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Share market rally expected to spill over to next week

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THE local bourse registered its most astonishing performance this week.

While many had expected the local bourse to plummet further on Malaysia's announcement of unprecedented stringent capital controls on Tuesday, investors reacted otherwise.

Contrary to criticisms by the International Monetary Fund and foreign analysts that imposition of foreign exchange controls and curbs on foreign investment in stocks would sink the country further into the depths of economic depression and financial turmoil, investors proved the pundits wrong.

Local funds and retail investors bought up stocks across the board that had been cheapened by 17-months of persistent selling on the back of "shocking" measures introduced by the Government this week.

The benchmark Kuala Lumpur Composite Index (KLCI) soared 50.37 points or 16 per cent on Friday alone, its best one-day percentage gains since February 3. Week-on-week, the KLCI was higher by a total of 60.53 points or 19.98 per cent to close this week at 363.44. The broader Emas Index rose 12.99 points or 16.68 per cent on Friday and a total of 16.26 points or 20.44 per cent this week.

One measure that had the desired effect of buoying the stock market this week was the fixing of the exchange rate for ringgit at 3.80 to a US dollar since Wednesday. By doing so, the Government has effectively insulated the Malaysian economy from further speculative attacks on our currency and on our stock market.

Banning of the repatriation of ringgit from overseas from October 1 is another measure that will mean a return to Malaysia of at least RM7 billion of ringgit deposits currently parked outside the country.

But the most important curb among the "shocking" measures introduced by the Government this week was Malaysia's decision to stop recognising stock market trades done by Singapore's CLOB.

On August 31, the Kuala Lumpur Stock Exchange had announced that all dealings in Malaysian securities must be executed on a KLSE recognised exchange, which excludes CLOB International of Singapore. This move has effectively blocked the loophole of hedge funds misusing CLOB as the conduit to short-sell Malaysian shares.

Besides plugging this loophole, the anti-CLOB move will mean that offshore share trading accounts on Malaysian stocks amounting to at least RM20 billion will have to be channelled back to Malaysian exchanges.

The drying up of selling pressure on Malaysian stocks were also attributed to the ruling by the Bank Negara on Wednesday that prevent foreign investors from transferring ringgit derived from sales of Malaysian stocks out of Malaysia for one year. Bank Negara had ruled on Wednesday that foreigners must hold for at least one year ringgit proceeds of any stocks sold after September 1, regardless of when they bought the stocks.

Continuing easing of monetary policy by Bank Negara also had the desired effect of boosting market activity on the stock market this week. On Thursday, Bank Negara further revised downwards its three-month intervention rate from 9.5 per cent to 8 per cent, its fourth cut in five weeks.

A lower intervention rate will mean lower rates on deposits and lower borrowing rates for businesses, all of which are favourable for stocks. We

expect further falls in the near future.

This week Malaysians were shocked by the announcement by Prime Minister Datuk Seri Dr Mahathir Mohamad of the dismissal of his deputy, Datuk Seri Anwar Ibrahim from the latter's posts of Deputy Prime Minister and Finance Minister on Wednesday after market hours, and a day later of Anwar's expulsion from the ruling UMNO party on Thursday night.

But investors shrugged off Anwar's dismissal. The stock market rose instead, from a new 10-year low of 261.33 to 363.44 by Friday's close for a 102.11-point or 29 per cent gain in three days.

All said, it is becoming clear that although Malaysia had chosen the unorthodox way in dealing with an economic crisis and had directly contradicted the crisis prescriptions of the IMF, the US Treasury and a host of other experts - that of the imposition of capital controls - the hearty response from investors on the local bourse this week is encouraging indeed.

And this new found confidence and hope is likely to spill over onto the stock market next week and the weeks ahead as market bulls will be expected to re-enter and drive this market rally of the past three days to even greater heights.

Technically, the charts have already confirmed that a major market bottom has been reached when the KLCI hit 261.33 on September 1. The three-day rally from Wednesday was powerful enough to breach the persistent down-channel resistance line and on strong trading volume, investors should fathom the amount of buying interest (or lack of selling pressure) packed behind this move.

The earlier one understands this change in the trend, the lower will be your buying price. As we expect this trend to take the KLCI up to a first target of 480, investors will still be in time to catch the next train. We were thus right on the ball after all when we said in our previous week's column that "it is not wise to be a seller right now".

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