

01/02/2000

## Revealing curves

M. Shanmugam

IF past records are anything to go by, the scintillating run of the Kuala Lumpur Stock Exchange (KLSE) may drive the Composite Index (CI) to test the all-time high of 1,314 points set in January 1994.

During the mid-1980s recession, the CI went as low as 169 points on May 2, 1986. But it rose, in about 13 months, to touch a high of 470.16 points on Aug 10, 1987 - an increase of 278 per cent. It was close to the previous high of about 550 points achieved during the property boom of 1981.

The depreciation of the ringgit, which started in mid-1997, subsequently sent the Malaysian economy into a spin. The stock market, trading at a high of 1,271 points on Feb 25, 1997, hit a low of 262.70 points on Sept 1, 1998 when Malaysia imposed capital controls. But since then, it has improved steadily. The difference in the upward trend this time around is that, even after 13 months, it is not likely to stop at its immediate previous high. Some reckon that it could test the Jan 5, 1994 peak of 1,314.46 points.

'We are definitely in the positive area of an economic cycle,' says SJ Securities research head Peter Lim. But he maintains that comparing the present status of the KLSE with past records would not be correct as the economic structure as a whole has changed. Still, based on the past track record of the stock market, one thing seems certain: the worst is over and the KLSE may see another three or even four bullish runs in the near future. After the recession of 1985-1986, there were at least three bullish periods, the best taking place in 1993-1994.

From a high of 470.16 points on Aug 10, 1987, the CI hit 632.32 on Aug 1, 1990 and 1,314 on Jan 5, 1994. In early 1997, the KLSE also saw a bullish run but the highest the CI went was 1,271 on Feb 25.

The mid-1980s recession was sparked by the weak commodity prices in the international markets. The downturn, laced with a stream of bad news like the BMF scandal and Pan-Electric crisis, sent the market plunging. The Pan-El crisis forced the KLSE and the Stock Exchange of Singapore (SES) to close for three days. When trading resumed on Dec 5, 1985, the market capitalisation of the KLSE shrank by RM10.8 billion to RM53.4 billion.

That was not all. In February 1986, Finance Minister Tun Daim Zainuddin in revising the expected growth rate substantially, declared that 'the days of high growth rates are over.' The CI trended downwards, hitting a low of 169.83 points on May 2, 1986. After that, the CI rose in the next 13 months, reaching a high of 470.16 on Aug 10, 1987.

The bullish mood in 1987 was abruptly interrupted by Wall Street's infamous Black Monday crash of 508 points on Oct 19. A day earlier, the market was already jittery following a shooting spree in Kuala Lumpur's Chow Kit area. They caused the CI to fall by 28 per cent, to slightly more than 300 points. Gloom prevailed for the rest of 1987. Sentiments were not improved by the arrest of 55 people under the Internal Security Act.

The CI hit a low of 223.12 points on Dec 7, 1987. A gradual climb upwards followed, a two-year run that lasted until February 1990. The ascent to 616 points was mainly due to the rise in rubber and palm oil prices, two major export earners for Malaysia. Still, there were interruptions, caused by mainly external factors. In January 1989, Prime Minister Datuk Seri Dr Mahathir Mohamad went for heart bypass surgery. On the foreign front, there was the Tiananmen Square incident on June 4 and

the Dow Jones' 190-point fall in October.

These negative elements were compensated for by the rise in commodity prices and the KLSE's launch of the Semi-Automated Trading System (Score) on May 15. The Score trading system facilitated a growth in trading volumes and also attracted more foreign funds to the KLSE.

Thus, even when the KLSE and SES went separate ways on Jan 1, 1990, the CI was barely affected. On Feb 6, trading volume hit a record high of 213 million shares, valued at RM453 million. But volume contracted when the KLSE introduced the fixed delivery and settlement system six days later to curb speculation. In the following months, the bourse was also affected by the rise in interest rates in Japan and the depreciation of the yen. Investors were rattled as well when the KLSE, in March 1990, admitted misplacing the scripts of some 49 million shares.

The market, however, shrugged off the setback in May and started a commendable move upwards, hitting 632.32 points on Aug 1, 1990. Then came the Gulf War. Iran ran over Kuwait and, in the process sent oil prices in a steep climb, from US\$18 to more than US\$40 per barrel. The rise prompted fears of inflation and affected stock markets around the world.

The CI's downward trend continued until it hit a low of 459.08 points on Sept 28, 1990. After that, the index was volatile. Barisan Nasional won the general election in October with a two-thirds majority despite Parti Bersatu Sabah's pulling out of the coalition a few days before nominations. But the victory failed to lift the market, which continued to be affected by developments in the Gulf War.

In December 1990, there were signs of the Gulf War being settled, and oil prices fell to US\$26 per barrel. The CI went as high as 470.40 points on Jan 16, 1991, but the revival was shortlived: there was another outbreak of hostilities the following day.

The Gulf War ended on Feb 28 and it set the mood for a bullish run. The CI hit a new peak of 635.02 points on May 29, 1991. But rising interest rates and the Russian crisis, which saw President Mikhail Gorbachev replaced, sent the market down by 27 per cent to 459.08 points on Sept 28, 1991.

In January 1992, backed by attractive economic indicators and rising interest rates, the ringgit began to strengthen against major currencies, including the greenback. It hit a high of RM2.48 against the US dollar on Aug 25. The Nikkei index touched 14,309 points, the lowest level since October 1986, amid concerns that Japan's economy was stagnating. The KLSE CI hovered around 560 to 630 points, while anxiety grew about an economic slowdown.

But the following year proved to be most exhilarating for the KLSE. It kicked off with the index at 632.83 points on Jan 4, and the CI finished the year at 1,275 points. The dizzy climb was attributed to a massive inflow of hot money, attracted mainly by the undervalued ringgit.

The index breached the 700- and 800-point barriers on April 29 and Aug 20 respectively, tested the psychological 1,000-point mark on Nov 22, and crossed it in early December. The bull run continued into 1994, with the CI closing at 1,314 points on Jan 5. On Jan 10, Daim, then the economic adviser to the government, warned that the market was largely rumour-driven and had reached a dangerous stage. His comments sparked the end of the 1993-94 bull run. The CI trended downwards and sentiments were made worse by the fear of inflationary pressures and rising US interest rates.

In March 1994, Bank Negara revealed forex losses of RM5.7 billion. In a display of public accountability, its governor, Tan Sri Jaafar Hussein, opted for early retirement. The market received the news well.

On Aug 22, the CI hit a five-month high of 1,154 points after Bank Negara lifted several measures imposed to stem the inflow of speculative

funds. But sentiments were dampened in the next few months by the disbandment of the Al-Arqam religious group and fears of a hike in US interest rates.

In the first quarter of 1995, the market continued to be bearish, amid fears of a US interest rate hike, the Kobe earthquake and concerns over how the implementation of the Central Depository System (CDS) will affect Singapore investors. At the end of April, the Barisan Nasional won a resounding victory in the general election and it set the stage for a more optimistic mood. The CI climbed to 1,085 points on June 5. But the same old fears of the economy over-heating, the implementation of the CDS and US interest rate hikes bogged down the index in the following months.

In 1996, second board stocks hogged the limelight even as fears grew of the economy over-heating. The banking sector also came under the spotlight after Rashid Hussain Bhd proposed to buy Kwong Yik Bank from Malayan Banking Bhd on Oct 24, 1996. The Second Board, which was at 478 points on March 31, 1996 hit a high of 657.67 points on Nov 29. The main board, fuelled by the merger mania in the banking sector, also saw phenomenal rises in stock prices in the second half of 1996.

The euphoria over banking stocks spilled over to 1997, with the CI touching 1,271 points on Feb 25. But fears of the region's economies over-heating started to set in the system. In unveiling the Bank Negara report on March 27, Governor Tan Sri Ahmad Don announced new measures to curb lending to unproductive sectors, mainly property and share financing. The CI, at 1,225 points, started to slide.

The Asian financial crisis unfolded, with the regional bourses buckling as their currencies came under severe pressure. On July 2, Thailand effectively devalued the baht by floating the currency. The KLSE CI, which was trading at the 1,085-point level, came under severe pressure. Large corporations with foreign loans suffered severe forex losses. Banks' asset quality deteriorated.

Under relentless attack, on Oct 23, 1997, the Hang Seng Index collapsed after the Hong Kong authorities raised interest rates by 300 per cent to fend off attacks by currency speculators. The index fell by 10 per cent, causing a spillover effect around the world. Even Wall Street was not spared: the Dow dropped by some 500 points. The KLSE CI lost 112 points at one stage, to fall below the 700-point mark. It finally closed the day at 706 points.

On Nov 17, United Engineers (Malaysia) Bhd announced the acquisition of a 32 per cent stake in Renong. Three days later, the CI slid to 536 points as the market viewed the UEM-Renong deal as an example of bad corporate governance. The market was already bearish with Sime Darby revealing that its banking unit was in trouble while Tenaga Nasional Bhd reported huge forex losses.

On Dec 3, South Korea buckled under the pressure of enormous foreign debts and went, cap in hand, to the International Monetary Fund (IMF). A record US\$58 billion aid package was arranged. The KLSE CI, however, remained at 536 points.

The regional crisis continued in 1998. Several important developments that year still impact the region. Among them was Indonesian President Suharto's resignation, Malaysia's imposition of capital controls, and the IMF's going to the rescue of Indonesia.

On Jan 7, the ringgit dropped to a low of RM4.88 against the US dollar, sending the CI to 501 points. On Jan 15, Suharto signed a deal with the IMF, seeking aid in exchange for economic reforms in Indonesia. The news failed to lift the KLSE CI, which was at 525 points, owing to the hangover from the Renong-UEM deal. But the index recorded the single highest daily gain of 131 points on Feb 4 to close at 701 points, when the KLSE opened

after a long holiday: the regional markets had gone up because of Wall Street's breaking the 8,000 barrier.

But in subsequent months the market fell, spooked by the depreciation of the ringgit and a spate of bad corporate results. The CI plunged to 262.70 points on Sept 1 after Malaysia imposed capital controls. There was uncertainty over the banking system, non-performing loans continued to rise and the political situation in Indonesia was fraught. On May 21, amid street riots, Suharto resigned. The KLSE CI was at 593 points. When Ahmad Don's resignation as Bank Negara Governor hit the market on Aug 29, the CI closed at 302 points.

On Aug 31, the KLSE announced that all shares must be registered with the Malaysia Central Depository, thus making ineffective the Clob, the Singapore over-the-counter market for Malaysian shares. On Sept 1, capital controls were imposed and Deputy Prime Minister Datuk Seri Anwar Ibrahim was removed from the government. After some confusion over the capital controls, the CI started its upward trend with a jump of 12.14 per cent to 294 points on Sept 3.

The rise continued until Jan 21, 1999 when the Finance Ministry introduced the graduated levy scheme whereby funds can be repatriated provided a fee is paid. The following day, the CI traded at a high of 618 points, but fears of money flowing out owing to the graduated levy caused the index to slide.

It continued to fall until March 31 when the government received a US\$700 million syndicated loan under the Miyazawa plan to help affected economies. The loan, together with a bulging current account surplus, sent the CI, which was at 501 points, on a course to hit 851 points by mid-July.

Then the market became uneasy with Bank Negara's initiative to consolidate the banking sector. The CI declined to 681 points and reversed its trend when the Morgan Stanley Capital International (MSCI) benchmark indexes announced that the KLSE would be relisted on its index in May 2000. The CI moved up to 766 points and drifted sideways until the present bull market.

In the regional scene, Singapore's Straits Times Industrial Index and Hong Kong's Hang Seng have already surpassed their pre-crisis high. Both these markets have improved in tandem with the bullish run of Wall Street. South Korea's Seoul Composite Index, currently at about 1,020 points, is near its pre-crisis high of 1,125 points.

Among the stock markets of the Philippines, Thailand and Indonesia, surprisingly, it is the Jakarta Composite Index which has done well. In recent months, the index has reached about 705 points, which is not far from its all-time high of 736.6 points. The Philippines Stock Exchange (PSE) composite index and the Stock Exchange of Thailand are trading off their highs.

(END)