

01/04/1998

Uptrend remains intact

Phua Kwee Hock

THE STOCK market, as at March 18, maintained its composure as companies started announcing their earnings during the March reporting season. As expected, most of them reported bland earnings. But two corporate events received much attention. One was the Malaysian International Shipping Corporation Bhd (MISC) buying the shipping arm of Konsortium Perkapalan Bhd and the other was the results of Sime Darby Bhd. The initial negative reaction took a positive twist.

Following the reported first half loss of RM676 million, there was much speculation on the likely price of Sime Darby shares when it resumes trading on the Kuala Lumpur Stock Exchange. (It closed at RM4.20 on suspension). Many had expected its price to go down to RM3.30, the low of last year. However, it resumed trading on March 18 at RM3.70.

The MISC-KPB deal benefited both parties. MISC consolidates its shipping interests and KPB its logistics.

On March 15, Deputy Prime Minister and Finance Minister Datuk Seri Anwar Ibrahim said additional measures would be announced to boost the economy. The stock market viewed this announcement positively as investors believed the measures would involve structural changes to prepare for the liberalisation of the economy.

On technicals, the KLSE Composite Index has remained in sideways consolidation since February and there is no sign of a breakout as at March 18. This consolidation pattern is in the form of a symmetrical triangle. According to the Elliott wave theory, the triangle is a five rotating wave pattern. But it may not turn out to be a true Elliott triangle pattern; it could be a mere a-b-c flat correction consisting of three rotating waves.

If it is an a-b-c correction, it may have bottomed out at the low of 681.73 points. This level represents the Fibonacci ratio of 38.2 per cent of the range from 548.61 to 764.94 points. If it is a five wave triangle pattern, then it may continue to flip-flop within the congestion area. Generally, the triangle is a continuation pattern and will resume its course after the breakout. As the market was moving up before the February-March consolidation, the breakout should then be on the upside. However, past experiences have shown that the breakout could be in either direction. It is wise then to wait patiently for the breakout of the triangle to see the direction of the market.

An upside breach of 723 points which is the upper trendline of this triangle constitutes a breakout. The measuring distance for symmetrical triangle is the parallel line X emanating from the 764.94 peak of the triangle, ie, upside target is the X trendline around 830 points. The immediate resistance following 723 points is at the previous highs of 749 and 764 points. The KLSE CI should head upwards to 790 points which is a long-term trendline resistance.

On the RSI, the uptrend since last November remains in force as described by the intactness of the up trendline. Current trendline support for the RSI is at 46 on the daily chart.

Immediate support is at 690 points. Breach of the previous low of 681 points signals the downside breakout of the triangle with lower levels in the area of 650-635 points.

In summary, the overall technicals maintain the intactness of the uptrend from the January low of 470.43 points to a possible push towards

at least 790 points. The March 31 deadline for the merging of finance companies and the announcement of additional measures to stimulate the economy auger well for the market. Key events to watch out for: Prime Minister Datuk Seri Dr Mahathir Mohamad's speech at the Second Asem Forum in London on April 4 and the IMF meeting in Washington from April 14 to 17.

(END)