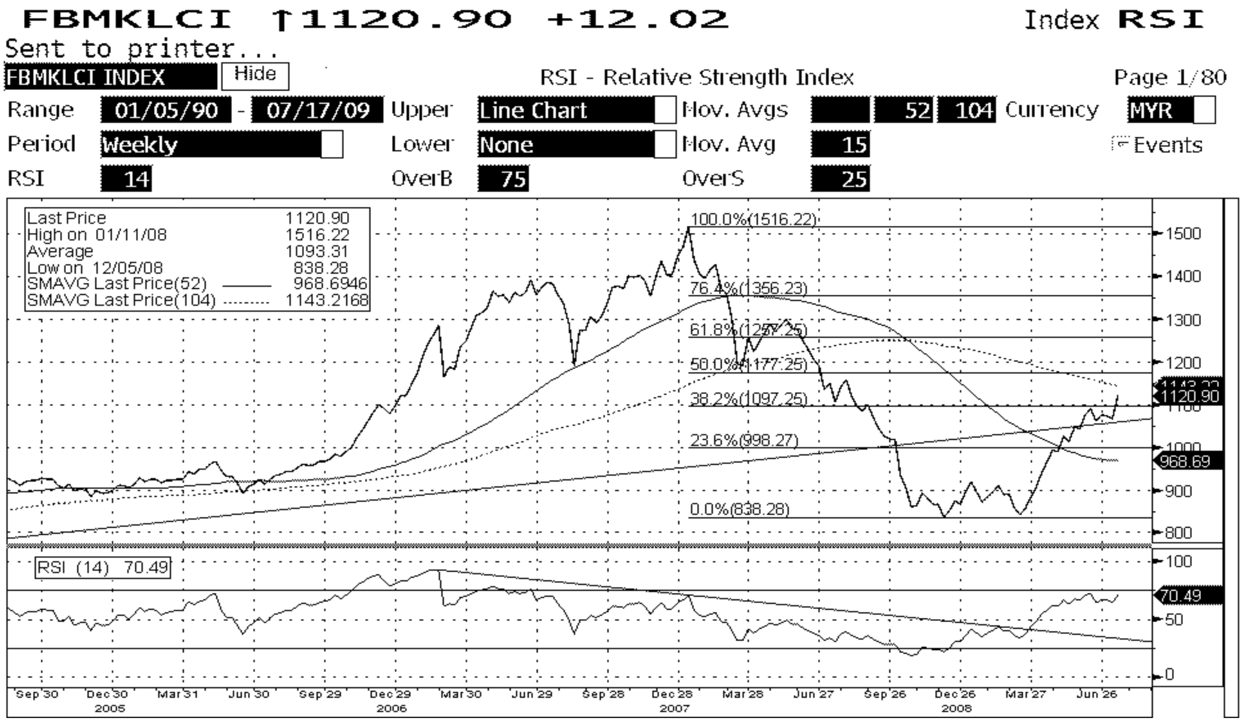
20 July 2009

KL Composite Index

Bulls in charge still



Bulls ran wild during the past week, chalking up strong gains of 53.14 points or 5% week-on-week as buyers returned on the back of strong leads from Wall Street (+7.3%) and improvement in the economic data from key countries including China which reinforced the view that worst for the economic crisis is over and that recovery is imminent by year's end.

Technically, the picture had turned positive with the break above the June's 1,091 resistance level, reinforced by a simultaneous move above the downtrend line at the Daily RSI level. The weekly chart above clearly shows the uptick which had ended the recent stalemate while the RSI remained at a consolidation mode. While upside bias is likely in the near term, profit taking could still set in to cap the uptick. Movements on Wall Street will be closely tracked and it is to be reminded that save for Nasdaq, both leading indices including the Dow Industrial and S&P 500 remained below their respective June peak, indicating perhaps some cautiousness still on the recent rejuvenation.

In summary, we expect buyers to continue dominate in the near term with downside likely to be in checked by the flood of liquidity that is prevailing in the system. Immediate resistance can be expected at the 1,143 level with 1,170 – 1,177 as next. Support meanwhile is pegged at 1,091. Our medium term view remains unchanged which is to top-slice into the current uptick given that (1) the pricing-in of the year end economic recovery; and (2) the possible disappointment associated with the global economy whose outlook remained uncertain. Unless and until the 1,170 – 1,177 levels are challenged and maintained, our more cautious stance in the medium term is therefore maintained.

Published and printed by:
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PP7004/03/2010(023510)