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Outlook for local mart next week remains uncertain

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THE benchmark Kuala Lumpur Composite Index (KLCI) sank deeper into oblivion when it momentarily plunged to a new nine-month low on Tuesday to 1,056.30. The last time the KLCI was in such dire straits was on July 30 1996 when it scrapped rock bottom at 1,049.03 before settling at 1,053.28.

Ironically, Bank Negara had only a day before updated our national news agency, Bernama that many financial institutions were still within their loan limits for lending to the broad property sector and for buying shares.

The Central Bank's deputy governor had said on Monday that "26 commercial banks out of 37 in the country have not exceeded their lending limits and 31 finance companies out of 40 had not reached the ceiling on property lending and all could dish out loans for share purchases". In all, about RM60 to RM70 billion is still available in the banking system to finance property and share purchases.

Some observers may like to credit this week's rebound to this piece of news, but how sure?

Given that the stock market discounts price sensitive information at first opportunity, this news released on Monday should have caused a market response on Tuesday, but we did not see one.

Instead, the KLCI was sold off by another 15.35 points to close at 1,059.51, its lowest since July 30 1996 by what was claimed as "US programme selling".

The KLCI only commenced its bullish reversal on Wednesday when it was dealt higher by 20.66 points to close at 1.080.17.

If a stock market is the most efficient distiller of price sensitive news, then the president of the KLSE, Datuk Salleh Majid, should be credited for making the right call the day before the market rallied.

In an interview featured on Wednesday's business dailies, Salleh had said that "it was high time for institutional investors to return to the market to restore stability to prices which have been reeling".

Salleh said institutional players like fund managers and unit trust managers often say that share prices are too high but with the share price-earnings at an average of 15-16 per cent, it's the best time to buy.

"I understand that many of them (retail investors) are stuck and, as such, are unable to enter the market, but if no one enters the market, (the prices) will not rise," he told reporters after the opening of the National Congress on Vision 2020 by Prime Minister Datuk Seri Dr Mahathir Mohamad.

But Wednesday's rebound could have come from the inflow of hot monies from Manila where falling prices in Philippine shares from a lending limit measure by the Central Bank of Philippines similar to the one by Bank Negara a month ago is unnerving foreign investors. I suppose Malaysia is still viewed as the lesser of the two evils (or three if you take into account Thailand).

Yet another possible catalyst to Wednesday's rebound could have been our market's response to the Dow's 179-point rise the night before.

Regardless of whichever factor was responsible for triggering the KLCI's rebound, the effect of Wednesday's news on our players' psyche was positive. This rebound had effectively put a stop to the leak that had been plaguing the local bourse since the Central Bank's announcement on March 28.

And follow-through buying yesterday succeeded in restoring some measure of confidence to the Malaysian bourse, especially in index-linked stocks.

With this higher close this week, the KLCI has succeeded in stopping itself from falling beyond its nine-month low of 1,049, hence a cause for hope that we may have seen a market bottom. But nothing is for sure at this point, not until the KLCI can start making new highs and higher lows from now on.

Next week's market is still uncertain and any rally will likely invite stale bull liquidations from those who have been trapped when the index fell sharply from 1,217. To be sure, I would remain cautious until the KLCI can breach its up-fractal of 1,127 on the upside.

I am afraid that our market will have to contend with this batch of stale bulls and unless some positive news surface on the horizon soon, lack of buying power will prevent the market from moving up in any extended way. As such, I am still seeing a consolidation market for the month of May.

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