

11/10/1997

Pre-Budget rally on the KLSE set to continue

Fred Tam

LAST week we said that for the market to rally, it needs a strong dose of fresh news. Thank goodness, we got what we needed this week.

The benchmark Kuala Lumpur Composite Index (KLCI) jumped 33.15 points or 4.1 per cent to 836.60 on Wednesday, its fourth largest percentage gain this year after September 5, September 8 and August 20 respectively. This crucial rally lifted the KLCI out of a five-day consolidation breaking out above point H1 (816 registered on September 30), and came from announcements by Prime Minister Datuk Seri Dr Mahathir Mohamad and Deputy Prime Minister Datuk Seri Anwar Ibrahim.

The market's rally was in anticipation of a positive Budget on October 17 which would address Malaysia's current account deficit woes. Anwar is expected to cut the current account deficit to 5 per cent of gross national product (GNP) and to 4 per cent in 1998. Malaysia cut the current account deficit to 5.5 per cent of GNP last year from 8 per cent in 1995.

Flight of the ringgit from Malaysia which began in the first quarter of this year was due to our nation's current account deficit status which investors found uncomfortable. The fast depreciating ringgit was responsible for the rout on our stock market which has since fallen 44.8 per cent from 1,223 on March 28 to a low of 675 by September 4. In the same timeframe, the ringgit has fallen from 2.5 to a US dollar in March to 3.4080 by October 1.

But since last week, the ringgit has made a stunning recovery of 9.2 per cent from 3.3700 to 3.0600 yesterday and in tandem, so did our stock market. While after a point, the weaker ringgit will not negatively affect stock prices anymore, a sudden ringgit strengthening would cause a clamouring for the local unit among the same funds that deserted Malaysia because of their "kiasu" attitude - that if they don't rush to buy now, further strengthening would mean higher costs. Hence, their accumulation activities on the KLCI since September 4 have turned to desperate buying and this accounts for the 36.72 points or 4.61 per cent rise to close this week at 834.01.

Having rose 9.2 per cent this week, one should not expect too much upside on the ringgit. There may be a technical correction to 3.1500 but this should not affect stocks because new buying of the ringgit will underpin its strength. The upcoming Budget is expected to be a no-nonsense one where the main thrusts will include reduction of imports, encouraging exportable services emanating from the Multimedia Super Corridor (MSC), new incentives for the services industries like shipping, education and insurance. Public expenditure will be cut back, incentives will be introduced to promote export-orientated industries with emphasis on high value-added items. In all, the Government will likely run a budget surplus. Deferment of mega-projects and containing inflation will also be a priority.

From the KLCI chart, it is clear that the worst is over. Some may not agree with us. They will still want to wait for the contents of the Budget and wait-and-see afterwards before committing. All we can say is, by that time, prices will not likely be a bargain anymore. The charts revealed that informed parties are already accumulating stocks since September 4. Note that the KLCI's lows are getting higher. Point L2 is higher than L1 which is in turn higher than L. Successively higher lows implies buyers are bullish about the market. The KLCI is also making successively higher

highs too. Note that H2 is higher than H1. Again, it implies buyers' confidence, otherwise why bid prices at near highs? Text books on technical analysis would define that as an "uptrend".

Sectors that are looking positive are: Plantation, Trading/Services, Industrial Products and Consumer Products while Construction, Finance, Property and Mining are lagging behind this time round. Speculative second and third liners are expected to be slow in their uptake and best to be avoided. The second board stocks look good and a revival is possible as its RSI is now above 50. At yesterday's close of 430.32, its RSI is at 53.

What then can we look forward to next week for KLCI stocks? First, investors should look for the market to test 901 at H3 registered on September 9. A successful breakout would mean a higher target of 937 at H4. The market's immediate support is at L2, the 785 low registered on October 2. This uptrend will only be in jeopardy if this low can be violated on the downside. Until then, it is safe to continue to buy and hold on to buy positions.

(END)