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Reversal in sell-off likely to take place this week

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THE Kuala Lumpur Stock Exchange (KLSE) started to show its nervousness about an overheated market some three weeks ago. It all began when the weekly trading volume first hit an all time high of 4.7 billion shares five weeks ago, followed by another weekly all time high of 5.6 billion shares. The straw that broke the camel's back was when it hit 6.8 billion shares for the week ending July 16.

Our medium-term O/O had turned bearish nine weeks ago. It pulled back strongly between the fifth and seventh week, which also saw one of the best gains that we have seen for a long time.

Obviously, the almost impossible pullback was too good to be true and in the last two weeks we saw our O/O Indicator resuming its bearish trend.

On hind sight, many are saying that the surging bull needs to take a rest and no one can quarrel with that. Others are saying that the heavy selling seen in the last two weeks was due to hedge funds selling out so that they can repatriate their money without having to pay the exit tax. Our Prime Minister Datuk Seri Dr Mahathir Mohamad has said that that we have enough funds to cover any capital flow.

Perhaps, the two most down to earth reasons for hedge funds not to take their money out will be a continuation of a bull market. Hedge funds like anybody else cannot resist wanting to trade in a market where there are plenty of money to be made, whether on the downside or upside.

The other is the assurance by Dr Mahathir that the exchange rate between the US dollar and ringgit stays at RM3.80 but will be revised it when we are ready. Maintaining the exchange rate at RM3.80 will attract foreign funds while the possibility of a revision to a lower exchange rate will keep hedge funds from going out.

Keeping the balance is important and so far Malaysia seems to be doing well.

On the technical front our Timing Device is still trending down and in a highly oversold position at -373.3 points. The fact that the trending down pace has slowed down in the last couple of days means it is preparing to reverse itself out of the failing trend.

The reversal is likely to take place early this week. More important is a continuation of the uptrend the following week, as we need it, if we are to have a chance to turn the now failing O/O Indicator up.

Our medium-term O/O Indicator has continued to trend down last week.

The bad news is that the trending down pace has expanded and this signifies a weaker market.

Having said that, if the reversal in trend in the Timing Device becomes a reality this week it will help slow down the failing pace of the O/O Indicator. A continuation of a rising Timing Device will help turn the bearish O/O indicator up.