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Malaysia one of the best places for foreign funds

Fred Tam

LAST week, the benchmark Kuala Lumpur Stock Exchange Composite Index (KLCI) rebounded further by 7.54 points or 1.33 per cent to close at 571.26, the Emas Index higher by 1.1 points or 0.8 per cent to 138.95 while the Second Board Index was down by 0.26 points or 0.24 per cent to 106.28.

Last week was the second week of the market's rebound since Morgan Stanley announced the re-weighting of its indices. The much-feared sell down of heavyweights was non-existent at all. Instead there was some nibbling of heavyweights like Tenaga, Maybank and Telekom.

All three stocks were dealt higher week-on-week with Tenaga gaining 30 sen to RM8.05, Maybank up by 20 sen to RM9.55 and Telekom edging up 5 sen to RM7.80. The reason why they were not being sold down further is because whichever funds that wanted out would have gotten out much earlier, around the 640 points level.

Therefore, by the time Morgan Stanley made its announcement on the weekend of May 19-20, this piece of bad news has already been factored in by the market. On the contrary, instead of falling further, the KLCI rose 13.6 points from 557.66 on May 18 to 571.26 by last Friday.

This "market discounting" phenomenon was implicit in the statement by the KLSE chairman Datuk Mohd Azlan Hashim made last Friday.

He said, "The general feedback that we received from market participants is that many fund managers were expecting significant reductions in the weightings of most emerging markets. Some may have already adjusted their portfolios accordingly in anticipation of the changes therefore the impact of the MSCI announcement is not as significant as some had earlier anticipated."

The other major reason for the rebound last two weeks is the diminishing of pressure to devalue the ringgit. The US tax cuts of US$1.35 trillion (US$1 = RM3.80) should spur consumer spending which could avert a US slowdown and this together with the Federal Reserve's aggressive policy of lowering US interest rates may just give Malaysia the chance to get away without a ringgit devaluation.

Foreign funds who have sold out and expect lower prices on the local stock market will now have to reassess their market strategies. Will they turn buyers instead? The support we see on TMT these two weeks may just be a sign of their return.

Last Friday, the local bourse was rift with rumours of a major press announcement by Prime Minister Datuk Dr Mahathir Mohamad on Tun Daim Zainuddin's status as Finance Minister. Speculation about Daim's resignation spooked market sentiment yet again last Friday as players remained sidelined in anticipation of the Prime Minister's announcement of Daim's resignation upon his return from the G-15 Summit in Indonesia. Once again, the Prime Minister remained tight lipped.

From our viewpoint, we think the local market is too taken in by the issue of the Daim's resignation. Remember that on April 19, when news of his two months leave was announced by the Prime Minister, players speculated about his resignation and the stock market was spooked.

The KLCI's initial rise on April 19 on the back of the US Fed rate cut was reversed by news that Daim had taken a two-month leave. The KLCI closed on April 19 at 570.01. But did the market fall further thereafter? No. Instead, it rose to a high of 620.48 by May 3 before falling back -

not so much because Daim's absence was unsettling the market but more due to fears of Morgan Stanley's re-weightings as well as the re-pegging of the ringgit.

Last Friday, some remisiers and dealers were uneasy with this rumour yet again, prompting some of them to sell shares. Haven't we learnt from the April 19 experience? We think they should ignore this issue of the Finance Minister resigning but instead to look at the bigger picture. Ministers can be replaced. They come and go. If Daim goes, someone else will take over to continue the policies of the Prime Minister. And in this case, it has been shown on April 19 that in spite of Daim's absence, the market has rallied.

The bigger picture is that Malaysia is still one of the best places in Asia for foreign funds to put their monies into. There are signs that foreign funds are returning. The markets of South Korea and Thailand are strong. Even Indonesia's market is off its April 20 low despite the dire political and economic uncertainties facing the country. At 396.51, it is 58.33 points or 17.2 per cent higher than its April 20 low of 338.18. This shows that when bad news get so bad, it is difficult to find any "worse" news.

And one market adage we have learnt from the "guru of contradiction", Morgan Stanley, is to "sell on good news" and to "buy on bad". The re-instatement of Malaysia into the Morgan Stanley into its world indices in May 2000 was supposed to be "good" news, yet our market fell - fell hard.

Many players are still feeling the sting from that blow. Now, our American "guru" has belted out their "worst" news. Is that our buy signal?

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