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Hit by rumours

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THE Kuala Lumpur stock market remains vulnerable to rumours in political circles, uncertainty on the corporate front and interest rate/inflation tussle on Wall Street. The market also suffered from relentless selling in early June as some foreign broking houses decided to switch part of their funds to other regional markets that had plunged in line with the meltdown on Wall Street and were comparatively cheaper than the KLSE in terms of prospective earnings multiple.

Suprisingly, the Malaysian market was the best performing market in the region during the first five months of this year, up almost 12%. In contrast, during the same period, the Japanese and Hong Kong markets dropped 18%, Singapore fell 29%, South Korea (36%), Indonesia (43%) and the Philippines (35%).

Apart from the downgrading by foreign analysts, market sentiment was also affected by continued speculation of economic differences between the Prime Minister Datuk Seri Dr Mahathir Mohamad and Finance Minister Tun Daim Zainudin. Retail investors fearing for the worst turned bearish and dump shares causing an unnecessary fall in share prices. As the Prime Minister rightfully pointed out recently, there will of course be differences of opinion on some issues. Observers note that it is this very essence of intellectual play between the two respected persons in the country that has kept the economic field vibrant over the past two decades. Otherwise Malaysia would not have adopted such a bold and aggressive economic development stance across the board and may have remained as a highly dependent primary commodities driven economy with mundane growth rates.

Certainly the Time Engineering/Sing Tel deal did not go down well with certain investors but a speedy solution based on pure business rather than sentiment should be insightful. After all, the business potential and value of Time have been ascertained and interested suitors have to pay a fair price so that the minority shareholders are not shortchanged in the exercise. Some share investors also became extremely cautious every time a by-election is held. They fear the ruling party is going to have a tough time or, or lose and its popularity eroded but the crust of the issue is that the Barisan Nasional won with a decisive majority in the recent general elections and it would continue to be dominant party for the next few years.

It is about time that investors, particularly institutions, view the bigger picture and act rationally in their decision making instead of joining the herd and also depressing share prices. Institutional investors are in the market for the long haul and should make investment decisions based on the overall political and economic outlook of the country. The Malaysian economy is healthy and companies are reporting bumper profits. Even if there is an economic slowdown later in the year, the companies have already made enough money over the past one year to weather another storm and are certainly better prepared for any unforeseen eventuality.

The Malaysian economy continues to be robust, with the industrial production index for April this year up 18.6% to 184.5 points from 155.6 recorded in the same period last year. The manufacturing sector was the main contributor. Manufacturing sector sales grew 34.4% during the first quarter of this year to RM73.48 billion (bn) from RM54.69 bn in the previous corresponding period.

On the whole, the stock market should remain positive with a stable political climate, improved economic conditions and ample liquidity. Of course, the overhanging factor is Wall Street and a crash would turn the table.

On the issue of the staggered release of Clob shares beginning in July, the net effect should not be damaging since the exercise will be over a 52-week period and value of the Clob shares totalling about RM 18 bn is only about 2.5% to 3.0% of total market capitalisation of the KLSE.

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