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KL bourse set for upward ride in coming months

MALAYSIA'S stock market is set for an upward ride in the coming months on the back of the country's re-entry into an international benchmark index, firmly putting behind a difficult period of the past two years.

The market is now taking a breather but there is little on the horizon that could rein in the anticipated rally unless Wall Street takes a sharp beating, analysts said.

"With ample liquidity, low interest rates and a growing economic recovery, the environment for stocks is favourable in the near term," said an analyst at a brokerage.

Malaysia's return to the Morgan Stanley Capital International (MSCI) investment indices on May 31, less political uncertainty and healthy corporate earnings are expected to add to the strength of the market, which has gained 17 per cent this year.

Merrill Lynch put the benchmark Kuala Lumpur Stock Exchange Composite Index (KLSCI) target for 2000 at 1,300 points, near a record high of 1,332. This compares with 949.85 on Friday. The index dived to 261.33 in September 1998.

Despite lingering concerns such as an interest rate hike and the release of Malaysian stocks formerly traded in Singapore's over-the-counter market, longer-term trends are good.

"Strong liquidity and pent-up demand for IT and Internet stocks will drive the stock market in the months ahead," said G.K. Goh Research. "We are maintaining our mid-2000 KLSCI target of 1,130 and year-end target of 1,250."

The central bank may hike rates if inflation became a threat, a move that would draw funds away from the stock market. But Bank Negara had said inflation which is projected at 3.2 per cent this year was within a comfortable range.

Kuala Lumpur is one of Asia's best performers this year. Based on Friday's closings, South Korea is down 18 per cent this year, Singapore down 13 per cent while Hong Kong is flat.

Analysts said the KLSE correction from an overbought position - it lost some nine per cent to a low of 922 points on March 9 from 1,021.20 on Feb 18 offered good buying opportunity.

Some US\$2 billion (RM7.6 billion) of foreign portfolio money entered the market during the first two months of this year.

Lippers Asia Ltd, a Reuters company, said foreign funds stood at \$2.9 billion on March 27, down 7.2 per cent from a month ago.

"We expect to see a second wave of foreign portfolio funds come into the market around the period of Malaysia's reinstatement into the MSCI at end May," Merrill said.

MSCI has said that using stock data as of March 13, Malaysia would see its weightage in MSCI's Far East Free Ex-Japan index at 10.7 per cent. Actual weightage when it rejoins the index next month would depend on KLSE's market capitalisation at that time.

MSCI dropped Malaysia from the index after the government imposed capital controls and pegged the ringgit currency in September 1998 as the country grappled with the Asian financial crisis.

"A 10 per cent weightage will mean some RM20-30 billion in foreign investments," said one local fund manager.

"Even if 10 per cent or RM2 billion come in, it will help move the

market," he told Reuters.

Another fund manager said: "It's difficult for any foreign fund manager not to justify any weightings in Malaysia."

"We estimate that on average, fund managers globally have about four to five per cent weightage in Malaysia currently," Merrill said. "That is still very underweight in our opinion for such a large market."

The political uncertainty over Prime Minister Mahathir Mohamad's succession has also been removed after a challenge by former finance minister Razaleigh Hamzah for top posts in the ruling Umno party fizzled out.

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