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Trend still bearish despite KLCI's 4.03-point rebound

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LAST week we spoke about the possibility of the Kuala Lumpur Composite Index (KLCI) experiencing another sell-off to continue with its wave "c" correction to test 880 if its low of 988 on July 11 was violated on the downside.

As it turned out, the KLCI tripped below its 988 support this week and free-fell for three out of five sessions. Tuesday's session was the largest in percentage terms this year, surrendering 33.48 points or 3.43 per cent. Week-on-week, the KLCI lost a hefty 70.27 points or 7.0 per cent from 1,002 to 932.36.

A dearth of negative news this week punch a hole in the market. First negative was last weekend's announcement by Bank Negara to limit the amount of ringgit which overseas players can buy. These curbs were part of its strategy to cool speculation of the ringgit which had been under attack from currency speculators. While it succeeded in firming the ringgit to a high of 2.5800 and bringing overnight rates down to 7.5 per cent on Monday, the stock market took the heat instead.

The second negative was the worse-off-than-expected trade deficit of RM2.8 billion for June month announced after trading hours on Monday. I would say that this piece of news weighed heavily against the local bourse this week. Short-selling of key blue chips through the use (or rather abuse) of Securities Borrowing and Lending (SBL) facilities and through Kloffe had exacerbated this week's fall.

It does not take much capital to bring down the index, for after all the bears only had to target key blue chips like Telekom, TNB, AMMB, RHB and Maybank to bring down the index. Its certainty is ensured by shorting the low-volume Kloffe stock index futures contract.

Given the ease in manipulating the KLCI by just dumping a few heavily-weighted stocks, it may pay to consider enlarging the KLCI stocks to more than the current 100 stocks.

This week's battle between the bulls and the bears on the key blue chip stocks for supremacy was very obvious. For despite the numerous bearish announcements, institutions were buying heavily into the downtrend. The bounce of 6.66 points on Wednesday was the result. But the rebound was short-lived. Dumping was surprisingly unopposed the next day resulting in another 23.41 point-drop thus reversing Wednesday's bounce.

This surely looked like a "dead cat bounce" and on hindsight, I wonder if funds should continue to throw good money after bad by trying to "catch a falling knife".

If not for the Prime Minister's call on Thursday to buy, it would be difficult to envisage the market's rebound yesterday. Datuk Seri Dr Mahathir Mohamad was reported to have said: "If I were a player, I would come in to buy". But what does a 4.03 point rebound yesterday mean in terms of market sentiment? Is it strong enough to call an end to a downtrend?

Unfortunately not. It is too early to be euphoric about a market reversal just from this rebound though the bloodletting may have temporarily stopped. Given that even the stronger rebound of 6.6 points on Wednesday had not succeeded in causing a trend reversal, how much weight should we place on a mere 4.03 point rise yesterday?

Given the oversold market sentiment, a rebound may resume early next week, but I would not place too much weight on any rally as many blue

chips major supports have already been violated on the downside. The general trend of the KLCI is still very much in a bearish phase and it would pay to remain sidelined until we see a higher high and low. I do not discount the market trying for a lower low to test its next support of 880 and thereafter 836, its January 14 1995 low. Be careful.

Week-on-week, the second board index 36.40 points to close at 509.46. Their losses were unfortunately caused by the spilling over of the weak sentiments emanating from index-linked stocks. Due to the violation of its support S-S at the 520 level, I expect further weakness on second board stocks next week. With the stochastics indicator having signalled a "triple screen" sell signal, next week's market could even be sharply down.

Be careful.

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