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Exchange likely to see technical rebound this week

Raymond

PERSISTENT selling of index component stocks on the Kuala Lumpur Stock Exchange (KLSE) on Monday caused the KLCI to close at 978.56 points.

Report of a RM2.8 billion trade deficit for June was like adding coal to a fire on Tuesday. The KLSE was easier across a board front and the KLCI dropped 33.48 points on a high turnover of 282.3 million shares.

A technical rebound on the local bourse on Wednesday helped stock prices to recover some of the heavy losses suffered in the preceding two days.

Renewed selling pressure on Thursday caused share prices to close on a weak note.

The KLSE on Friday opened on a steadier note, following the advice of Prime Minister Datuk Seri Dr Mahathir that prices are a bargain on the KLSE. At the day's close the market was mixed to slightly easier. The KLCI, however, gained 4.03 points.

The KLCI lost 70.27 points last week. The question in the minds of most market dabblers was what happened. The cause have been put squarely on the shoulders of new controls by Bank Negara, trade deficit of RM2.8 billion for June, speculative attacks on the ringgit, rising interest rates, liquidation by fund managers, etc.

All these factors contribute one way or another to the weakness of our market but liquidation by fund managers needs a little bit of looking into, as their action can be tied up with trading in Kloffe. The KLSE now allows investors to sell short in certain counters listed on the KLSE by allowing them to borrow scripts. In this way, the KLSE can monitor the short position of any counter.

What if the unashamed selling company is in the form of liquidation by fund managers who have a large position in an index component stock? The purpose of this exercise is to bring down the KLCI, which they have sold short in Kloffe earlier.

This can be quite a profitable exercise, especially in a weak market. The high volume in Kloffe trading these days, lend weight to our suspicion. In the light of what has been said, the authorities may want to review the rules regarding selling short in Kloffe.

On the technical front, our falling Timing Device has continued with its downward trend. The falling rate as now seen to be tapering off in the highly oversold position at 362.7 points. We anticipate a technical rebound early this week.

Our two weeks old, rising O/O Indicator has been arrested and is now trending down. It is normal to assume that this falling trend will continue and support forthcoming at 220.6 points.

However, should our Timing Device be arrested early this week as indicated by the slowing down of its falling momentum, the whole scenario can change. A rising timing Device can influence the weekly market breadth to be positive and our forecast study shows that even a neutral weekly market breadth can set our O/O Indicator rising again.