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Buying interest gives way to retail, forced selling

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THE euphoria trading during the first three weeks of the New Year eventually came to a halt as investors' fear finally showed and gains in share prices cut back. Market observers said that as gains were eroded, buying interest gave way to retail and forced selling; it is believed that profit-taking made the situation worse.

During the latter part of the week, the market continued to weaken due to rumours pertaining to our Prime Minister Datuk Seri Dr Mahathir Mohamad's health as well as market talks that discussion between Time Engineering and its creditors on the company's debt restructuring plan have failed.

This triggered tremendous selling pressures across the board and goes to show how highly-strung and nervous the market is.

On the external front the US trade deficit continues to widen; Asia owes a lot to the strong US consumer sector for its quick rebound from the 1997/1998 recession.

The US continues to record higher and higher trade deficits; the latest November figure at US\$26.5 billion is up from US\$25.6 billion in October.

This is expected to shrink as steeper and steeper interest rates and eventually lower and lower returns from the stock market have an impact on consumer demand.

However, unless an adverse or serious stock market crash occurs over there, this cyclical slowdown should not have too dramatic an impact on the Kuala Lumpur Stock Exchange (KLSE) in the near-term.

On the technical front our rising Timing Device was arrested as early as last Monday; from then on the decline continued on a moderate pace and this allowed traders to single out situational stocks for rotational play.

Chart Trend believes that the weakness on the KLSE will gather momentum this week due to the closure of the exchange for the Chinese New Year holiday.

It is believed that investors, speculators and traders will be unwilling to hold excessive stocks during the long weekend. Hence, they are expected to cut back on their portfolio.

Our Timing Device, on its decline has already broken through its zero support level. The next support level is at -200 points; we do not think that this support level will be able to come out with enough support to halt the decline.

This will ultimately lead our market to test the -400-point support level.

The picture on our medium-term O/O Indicator is not that good either. Although the rising trend has not been arrested yet, we note that the rising pace has been cut back dramatically.

We believe that O/O Indicator is preparing for a reversal in trend and if this comes true, the downtrend can last between six to twelve weeks.

Chart Trend feels this ties up nicely with Malaysia's reinstatement into Morgan Stanley Capital International (MSCI) indices.

Market rumours has it that MSCI funds have already invested 50 per cent of what they want to invest in our market much earlier. Logically speaking the remaining 50 per cent will be invested between now and May. Being masters of their trade, they would prefer to come in again when the KLCI is at the 800-point or lower.