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Banking, finance stocks benefit from upturn

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FALLING domestic interest rates and fading concerns over the health of the Prime Minister Datuk Seri Dr Mahathir Mohamad provided for much of the action on the Kuala Lumpur Stock Exchange in the week just past.

Banking and finance stocks were the main beneficiaries with many of the counters piling on gains as compared to other key blue-chip counters.

The lower interest rates as a result of Bank Negara cutting its intervention rate led to the market awash with funds as opposed to being placed in bank deposits previously.

The central bank had on Monday cut its key 3-month intervention rate to 6.5 per cent from 7 per cent previously. This led to banks lowering its base lending rate normally tied to loans and advances.

Maybank, the country's biggest bank, for example on Friday cut its base lending rate - for the second time in a week - to 7.65 per cent from 7.80 - reflecting the excess liquidity in the banking system.

A deflationary rate across Asia currently is allowing countries to cut their interest rates, said a news wire report quoting Mr Vivek Gandhi, vice-president of Alliance Capital Management (Singapore) Ltd.

The eagerly awaited televised appearance of Dr Mahathir on Thursday night also soothed market sentiments, said analysts.

The country was concerned over the health of Dr Mahathir, who was not seen for the whole of last week, after being admitted to the National Heart Institute (IJN) the previous Friday for a lung infection.

However, major rises were only seen on two trading days - Tuesday and Friday - while on other days the market was mainly trading sideways, closing only marginally higher or lower.

Last Monday, the CI eased slightly with profit-taking in the afternoon session snuffing out an early morning rally which had initially taken it past the 550-resistance level.

In contrast, share prices on Tuesday - taking its cue from other regional bourses - gained steeply with local institutional funds and retailers showing keen interest on selective blue-chip counters.

The lower interest rate regime also provided strong support with the CI posting a credible 21.09-point or 3.94 per cent gain to close at 556.93.

The finance index alone put on a hefty 154.38-point rise to close at 3,720.89 with Maybank, Commerce-Asset, Public Bank and AMMB all gaining between 13 sen and 40 sen.

However index-linked shares were given a rather rough ride on Wednesday, losing nearly 2 per cent in the afternoon session before making a dramatic turnaround in the last hour to close just marginally down.

Analysts said news that Dr Mahathir was showing "positive and encouraging signs" was a much needed shot in the arm for the market.

The finance index however bucked the trend posting an impressive 36.44 point rise to close the day at 3,757.33 reflecting prospects of better earnings in the face of lower interest rates.

After the tumultuous trading on Wednesday, shares closed mixed on Thursday as investors chose to remain on the sidelines in the absence of any fresh leads.

On the last trading day, banking stocks and other heavyweights lead the way in the CI posting a 11.52-point or 2.07 per cent rise as the market continued to back in the face of lower interest rates and the Prime Minister's televised appearance.

Analysts said the CI is now expected to test the immediate 570-resistance level and then the 580-mark.
Week-on-week, the KLCI gained 28.03 points or 5.19 per cent to close at 568.10 from the previous Friday's close of 540.07.
The all-main board Emas Index rose 4.43 points or 3.27 per cent while the second board lost 4.27 points or 3.22 per cent to close at 128.18.
Total turnover on the KLSE for the whole of last week amounted to 792.311 million shares - with a total value of RM1.656 billion. The average daily volume was 158.46 million.

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