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Fitch upgrade of sovereign outlook ***Market may have moved beyond inflexion point***

KLCI: 1,727.96 points***2015 Year-end Target: 1,900 points***

FBM KLCI may have moved beyond inflexion point. The market initial reaction to the upgrade in sovereign credit outlook seems strong and determined so much so that, technically, the FBM KLCI may have moved passed the inflexion point insofar as the recent cyclical pullback which started in early May this year is concerned. Hence we would not be surprised to see the market holding above its psychological supports most notably the 1,700 points level and perform positively in the weeks to come.

Vote of confidence of sorts... The upgrade in sovereign credit outlook is seen as a vote of confidence in the country's fiscal management and may reflect the rating agency's relative sanguinity with regard to Malaysia's macro outlook.

...but liquidity... Having said the above, in the interim, the equity market is expected to remain cautious due to the hitherto persistent region-wide foreign equity funds outflows believed to be in anticipation of the upcoming hike in US interest rates.

...and political headwinds... Furthermore, the market wariness is further exacerbated by the unsettled domestic political spats involving both intra- and inter-coalitions with matters relating to the beleaguered 1MDB still trending high particularly in the cyberspace. The good news is that the economic fallout from 1MDB's extended leverage position is believed to be non-systemic, and we share the same belief.

...remain unanswered. Meanwhile, the political implications are dependent on the outcome of ongoing official investigation. However, if the investigation results turned out to be less than satisfactory, the consequences may prove disruptive to the current political order.

The market is still absorbing the impact of liquidity and political issues. We reckon the prevailing negative pressure on the short-term direction of local equity market would be neutralized only pursuant to (i) the subsidence of foreign liquidity outflows, and (ii) non-disruptive outcome of the investigation on 1MDB. On this score, the pace of market absorption or normalization with regard to the outstanding issues would have a great bearing on the timing of subsequent cyclical upturn hence the attainment of our year-end FBM KLCI target.

FBM KLCI year-end target under review. We are aware that the risk is not insignificant for either or both issues to become protracted thus retarding the pace of normalization. Therefore, while we reiterate our long-standing view on the continuance of the upward secular trend of the FBM KLCI underpinned by sustained macroeconomic expansion, we are keeping our short-term 2015 year-end target of 1,900 points under review for possible adjustment.



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STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.