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Bears continue to dominate local bourse

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TECHNICALLY, our stock market had set itself up for a sell-down in the last two weeks even if the fundamentals had many of us thinking otherwise.

What we are referring to is the tussle between market bulls, which on the one hand believes that an announcement of the setting up of an asset management company by the Government could breathe some life back into the stock market and even effect a market turnaround; and market bears, which for one reason or another just does not believe in anything dished out by the Government.

Which side had the upper hand in the first round on the day (May 21) of announcement of the setting up of an asset management company to rehabilitate non-performing loans (NPLs)? We would say it was the bears who had the upper hand.

Why so? Because the pre-announcement rally of 44 points between May 14 and May 21 was superceded by a plunge of 77 points from May 22 to June 1. The net effect was a weaker market a week after, as market bears dominated trading activity, sold the KLCI down to violate its 550 support level to close at 518 by June 1.

This week, bulls had another round of tussle with the bears over the same topic - pertaining to the perception of the Government's announcement on the details of the structure, participation and the amount of funds this new debt agency intends to raise to take over the NPLs from the banking sector.

There was stability in the two days prior to the announcement, set this Thursday, June 4. After seven consecutive days of weakness, the KLCI bounced from a low of 518 on June 1 to 535 on June 3.

But once again, the bears had the upper hand. Stocks gave back all of their morning gains and ended Thursday's session lower after Deputy Prime Minister Datuk Seri Anwar Ibrahim revealed details on the new debt agency.

The bears' grip on the local bourse is indeed perplexing, given that many quarters see the setting up of this debt agency as a step in the right direction. Its role in relieving banks of bad loans and reflushing them with liquidity to lend is surely one way to speed up our economic recovery.

To ensure greater recognition and transparency, our Government is already encouraging foreign banks to take part.

The authorities have decided that the estimated funding requirement for this new agency, named Pengurusan Dana Harta Nasional (Danaharta), will be RM25 billion. Unfortunately, there were some quarters who feel that the amount is not enough.

In short, what some players saw or perceived to be bullish fundamentals were unfortunately not interpreted the same way by others - but what really mattered is which way the market reacted or responded. And that can be gleaned from the charts.

It is unfortunate but clear from the daily KLCI chart that bears are still the dominant force, even in spite of efforts expended by our Government to avert an economic recession.

It is the same with how market forces misinterpret our Prime Minister Datuk Seri Dr Mahathir Mohamed's call to lower interest rates. The ringgit weakened to RM4.00 to US\$1 after his comments, when it should be interpreted otherwise - to prevent a collapse of businesses and their eventual bankruptcies.

Unfortunately, it is market forces that determine price levels. Policies and announcements can be twisted to suit players with the most capital. And it is clear from the chart that the more powerful players - those with deep pockets - want our market to sink even lower.

With the 550 level of support broken, we see only minor support at the 500 level. Next week, we are quite sure market bears will attempt to bring the KLCI to its next level of support at the 470 level, last seen on January 12 this year.

And if this level should give way, look for the next level of 459 registered in the month of September of 1990. So, whether we like it or not, our economy is on the verge of being set back eight years by market forces beyond our control.

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