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KLSE: Rally to boost sentiment

AT a time when stock prices are down and market sentiment is weak, last week's opening of the imposing Kuala Lumpur Stock Exchange Building and related events were no doubt keenly followed. As it turned out, it has been an encouraging week of positive news for anxious market players and investors, although stocks ended the week lower.

The week began nervously with both equities and the ringgit-US dollar rate closing at their lowest levels in recent years as bearish sentiment continued to plague the two markets in the early part of the week. A fleeting silver lining was seen in the remaining three days of trading, the strongest uptrend being registered on Wednesday with the benchmark Kuala Lumpur Composite Index touching a high of 919.58, up 22.33 points from Tuesday's close, before falling back to end at 908.83. The uptrend on Friday with the KLCI touching 928.64 was pulled down in the afternoon by the slide in the ringgit, causing the index to close at 910.18, compared with 932.36 on Aug 8. The improved sentiment has largely been attributed to the announcement by Deputy Prime Minister and Finance Minister Datuk Seri Anwar Ibrahim to address the current account deficit. Drastic proactive measures will include deferring non-critical mega projects. In tandem with this, the 1998 Budget will take bold steps to curb imports and expand exports to help ensure economic strength in the long term.

Since the July 2 effective devaluation of the Thai baht stemming from its financial crisis and aggravated by speculative attacks on the currency, the spillover effect has negatively impacted on neighbouring countries, particularly the stock markets. Into the second month of the regional currency turmoil and nervous markets, all eyes are now on the outcome of the massive US\$16 billion bailout plan to stabilise the Thai economy, initiated by the International Monetary Fund.

In Malaysia, where stock prices started their downward trend earlier this year following Bank Negara's pre-emptive move to curb lending for the property and share sectors, there is the inevitable concern as to how long the shares will be in the doldrums. Seasoned economists and stock market players and watchers at home and abroad will attest to the fact that nobody can precisely predict the rise and fall of prices. All market analysts could forecast is a trend. Last week's optimism expressed by prominent banker Tan Sri Rashid Hussain that he believes that the worst is over for the local stock market and some analysts' forecasts that stocks are likely to stage further recovery will help boost sentiment.

As stock prices have fallen to attractive levels at above 900 points with price earning ratio of 14:15, there has been no lack of calls from the Prime Minister downwards on local investors to take the lead to buy. Datuk Seri Dr Mahathir Mohamad reiterated his call at the opening of the KLSE building last Friday, strongly urging local investors and fund managers to flex their muscles on the local bourse to ensure it stays healthy. Instead of being mere followers, they should be influencing the trading trends to cushion the effects of foreign fund movements.

The life of the market depends on its investors. As KLSE president Datuk Mohd Salleh Majid has said if foreign investors and locals stay away, then the market will not go up. The current wait-and-see attitude arising from fears that prices have yet to bottom out, is unhealthy. Granted that we are not yet out of the woods as exchange rate volatility will continue to impact for a while on the equities market with the

continued speculative currency attacks, this should not deter local investors from entering the market to pick up good stocks which are trading at a discount. The country's economic fundamentals remain strong and companies are still making good profits. It is imperative that local institutions and fund managers as well as retailers move into the market in a big way to lift sentiment so necessary for an upward trend. It is so true that if Malaysians do not help themselves, nobody will.

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