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Regional sentiment remains fragile, bearish

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MARKET News & Movement: After a shorter trading period last week, the stock market opened on Monday on a mixed tone. The suspension of Omega Securities, lower rating for Tenaga Nasional Bhd and comments by Prime Minister Datuk Seri Dr Mahathir Mohamad on interest rates, pressured the market to stay sideways with a slight bearish undertone.

However, things turned bearish on Tuesday, Wednesday and Thursday as news of rioting and student demonstrations in Indonesia caused panic-selling again in the region. It was sparked by a cut in fuel subsidy as part of Indonesia's economic package deal with the IMF. The KLCI hit a low of 562.91.

The market recovered Thursday on a positive trading surplus figure. It closed the week at 580.05 points, 45.92 points lower from the previous week's closing.

The news of more stockbroking houses being under trading restrictions, the Indonesian social unrest, the 'disappointing' Japanese stimulus package, the possibility of a hike in world interest rates, the European Monetary Unit and the possibility of a devaluation of the Chinese yuan left the market bearish for the week. Regional stock selling and offshore selling of the ringgit also compounded the factor.

The futures active May 98 contract was traded throughout the week on a deep discount (about 25 to 38 points) as players were bearish when the underlying hit the various support levels easily. However on Thursday, short covering and profit-taking activities narrowed the discount. It closed the week at 561.0 points, a fall of 35.6 points from the previous week's closing.

Outlook for the coming week: Regional sentiments remain fragile and bearish given the events which happened during the week. The economy's seesawing between strong and weak is part of a repetitive cycle. However, we believe that this second selling down of the region is the pattern of a real economy "mix and matching" with the financial market. This is likely to continue for this week and for the next two quarters of the year.

This latest round of selling down represents a 61 per cent correction from its previous high of 764.94. This week, it is likely to consolidate in a range between 560 and 620 before any sign of new directions.

Players are looking at the possibility of higher interest rates and poor economic data.

The futures market is expected to continue to trade at a discount to the underlying, as sentiment is still bearish. Immediate support level for the underlying is at 575, 562, 550 while the resistant is at 595, 612 and 630. Immediate support level for the futures is at 555, 546, and 512 with resistant at 575, 595 and 605.

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