

30/08/1997

Manipulators now have to contend with local funds

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LAST week, we spoke about the possibility of a trend reversal after a sighting of a "high-wave doji" pattern. But we also mentioned that this reversal to the bullish side is conditional only if "the KLCI registers a higher low (this week) of not violating 877 level". But this was not so.

The Kuala Lumpur Composite Index (KLCI) made a new low when it pierced through 877 this Tuesday to close at 856.00, effectively negating the high-wave doji pattern as well as the Trending Candle Body Reversal (TCBR) buy signal mentioned in Markettrek last week. We were stopped out at 877.

This bearish reversal of trend was sharp but in any "falling knife" situation, we do not expect it to last. Hence, in our daily reports we had called for a test of the 836 level as the most, as most indicators were grossly oversold. The bullish reversal patterns to look for under the circumstance were hammers, piercing lines, engulfing bullish, inverted hammers, bullish haramis, etc. But we did not see any of these V-type patterns at all except for a handful at the end of yesterday's trading.

The failure of the market to register these patterns is implicitly saying that market sentiment was really bearish so much so that counter-attacks by buyers were just not significant enough to offset selling pressure.

Who are these sellers and why are they selling? I do not need to elaborate further here as it is an open secret that foreign fund managers had "chosen" the weakest link of the South-East Asian economies, in this case, Thailand to burgeon the stock markets of the region by first weakening its currencies.

The KLCI nose-dived 100.60 points or 11.12 per cent this week to close at 804.40, but not before testing 777 on Thursday and again yesterday. As of yesterday's close, the KLCI is at its lowest point since August 19, 1993 when it clocked 798. Yes, we are back to 1993 levels!

This year's slump, which commenced on March 7 at 1,277 had knocked off a total of 500 points (from 1,277 to 777) or 39 per cent, making this fall its severest since the "October Crash" of 1987 when it registered a 52.5 per cent drop from 470 to 223 from August 7 to December 11, 1987.

Unlike many of KLSE's previous falls, the severe corrections this round was not an isolated case of just us. It also affected others in the region as well. Thailand, Philippines, Indonesia, Singapore and even South Korean and Hong Kong stocks were also battered by weak market sentiments. And an end would come sooner or later once supply and demand adjusts itself.

But in a surprised and unexpected move, the KLSE announced on Wednesday the imposition of trading curbs through designating all 100 component stocks of the KLCI. Once a security is designated, it can be sold only if the seller has shares on hand and buyers must pay in full for the shares. This restriction in effect bars short-selling and speculative activities and is implemented to prevent key blue chips from falling further.

The objective of this exercise was, according to an official, "to stabilise the market until it goes back above the 1,000 level". But that didn't happen.

Sellers continued to unload stocks and sold the index down 69.84 points or 8.3 per cent at one point before last minute buying shored up the KLCI to close 35.75 points or 4.22 per cent to close at 812.18 on Thursday. There was no shortage of criticisms from local and foreign fund managers on the imposition of capital controls on KLCI stocks.

Many were irked by the restrictions especially when Malaysia aspires to be the region's financial centre. Morgan Stanley reacted by limiting its trading in Malaysian shares and sought clarification on the rule change. London-based fund managers also lashed out at these curbs.

At lunch time, the KLSE clarified that buyers can purchase shares without having to put cash up front and have up to T+2 days before 12.30pm to pay for purchases. But judging by the continuation of selling pressure in afternoon trade, this clarification did not make much difference to market sentiment.

But yesterday saw some intense battle in the market place between the bulls and the bears. Fresh from announcements by our Prime Minister Datuk Seri Dr Mahathir Mohamad after market hours on Thursday on measures to ensure stability in the market, local funds were seen actively supporting key blue chip stocks yesterday.

Active buying surfaced just before lunch and again before the close. Did our Prime Minister's announcements make any difference to the market? Judging from the KLCI's inability to make a new low (below 777) I would say that at this point, his statements did have an effect on the market's psychology.

For the record, the KLCI failed to re-test Thursday's low of 777 but not violating it, to rebound in afternoon trade to close above the psychological level of 800, at 804.40. Note from the high volumes clocked yesterday (the highest since March 12, 1997 when it clocked 513) and a close off its lows, I would conclude that the bulls did make an impact in the market place.

But here again, one must understand that market bears were being put in a position where they have to contend with restrictions like the suspension of securities borrowing and lending facilities currently provided by approved banks and brokers. Yet, their strength was omnipresent from the high volumes registered yesterday.

If the recent restrictions imposed by the Government is perceived as a message to potential "manipulators" that Malaysia is not a country to be taken for granted, then selling pressure should decrease gradually. They would do better to seek other pastures to reap their harvest. The "tweezers bottom" pattern registered on Thursday and Friday is reason for optimism that the bears are no longer totally in control. They, now know they have to contend with local funds support at the 777 level.

The new low and immediate support is now 777. And unless bears can test and violate this low, the stock market should see a gradual rebound from next week. But we still feel that for a rally to be sustained, foreign funds participation is crucial at this stage in our market development. Given the controls announced this week, will foreign funds continue to invest or will they stay out?

The second board index fell in tandem with the index, losing 91.51 points or 19.67 per cent to close below our 406 support, at 373.74. The fallout is not so much due to foreign fund selling but by collateral damage from the imposition of trading curbs this Wednesday which exacerbated investors nervousness. Though non-designated, they fell in tandem and one can conclude that imposition of trading curbs had affected speculators confidence.

Yes, we saw some rebound yesterday, but how long will this rebound last? After bouncing off its 360 support to close at 373.74, we may see further nibbling next week, but we must not forget the primary trend is still very much "down". Until the index can breach 406, I would continue to be cautious and stay aside.

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