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HK's delight local players' nightmare

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IF THERE is a market besides the Dow which could claim to be exhibiting when Greenspan had once termed "irrational exuberance", the Hang Seng Index would most certainly fit the bill.

At the end of the last trading day under British rule before Hong Kong reverts to Chinese rule on July 1, the Hang Seng Index was rammed to a new record, to close at 15,196.79. This new record have in a way vindicated fears that Hong Kong's economic stability may suffer under Chinese rule.

Ironical though it might seem, but Hong Kong players' delight has been the Malaysian player's nightmare. And grouping the Dow's performance with the Hang Seng would'nt be far too wrong.

For while Hong Kong's stock market rose by 12.9 per cent since January 1 this yer from 13,451 to 15,196 and the Dow was higher by 18.7 per cent from 6,448 to 7,654, the lamed Malaysian stock market, as reflected by the KLCI, moved south, losing 13.5 per cent in the same period, all of which makes our Prime Minister Datuk Seri Dr Mahathir Mohamad's comments at the KLSE dinner speech in April so relevant when he said that "when share prices in New York go down, share prices in Malaysia go down. But when share prices in New York go up, share prices in Malaysia still go down."

This statement now holds true even when applied to Hong Kong stock prices!

How can we explain the divergence between Hong Kong and US and Malaysian stock prices?

Performance in any bourse has a lot to do with the demand for and their supply of shares within that bourse vis-a-vis other bourses.

The world's bourses compete for investors' funds. In our case, it is quite obvious that funds have decided to sell Malaysian shares - and in the process increasing their supply and a consequent fall in their prices - in favour of Hong Kong and to a lesser extent, the US' market.

Note from the chart that on the day (April 1) the KLCI commenced its downtrend, the Hang Seng Index bottomed out and as the KLCI continued to fall, the Hang Seng Index rose.

The chart has made it quite clear that the Hong Kong player's delight was indeed at the expense of the Malaysian player!

Judging from the record closes in both the Hang Seng and the Dow, it would be hard to expect funds to come our way without which it is difficult to see how local funds alone can lift our index-linked stocks in a sustained manner.

As such, I find it hard to see a sustained rally for the next term, at least not until there is a sentiment change in these markets in favour of ours.

Technically, the KLCI had lost 27.48 points to close at 1,070.06 this week. For a day, the KLCI fell below our fractal support of 1,067 but yesterday's rebound to close above this crucial 1,067 is some cause for hope that some support is still forthcoming, likely from local funds.

Temporarily, therefore, the KLCI may see further bargain hunting and light support next week, but I do not see any strong "buy" signal until the KLCI can breach its immediate resistance fo 1,104.

On the negative side, any renewed weakness to close below 1,067 is your signal to reduce positions as further weakness could take the index down to re-test 1,018, its low registered on May 16.

The second board index closed lower by 9.97 points at 565.95 this week.

This represents a 50 per cent retracement from its June 5 low of 550 and its June 19 high of 582.

Compared this to the KLCI, the second board is not as weak. This reason for this anomaly may be because second boards are not much affected by flights of funds to other bourses, which are mainly of the institutional kind.

In view of the presence of a "hammer" in yesterday's trading, I see a possible bottom on the second board index. Look for a market rebound on second boards next week.

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