

Will run-up to Year of Dragon and general election push up share mart?
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PETALING JAYA: Investors will be wondering if the local bourse will gather momentum in the run-up to the Chinese New Year and there will be speculation if this momentum can stretch into February on anticipation of the 13th general election, widely expected to be in mid-March.

However, long-standing issues from last year would continue to haunt the performance of equity markets this year.

Analysts have pointed out that among the issues would be the continued crisis in the eurozone, the sustainability of US growth and whether China's economy could withstand a slowdown in the face of slower exports growth.

In recent days, data from Asian economies have been mixed with Singapore's economy contracting in the fourth quarter on a year-on-year basis, the second such contraction in three quarters whereas China's and India's purchasing managers indices (a leading indicator of restocking activity) saw an expansion in December year-on-year.

While equity markets around the world have closed higher in recent days despite all the worries, the concern going forward would be how sustainable stock-market performance would be since there would be an impact on the performance of the local bourse.

Given the uncertainties ahead, understandably there would be some divergence in opinions among the experts. HwangDBS Vickers research head Wong Ming Tek said in a report that the general election might be a "wildcard" for the performance of local equities.

"Looking at stock market performances ahead of previous general elections, we found that the FBM KLCI tracks regional market movements closely. The FBM KLCI's historical out- or under-performance ahead of the general election had been erratic," he said.

Wong said that ahead of the March 2008 elections, regional markets fell largely because of external issues and the FBM KLCI saw a similar trend.

"If the current situation in Europe deteriorates and regional market sentiments weaken, we will expect the FBM KLCI to lose ground as well," he added.

Wong expects a big push in news flow on government-initiated projects in the months ahead of the general election which might impact counters related to these projects but cautions that a drop in support for the Barisan Nasional government might see a sell-off in the stock market similar to 2008.

Meanwhile, the team at OSK Research has a "sell" call on the market for this month after a "buy" call for December. Research head Chris Eng said the index was overpriced and lacked fundamentals to sustain at current levels.

He said this year's market strategy remained a defensive play with a "sell" call when the benchmark index breaks above 1,500 points and a "buy" call as the index approaches 1,300 points.

"The risks in January include a meeting between German and French leaders which may be a letdown, the verdict on the trial of Malaysia's opposition leader and the prospect of an early general election," Eng said, adding that China might be the black swan while Sri Lanka the hidden jewel.

(Black swan means the event is a surprise and has a major impact.)

He said the top buys for the month would be a bunch of small-caps including Sarawak Oil Palm, JCY, Supermax, OldTown and Freight Management as there was limited upside in big-cap shares due to the run-up in their prices.

Maybank Investment Bank research head Wong Chew Hann expects higher bouts of volatility in the first half of this year due to the unresolved debt crisis in the eurozone, potential deleveraging by European banks leading to a credit crunch, while in the domestic front, the expected general election could make investors cautious.

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