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Steadier trend needed to trigger a good rebound

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A SLIGHTLY steadier start in the week in anticipation of a return of foreign portfolio investors gave way to selling as expectations of a big rush to purchase stocks from June 1 failed to materialise.

As a result, the performance of the Kuala Lumpur Stock Exchange (KLSE) underperformed against that of other foreign bourses - the latter which jumped up significantly on the back of a rebound in the US stock market.

For the week, South Korea, China and Hong Kong rose more than 10 per cent each, powered by inflation friendly US job data.

The four-day plunge in share prices on the local bourse was mainly due to persistent rumours of differences between the Finance Minister Tun Daim Zainuddin and Prime Minister Datuk Seri Dr Mahathir Mohamad, as well as the worries on the staggered release of the Central Limit Order Book (Clob) shares effective from July 3.

Furthermore, the downgrading by foreign brokerages on the KLSE compared to other regional bourses as well as the month-on-month decline in the Industrial Production Index dampened local sentiments.

However, last Thursday, Daim's comments on the strong economic fundamentals, the lifting of exit tax coupled with a denial of any rift between himself and Dr Mahathir gave the local market a boost last Friday.

The Kuala Lumpur Composite Index (KLCI) closed the week at 861.30 points compared to its intra-week low of 832.82 points.

In our last review we said that three days of extreme bearish conditions will take our Timing Device to the 400-point level.

Last week our market went one up better and downwards in four days of extreme bearish conditions with increased selling last Wednesday and Thursday.

Needless to say, our Timing Device not only touched the -400.0-point level, it actually touched -464.6-point on Thursday. The rebound last Friday, arrested our failing Timing Device; the steadier trend was over a wide front and had our KLCl gaining 19.06 points.

For the rebound to be good we need to see the steadier trend gathering momentum this week and this is especially so for trading volume which in our opinion have to at least double up, so as to give confidence a boost.

Our medium-term O/O Indicator continues to trend down on a larger failing pace. This is going to make the job of reversing the failing trend in the O/O Indicator harder this week, but if the KLSE can deliver a trend as strong as it did the previous week, it can be done.

Failing, we will have to wait another week for the reversal in trend to take place. The position of our O/O Indicator at -147.3 points is at a strong reversal level.

Our view is that we are likely to see the birth of a new rally before the month is out. July will most probably see a base building process, the rally is likely to unfold itself between August to October.