

3 January 2014 | Strategy

Thailand's SET tumbled

KLCI: 1,852.95

Not a prelude to another contagion episode

(2013 Year-end Target: 1,900 points)

Thailand equity market battered down... Thailand's equity market barometer plunged 5.23% to close at 1,230.77 points yesterday as investors were perturbed at the deepening political crisis.

...due to escalation in political tension. On Thursday, anti-government protestors led by Suthep Thaugsuban, a former opposition lawmaker, announced of their plan to surround government ministries and occupy 20 major intersections in Bangkok on January 13. It is as part of efforts to oust Prime Minister Yingluck Shinawatra and thwart elections scheduled for early February. Furthermore, the protestors demanded for an unelected council to reform the country's electoral system as they fear the current set up will likely to return the Shinawatra clan to power. Adding to the uncertain outlook, the army chief last week refused to rule out a political coup.

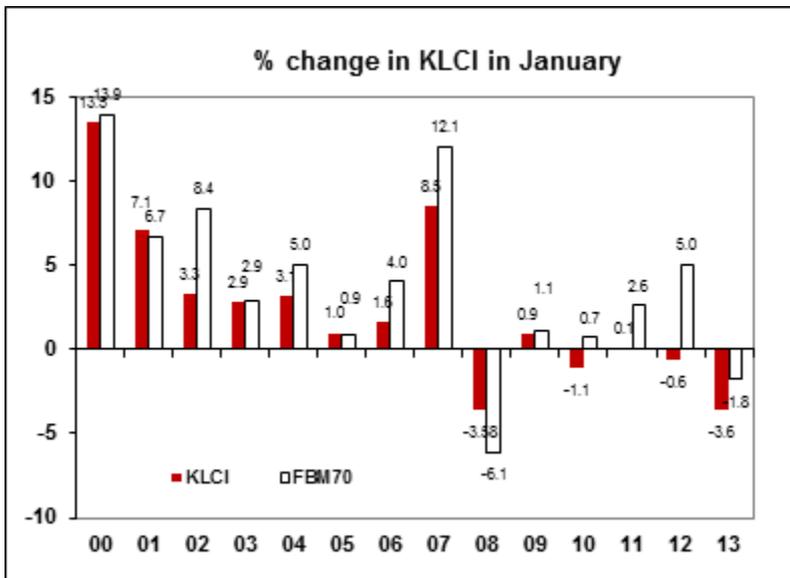
Anticipate no contagion à la 1997 as the underlying reason is political, not economic. Yesterday's selloff brought back memories of the mid-1997 Asian financial crisis. It started in Thailand and quickly spread to the rest of the region; initially targeting the forex and quickly followed on to equity as well as debt markets and which resulted in ensuing output contraction. Nonetheless, we expect no similar contagion effect this time around as the triggering factor is political and not economic.

Current Account % of GDP

	1997	2013*
Malaysia	-6.3	+4.1
Thailand	-8.0	-1.0
Indonesia	-2.2	-3.6
S. Korea	-0.9	+4.6

Source: Bloomberg, MIDFR; *3Q13

Moreover, economic fundamentals are stronger now compared to then. Recall that, in 1997, most of Asia-Pacific countries, including Malaysia, were in deep current account deficit positions. Hence the forex fundamentals then were weak. But now, there are less contagion elements. Firstly, Malaysia and Thailand as well as most other regional countries have higher reserves. Secondly, Malaysia's current account is still in surplus and its fiscal deficit is being systematically tackled with various public finance reform initiatives. Thirdly, inflation is largely under control. Moreover, it is noteworthy that foreign portfolio fund outflows have already happened in Thailand throughout last year thus a prolong upsurge for the exit is not expected going forward.



Source: Bloomberg, MIDFR

Reiterate FBM KLCI 2014 year-end target at 1,900 points. While we do not anticipate a contagion selloff in view of what was happening in Thailand, nevertheless the FBM KLCI performance in the next one month is expected to remain weak as in Januarys during the past six years (see *Chart above*). In addition, potential headwinds in the form of (i) incessant albeit gradual withdrawal of foreign liquidity pursuant to the commencement of QE3 taper, as well as (ii) Malaysia's relatively weak albeit improving current account situation, may put a cap to the prevailing above-mean market valuation going forward. We reiterate our FBM KLCI 2014 year-end target of 1,900 points. 

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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.