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Bargain hunters still stalking cheap stocks

The Kuala Lumpur Options & Finance Futures Exchange Bhd

THE Kuala Lumpur Composite Index began last week trading cautiously prior to any possible surprises from Humphrey Hawkins Testimony by the Fedreal Reserve chairman Alan Greenspan on Tuesday. But the market managed to end the week at four per cent higher than the previous Friday's close at 1041.26.

One factor that contributed to this rally was the return of Prime Minister Datuk Seri Dr Mahathir Mohamad from a two-month holiday. Upon his return, he has made aggressive remarks against currency speculators that have been attacking the regional currencies. He even hinted that there might be laws formulated to curb currency speculation.

Bank Negara's stance to keep interest rates low and not to intervene heavily to support the ringgit on the foreign exchange has been well received by analysts and investors. The central bank has been offering liquidity to the market to peg interest rates below 10 per cent.

In addition, a meeting between 11 of the central bankers in the region in Shanghai, China, over the weekend would certainly have the current currency crisis among the main agenda. Collaboration may bring some stability to the currency woes.

Optimism of the market was reflected on the KLCI Futures market, as July contracts was trading mostly at premium throughout last week. But it closed 1.1 point discount from the underlying at the back of profit taking before the weekend.

For the early part of this week, the performance of the CI will weigh heavily on the outcome of the meeting in Shanghai. Definitive and concrete measures are expected instead of the usual "statements", if there is to be any hope of stability on the currency in the short term.

Bargain hunters will continue to stalk cheap stocks (KLCI now has a price earnings of 15 times) and the support level of 988 locks sustainable.

With growth expected at eight per cent, inflation under control and if the currency crisis is overcome soon, we will see a much better performance on the KLCI in the second half of the year.

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