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Appointment of Abdullah as DPM augurs well

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IT WAS a very tricky week. Like all things natural, a situation has to get worse before it can get better. We see this law of nature repeating itself over and over again. Its cycles are seen, for example, in one's health and wealth as well as the stock markets.

For example, if one falls ill, worldly wants suddenly seen irrelevant and we get real down before we can get better. If an economy falters, it has to get worse before it can get better.

It is no different with the stock market. The first trading day of 1999 ended 24.46 points or 4.46 per cent lower at 561.65, shaking out weak bulls, before it got better. The key 100-stock Kuala Lumpur Composite Index swung around from Tuesday and recouped 30.05 points in the next four days to close this week at 591.70, its highest in eight months. The moral of the story is - all things will blow over if one is tenacious enough.

From Tuesday, news got better and so did the market. First it was news of a promising trade surplus for November of RM6.5 billion. Though down from October's surplus of RM6.6 billion, this figure exceeded the RM700 million surplus posted during the same period the year before.

The trade surplus for November is the 13th consecutive month of surplus recorded by Malaysia. For the January-November 1998 period, Malaysia achieved a surplus of RM51.5 billion, in contrast to a deficit of RM1 billion for the same period in 1997.

The rebound on Tuesday can also be credited to Bank Negara's relation of a rule to permit local brokers to purchase stocks on behalf of foreign investors even before payment was received. Further, profits earned from any trades on credit, known as "contra trading" can now be remitted out of the country.

This move raised hopes that further exchange control relaxation may be in the pipeline.

As with all positive news, the market responded heartily, with local and foreign institutions snapping up big capitalised issues to hoist Malaysian shares to a higher finish.

But the most significant market boosting factor this week that kept the bears at bay were persistent market speculation over who would be the next deputy prime minister to replace Datuk Seri Anwar Ibrahim who had his post vacated on September 2. Companies belonging to Tan Sri Khoo Kay Peng were amongst the top active stocks this week on speculation that a close associate of his, Tengku Razaleigh Hamzah would be chosen one.

But even by the end of this trading week, nothing was certain about who the deputy prime minister is going to be nor were we sure anymore of its timing after so many disappointments. But the announcement finally came shortly after the Umno Supreme Council meeting yesterday evening.

At long last, Prime Minister Datuk Seri Dr Mahathir Mohamad have named Foreign Minister Datuk Seri Abdullah Badawi as his deputy as well as Home Minister. And Malaysia's new Finance Minister post went to Tun Daim Zainuddin - the minister entrusted to pull Malaysia out of this recession. How would the stock market react to this announcement? We believe the market would respond positively to Abdullah's appointment as his appointment would finally end fears, foreign and local, on the issue of succession. Known as "Mr Clean" by many, his taking over of the job of Anwar is not expected to be controversial one as recent market talks have all along placed him as a front-runner over other possible candidates.

Abdullah's appointment as the new Home Minister would also relieve the prime minister of another ministerial responsibility which until now was being held by Dr Mahathir. Daim's appointment is also welcomed as he was after all the Finance Minister entrusted with the similar job of getting the country out of its recession in 1985-1987.

In short, we do not see any controversial appointments that may throw the stock market rally off its positive path. Next week, we should see a continuation of the rally we saw since Tuesday. The first two days is expected to be strong but some profit-taking may surface on Wednesday. Still, any correction should be short-lived and this rally should resume in the later part of the week. Our targets as mentioned in previous Markettrek are still valid.

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