# STI surges past 3,000 points to 14-month peak

**Observers highlight coming earnings season, inflation signs, potential MAS easing as key trading points**

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THE benchmark Straits Times Index (STI) broke through the psychologically significant level of 3,000 points for the first time in 14 months, making the local bourse one of the best performing markets in the world year to date.

Some 29 out of the 30 component stocks have notched gains thus far. Only palm oil play Golden Agri Resources fell slightly.

Fund managers said the rally has been driven by sentiment even while the local economy remains weak and improving earnings yet to be seen. Whether stocks can continue to rise depend on corporate results in the coming reporting season, they said.

Other factors will also affect the market, such as whether inflation returns, interest rates rise, or if monetary easing is pursued by the Monetary Authority of Singapore (MAS), they said.

"It's definitely a surprise as just three months ago, before Donald Trump won the US election, Singapore has been a very convenient underweight on a regional basis," said Kenneth Tang, senior portfolio manager at Nikko Asset Management Asia. For much of 2016, money has flowed to other parts of South east Asia where economic growth was better than expected, he said.

In Singapore last year, domestic restructuring and higher wage costs had hit corporate earnings. The oil price crash caused some companies to go under. A slowing China and Europe also caused business to slow down.

But as interest rate expectations went up after Mr Trump unexpectedly won the US election, sentiment on the Singapore market shifted. Local banks DBS, UOB and OCBC led the charge.

"One could argue that the three banks account for 30 to 40 per cent of the Singapore stock market and are positively correlated towards higher rates," Mr Tang said.

## Running ahead

### Singapore bourse outperforms year-to-date

| INDEX | % CHANGE |
|---|---|
| PSEi (Philippines) | 7.66 |
| **STI (Singapore)** | **4.35** |
| Hang Seng (Hong Kong) | 3.38 |
| NASDAQ (US) | 2.76 |
| SMI (Switzerland) | 2.55 |
| IBOVESPA (Brazil) | 2.45 |
| VNINDEX (Vietnam) | 2.44 |
| SET (Thailand) | 1.89 |
| MSCI EM (Emerging) | 1.88 |
| Shanghai Comp (China) | 1.87 |
| KLCI (Malaysia) | 1.85 |
| S&P/ASX 200 (Australia) | 1.67 |
| FTSE 100 (UK) | 1.66 |
| TOPIX (Japan) | 1.56 |
| MSCI World (Developed) | 1.47 |
| S&P 500 (US) | 1.34 |
| Nifty 50 (India) | 1.26 |
| TAIEX (Taiwan) | 1.04 |
| KOSPI (South Korea) | 0.92 |
| Euro Stoxx 50 (Europe) | 0.60 |
| Jakarta Comp (Indonesia) | 0.25 |

Compiled from Bloomberg around 7.30pm

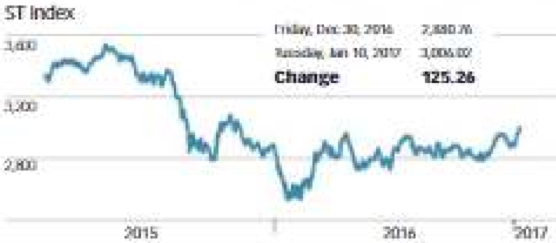
### Leaders

| STOCK | PRICE | % CHANGE | POINTS |
|---|---|---|---|
| OCBC Bank | 9.35 | 4.82 | 16.3 |
| Jardine Matheson USD | 60.00 | 8.6 | 14.7 |
| DBS Bank | 17.99 | 3.75 | 13.4 |
| Global Logistic Properties | 2.55 | 15.9 | 11.9 |
| Hongkong Land USD | 6.92 | 9.32 | 10.5 |

### Laggers

| STOCK | PRICE | % CHANGE | POINTS |
|---|---|---|---|
| Golden Agri-Resources | 0.475 | -1.16 | -0.37 |
| SIA Engineering | 3.41 | 1.19 | 0.1 |
| Hutchison Port USD | 0.44 | 1.15 | 0.13 |
| Jardine C&C | 41.56 | 0.8 | 0.47 |
| Thai Beverage | 0.855 | 0.59 | 0.56 |

### ST Index




Source: Bloomberg

"There are also concerns about the Indonesian rupiah, the Malaysian ringgit, which put Singapore in a more positive light," he said, referring to emerging market outflows as higher US interest rates attract money back.

After closing at 3,006.02 points on Tuesday, the STI is now up 4.35 per cent for the year, or 5.15 per cent in US dollar terms. It last closed above 3,000 points on November 6, 2015.

Across the world, only a few countries' indices performed better year-to-date, such as Morocco (+10.3 per cent), Argentina (+9.4 per cent), and the Philippines (+7.7 per cent).

The biggest contributors to the STI's gain this year were OCBC, conglomerate Jardine Matheson, DBS, Global Logistic Properties (GLP), and Hongkong Land.

GLP, a major warehouse facilities developer in China and Japan, has shot up 16 per cent this year to S$2.55 a share. Its largest shareholder is sovereign wealth fund GIC.

Traders have speculated on takeover interest in the firm since last November. GLP said last week that it is in preliminary discussions with various parties on a possible sale of the company.

Liu Jinshu, head of research at independent research house NRA Capital, said the STI was looking undervalued relative to other indices like the US S&P 500, Japan's Nikkei 225 and the UK's FTSE 100.

Relatively low price to earnings ratios meant limited downside and more upside, he said.

Looking ahead, there could be some profit taking, with investors waiting for improvements in companies' fourth quarter earnings results out by the end of next month.

Inflation will also be something investors are looking for, Mr Liu said. "Counters that benefit from higher inflation include commodities like crude palm oil, dry bulk shipping, and coal."

Oil and gas counters could also see some "bottom fishing", he said.

But investors should avoid highly leveraged firms which might have difficulty refinancing their borrowings in a rising interest rate environment, he said.

Terence Wong, chief executive of Azure Capital, said more than half of his portfolio now comprises Singapore stocks. When he launched his new fund last September, he only planned for Singapore to make up 30 to 40 per cent of his portfolio.

"There are a lot of ideas out there," he said.

He is now holding a number of manufacturers. The recent rally was sentiment driven and has been fairly broad based across the stocks he looks at, he said.

"At certain points in time the music will stop temporarily, but I do think 2017 should turn out to be a positive year for the equity market," he said.

The rally could falter once the market has gone up way above the rest, or if the US market falls. "Being a small, open market we're susceptible to directional changes," he said.

A number of local sell side houses had projected the STI to trade between 3,000 to 3,140 points in 2017, noting that this year could be the year where corporate earnings finally rise. The recent rally now brings the index within 5 per cent of the top end of their projections.

Among the more pessimistic houses was Maybank Kim Eng Research, which projected the index to end 2017 at 3,000 points, or 13.5 times trailing earnings.

The house had highlighted that economic growth remains sluggish, and the region faces capital outflows and risks from Western protectionism. Its top buys are healthcare play Raffles Medical Group and office real estate investment trust (Reit) CapitaLand Commercial Trust, while its top sells are OCBC, rigbuilder and property group Keppel Corp, and aviation services firm SATS.

Fund managers like Nikko AM's Mr Tang and Azure's Mr Wong said though the local economy is not doing too well, there are still ideas to be acted upon.

Mr Tang said his focus remains on sustainable franchises that can grow like logistics, data centres and healthcare. Challenging economic conditions can be a catalyst for corporate restructuring, he said.