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Firm handling of re-peg issue triggers share rise

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IN LAST week's comments, I spoke about a pattern called the "Concealing Baby Swallow". I mentioned that this rare four-day pattern hints of a "bullish reversal". True to form, the market made a U-turn.

After plunging for one more session (last Monday) to test the key 62 per cent Fibonacci support of 550, the benchmark Kuala Lumpur Stock Exchange Composite Index (KLCI) backed up all the way, from last Tuesday to Friday, to end the week higher by 3.93 points or 0.68 per cent, at 581.37, after suffering an intra-week loss of nearly 30 points. Its intra-week low was at 547.72.

What caused the market to plunge last Monday to test 547.72?? Partly it was due to extreme fear and partly due to the market's self-fulfilling prophecy. The market had been falling since March 27 from worries over the ringgit's peg to the US dollar. Speculation of a possible change in the ringgit peg sparked concern among investors, which did not seem to abate even after Prime Minister Datuk Seri Dr Mahathir Mohamad and Finance Minister Tun Daim Zainuddin's comments that the Government would not re-peg the ringgit.

"The whole ringgit thing last week spooked investors to think the market is likely to fall further thus creating a snowball effect," a dealer said. A foreign news agency further reported that a senior analyst thinks selling is mainly by local institutions. "Dow Jones is only an excuse to sell."

This fear "reached its zenith" last Monday just as I had forecast in my weekly commentary. Market sentiments were at their lowest, as reflected by persistent sell-offs of heavyweights like Tenaga, Telekom and Maybank.

Last Monday alone, Tenaga lost 85 sen to RM8.65, Telekom fell 40 sen to RM8.70 and Maybank lower by 35 sen to RM9.65.

Sentiments were so extreme that unlucky Second Board debutante D'nonce Technology was devastated by selling pressure to close at RM1.23 - 77 sen below its initial public offer price (IPO) of 2.00.

But the difference in last Monday's plunge was, it's not the market's first. It was already in its fifth session. Remember the "Concealing Baby Swallow" pattern?

This pattern was formed in Tenaga and Telekom as well, implying that they have already fallen for the past four sessions. Last Monday's fall was therefore the "climax", so to speak. It was a classic textbook stuff - a long black candle appearing after an extended decline is a "selling climax".

With Bank Negara governor Dr Zeti Akhtar Aziz reiterating that Malaysia will not "push to devalue its currency", her words must have sunk deep into the sellers' minds that the Government meant business!

What is the point in selling any further and converting the cash proceeds into US currency when there is no exchange gains to be had now that it is clear the Government is resolute in its decision to maintain the ringgit's peg. This factor - the Government's firm handling of the devaluation issue - is one major reason that triggered the market's U-turn.

From last Wednesday right through to Friday, the market rebounded in the absence of sellers. But detractors would argue that last Friday's strong rebound was because it was an Easter holiday - and foreign fund managers were on leave. Once they return, observers say: "Expect renewed selling."

Will selling re-emerge when foreign fund managers return? Yes, if regional currencies weaken further to the extent Malaysia may be forced to re-peg. But given the Government's firm stand on maintaining the peg, sellers had better think again before selling.

On the other hand, both foreign and local funds, which had earlier zealously oversold may "cover" if they feel they have misread the Government's intention. If this happens, expect the KLCI to shoot above the 600-level this week.

Besides the "surprising" rebound from Tenaga and Telekom last week, we saw buying activity flowing back into the local "technology" sector. In line with the gigantic leap of 241 points or 14 per cent in Nasdaq's weekly performance, some selective local technology stocks came to life and triggered "buy" signals.

MPI rose RM1.60 or 16 per cent to RM11.60 while Unisem rose 70 sen or 8.5 per cent to RM7.60. Nikko was up 34 sen or 12.6 per cent to RM3.04, CSA rose 70 sen or 13.2 per cent to RM6.00, Lityan was higher by 19 sen or 16 per cent to 1.38, AIC was up by 28 sen or 7.3 per cent to RM4.12, AIC-W2 rose 20 sen or 20.4 per cent to RM1.18 and LKTInd jumped 39 sen or 19.8 per cent to RM2.35.

Since last week was the first that I am seeing some action in technology stocks, I expect further upside this week. It would pay to concentrate on these stocks this week. Do not forget that some Main Board stocks are classified as "tech" stocks. Stocks like Sapura, Uniphone, Time, Time-W, TR Ind, Camerlyn, HL Ind should also be monitored. We also expect more upside on these stocks.

Technically, the market should continue with its rally this week. Though volume will likely be smaller - of around 100 million shares, I expect the KLCI to test its Fibonacci targets of 596-611-626. If the KLCI can breach 626, expect further rebounds to test the top of the V-pattern, at 663, the level on March 27.

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