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Investors brace for bullish Year of the Dragon

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TRADITIONALLY, the Year of the Dragon, the most auspicious of all the animals in the Chinese lunar calendar, is always good for the economy. And this year is the year of the Golden Dragon, so take the auspiciousness and double it.

Optimism is riding high as far as the stock market is concerned. Investors are practically rubbing their hands together in glee at the prospect of a bull run this year.

Prime Minister Datuk Seri Dr Mahathir Mohamad remarked that the Kuala Lumpur Stock Exchange Composite Index should breach the 900 mark this year. Many feel that if he errs in this projection, it is on the side of caution.

Investors are expecting a much stronger rally than that, and they feel justified in doing so.

After all, the economy is recovering steadily, the country has been showing a consistent current account surplus, and imports have picked up.

The pick-up in exports means that companies are investing in the capital expansion of their businesses and increasing their production capacity. And growth in production (tempered with prudence of course) will lead to growth in profits.

A Dun & Bradstreet survey indicated that business is blooming in Malaysia as the business community is becoming increasingly optimistic, expecting strong new orders and increased volume of sales.

Its vice president and managing director for Asean and South Asia, Mr David Emery, even described the whole of 1999 as a "masterpiece of a turnaround" where Malaysia is concerned.

The president of the Economic Strategy Institute in Washington, Mr Clyde V. Prestowitz Jr, commented in an article entitled "Lessons from Malaysia" in the October issue of Fortune magazine:

"What sets Malaysia apart is greater speed and extent of its reform efforts and the better health of its fundamental economic structure."

However, the Kuala Lumpur stock market, which started the new millennium with a bang, closing 21.56 points higher at 833.89 on January 3, saw its gain eroded during the course of the week, due in no small part to the 360-point plunge on Wall Street last Tuesday. Wall Street sank on rumours that the Federal Open Market Committee might be raising interest rates.

Although this reflected the importance of the New York stock market's influence to some extent, the KLSE held up reasonably well comparison with other regional markets. Hong Kong, for example, fell 1,200 points or 7 per cent last Wednesday.

In fact, the local bourse managed to close 6.10 points higher for the week, a good performance by regional standards.

Traders said the Hong Kong market was particularly hard hit because of an attack on its futures market by the infamous George Soros. Malaysia, they said, was less vulnerable, because there are less foreign funds in the market.

Most analysts contacted by the Business Times were jittery about the US market and its possible effect on the local economy and stock market.

"Their stocks have gone up far beyond their profitability and while consumer confidence is still at a high, business confidence is pretty low. Everyone seems to be waiting for the axe to fall, which is why they over-reacted to news of a possible interest rate increase," one market observer

mused.

It is a good sign, however, that the Malaysian bourse - which used to catch pneumonia every time the US market sneezed - was relatively unaffected by the Wall Street jitters this time around.

As further shakeouts are expected in the Dow Jones, which has been described as "so bubbly it could be mistaken for champagne", it will be a test of the resilience of the Malaysian market and the recovery process.

Funds are, after all, impartial - they go where there is money to be made.

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