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A modest move in the right direction

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POSITIVE EVENTS in early December 1998 contributed to the stability of the stock market that month. By Dec 15, the Kuala Lumpur Stock Exchange Composite Index (KLSE CI) had hit a high of 547.31 points, an appreciation of some 109 per cent over the 261.33-point low of September. From there on, there were improvements in regional stock markets, and the traditional year-end corporate window dressing provided the milieu for trading.

Among the events which impacted favourably on the stock market in December was the Dec 9 announcement of October's trade surplus of RM6.6 billion. Then there was the RM2 billion inflow from the 66.6 billion Euro-yen bond issues, guaranteed by the Japanese government. The month-long Home Ownership campaign to sell unsold properties at favourable terms also helped.

Another factor was the closed door fund managers' meeting with Prime Minister Datuk Seri Dr Mahathir Mohamad on Dec 11. Overall, the fund managers' were positive in their assessement, and the market reacted accordingly although no changes to the capital controls have been made. Some quarters speculate that capital controls could be relaxed bit by bit over time with the introduction of options such as an exit tax on repatriation of funds.

Economy wise, the figures are still weak. October's industrial production index was down 10.4 per cent year-on-year. The November CPI was up 5.6 per cent year-on-year, and also up 0.7 per cent month-to-month which was the biggest rise in five months as food prices rose. Recently, it was announced that Malaysia's GDP for 1998 is expected to contract by six per cent.

Regional markets on Dec 14 softened following the release of the Bank of Japan's December quarter tankan survey of business confidence which revealed its worst level in nearly five years. There was also speculation that US president Bill Clinton might be impeached.

Then there was the US and UK bombing of Iraq on Dec 16, to which there is a mixed reaction. This latest event creates uncertainty which will cause the market to be volatile.

On technicals, the KLSE CI on Dec 17 was on an important chart support of 520 points. There are indications that the market will stabilise on a range bound of 520 to 550 points before hitting 572 points. A downside breach of 520 points will be negative.

On the daily bar chart, the Relative Strength Index (RSI) is in a peak divergence situation, a sign that it is overbought. This occurs when the higher prices of the stock market are not being matched with equally higher RSI. When the stock market hit a high of 547.31 points, the RSI trended lower, suggesting that the upward momentum was losing strength.

The stock market may be technically overbought but it appears to have found support on Dec 17 as it bounced off the low of 526.72 points which was a few points off the lower trendline of 518 points. The 16-Day Moving Average is at 522 points. This suggests that the current uptrend should remain intact so long as the stock market is above 520 points. Immediate resistance is at 550 points, then 572 points.

The technical outlook then is for the stock market to stabilise around the 520 to 550-point level. There is the likelihood of an upside breach of the 550-point resistance, targeting 572 points which is 61.8 per cent of the retracement of the downrun from 764.94 points to 261.33 points. It could even go as high as 592 points, being the equality of wave A and wave B.

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