

01/09/1997

Technical rally on bourse likely to correct grossly oversold positions

S.N. Lock

HEAVY selling of index-linked component stocks by foreign funds sent the Kuala Lumpur Stock Exchange Composite Index tumbling to a four-year low of 777.46 points on Thursday, last week. It later rebounded marginally to close at 804.40 points on Friday.

Just when American financier George Soros said regional currency attacks would "soon" blow over, currency speculators renewed their drive by alternating assaults on the Thai baht, Indonesian rupiah, Philippine peso and ringgit.

They then created a "chaotic" approach to stay ahead of the curve by shifting their assault on regional equity markets. This resulted in panic and created an environment for them to get out of the markets.

They started by short-selling the ringgit. If continued selling had not been checked, they would have inflicted greater damage.

Bank Negara intervened by imposing restrictions on currency swaps, cutting down ringgit supply. This forced currency speculators to look elsewhere for supply.

Their only option was to switch rapidly to the equity market. They put up large sums of foreign currency as collateral to borrow shares from local institutions to carry on with manipulative activities.

Armed with large quantities of index-linked component stocks, they would dump these shares to raise ringgit to cover foreign exchange short positions. With their skilled recycling of these shares, the CI was driven lower.

With that, the "chaotic" environment became a reality and would soon serve their purpose of taking billions of ringgit away from our market.

The KLSE's prompt designation of all the 100 component stocks of the CI managed to contain short-selling of these counters. Transacted volumes of KLSE heavyweights shrank immediately.

Prime Minister Datuk Seri Dr Mahathir Mohamad's call to Government financial institutions and local investors to support the stock market managed to cushion the free-fall. The CI managed to hold itself fairly well on Friday before recovering to close at 804.40 points.

Following are the readings of some of its technical indicators:-

Moving Averages: The CI continued to stay below its 10-, 20-, 30-, 50-, 100- and 200-day moving averages.

Momentum Index: Its short-term momentum index turned south in staging a re-test of its immediate downside support.

On Balance Volume: Its short-term OBV trend continued to head south in the recent sell-out. It continued to stay below its 10-day exponential moving averages.

Relative Strength Index: Its 14-RSI continued to display a positive (See CI's daily bar chart - C6-C6 and C7-C8) divergence to that of the CI.

OUTLOOK:

Declaring the 100 component stocks of the CI as designated counters was the first step in the right direction to combat rampant short-selling of KLSE heavyweights.

The original objective of implementing regulated short-selling and scrip borrowing and lending was to improve liquidity for genuine speculation and hedging activities.

Was this short-selling in major component stocks, particularly Genting Bhd, Maybank Bhd, Telekom Malaysia Bhd, Tenaga Nasional Bhd and Sime Darby

Bhd, being carried out according to KLSE rules and by-laws?

If so, this raises the question why the legitimate owners of these shares lent such big quantities to be 'short sold'. If it did not come from them, could these large block of shares have come from margined accounts, nominees or custodian accounts?

It is also time for the authorities to look into scrip lending of other non-component stocks as well as Second Board counters for raising ringgit to support currency speculation.

Another area that needs immediate attention to arrest damage is the research reports that have been sent out from Malaysia. Many of these reports are in fact paraphrasing the biased opinions of some foreign fund managers.

These views have certainly caused a lot of damage to our country. It's time to make it mandatory to submit these reports to the authorities before they are disseminated to clients. This has been put into practice by a neighbouring country.

Following Dr Mahathir's call to government funds and local investors to support the stock market, it is only right for all Malaysians to rally behind him in the fight against rogue speculators.

In this time of crisis, Malaysians must ask themselves "what can I do for my country?" Only when we are united can we succeed in arresting the declining trend of the stock market.

Technically, all signs signify that the CI has reached its temporary bottom. Its weekly and monthly bar charts clearly show that it has found critical support at Make or Break supports around the 777-point level. Similarly, the Second Board Index was well supported at its MOB level. This week, the CI and the SBI will definitely stage a technical rally to correct their grossly oversold positions.

(END)