

07/12/1998

Uptrend may well continue for a while yet

Raymond

READERS reading this column would have noticed that we were inclined to be bearish in our forecast based on the data study of our O/O indicator.

After all, did our O/O indicator not turn down for a flash in the pan reversal some six weeks ago. The strong rally after this false move has baffled us and made us re-examine the scenerio, which lead to this strong rally.

As we look back with hindsight at the more valid reasons for the current rally, we will discover that the currency exchange rate controls together with other measures would put an end to the manipulation of our currency and stock market, hence our market is now more free to find itself a realistic level.

The lowering of interest rates together with the pegging of our ringgit to the US dollar at RM3.80 was a big help to businesses. Danaharta's purchases of non-performing loans (NPLs) have also allowed banks to breathe easier.

The recovery of the Dow Jones industrial average and the fact that it went on to reach a new all time high may also have been instrumental in helping our stock market to recover the way it did.

On the technical front, share prices were highly oversold in the month of August because of rumours that Datuk Seri Anwar Ibrahim would be sacked. The fear then was that the breaking up of the partnership between the Prime Minister Datuk Seri Dr Mahathir Mohamad and Anwar would create disunity and chaos not only in Umno but also in the country.

The resultant political instability would create a field day for hedge funds operators to further depress our stock market and currency.

The implementation of currency exchange rate controls with other measures changed the negative scenerio and our stock market responded positively once it overcame the initial shocking news.

Another positive factor was Dr Mahathir assuming the post of First Finance Minister; as it turned out, he did a much better job of handling the financial turmoil in the country, than what most economists in the country could do.

With regards to the fear of disunity and chaos, we did see some street demonstrations but aside from these, things appear to be under control.

Currently our Timing Device is in a highly overbought position of +427.7 points and is nearing the peak of + 450.5 points seen on February 10. For a successful continuation of the uptrend the market breath must be maintained at a highly positive position.

We feel that this is unlikely. Having said that we feel that a pullback is imminent, the remarkable resilience shown by our market could actually arrest the falling Timing Device even before it reaches the zero support level.

Our medium term O/O Indicator continues to trend strongly and the earliest reversal in this trend may be able to surface towards the end of the year or early next year.

The current strong uptrend therefore, stands a good chance of testing the high of +171.1 points made on September 9 1994. From the look of things, the bear is going to have a hard time putting down the resurgent bull.