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Local funds to enter bourse in big way (HL)

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WARNING currency and share manipulators that they will be made to pay a price for sabotaging the Malaysian economy, Prime Minister Datuk Seri Dr Mahathir Mohamad says local funds will enter the share market in a big way.

He identified the Employees Provident Fund, Permodalan Nasional Bhd, Pensions Fund and Khazanah Nasional Bhd as among the local funds which will be involved. Before this, the exposure of the local funds like PNB in the share market was limited to 5-10 per cent.

Some private investors have also indicated they would support the market, the Prime Minister said at a 90-minute meeting with media editors and senior economic writers at his office in Kuala Lumpur yesterday.

Asked if the private investors were all Malaysians, he said he had been told that several foreigners were also interested to back the move.

In what could be seen as the strongest and most comprehensive reaction to the current ringgit and stock market situation, Dr Mahathir took pains to differentiate manipulation from speculation.

He brushed aside the editors' suggestion that his action amounts to taking over the management of the economy, saying he was merely giving the overview of the situation as he has "a more complete" picture.

Dr Mahathir said although he is not an economist, he has the experience of managing the country for more than 20 years as Prime Minister and Deputy Prime Minister, aside from the fact that he has good advisers.

Reiterating that Malaysia is still in favour of an open market, he said the situation cannot be allowed to deteriorate at the hands of manipulators who have access to billions of dollars of funds - again naming American George Soros as the main culprit.

He said the market fell on concerted moves by manipulators who had abused regulated short-selling to depress prices.

Dr Mahathir said the Government is aware that local banks and securities houses were also involved through lending shares in their custody for a fee to the manipulators.

He said the shares did not change hands but manipulators could trade the stocks down by repeatedly selling short.

He warned that action will be taken against those who sabotage the economy, including having their licences revoked.

"We know who's doing what. People who sabotage the economy must be made to pay the price, especially those in the country."

Late Wednesday, the Kuala Lumpur Stock Exchange (KLSE) announced that it was designating from yesterday all the shares making up the 100-stock Composite Index, rendering them unavailable for short-selling.

The KLCI fell 35.73 points to 812.18 and the ringgit 590 points to 2.8850/00 to the US dollar yesterday.

Dr Mahathir described the current situation as an "attack" on the economy which will affect everyone. "We are not going to allow these people to manipulate the economy and take a free ride on our backs."

He said the country's economic fundamentals remain strong but manipulators are only interested in making money from the margins and not the financial health of the companies or capital appreciation.

Dr Mahathir cited the example of Malayan Banking Bhd which saw its share price falling 70 sen on Wednesday, one day after announcing a record pre-tax profit of RM2.2 billion for the year ended June 30 1997 and a one-for-

one bonus.

"I accept the right of foreigners to buy and sell shares. I even accept speculation in shares but I can't accept manipulation," he said.

He conceded that the move to designate the 100 index-linked counters had caused the index to fall further but defended the action, saying that the manipulators meant to depress the KLCI further anyway.

However, he was positive that it will be a short-term dip as share prices have become very attractive, with many companies now trading at very low price-earnings ratios.

"There is a total dichotomy between the share market and the companies' (performance). They are totally decoupled.

"Now is a good time to buy for dividends, prices are so low. We will now go in and buy. If there are people selling, we will buy and keep. We will see."

Dr Mahathir said the country is unfairly treated and there is a lot of evidence on the foreign manipulators' activities. He said the Government has documents to prove it.

On criticisms against disallowing short-selling, he said there are precedents in the Western countries where rules have been changed to make what was legal at one time illegal at another.

"What is legal, when abused, can be made illegal," he said, citing the example of the Rockefellers who monopolised the oil market, drove prices up and hurt other Americans. This led to the enactment of the US Anti-Trust Law.

After PNB gained control of British-owned Guthrie Plc in a dawn raid in the early 1980s, the London Stock Exchange changed the rules to compel anyone with more than 5 per cent of a company's equity to declare the shareholding to the exchange.

He said when Malaysia bought into the tin cash market at the London Metals Exchange in the early 1980s and short-sellers were unable to deliver, the LME changed the rules to free them from the obligation.

"They are a law unto themselves. It was also the case when Micheal Milken and Ivan Boesky sold junk bonds and hurt a lot of small American investors. They made what was legal, illegal and jailed them."

Referring to his accusation against Soros and his criticisms of the West for dictating terms to the developing countries, Dr Mahathir said: "A lot of people agree with us but they won't say anything."

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