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No real winners or losers

Market reacts positively with a 'gap-up' phenomenon, bond market rallies

by **PRATHAB V**

THERE appears to be neither real victors nor losers in the 13th general election (GE13) on May 5. While the political pundits are crunching the figures, espousing possibilities with "if-this-then-what" scenarios, some facts are interesting to look at post-GE13.

The stock market rallied in the early hours on May 6. As the exchange and various fund managers took stock of the GE13 results, Bursa Malaysia saw about RM1.4 bil foreign fund inflow, lifting the benchmark FBM KLCI to breach the 1,800 resistance mark. Hitting its all-time high of 1,826.22 on May 6, optimism returned rapidly to Bursa. A record total of 460,879,200 shares changed hands, erasing previous year-to-date high of 280,042,600 shares on March 15. However, the spike did not last long, as the index came down to close at 1,752.02 on May 6, sliding 1% from its opening at 1,771.62 points.

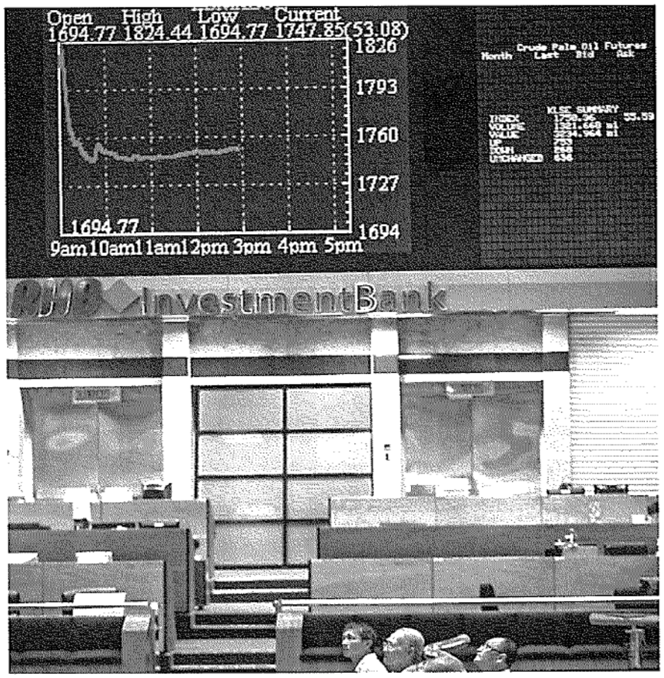
Interestingly, technical chartists also observed a unique phenomenon known as "gap-up" on the charts. On the previous Friday, May 3, the index ended at 1,694.77 points. When the stock exchange opened for business on May 6, the market jumped 4.53%, beginning on a high note of 1,771.62 points.

But that wasn't the case post-election in 2008. The market reacted negatively after the results of the 12th general election on March 8, 2008 were announced. Technical chartists observed a "gap-down" instead. On March 7, 2008, the market closed at 1,296.33. However, post-GE in 2008, the market dropped 4.14% to open at 1,242.64 on March 10, 2008. This appears to affirm popular market sentiment that, though BN has a poorer showing than 2008 polls, it was not as bad as some had anticipated.

"(The) 2008 experience was less favourable versus 2013 because the results were unexpected in terms of the balance of votes, as compared to this year where the market largely expected a result close to what was already seen in 2008. This made 2013's results less of a shocker. In addition, the 2008 market reaction was also affected by an adverse economic situation and significant volatility in risk appetite," RHB Research Institute Sdn Bhd's regional head of fixed income research, Ray Choy Swee Yew, tells ***FocusM***.

Maybank Investment Bank head of retail research Lee Cheng Hooi, however, notes that the gap-up is not a sustainable trend. "The outlook looks nice after GE13. The KLCI is in a daily, weekly and monthly uptrend. However, I am not 'keen' on the surge on May 6 as it was a gap-up move. We expect the index to trend downwards and fill the gap between 1,718 and 1,743," says Lee, explaining that the charts are exhibiting a "bearish divergence" signal, showing waning prices as share prices rise.

"Nevertheless, the recent price action over the last two trading days seems quite strong and encouraging — lifted by firm volumes. Support is seen around the 1,718, 1,743 and 1,772 levels, whilst the resistance is located at 1,780, 1,800 and 1,826 levels," says Lee.

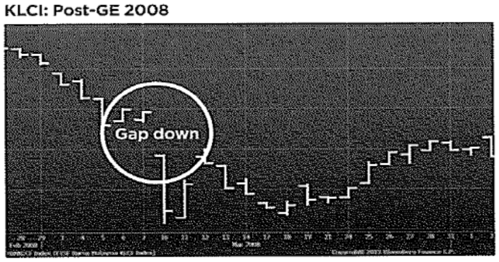


The giant screen showing the movements of the KLCI on May 6 at the trading gallery of RHB Investment Bank Bhd headquarters in Kuala Lumpur

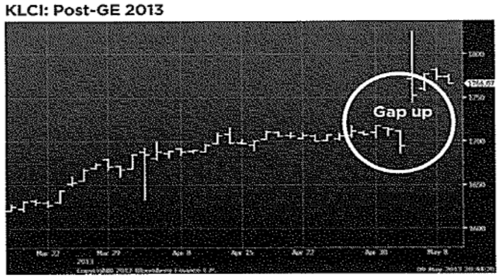
Counters that benefitted from the inflow of funds into the exchange last week were mostly defensive stocks such as CIMB Group Holdings Bhd, Maybank Bhd, Public Bank Bhd, Hong Leong Group, Guinness Anchor Bhd, Carlsberg Brewery Malaysia Bhd, Allianz Malaysia Bhd and Affin Holdings Bhd. Construction firms, such as Gamuda Bhd and Sunway Bhd, also benefited possibly due to increase in optimism that the Economic Transformation Programme initiated by Prime Minister Datuk Seri Najib Razak will continue to flourish.

Although it is now purely academic, had the results of GE13 gone in favour of the Opposition, several government-linked companies, perceived to have strong political links, could have been hurt. These include bank stocks such as CIMB, Affin, Cahya Mata Sarawak Bhd, Felda Global Ventures Holdings Bhd, Media Prima Bhd, My EG Services Bhd, Opcom Holdings Bhd, Scomi Group Bhd, Star Publications (M) Bhd, Tradewinds Corp Bhd, UEM Land Holdings Bhd and Utusan Melayu (M) Bhd.

KLCI: Post-GE 2008



KLCI: Post-GE 2013



No limit-up on counters

Another point to note was that the sharp climb did not trigger any limit-up in any of Bursa counters on May 6. This was mainly because most of the funds flowed into blue chips for want of stable returns. According to Bursa rules, if the price of a share moves up (or down) beyond 30% in a single session of trade, it can automatically trigger a "limit-up" or "limit-down" phenomenon. This will require Bursa to temporarily suspend trading in the counter, while issuing an unusual market activity (UMA) query to the listed entity.

This mechanism is created by Bursa Malaysia and the Securities Commission to prevent share price manipulation through "pump and dump" method.

"Most of them (inflows of funds) were aimed at buying up blue-chip stocks, so there wasn't any trigger for limit-up. These blue chips are normally priced very highly, hence their share price does not move up quickly," says Inter-Pacific Securities' Pong Teng Siew to ***FocusM***'s queries. He expects the buying to come to a slight pause this week. "Buying was muted before the election. On May 3, there was a net outflow of RM92 mil from the equities market," he adds, pointing out that the KLCI ended on a low note just before the election. The drop of about 0.98% to settle at 1,694.77 was mostly attributed to election jitters, which was to be expected.

Bond market rallies

The aftermath of GE13 also saw a rally in the bond market. Malaysian government bond trading activity increased from a daily average of RM3-4 bil to more than RM8 bil after the election. According to RHB's Ray Choy, the big increase could also be attributed to foreign fund inflows, responding to pent-up demand.

When the price of a bond moves, it has an inverse effect on its yield. Hence, when the bond price goes up, its yield decreases. Bond Pricing Agency Malaysia Sdn Bhd (BPAM), however, says that it had expected the bond rally to take place after GE13.

"The stellar performance of the ringgit bond market was not totally unexpected as market players had already priced-in the fact that Barisan Nasional would continue to rule the country post-GE13, judging from the fact that the MGS yield had already decreased by five to 14 basis points (bps) across the MGS curve since April 3 (the day parliament was dissolved)," says BPAM CEO Meor Amri Meor Ayob.

On May 6, the Malaysian Government Securities (MGS) yield curve displayed a decrease of 2-5bps. Bullish on the long-term prospect of the economy, the 20-year MGS yield curve also decreased by another 5bps.

"Ringgit bond market saw similar price increase (decrease in yield) after the GE13 in the MGS segment. This was evidenced from the yield decrease of approximately 2bps to 5bps across the MGS yield curve on May 6. The MGS yield decreased further and extended its gain on May 7, especially in the longer end of the curve. For instance, the 20-year MGS yield decreased another 5bps as market players remained bullish on the long-term economic prospect of Malaysia under the leadership of the Prime Minister," says Meor Amri.

While both the equity and bond markets are humming, the country's economy appears to be slowing down. Malaysia's gross exports continue to decline in March at a slower pace of 2.9% year-on-year (y-o-y) compared to 7.7% y-o-y in February. This was lower than Hong Leong Investment Bank's consensus estimation of 7% y-o-y growth in gross exports for March.

Economic figures also show a shrinking trade surplus. In March, trade surplus stood at RM5.1 bil compared to RM8.2 bil in February. This is mainly attributed to a contraction in palm oil exports in March, which declined 18.9% y-o-y. This was however offset by increased exports of refined petroleum, increasing 16.8% y-o-y. So far, Malaysia is maintaining its policy rate at 3%, although the European Central Bank had cut its interest rate to 0.5% in an effort to stimulate the crisis-stricken European economy. The Reserve Bank of Australia also cut its interest rate to a low of 2.75%, while China's inflation rate rose to 2.4% y-o-y in April from 2.1% in March.