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Local factors putting pressure on stocks

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LAST week investors were urged to be vigilant against fresh weakness and we were right.

The Kuala Lumpur Composite Index (KLCI) lost another 15.13 points or 1.37 per cent to close this week 1,089.45, this despite a 173-point rise in the Dow on April 23, all of which prompted this appropriate comment from our Prime Minister Datuk Seri Dr Mahathir Mohamad in a Kuala Lumpur Stock Exchange (KLSE) dinner speech on Wednesday night.

He said: "When share prices in New York go down, share prices in Malaysia still go down." But when share prices in New York go up, share prices in Malaysia still go down." How true. That's the KLSE for you!

For example, during the recent March correction, the Dow lost 756 points or 10.6 per cent from 7,112 (on March 11) to 6,356 (April 14) but our KLCI went down much more drastically by 208 points or 16.3 per cent from 1,277 (March 3) to 1,069 (April 16).

And when it comes to a rebound, the Dow recouped more than the KLCI adding misery to injury. For example, the Dow rose by 401 points or 6.3 per cent from 6,356 (April 14) to 6,792 (April 24) whereas the KLCI managed a mere three points or 0.3 per cent from 1,086 (April 15) to 1,089 by yesterday's close.

Some blue chips like UEM, Genting, Resorts TNB, AMMB, and Maybank were even in worst shape than on April 16 by closing below this day's close.

Is this the case all the time? I don't think so. There are times when our stocks moved up in better percentages than the Dow and on the other hand does not emulate Dow's falls.

Why then is the local bourse reacting more drastically than the Dow this time round? Many would not admit to this, but I believe the reason for this incongruence with the US market rests with events homegrown.

For one, the Bank Negara's guidelines on property and share financing and its delay in clarifying the categories of loans that are exempted and non-exempted is a major reason for selling by foreign institutions.

The other minor but still an aggravating factor could have stemmed from the delay in installing a new Menteri Besar for Selangor.

These are some of the locally generated factors that are putting a lot of pressure on stocks, preventing them from rising. Some may say that these factors must have been discounted by the market by now, but the pull-back this week after a strong rebound last Thursday and this Monday shows that players are still uncertain about the market.

The low volumes clocked this week is also testimony of this uncertainty amongst investors.

Without their participation (not to mention that many have sidelined not because they choose to but more because many are already "roasted" by the market's plunge from March 28 to April 16) it does not take a professor to tell you that lack of participation is preventing any sustained stock rises.

There are two possible scenarios next week. This week's four down-days can be interpreted as a "bullish" flag.

If so, we would have seen a bottom on April 16 when the KLCI fell to 1,069 and next week should see a rebound to break out of this flag on the upside.

Readers should look for a break above 1,127 to confirm further strengths. Otherwise, I see a lacklustre market that will continue to

drift sideways or worse still lower. Any downside break below its recent 1,069 low will give rise to scenario number two, and this would spell further trouble for index-linked stocks. Let us hope this won't happen.

The second board index, on the other hand, is not as bearish. The 6.31 points rebound yesterday is a healthy signal. Next week, we may yet be able to see this index resuming its rally and a break above 583 would be a signal to re-enter.

It is unlikely that the recent low of 509 registered on April 16 will be violated given the steadiness of the index this week. Some third liners will also be expected to rally next week. Look for some situational plays in third liners and second board counters next week.

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