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'Better shape for Malaysian market in second half'

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KUALA LUMPUR: UOB Asset Management (Malaysia) Bhd chief investment officer Francis Eng expects the Malaysian market to be better in the second half of the year in anticipation of an improvement in global oil prices by then.

Speaking at a media briefing here yesterday, he said some of the market pressure could be alleviated if there is a cut in oil production, which is expected to happen in mid-2015.

"We see some supply respond in oil and if oil price picks up in the second half, we think it should help to relieve some of the pressure on Malaysia," he said, adding that it will bode well for the economy, stock and currency markets.

UOB Asset Management (Singapore) Ltd head of international equities Shay Pang believes global oil prices will rebound to its "new norm" of US$70 to US$80 per barrel over the next five years.

"But beyond that, it could go back to US$100 per barrel," he said.

He explained that US shale oil production, which has contributed to global oil supply growth in the past three years, is likely to come down following the drilling permit application that saw a drop of 20% and 40% respectively.

Yesterday, both Brent and WTI prices fell to US$45 and US44 per barrel, the lowest level in almost six years.

For Malaysia, Ng favours the equities market over the fixed income market as the market valuations are becoming more attractive following the recent weakness.

"Based on 12-month target, if the Malaysian market moves back to its historical average in terms of price-to-earnings ratio of 15.5 times, we think it will translate to an index level of 1750 points," he noted.

He said as foreign shareholding in the equity market is at a low level, a further outflow of funds would be "more measured" and is not expected to have a significant impact on the market.

However, he noted that there is a risk for Malaysian Government Securities (MGS) as foreign holdings is high.

Stock pick-wise, Ng said the focus will be on the industries that are benefiting from the weakening ringgit, including manufacturers and exporters.
On the currency front, he said it could weaken to as low as 3.6 to 3.7 against US$, depending on the pull back in oil prices.

"The ringgit movement is tied to oil prices, we see the ringgit remaining weak in the next three to six months," he noted.

The ringgit hit a low of 3.5950 against US$ yesterday due to renewed pressure from the falling oil pries. The ringgit was at 3.5935 as at 5pm.

UOB Asset Management (Singapore) Ltd head of Singapore and Asia fixed income Chia Tse Chern, meanwhile opined that US dollar is in the middle of a rally cycle, whereby the greenback is expected to sustain its strength for another three years, with a 15% to 20% gain.

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