

12/04/1999

Expectations of lower interest rates

Affin Futures Sdn Bhd

LAST week, the Kuala Lumpur Stock Exchange closed the week at the 568.10 level, improving by 27.93 points as a cut in the three-months intervention rate spurred foreign institutions to selectively buy blue-chip counters.

Volume for the local equities market averaged about 158.3 million.

For the week just ended, April futures contract opened at 501.9 before closing the week at 592. For most of the period, April futures contract maintained a premium of between eight and 20 points over the KLSE composite index.

In an apparent move to stimulate business activities, Bank Negara Malaysia eased the three-month intervention rate by 0.5 per cent to 6.5 per cent.

The fall in interest rates took many by surprise as Bank Negara seemed contented with the prevailing rates as reflected in its recently released 1998 annual report.

The three-month Kuala Lumpur Interbank Offer Rate had fallen by more than 50 basis points as at Wednesday, April 7. There are expectations that there would be further drops in interest rates, the lowest being four per cent.

Bank Negara has been concentrating in mopping liquidity at shorter periods since March 9, 1999 especially for one to two weeks, which gave the impression that the central bank is gearing for a flexible short-term policy option on interest rates.

At present, there is an estimated surplus of slightly over RM2 billion in the local money market.

In line with the reduction in interest rates, local commercial banks have started lowering their Base Lending Rate to about 7.65 per cent from the previous average rate of 8.05 per cent.

The banks had indicated earlier that the interest rates would be dictated by the expected rate of inflation, savings and investment activities.

Under the current scenario, with the direction of interest rates more predictable than before and the interbank rate falling to below the psychological level of six per cent, it is expected that interest rates will stay below the level for some time.

This will, in turn, entice potential borrowers and the central bank's target of eight per cent loan growth might easily be achieved.

Early last week, rumours that Prime Minister Datuk Seri Dr Mahathir Mohamad's condition had worsened caused some selling pressure in the equity market.

For the immediate term, the KLSE Composite Index should try the 575 to 580 level after breaking the 567 mark.

For the April futures contract, immediate support level is seen around 570 level followed by 560 level. It is expected that the immediate resistance for futures contract at 613 level will be tested, followed by 624.5 level.

(END)