

10/07/1999

Market uptrend expected to continue next week

Fred Tam

THERE are reasons to be proud of the local bourse this week.

First is its setting of new historic records in terms of daily turnover, twice within a week. Once on Monday, July 6 when the Kuala Lumpur Stock Exchange (KLSE) clocked 1.27 billion shares superseding its July 2 record of 1.258 billion shares and another occasion on Friday, July 9 with a new record turnover of 1.31 billion shares. And note that this was accompanied by a rise in the KLSE's Composite Index (KLCI) which implies bullishness. Second is the KLCI's making of a new 22-month high close this week of 851.67. The previous occasion the KLCI was seen at these levels was on September 12 1997.

Third was the ability of the KLCI to withstand brokers' cut-back on credit limits to remisiers this Wednesday, to end the week higher (at 851.67) than Wednesday's close of 839.52.

The good news seen as the driving force behind the local bourse's rally this week are the release of May's Industrial Production Index (IPI) figures which showed a rise of 5.4 per cent year-on-year, the re-rating of Malaysia's growth domestic product (GDP) from 2 per cent to 4.9 per cent by foreign broking house Merrill Lynch, market talks of the Multi-Purpose group of companies and Land and General's takeover of certain financial institutions and an impending announcement of Malaysia's next general election by our Prime Minister Datuk Seri Dr Mahathir Mohamad.

But the release of good news from the strong industrial output data for May on Wednesday did not inspire immediate buying as it was overshadowed by retail selling triggered by some brokers "sudden" new ruling on lower credit limits for its remisiers.

A major retail broking firm in Kuala Lumpur was rumoured to have reduced credit limits extended to remisiers from five times of their deposits with their company to four times. Some Penang brokers and Southern Malaysian brokers were also said to have lowered credit limits given to their remisiers.

Obviously when credit - which is the lifeblood of the market - is being withdrawn, remisiers are forced to sell-down stocks in order to stay within the new limits.

These "force-selling" and rumours stemming therefrom, unfortunately, were sufficient to cause enough loss of confidence in players to trigger a correction on Wednesday afternoon.

But fortunately the market recovered remarkably well from Thursday, thanks to market leader MPLANT's rally, negating what could well be the start of a market correction coming from the "sudden" reduction of credit limits to remisiers.

Their actions may seem harmless given the KLCI's immediate recovery on Thursday but on previous occasions like some three years or so ago, similar moves by brokers had succeeded in shaking our stock market. These types of announcements are not new. That is how powerful brokers can be.

Given their power to dictate market sentiment, we would urge the authorities to look into this matter on whether brokers are at their liberty to raise or lower credit limits as changing limits arbitrarily have proven once again on Wednesday that it can dampen market sentiments. The market can be at their mercy.

Much as it may be the prerogative of brokers to decide on the amount of

credit given to their remisiers, brokers have to understand that sudden reduction of limits can lead to frustrated clients and their possible withdrawal from the market. Once players withdraw, the volumes required to sustain a rally becomes absent leading to weaker prices.

Brokers must understand that when daily business is back down to 100 million shares or less and they now seek to change their policy once again by raising limits to attract players, there will be few takers. Remember that once burnt, it will be difficult to find replacement players. As such, brokers must understand the perils of playing with fire.

Instead of lowering credit limits why not urge th KLSE to implement the T+3 rule? That should serve to protect them to a certain extent. Another suggestion may be to limit purchases to only stocks with strong fundamentals or limit financing to certain price levels. Alternatively, authorities could insist on approval by them before brokers can change credit limits given out to remisiers. Authorities may also choose to "fix" a minimum limit below which brokers cannot reduce.

Our sources revealed that one broker even resorted to implementing a T+2 rule for its clients to protect itself from market risk. That is how haphazard the situation is.

This time around, we were glad that the market was strong enough to overcome this piece of bad news. With the successful rebound from Thursday, stocks are now back on track again.

We had mentioned before that our first target is 850. With the KLCI now standing at 851.67 after a scare that saw the index fall to 834.94 early Thursday, it is highly possible to see the KLCI scaling new heights in the weeks ahead to test our next higher target of 1,070. We view the current consistently high volumes as a critical requirement if the bull run is to be sustainable.

Backing our contention of a continuation of the market's rally in the weeks ahead is our observation that the EMAS Index (which tracks all main board stocks) is in a technically stronger position than the KLCI as it has exceeded its first price objective of 209. At 221.49 this Friday, the EMAS Index is now enroute to test its next higher target of 262, this being a 1.62 Fibonacci extension of Wave 1 (see chart).

This week, lower liners and even second boards had overshadowed index linked stocks' performance. This is evidenced by the fine performance of our PI Index which rose 20.31 points or 10.59 per cent to 212.02 while the second board index gained 18.53 points or 10.13 per cent to 201.44.

Looking at the KLCI will not reveal the true extent of the bull run we are now witnessing as heavyweight stock Telekom has been bogged down by rumours of resignation of its top management. But the Telekom chart is revealing that whatever selling pressure emanating therefrom has subsided and support has been found at RM13.10. Unless Telekom can break below its RM13.10 support, a recovery in Telekom will mean a strong surge on the KLCI.

Many stocks are in Wave 3 formations and as such are expected to continue to rally next week. One of them is KUB (see chart). This week, KUB's high and closing price is an exact mirror image of its high and close on its listing day on July 9 1997 which is RM3.26 and RM3.14 respectively.

Any rally next week to close above RM3.26 is a "saucer breakout" and a strong "buy" signal.

Given the dynamic Wave 3 we are in, investors should stay invested as it will take us a long time before we are given this opportunity again.

(END)