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Stocks expected to stage another rebound next week

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IT HAD been a harrowing and tricky week alright.

First we witnessed a rally of 7.13 points to 541.01 on Monday on follow-through buying by institutional funds in response to last Friday's meeting of fund managers with Prime Minister Datuk Seri Dr Mahathir Mohamad.

The market then went flat on Tuesday and Wednesday. Next came the plunge of 16 points in early morning trade on Thursday after news of a joint US and British missile strike into Iraq.

Next came the discounting factor which saw prices rebound dramatically on the very same day to close unchanged at 542.78. And lastly, a market rebound on Friday as players further discount a second wave of attack into Iraq.

Such was the roller-coaster sequence of events on the local bourse this week. Second and third liners were even worst hit on profit-taking and force-selling activities led to four consecutive days of drastic falls before bargain hunting on Friday prevented further deterioration to prices.

Despite the harrowing gyrations on the stock market this week, the benchmark Kuala Lumpur Stock Exchange Composite Index (KLCI) still managed a decent performance by notching another 16.53 points or 3.1 per cent to close at 550.41.

Second board counters came in a poor second place with a weekly loss of 6.86 points or 3.8 per cent while our P.I Index, which tracks speculative stocks, was placed last with a loss of 14.78 points or 9.29 per cent to close at 144.38.

Of the three category of stocks, the record shows quite clearly that index-linked stocks were the strongest performers this week. A strong close despite what's going on in the Gulf! A strong close despite what's going on in the White House with President Bill Clinton's impeachment imminent! A strong close despite what Dr Mahathir had said in Hanoi about a worst-than-expected recession! Quite unbelievable!

Some investors may have dumped stocks on Thursday after the sharp 16-point drop to 526.72 in early morning trade - only to find the market reversing itself just as quickly to end the day nearly unchanged, at 542.78. To make matters more difficult to comprehend, the KLCI notched up another 7.63 points to 550.41 on Friday.

There are many reasons why the market rebounded this Thursday - and the answer you get depends on whom you ask. Thursday's immediate rebound could be because of the near absence of collateral damage to Iraqi civilians from the bombings. Early reports by CNN revealed only 2 dead and two dozens injured.

The other reason could be that investors don't see the possibility of Iraq retaliating, unlike in the 1990 crisis, as Iraq's firepower is now a poor shadow of its former self after eight years of grinding sanctions. "As far as the financial community is concerned, the Iraq crisis is a non-event, unless Iraq decides to retaliate in some way," said a head of research of a local brokerage firm.

Yet another reason for the market's rebound could well have come from the fact that the Malaysian market had insulated itself from "external shocks". Foreign fund selling would be an example of an "external shock". Without much foreign fund participation in the local bourse since the imposition of currency exchange rate controls on September 1, dumping of

shares remained minimal.

If a reason has to be offered as to the market's initial dive on Thursday morning, it would be that the US-led attack on Iraq was used by stock market players to trigger a sell-off, only to buy back the shares sold later in the day. "It is a convenient excuse for people to sell," said the research head.

And yet another reason may well be the market's discounting of the US Congress impeachment move on Clinton.

To a chartist, which of the above is the most significant reason for the market's rebound is not important for we may never find out which is the significant one. The important point to note is, the market did stage a rebound from its 526.72 low to close unchanged, at 542.78.

And this dramatic turnaround is well worth nothing. As a result of this rebound, most stocks registered Japanese candlestick bottoming out patterns like "hammers", "dojis", "engulfing bullish" or "bullish meeting lines" patterns on Thursday.

And even with a second wave of missiles raining into Iraq as well as with the preparation for Clinton's impeachment on Friday, index-linked stocks like Maybank, Telekom, Road Builder, Petronas Gas, Tanjong and Berjaya-Toto closed on a very bullish note.

This very bullish close by index-linked stocks this Friday is indirectly sending us a message that the market has discounted all the negative news for the week. It is telling us that players still see value in these stocks in spite of all that is happening in the Gulf and in the US.

News of the US and British confrontation with Iraq may appear very bearish but the charts are saying that the trend is going the other way - north. And between news and price action, we would choose the latter.

In view of the strong price action this week on the KLCI, we will be looking forward to higher prices on index-linked stocks next week as the market follow-through on their buying binge.

Second boards and third liners have suffered a drastic fall in prices these two weeks and are thus in a weaker position than the KLCI. Despite their recent weakness, it is too early to call a trend change as their indices have not violated their trendline support S-S (see chart). After having corrected 38 per cent to 50 per cent from its recent rally, we expect second boards and speculative stocks to stage a rebound as well next week.

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