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Premiums on January futures narrow

HDM Futures Sdn Bhd

AFTER a three-day Hari Raya festive season, the underlying KLCI gained 15.55 points or 2.6 per cent and convincingly surged past the psychological 600 threshold level and closed at 614.52 on Thursday.

The KLCI reached 621.57 before settling at 618.54 on Friday, a gain of 19.57 points or 3.27 per cent for the week. January Futures and February Futures closed at 621.0 points respectively, showing a gain of 8.9 points (1.45 per cent) and 13.5 points (2.14 per cent) respectively over previous week's closes.

Average daily turnover for the two-day trading week was 956 lots versus 1,240 lots last week and 1,654 lots the previous week.

Dealers said foreign institutional funds had been buying blue chips, gaming stocks and toll operators. There was market talk that the authorities might allow a reduction in prize money payments, thus boosting the bottom lines of gaming stocks.

The toll rate is expected to be increased after the Chinese New Year holidays.

Sentiment was boosted by comments from Second Finance Minister Mustapa Mohamad last week that Malaysia was studying options, possibly in the shape of a capital exit tax, in order to ease the selective exchange rate control measures which were imposed in September last year.

Reports on Friday indicated such an exit tax structure may be introduced by the first quarter of this year.

Meanwhile it was reported that the Prime Minister Datuk Seri Dr Mahathir Mohamad was expected to meet foreign fund managers this week, following the Dec 11 meeting arranged by adviser Salomon Smith Barney.

Major international investment banks and brokerages including Merrill Lynch, Goldman Sachs, Morgan Stanley and Warburg Dillon Read had recommended a buy on Malaysian stocks on the expectation that the country was beginning to loosen controls.

Some dealers pointed out that foreign buying had started even before the Hari Raya holidays. However, it was not clear whether this buying was a switch from foreign cash holdings to equities or fresh foreign fund injection.

It was also reported that Japanese officials were in Malaysia to discuss the US\$5 billion (RM19 billion) aid under the Miyazawa Plan.

Meanwhile, markets across the region were somewhat affected by concern over China's debt-ridden economy and the renewed worry that China may devalue its yuan.

The contagion effect of the Brazilian crisis of global markets had not been fully felt. Malaysia is insulated but not isolated through controls.

The underlying KLCI upward trending channel is still intact with resistance levels at 620, 657 and 680 while supports are at 600, 590, 576 and 560.

Since Jan 11, February Futures had been trading at a band of 630 and 651, more or less at the next resistance level of the underlying index was the trading level of the futures market.

It is also worth noting that since Jan 11, January Futures over underlying index premium had narrowed considerably from around 25 to about four points as at the end of the week.

For the corresponding period, the February Futures over underlying index premium had also narrowed from over 40 to about 25 points. Is this an

indication that the market may undergo a minor correction before resuming the pre-Chinese New Year upward trend this week?

A reversal in trend would only be indicated if the channel support of 590 to 570 were to be breached.

(END)