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KL stocks poised for positive trading next week

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THIS holiday shortened week ended on an upbeat note when the benchmark Kuala Lumpur Composite Index (KLCI) rose 23.46 points or 5.8 per cent to 419.72.

With this week's strong rally, especially on Tuesday, the KLCI has breached yet another major resistance of 404.4 established on September 15.

This week's close above the 400 psychological barrier is also the KLCI's first since September 7 when the KLCI registered 45.06. Based on the steady close of 419.72, Malaysian stocks are still in an uptrend mode.

But here is where the stock market's direction and comments from foreign leaders and media are at a tangent. While Malaysia is still being criticised for its handling of the country's economy and politics, the stock market has brushed them aside.

Instead stock prices have been making higher highs and higher lows - and technically speaking, that is a definition of uptrend. Prices have been on a gradual climb since Malaysia imposed exchange controls and other measures on September 1 to bring back some degree of control over its economy.

Yesterday, Prime Minister and First Finance Minister Datuk Seri Dr Mahathir Mohamad delivered his Budget speech. Needless to say, Malaysia yet again did not receive top marks from foreign media and observers for what it is proposing.

But why should Malaysians even bother? As long as we know what is good for us, it does not matter what others think. This column believes it is a good budget - one that is expansionary and counter recessionary to uplift the economy out of the doldrums.

"Spending, spending, spending" is what a foreign analyst was quoted as saying in an interview by CNBC. But we would rather spend to kick-start the economy rather than pulling back with austerity measures which will make things worse.

Malaysia's strategy is based on sound Keynesian economic principles where a country in recession should opt for a deficit budget, spending on public projects and infrastructure to pull it out of the doldrums.

That is what the US did in the 1930s under the "new deal" strategy and bring itself out of the recession then. In an economic recession the private sector may not be financially strong enough to take the lead to pull the economy out from the bottom.

As such, the Government must take over the leadership role. It is nothing worrying if expenditure is used to expand infrastructure projects which creates economic activity and jobs which will have a multiplier effect on the rest of the economy.

But there seems to be a misconception of late that a deficit budget is something that we should be fearful about. In fact, we should welcome a deficit budget to bring the economy out of a recession. Once the Government succeeds in kick-starting the economy, the ensuing momentum will ultimately lead to the private sector following through.

Once that happens and the economy reverses, companies will make money, loss making companies will return to the black, which in turn will be in a position to pay taxes again. Unemployment will fall, income and consumption will increase and with rising income levels, taxes will flow into government coffers.

Eventually the Government can return to a surplus with the economy taking off in a sustained way. Sooner or later these expansionary macro-economic measures will be reflected in the stock market, if they haven't yet been reflected fully at the moment.

Malaysia will find it difficult to prevent adverse comments from foreign analysts and soothsayers because they never liked what we are doing anyway because we don't comply to their scheme of things.

Still, we should press on with our own strategies as sooner or later the results will show that we are moving in the right direction despite reservations from some quarters.

Chart-wise Malaysian stocks are still in positive territory and do not pose any danger of falling back based yesterday's close. Given the steadiness of most stocks at yesterday's close, we would not be surprised if stocks will continue to move higher next week.

Malaysian stocks are still a 'hold' based on the steady close this week, irrespective if they belong to the sectors which have been slapped with 'sin taxes' in this Budget as these stocks did not display any significant selling pressure at all.

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