

31/10/1998

Stronger market expected in view of current resilience

Fred Tam

TENAGA Nasional Bhd, IJM, Gamuda, Road Builders and Puncak are still market leaders in this rally despite pullbacks this week. Their charts remain in strong technical positions and can be classified as stocks of "high premium" quality.

Next in line in terms of strength are a whole spectrum of stocks on the KLSE which could be slotted into the second category of "premium" quality where prices are not higher than the high of September 7 but are very much above the October 5 low, let alone its all-time low of September 1 when the Kuala Lumpur Composite Index (KLCI) hit rock-bottom, at 262.70.

So what is so bad about capital controls? Haven't stocks recovered from their all-time lows of September 1? Many have gained more than 100 per cent since September 1. As at this Friday, the KLCI settled at 405.33. When compared to the recent low of two months ago of 262, the KLSE is still better by 143 points or 54.6 per cent.

But of course cynics are now saying that Malaysia has bought itself some time through some deft measures, but they doubt that the economy will work out in the long run. Let us just say that if Malaysia had not moved decisively to stem the tide of hedge fund attacks on our market on September 1, we doubt if Malaysians had any chance to talk about the long run. Could one imagine where the market would have headed if the Government were without any sort of strategy when prices were crashing below 300 on September 1? If readers can recall, the market was taking about 180 points on the index - and many of us didn't even blink an eye.

The continuous barrage of attacks on our currency, stocks and stock index futures markets on multiple fronts were so concerted and vicious from April 1 to September 1 that had the Government not implemented some sort of defensive measure swiftly, it is not improbable we could end up in dire straits as that faced by a neighbouring country even now. Just within a short span of five months from April 1 and September 1, the KLSE lost 438 points or 62.5 per cent from 700 to 262.1.

The helicopter view of the Malaysian stock market in the past 18 months was even more scary. The KLCI fell from 1,270 on February 28, 1977 to 262 by September 1 for a 1,008 point vertical drop like a helpless little boat flipping over the Niagara Falls. That represented a 80 per cent loss in value! From a RM800 billion market capitalisation market, the fourth largest in Asia after Japan, Hong Kong and Taiwan, the Malaysian stock market is now a mere minnow at only RM160 billion by September 1. Had we not taken the steps we did, 180 on the index could well be a reality.

And what was largely the cause of this economic devastation, not only in Malaysia, but in Asia, Russia and Latin America was clearly the manipulations of unregulated US hedge funds on foreign markets. When hedge funds can leverage 50 to 60 times their capital, and in Long Term Capital Management's case, 200 times, it is not difficult to take control of any markets. One doesn't need a team of two noble laureates, a former Chairman of the Federal Reserve Fund and a Wall Street ex-bond trader to create the kind of economic wreckage they did when with a mere US\$3.5 million, LCTM could borrow US\$1 trillion. When a small country like Malaysia has only RM20 million in circulation, LCTM could have swallowed and digested us 200 times over.

Using large amounts of money which only appear on computer screens and switching them in and out with the help of modern information technology,

hedge funds ravaged economies and their invisible hands were felt in Asia, Russia and Latin America. It is not surprising that these notorious funds are responsible for the decline of the Japanese yen, their stocks and futures markets. Japan should learn the lesson from Malaysia's experience and resort to some form of exchange controls if they are to be salvaged from the economic wreckage.

Our Prime Minister Datuk Seri Dr Mahathir Mohammad was right all along when he called for tight regulation of hedge fund activities. But his views were discarded as being that of a 'madman' until the collapse of LTCM.

The upcoming APEC conference is therefore a most opportune forum for Japan and the rest of the world to call for stringent regulation of hedge funds and borrowings besides discussing measures to adopt a slower pace in free trade and investment. Malaysia should be lauded for its intention to spearhead anti-speculation measures on the APEC agenda and we hope that other countries especially Japan will come up strongly in support of such measures.

Chartwise, on the Malaysian bourse, the close on Friday is steady enough for us to expect a stronger market next week. In view of the resilience on many stocks this week, especially on Friday, we are calling for further accumulation. No sell signal is evident at this point.

(END)