

KLCI in the aftermath of Malaysia's GE

ON Nov 24, Anwar Ibrahim was named the 10th Prime Minister of Malaysia after a five-day political gridlock, after no single coalition was able to secure a majority, resulting in the country's first hung Parliament. The Kuala Lumpur Composite Index (KLCI) rallied strongly, rising 4.04 per cent upon the announcement, with Telecommunication stock Axiata (+12.77 per cent) and Maxis (+12.30 per cent) leading the gains.

We expect the new government to be more people-oriented, pushing for more targeted subsidies to help low-income groups, while maintaining or revising some of the key initiatives proposed in the previous Budget 2023, such as facilitating the roll-out of 5G networks in Malaysia. We also anticipate the return of political stability, reinforced potentially by the recently passed anti-party hopping law, which will prevent another collapse of the new government.

The index saw a decline over the past 2 sessions on Nov 25 and 29, likely due to profit-taking activities on weaker market sentiments caused by the social unrest and protests in China. As of Nov 30, the KLCI closed up 0.8 per cent on renewed buying interest.

Malaysia reported better-than-expected economic growth in the third quarter of 2022, with gross domestic product (GDP) up 14.2 per cent year on year compared to 8.9 per cent in Q2. Growth was driven by strong export demand on the back of a weak ringgit, robust domestic demand, and a recovery in the tourism industry as the economy normalises.

Malaysia's GDP growth is currently ahead of its Asean peers, overtaking Vietnam which had a Q3 GDP of 13.7 per cent, making Malaysia the region's fastest-growing economy.

Additionally, the headline consumer price index (CPI) eased to a four-month low in October 2022 at 4 per cent year on year, down from the 4.5 per cent observed in September 2022. This decline was attributed to moderations in housing, water, electricity, gas and fuel prices. Latest data from the **Department of Statistics Malaysia (DOSM)** showed that businesses remained optimistic about Q4 2022, with the Business Confidence Indicator coming in at 3.2 per cent, compared to the -0.3 per cent in Q4 2021. We expect headline inflation to continue trending downwards, which should encourage a more dovish rhetoric from Bank Negara Malaysia (BNM). Alongside the upbeat business sentiment, this is likely to impact the KLCI as well, potentially driving the index upwards.

On a technical perspective, we maintain an overall bullish outlook on the KLCI. We expect buying activity to return following two days of profit taking. Investor sentiment should improve amid the return of political stability, supported by speculation around China easing their zero-Covid measures. We expect the FBM KLCI to retest the immediate resistance at the 50.0 per cent Fibonacci retracement level at 1496 which, if broken, could see the index moving towards the 61.8 per cent Fibonacci retracement level at 1525.

This is due to two main reasons. First, the Relative Strength Index 14 days (RSI14), a momentum indicator, is in bullish territory, above 50 at 61.6. Second, the Moving Average Convergence Divergence indicator (MACD) also shows a bullish crossover signal as the MACD line has crossed above the signal line and remains above zero; similarly, the MACD histogram is also positive, signalling a bullish momentum.

Ultimately, we maintain a bullish outlook on the KLCI and expect the index to test the immediate resistance at 1496 which, if broken through, could see the index pushing towards 1525. Investors are likely to closely monitor the formation of the Cabinet in the near term as well as the re-tabling of Budget 2023.

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