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Market trend still intact, KLCI on target to hit 600 soon

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MALAYSIAN stocks came under heavy profit-taking pressure for the first time after two weeks of almost relentless rises.

The 100-share Kuala Lumpur Stock Exchange Composite Index (KLCI) corrected a near perfect 38.2 to 502.38 by mid-week before rebounding to close near its week-ago levels, at 533.88. Week-on-week, the KLCI was slightly higher by 6.62 points or 1.26 per cent despite the sharp correction on Wednesday.

This correction has been looming over our heads since last week but we did not comment on it as we felt that the market's strong buying momentum would be powerful enough to absorb any selling pressure.

Absorb it did, but not before bringing down the indices by a Fibonacci ratio of 38.2 per cent. And a 38 per cent correction is no small matter for a short-term investor. This week's correction must surely have dented their confidence.

But for the longer-term investor who position trades, this week's correction have given him an excellent opportunity to buy on dips. It would also have given the newcomer a second chance to re-enter the market at more "reasonable" prices.

But not all would hold the same view as us, especially after this week's confidence shattering drop. The question as to whether this uptrend is over again haunts the investor. People are sceptical if this recent rally since September 2 can last even beyond this week, let alone predicting a target of 600 points by year's end.

To be sure, no one can absolutely be certain about what the market is going to do or how high it is going to go. Analysts like us can, however, provide some clues through observing current market sentiments. And we do so by scouring the media for positive (or negative) news as well as through the help of charts.

Here is our view based on this combination. It is our belief that this week's correction is nothing more than a neutralisation of a highly overbought situation.

After experiencing strong rallies since November 20, with the market registering daily volumes of between 500 and 800 million shares, profit-takers have surfaced. And the market brings players back to sanity through a reflex action called "profit-taking".

In other words, it is not due to adverse news stemming from deteriorating fundamentals. We did not detect any fundamental changes except on Wednesday when the market was brought down to 502 by rumours that our Prime Minister Datuk Seri Dr Mahathir Mohamad was ill.

This was quickly redressed after a denial was issued. The KLCI quickly rebounded to close at the day's best, up 11.33 points to 522.18. A day earlier, the market was scuttled after Azizan Abu Bakar, the key witness in the Datuk Seri Anwar Ibrahim case had denied being sodomised while under cross-examination.

Instead, there were good news this week. One was the announcement of Malaysia's trade surplus of RM6.6 billion for October month. Then came news that Malaysia had successfully sold US\$555 million in Euro-yen bonds, the first of such bonds to be sold by any Asian country. The six-year bonds, due January 13 2004, will be listed in Luxembourg and guaranteed by Japan.

And yesterday, Dr Mahathir had a close-door meeting with 13 Singapore-

based international fund managers to explain Malaysia's policy direction. Judging by a rally of 8.3 points to 533.88 yesterday, one can safely say that this meeting must have been warmly received by the investing public.

Another hint of better prices to come on the KLCI is Bank Negara's latest moves in the money market yesterday. The central bank paid 6.47 per cent to borrow funds for three months from the money market, which is below the 3-month intervention rate of 7.0 per cent. This suggests that the market would see another lending rate soon - by at least another 50 basis points.

Technically, the charts are in agreement with the bullish fundamentals of the week. We observed that the current close, at 533.88, is its highest since May 29 this year. This close even superceded the high volume day clsoe of 527.26 on December 4.

When prices can exceed its previous high volume close, it implies bullishness, as whatever sellers at the 527 level must either have been absorbed or they must have withdrawn their sell options.

Secondly, note that the market's uptrend is still intact. The first indication of a trend change will come only when the KLCI violate its uptrend line S-S (see chart), currently pegged at the 490-500 level. As for the second board index, this support S-S is pegged at 165-170. In other words, both indices have not displayed any exhaustion signals. Thier uptrend lines are still intact.

In short, we believe the KLCI is on target to test the 600 point envisaged by this column. It may even be achieved next week. Based on a time count by us, this target is already overdue. As such, we would continue to call for a "buy" but as it rallies, we suggest that one begins to take some profits on the way up. As for the 2nd board index, we are looking at 201 and then 222/227.

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