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YEARENDER: KLOFFE & MME EXPECT BETTER YEAR IN '97

By: Arshi Daud

KUALA LUMPUR, Dec 24 (Bernama) -- While 1996 has not been a fantastic year for the local futures markets, it has undoubtedly been a great one in laying the foundations to help them to reach greater heights next year.

The Kuala Lumpur Options and Financial Futures Exchange (KLOFFE) and the Malaysia Monetary Exchange (MME), which kicked off on Dec 18, 1995 and May 28, 1996 respectively, had indeed grown steadily this year.

Both markets had seen volume averaging about 300 to 400 units a day, a level described by market participants as quite commendable for infant futures markets.

The on-going education programmes run by both exchanges and their members had contributed to such an achievement. But comparatively KLOFFE has the added advantage of fetching greater institutional interest.

"KLCI futures do not only provide a trading opportunity but also a good tool for hedging against cash market positions, especially by foreign companies," said Eric Thong, an analyst with KAF-REFCO Futures.

MME, on the other hand, is mostly been a place for trading, particularly by local commercial banks, he added.

Desmond Chong, a TA Futures's dealer, agreed saying that minimal hedging activities were noted on MME.

Estimating that more than half of the hedging were done by foreign institutions, he said this could be due to the lack of volatility which MME, unlike KLOFFE, was not bestowed with.

"Except for certain days, MME was still illiquid, thus inhibiting opportunities for scalping. Fortunately players could still make money from position trading," he explained. Scalping is akin to intra-day speculation as traders take a buy or sell positions within seconds to hours. Position trading refers to longer term investment.

With open interest surpassing 3,100 lots, Chong said, "This is an encouraging sign as we are nearing the 5,000 benchmark set by foreign funds for greater participation.

"This along with the fact that handover of Hong Kong next year may result in shifting of funds here and the declining perception among the public of the so-called high risks associated with the futures markets would surely make 1997 a far better year," he added.

At present less than five percent of the activities on MME comes from the retail side. Thong of KAF-REFCO Futures felt that the admittance of new products and foreign market makers possibly next year might help jump start volume on MME.

With some two decades of experience, he said foreign market makers could bring in new dimensions to MME by improving trading and efficiency as well impose pressure on the present 10 local market makers to make improvements.

The local market makers had done their best in improving volume on MME. Tan Sri Abdul Rashid Hussain, executive chairman of Rashid Hussain Bhd had said.

"MME market makers could only exist if there is certain critical mass. You have got to bring up the market to certain critical mass before the market makers can actually survive," he said.

Christopher Podbury, executive director of HA Options and Financial Futures Sdn Bhd, said with so many products to be offered on KLOFFE next year "1997 would very much be a building year."

"It would be a very busy and rewarding year as the wheels are already turning for the launch of CI (Composite Index) options next year," he said.

"There are so many things on the pipeline," he said, referring to the expected launch of individual stock futures, second board futures index and the Islamic index sometime next year.

But then, Podbury said timing for the introduction of new products would be more important as KLOFFE and its members would not want to promote products at the expense of shifting volume from the CI futures.

With a strong likelihood that Malaysia would be a recipient of capital inflows into East Asia following a possibility of correction on the Dow Jones and signs that the Malaysian economy is well-managed, Podbury expects the spot CI futures to reach 1,350 points somewhere by the end of 1997.

In terms of average daily volume, he is optimistic that 1,000 contracts for the CI futures is a realistic target before the middle of next year after which the number would grow exponentially to 3,000 a day in December.

Gauging from the Hong Kong experience, Podbury anticipates that turnover for CI options could be in the one for 10 ratio against the futures or 300 contracts by the end of the year.

"Certainly the clearing house (Malaysian Derivatives Clearing House) and KLOFFE can handle such an enormous growth as the infrastructure in place is one of the best in the world," he said.

The plan for a dual-licensing of stock market dealers as futures brokers and greater price dissemination through MASA screens next year could double retail participation by about 15 percent, he said.

Domestic institutions are also expected to improve their participation in the market, said Podbury. -- BERNAMA

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