

20/09/1997

Haze and weak ringgit fail to dampen market

Fred Tam

WE DID not see a resumption of the market this week. The benchmark Kuala Lumpur Composite Index (KLCI) fell 64.24 points or 7.6 per cent to close at 787.84 instead, while the second board index was down by a similar percentage, down 31.33 per cent, to close at 414.58.

A major reason for this week's weakness was the all too familiar continuous deterioration of the ringgit. Over the period of this week, the ringgit has weakened further from 2.9760 to 3.0280 (see chart) on news reports from Hong Kong that the International Monetary Fund (IMF) might withhold rescue funds to shore up Thailand's battered economy.

Players' sentiments are currently at an ebb, what more after hearing depressive news yesterday that the Government has declared a state of emergency in Sarawak as the Air Pollutant Index (API) breached the 500 mark.

There was some panic sell-off late yesterday in reaction to this news but KLCI stocks were quickly bargain-hunted, propping the index up to close 1.16 points higher, at 787.84, despite a worsening haze that is set to envelope the country.

"The haze is only a temporary phenomenon. It should not affect the economy unless it drags on for months," commented a head of research from a local brokerage house.

But unfortunately, fundamentals don't tell you how long the haze will last nor to what extent it has contributed to the current downtrend. Neither do we know the extent to which the ringgit's weakness was responsible for these two weeks' market weakness.

There can be a whole spectrum of possibilities that includes foreign fund managers' still ambivalent stand towards Malaysian stocks despite recent clarifications and meetings with Malaysian ministers, their preference to stay aside until the Budget of October 17 or the upcoming World Bank and IMF meeting in Hong Kong this weekend.

Or maybe, they will start to feel better after listening to our Prime Minister Datuk Seri Dr Mahathir Mohamad's address at the World Bank/IMF meeting in Hong Kong this weekend. The outcome of his meetings with foreign fund managers in Hong Kong may also affect market sentiments next week.

To the chartist, however, he is not concerned about the reasons why a market behaved the way it did. The chartist knows there are reasons why markets go up or down but he just doesn't believe that knowing what those reasons are is necessary in the forecasting process.

The contributing factors to these two weeks of weakness is unimportant to a chartist. Though these sentiments seemed very bearish from all the news reports and market gossips, market players' actions on the KLSE have shown that they are not so. The charts revealed the KLCI has merely corrected 113.15 points these two weeks and this is only a 50 per cent retracement of its prior uptrend from point A to B, which was a total of 225 points.

Now, despite all the negative news reports and so on, the current low, at 779.48, is still very much higher than the low of September 4, at 675. The individual charts are saying that the big boys who re-entered the market from September 5 to 9 are still very much in the market.

Think about it, if they had sold down their stakes, do you think the KLCI can hold itself at 787.84 by yesterday? Definitely no way. The KLCI

would even have violated its 675 low if foreign funds are unconvinced about our Prime Minister and Deputy Prime Minister's explanations of Malaysia's fundamentals.

As long as the KLCI does not deteriorate significantly any further than 760, its 62 per cent support, funds are really not that bearish about Malaysian stocks! Don't mix with SNIOPs (which stands for those who are Susceptible to the Negative Influence of Other People).

We think the market has corrected sufficiently. And until the KLCI can be pressured by funds to violate 760, 731 and finally 675, our market has seen a major bottom. We see these two weeks' correction as the market's way of adjusting to the perception changes that is taking place as the region's governments move quickly to address concerns that has of late bugged their economies.

We still view these two weeks of consolidation as a "right extension" of the V-type pattern we mentioned last week. Only that this time, we did not see a "flag breakout" as occurred in the August-October 1995 scenario.

Hope should not be lost yet. Let us wait for the outcome of this weekend's World Bank and IMF meeting in Hong Kong and the movements of the region's currencies next week, which could be one of the major market boosting news for Malaysian stocks.

If the ringgit's weakness is your major concern, readers should look for a double top on the Ringgit/US dollar chart (see lower chart) with a resistance at RM3.05 to a US dollar. Failure to break out of RM3.05 is good news and a downside violation of 2.8900 would spell the end of the assault on the Malaysian ringgit. By then, our stocks should have recovered significantly.

The choice is yours as to whether you should buy now, when the road ahead is still unclear and be ahead of the crowd, or do so only when the economic "haze" has lifted, by which time I am afraid you will have to pay a much higher price for your stocks!

(END)