers 535 to 504 on total trade of 4.02 billion shares worth RM2.85 billion.

Profit-taking emerged to reverse early gains on Wednesday, but technology, property and construction sectors rose to outperform the broader market. The FBM KLCI lost 2.5 points to end at 1,451.94, as gainers equalled losers at 499 on robust trade totalling 4.9 billion shares worth RM4.75 billion.

Property and construction stocks continued to shine on Friday. The index climbed 11.49 points to settle at 1,463.43, as gainers led losers 567 to 424 on total turnover of 4.65 billion shares worth RM3.08 billion.

Trading range for the index last week was 21.91 points, compared with the 17.89-point range the previous week. For the week, the FBM EMAS Index rose 154.37 points, or 1.45 per cent, to 10,816.64, while the FBM Small Cap Index surged 470.68 points, or 2.98 per cent, to 16,245.74.

Due to last Friday's strong close near a five-month high, the daily slow stochastics momentum indicator for the FBM KLCI again flashed a buy signal at the lower neutral region, even as the weekly indicator inched upwards into the overbought zone. The 14-day Relative Strength Index (RSI) indicator strengthened its bullish momentum signal, reinforcing the hook-up on 14-week RSI indicator.

As for trend indicators, the daily Moving Average Convergence Divergence (MACD) trigger line has turned up to lessen the neg-

ative trend signal the previous week, while the weekly indicator's signal line sustained upwards to reinforce its uptrend. Meantime, the +DI and -DI lines on the 14-day Directional Movement Index (DMI) trend indicator reversed into bullish mode, but the ADX line has yet to turn up to support a trending signal.

Conclusion

With key technical momentum indicators turning up following the ability of the FBM KLCI to bounce back to five-month highs, an upside trigger is pending, which needs to be a positive catalyst for further gains ahead.

The stronger trading momentum, positive market breadth and renewed buying interest in property and construction stocks could spill over to the O&G, technology and blue-chip sectors as rotational buying stages a strong comeback. Last Friday's weaker US payrolls data reinforced expectations that the Fed will keep its interest rates steady, which should pacify investors and reduce jittery sentiment.

As for the index, a breakout confirmation above 1,464 and 1,470 backed by strong buying momentum would be crucial to fuel rise towards the 1,490/1,500 resistance level, with next upside hurdles seen at 1,515, the 200-week moving average, and 1,552, which is the 50 per cent FR of the 1,896 high (April 2018) to the 1,207 low (March 2020). Immediate chart supports cushioning downside are revised upwards to 1,440, then 1,433, and subsequently 1,420/1,400.

The subject expressed above is based purely on technical analysis and opinions of the writer. It is not a solicitation to buy or sell.

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