

2 February 2010

KL Composite Index

Cautious start



Market selloff on heightened rate hike concern was unexpected. While we had looked to a more resilient CI relative to the regional bourses, the recent Bank Negara Malaysia (BNM) policy meet which had hinted of a possible “normalization” of interest rates took many by surprise including us. While we had envisaged for a rate hike probably sometime in the 2H, the prospects for a more immediate adjustment based on the recent BNM meeting could be real, prompting many to trim their equity holdings and lock in profits. Not helping was of course the challenging external environment with overseas bourses especially Hong Kong still trying to digest the effect of the recent policy tightening by the Chinese.

Technically, CI is now at oversold levels as indicated by the daily RSI. While a technical bounce could be in place to correct the oversold situation, our cautious outlook for the CI in the near term remain, premising on the following :

- Uptrend stretching from the Aug 2009 low is now convincingly broken;
- CI is now trending below the near term moving averages namely the 30days and 50days;
- The short-term moving averages have also begun to hook down, reinforcing a negative outlook in the near term;

In short, bears are now seemingly in near term control unless the bulls are able to quickly retake key levels of between 1,275 – 1,280. For now, the bulls will need to contend with minimizing their losses and try to contain damage to 1,240 – 1,250 levels failing which 1,230 can be counted upon as next support. Resistance meanwhile can be found at the 1,275 – 1,280 levels. Expect a cautious start to the week peppered with technical bounces and some much needed consolidation.

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