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## A hazy picture of recovery

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THE Kuala Lumpur stock market will recover from its recent foreign led bear raid in the short term if the country's economy shows signs of sustainable growth and the political situation remains calm.

The market nosedived by almost 100 points recently from a high of 618.54 on Jan 22 to a low of 526.11 on Feb 8 as some foreign institutional share investors fled the market following the government's move to allow them to take out money by paying an exit tax. Under the capital control relaxation, any repatriation of foreign funds between now and Mar 31 will be liable for a tax of 30%. For April and May, the tax is 20% and for June, July and August, it is 10%.

Although it is hoped that the foreign fund managers will not sell immediately, logically they are making handsome capital gains by selling now, at a time the the KLSE Composite Index is 500 points and above, instead of exiting if they have been allowed to do so in September last year, at perhaps 350 points and below. The index was 262.70 on Sept 1 last year. Therefore, the exit tax is a very small price to pay and, in any case, the fund managers would have already booked in the paper losses at the 1998 year-end. Like in Malaysia, the economic scenario in Thailand and South Korea is also improving somewhat and the foreign fund managers may also be tempted to shift their funds to these markets.

Share investors on the Kuala Lumpur stock market are now trying hard to digest the mixed signals from the political and economic fronts.

The political picture is more cloudy now and it is not just the Datuk Seri Anwar Ibrahim corruption trial, but also Anwar's RM100 million defamation suit against Datuk Seri Dr Mahathir Mohamad and party squabbles at Gerakan, a component of Barisan Nasional. Sabah elections will also be held very soon and BN will be put to the test ahead of a general election perhaps to be held late this year.

The Malaysian economic recovery is still feeble although foreign reserves have shot up to about US\$28 billion and the country has registered a trade surplus of RM51 billion in the first 11 months of 1998. The stock market capitalisation has also doubled.

The country's Industrial Production Index (IPI) for November last year fell 11.5% year-on-year and 4.7% from the month before. The IPI has been falling for 10 straight months, sparking fears that the economy may be sliding further into recession in the fourth quarter of 1998.

There was also a 12% drop in proposed foreign direct investments (FDI) in the manufacturing sector last year. Proposed FDI in manufacturing which accounts for 35% of economic output, dropped to RM12.65 billion. Proposed domestic investment plunged 68% last year to RM6.32 billion the lowest level in five years.

The market players are therefore pinning their hopes on the economy and listed companies to show turnaround positions so that the price-earnings ratings will be less demanding and they can invest for the long haul.

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