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Local funds set to enter the market in a big way (HL)

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KUALA LUMPUR, Thurs. - Warning currency and share manipulators that they would be made to pay a price for sabotaging the Malaysian economy, Prime Minister Datuk Seri Dr Mahathir Mohamad said today that local funds would 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 would be involved.

Dr Mahathir also said there were private investors who had indicated they too would support the market.

Prior to this, the exposure of the local funds like PNB in the share market was limited to five to 10 per cent.

The Prime Minister said this at a 90-minute meeting with media editors and senior economic writers at his office here.

Asked if the private investors were all Malaysians, he said they were but he had also been told that several foreigners were supportive of the move.

In what is 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 amounted to taking over the management of the economy, saying that he was merely giving the overview of the situation as he had "a more complete" picture.

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

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

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

Dr Mahathir said the Government was 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 through repeatedly selling them short.

He warned that action would be taken against those who sabotaged 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," he said.

Yesterday, the Kuala Lumpur Stock Exchange (KLSE) designated all the shares making up 100-stock Composite Index, rendering them unavailable for short selling.

Today, the KLSE Index fell 35.73 points to 812.18 and the ringgit 590 points to 2.8850/00 to the US dollar.

Dr Mahathir described the current situation as an "attack" on the economy where everyone would be affected. "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 remained strong but manipulators were 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 made record pre-tax profits of RM2.2 billion and announced a one-for-one bonus but the price of its stock fell 70 sen on the same day.

"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 it would have gone down anyway with manipulative selling.

However, he was positive that this would be a short-term dip as share prices were now very attractive. He mentioned that many companies were 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," he said.

Dr Mahathir said the country was unfairly treated and there was a lot of evidence how these foreign manipulators did it. He said the Government had documents to prove it.

Replying to criticisms against disallowing short-selling, he said there were precedents when Western countries changed the rules to make what was legal at one time to be 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 US Government to enact the 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 five per cent shares in a company to declare to the exchange.

He said when Malaysia bought into the tin cash market at the London Metal 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 is also the case when Michael 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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