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Still hope of rebound for KLSE stocks

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THE outcome of last weekend's World Bank/IMF meeting in Hong Kong was not conducive to Malaysian stocks.

Our Prime Minister Datuk Seri Dr Mahathir Mohamad's call to curb currency manipulation in his speech at this meeting was taken unkindly by foreign fund managers.

The ringgit reacted negatively on Monday and hit a 26-year low, to 3.1200 against the US dollar, triggering a sell-off in Malaysian stocks. The benchmark Kuala Lumpur Composite Index (KLCI) dived 27.34 points or 3.47 per cent to close at 760.50 but not before testing a low of 750.

Investors would have been worried sick about the ringgit's 670-point drop on Monday even to the point of quitting the stock market altogether. Given that the ringgit had also exceeded its last low of 3.0500, it is not unreasonable to expect such a reaction.

But if one were to look at the chart supports as mentioned in our column last week, you would have have found one at 760. Though the KLCI exceeded 760 to test 750 intra-day, it rebounded to close at 760.50.

A re-test of the 750 level occurred on Tuesday, but sellers were once again thwarted by buying interest to close back at 781.20.

Japanese traders would call this a "Tweezers Bottom" pattern. This is where the market tested a suport line twice (in this case, at 750). Now a tweezer bottom could well be a market bottom if not violated on the downside.

And as it turned out, it was. The KLCI continued to rise steadily from Wednesday right through to Friday inspite of a much weaker ringgit. By Friday, the ringgit had closed at 3.1300 against the US dollar.

So, although we had called for a monitoring of the ringgit's movements this week to gauge the direction of the KLCI, it would appear that the KLCI is now oblivious of the ringgit's weakness. The right chart to look at, after all, is the KLCI's chart itself.

For even after the US Rating Agency Standard & Poor's announcement of a downward revision of Malaysia's long term currency ratings and three public companies outlook from stable to negative, the KLCI reacted little to it.

Without charts, one would have sold down one's holdings, but noticed that the KLCI closed higher by 9.92 points to 789.33 inspite of the ringgit's further drop to 3.1140 against the US dollar on Thursday.

On Friday, the KLCI rebounded further, by 10.48 points or 1.33 per cent to close at 799.81. Week-on-week, the KLCI was dealt higher by 11.97 points or 1.52 per cent to close at 799.91.

It would appear, from the lack of a voluminous sell-off on Thursday, that foreign funds influence on the local bourse is wearing thin. The KLCI chart would reaffirm this stand, given its rebound from the 750 Tweezers Bottom - which was our 62 per cent support mentioned in last week's issue.

But will this mean that we are now out of the woods? We don't think so. Though we expect a continuation of an uptrend next week, the question remains as to whether buying interest can be sustained and to what level.

There is little doubt that foreign fund participation is need to shore up market interest.

With the recent criticism of Malaysia's currency policy at the World Bank/IMF meeting in Hong Kong, downward revision of Malaysia's outlook by Rating Agency S&P, the weak ringgit and the upcoming Budget announcement

on October 17, will foreign or even local participation be strong enough to trigger a strong rally?

Be that as it may, the current chart revealed some market stability from lack of selling to the extent that the technical indicator MACD has turned bullish, triggering a buy signal. We are looking at a first target of 900.

The second board index also held steady for the rest of the week after falling to a low of 398. It had not violated this low registered on Monday.

As such, there is still hope of a rebound. Look at the 398 level to provide a platform for a rebound. We are looking at a first target of 466.

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