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Market-boosting news needed to restore confidence

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PRIME Minister Datuk Seri Dr Mahathir Mohamad had on April 23rd commented at the KLSE's dinner speech: "When prices in New York go down, shares in Malaysia go down. But when share prices in New York go up, share prices in Malaysia still go down."

I find the Prime Minister's comments so relevant in the light of what transpired on the two bourses this week that I am tempted to repeat his remarks in this column.

For the sake of clarity in proving the relevance of his observation, I have printed a comparative daily chart of the Dow and the Kuala Lumpur Composite Index (KLCI). A single glance will reveal clearly the divergence of price movements between the Dow and the KLCI for the period from March to May.

Based on Thursday's close, the Dow settled at 7,136.62. This is higher than its previous all-time historic high clocked on March 11 when it registered 7,112.10. In the process, the Dow had successfully made a U-turn from high (7,112.10) to low (6,356.78) and back to a new high (7,136.62).

If we should take the same period to compare the performance of the KLCI, readers will be able to see that the KLCI at yesterday's close of 1,107.37 had not rebounded to anywhere near its March 11 level of 1,250.33.

This phenomenon is indeed puzzling and depressing. For while prices in New York are bouncing skywards, Malaysian stocks are either flat or lower. Week-on-week, the KLCI was up by a marginal 0.98 points or 0.31 per cent to close at 1,107.37.

In contrast, other major Asian bourses rose in tandem with the Dow. For example, Japan's Nikkei 225 was higher by 288.03 points or 1.48 per cent to close at 19,802.78 while Hong Kong's Hang Seng Index was up by a hefty 849.10 points or 6.49 per cent. Even the underweight Singaporean stock market rose by 49.98 points or 2.48 per cent to close at 2,066.21.

So what went wrong with the "favoured" Malaysian stock market? Some blamed our market's fall as a reaction to the Dow's fall around end-March and not Bank Negara's announcement on March 28. That seemed to hold water for a while as the Dow plunged 520 points from 6,876 on March 25 to 6,356 by April 14.

But many are now beginning to have second thoughts on this line of reasoning simply because Malaysian players do not see a similar rise in our stock prices despite the Dow having rebounded to make a new record high of 7,269.47 on May 6.

If our stocks are not reacting so much to events foreign, then it must be the homegrown ones that are worrying investors.

The first thing that comes to mind that triggered or exacerbated the KLCI's downtrend was Bank Negara's announcement of curbs on property and stock financing.

The central bank has since allayed investors' fears by an announcement last week that there is still ample money in the banking system to loan out to property and share purchasers but by then, players' confidence had already been shaken.

And given that market sentiment, perception or confidence is so vital in dictating a market's direction, the lack of this important ingredient is widely believed to be the cause of the lethargy that is plaguing the local

bourse.

Perhaps there is more than one dampener. Will players want to wait for the outcome of the Permatang by-election on May 29 before re-entering? Will a Cabinet reshuffle help? If so, when will that be? Could it be that investors are waiting to review the new Cabinet line-up before taking positions?

Could players be sidelined until they see how the new T+5 settlement system will fare before coming back to the market? These are some of the unknowns that may be causing players to sideline the market.

But what is known to players at this moment are the many new cash calls this month that will serve to dilute participation. If the current lack of participation continues, forthcoming rights issues may just be vulnerable to undersubscription if prices of their mother shares do not recover above their exercise prices.

In short many questions are bugging players. This is what happens when market confidence has been lost. Minor issues bother them. The market will need to see some market boosting news real soon if this 'confidence' or 'perception' problem is to be redressed.

Until then, I do not see much strength in the market for the near term. Chartwise, it is still very much a consolidation market until the KLCI can breach 1,127 on the upside. There may be speculative plays but do not expect any sustained rally on index-linked stocks.

As for the second board counters, given the sudden shakeout since March 28, many have been badly hurt and the lack of participation may see many more drift even lower. It is unlikely that we have seen the bottom yet for such counters.

There are no buy signals on the 2nd board index until it breaches 563 on the upside.

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