19/06/1999

Market expected to continue its climb next week

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LAST week we had asked investors to concentrate on main boards with strong fundamentals as it was our view that the benchmark Kuala Lumpur Stock Exchange Exchange Composite Index (KLCI) would eventually rise to test the 1,070 level.

This week, the market performed to our expectations, with the KLCI registering another 13.87 points or 1.79 per cent rise to close at 786.63. But it was the second and third liners and selective board stocks that took centre stage this week.

Fuelled by widely held expectations of an announcement by our Prime Minister Datuk Seri Dr Mahathir Mohamad of dates for Malaysia for Malaysia's next general election, our P.I Index, which tracks 30 second liner main boards, came alive with a jump of 15.53 points or 10 per cent to close at 170.75.

Even the laggard second boards was not left behind. Selected second board stocks like KLCity heldped the Second Board Index to rebound by 5.39 points or 3.37 per cent to close at 165.37.

Weekly volume was uncomfortably high though, matching the weekly volume ending May 21 which saw the market topped out at a close of 769.79. It was this exceptionally high volume this week that caused nervousness amongst investors who feared a repetition of the May 21 market top. But later on we will explain why this week's similarly high volume will unlikely be another market top.

Coming back to this week's market activity. What triggered this week's hive of activity was undoubtedly the market's excitement over what our Prime Minister was due to announce when he said recently he has a "surprise" to announce at the Umno General Assembly which commenced yesterday.

Market expectation was that Dr Mahathir would announce a snap general election. If not an early election, expectations were that he would announce a promotion of former Finance Minister Tengku Razaleigh Hamzah in Umno politics. Speculation was that Razaleigh would be elected as Umno's liasion chief of state of Kelantan. Rumours of Razaleigh's imminent political rise had sparked frenzy buying of MUIB group of companies shares these two weeks as MUI's chairman Tan Sri Khoo Kay Peng is seen as a close friend of Razaleigh.

But when no "surprise" announcement by the Prime Minister was forthcoming een by late yesterday afternoon, the market turned jittery, even to the point of being chaotic. Stocks fell, rise again only to fall back like helpless little dinghies trapped in an ocean of stockists.

Perhaps,the bewilderment that unfolded late yesterday was the stock market's "surprise" reaction to the lack of a "surprise" from our Prime Minister!

Be that as it may, when the final whistle was blown and the scores counted, it is our view that inspite of the confusion created by disappointed investors, the market as a whole is still steadfast. But if one was a day trader yesterday, we certainly won't fault him for the confusion he would have been in. One could get "sea-sick" just looking at stock prices bobbing up and down. In early morning trade, stocks were at their highs for the day. In late afternoon trade, stocks had tumbled to their lows only to bounce back in the last five to ten minutes of trading to close above their lows.

But to a position trader, that is, one that holds on to a stock for the longer term, at least overnight, the bigger picture isn't that bad.
A look at the stocks charts revealed that heavyweight stocks like Tenage, Telekom, Maybank, Genting, Rothmans, AMMB, Gamuda, remained steady. Certain second liner index-linked stocks like IJM, Road Builders, Renong, Intria, HICOM, DRB, MAS, Naluri, MRCB, L&G etc may have closed a notch weaker, but their volumes were insignificant implying that it was the weak holders who got flushed out. The bigger players have not budged. But their weakness was only compensated y index-linked stocks which ended the day on a positive note like YTL, NSTP, Sime Darby, HLCRED, Faber, Landmarks and Bandaraya.
On the other hand, speculative stocks like MUIB, PMI, Mycom, MEICO, Olympia and A Amal registered higher closes. Even Pilecon rose 19 sen even as controversy surrounds its management and majority shareholders' handling of its just-expired warrants.
Some observers may call for another market top based on this week's exceptionally high volume which mirrors that of the week ending May 21 which saw a market top. Volume-wise, it does hint that next week may be vulnerable to a market correction as it has been shown that our market have so far failed to digest any daily volume that exceeeds 1 billion shares.
But there is a difference between this week's trend and that of May 21. The stock index futures close vis-a-vis the cash market's close holds the key as to the direction of the KLCI next week.
We observed that this by week's close, there is a wide premium of 27.6 points over the cash market (KLCI) whereas in the week of May 21, there was only a 4.2 point premium over cash. The wide premium of futures over cash this week as compared to narrow 4-point premium the seek of May 21 reveal that players are still bullish on Malaysian stocks over the immediate term. As such, we expect the market to continue with its uptrend next week.
The big picture is also not bad at all if one looks at the weekly KLCI chart (see top chart) which shows a new 20-month high close this week. At 786.63, the KLCI is just a notch lower than the 794.80 close registered in the week of October 17 1997. If one also take a look at the region's major bourses' weekly charts, they all exhibit similar trends.
For example, our KLCI mirrors Japan's index, the Nikkei 225 issues (see bottom chart). At 17,431, the Nikkei Index is also at a 20-month high close. so is Hong Kong's Hang Seng Index at 13,408. Singapore's Index (SES) fared even better. At 2,070.63, the SES is already above its pre-crisis level of 1,974 registered in the week ended June 27 1997. It can be concluded from the above that the KLCI's rise is a regional phenomena that is not just confined to Malaysia alone.
All said, it is our view that the market will continue its climb to test 850 for a start and then onwards to 1,070. Readers who may like to know more about our view of the market and stock-to-watch may like to know that we are holding an evening talk on June 29. Those interested, please contact 03-2455877 for further details.

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