

SET Index expected to be volatile for a while

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The SET Index plummeted by 220 points from 1,520 points in late June to a low of 1,300 points. After that, it rebounded by nearly half of the recent decline, getting close to 1,400 points.

But the technical rebound is limited. The next resistance level is 1,410 points. According to the Stock Exchange of Thailand's valuation, it is assumed that listed companies' EPS (earnings per share) are estimated at Bt89.63, with the SET Index at 1,410 points, and the market PER (price-to-earnings ratio) at year-end will be 15.73 times. This is within the normal range of PER of 14-16 times for the SET.

It is believed that the key resistance level will be 1,400-1,410 points. To surpass this level, support will be needed. Trading turnover will have to be sufficiently high, particularly from foreign and local institutional investors, while there ought to be positive, fundamental changes. If not, the SET Index will move in a narrow range with the resistance level of 1,400-1,410 points and the support level of 1,370 points.

The key issue this week will be the meeting of the US Federal Open Markets Committee. Economists' views appear mixed. Some expect the FOMC to raise the federal funds rate at this meeting, while others expect it to leave the rate unchanged, and likely raising it late this year. The latter view seems to have more support. ASPS Research believes the rate will be hiked in late 2015.

The global economic environment does not seem to be ready for the US Federal Reserve's interest-rate increase.

In Thailand, the central bank's Monetary Policy Committee will also convene. ASPS Research forecasts that the MPC will keep the policy rate at 1.50 per cent for a while, given the rapid depreciation of the baht to above 36 per US dollar. If the policy rate is cut, there could be more pressure on the baht, and that could have negative impact on capital movement.

Another factor that needs consistent monitoring is the government's economic stimulus. Recent developments have been seen, starting from money injection for low-income earners and farmers to encourage more spending. Then, assistance has been provided for small and medium-sized enterprises through soft loans and tax privileges. After this, economic boosts are expected through acceleration of public investment and promotion of some industries that could push the economy. Expected beneficiaries are the automobile industry and the real-estate-development group. This could result in positive sentiment for related stocks like those in the automobile, hire purchase and construction groups. Investors may screen stocks with sound fundamentals in these groups for investment.

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Amid a sell-off in global equity markets, the Stock Exchange of Thailand recovered well, as new economic stimulus packages from the government should boost domestic consumption and help small and medium-sized enterprises.

We estimate that the new measures with a total budget of Bt136 billion aimed at helping low-income households in rural areas will increase economic growth by 0.2 per cent this year and 0.4 per cent in 2016. The impact should be seen clearly from the first quarter of 2016 onwards rather than, as was expected, in 4Q15.

What's next? We believe that the government will release more measures to support the tourism industry, as exports contract and domestic consumption slackens. A side effect will be the release of pressure on deteriorating loan quality for banks. Once the situation is stable or even improving, banks will consider lending more money into the real economy again. In that case, economic expansion should restart.

In the short term, market valuation appears stretched in terms

of forward PER (price-to-earnings ratio) of 14.8 times while corporate earnings growth slows. Therefore, profit-taking should emerge this week.

Our picks are ADVANC (Advanced Info Service), INTUCH (InTouch Holdings), JASIF (Jasmine Broadband Internet Infrastructure Fund) and AAV (Asia Aviation).

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Throughout last week, the SET Index rose to a high at 1,403 points, on a buying spree in domestic groups or those depending on the domestic economy. This was particularly so for groups that stood to gain from state policy. The Cabinet approved relief measures for small and medium-sized enterprises at its meeting last week. Two key measures involved financial assistance and tax privileges.

The next strategy is expected to strengthen the domestic economy and reduce reliance on other economies. The government will likely focus on infrastructure mega-projects and measures to promote large enterprises in tourism, large manufacturing, property and alternative industries. These measures are expected to gain back private-sector confidence and prop up the economy, which could benefit domestic stocks.

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On September 10, foreign investors staged net purchases of Thai stocks worth a total of Bt824 million, for the first time in seven days after sales of more than Bt8.44 billion for six consecutive days. This is not very significant. From the beginning of this year, foreign investors made their first net buys in five to seven days but that lasted only briefly. In the end, they turned to heavy sales.

We have to watch short positions of the SET50 Futures. Accumulated shorts remain relatively high in one week (five days back).

Statistically, whenever foreign investors open short positions for 10,000 contracts, there is about a 70-per-cent probability for them to net-sell capital instruments worth about Bt1.3 billion on average the next day.

There is 64-per-cent probability for the SET Index to drop by 0.32 per cent on average. If foreign investors' short openings exceed 20,000 contracts in five days, there is a higher probability, at 70 per cent, they will sell capital instruments on the sixth or seventh day, pressuring the SET Index to fall by 0.54 per cent on average in two days.

This week, the SET Index could fluctuate, following foreign stock markets' concerns over the September 16-17 meeting of the US Federal Open Market Committee. Our research department has 75-per-cent confidence that the US benchmark interest rate will be raised at this meeting.

If the FOMC raises the federal funds rate, that will put high pressure on stock markets across the globe, and the SET Index could drop to test 1,340 points.

But if the committee decides to maintain its rate, that will be positive to stock markets around the world including the Stock Exchange of Thailand in the short term. The SET Index will likely surpass 1,400 points again.

If the federal fund rate is raised, the Federal Reserve's statement is expected to be relatively relaxed, likely conveying the message that its rate increases will follow a gradual path, step by step. That would mean this year will not see any more increases but there will be rate rises next year. That could see the stock market weaken, and opportunities for gradual accumulation.

Now, the SET Index' valuation remains relatively tight, given the current PER (price-to-earnings ratio) at 16 times and expected PER for 2015 at 15 times. These result in the SET Index' limited upside amid foreign stock markets' volatility. Thus more caution should be taken for investment.