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Market holds ground after 70-point plunge

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THE benchmark Kuala Lumpur Composite Index (KLCI) managed a decent close last week, higher by 10.20 points or 1.77 per cent, at 585.87. This is the third week our market held its ground since the sharp plunge of 70 points, from 647 to 577, on the week ending April 6.

Since then, bargain hunting on the one hand as well as a shrinking in selling activities of heavyweights like Tenaga, Maybank and Telekom (TMT) has helped to resuscitate the KLCI. Week-on-week Tenaga rose 60 sen to RM9.85, Telekom was higher by 50 sen to RM9.20 and Maybank edged up by 35 sen to RM9.90. At the same time, lower liners and second board counters also experienced some buying interest resulting in both the EMAS and Second Board indices ending the week in positive territory.

Was there any significant events or news that resulted in their rise last week? Except for the market's speculation of a change in the Finance Minister after Prime Minister Datuk Seri Dr Mahathir Mohamad announced Tun Daim Zainuddin has taken leave; there were no apparent bullish news to justify the bounce. The market's steadiness was seen by many observers as nothing more than some nibbling activities by some institutional funds who feel it is now "cheaper" after TMT lost an average of 20 per cent each in first week of April.

"There was just some bargain hunting but volumes are still very weak, so it is not too promising," said a dealer at a local brokerage. "The key index is now trading at 12 times estimated earnings, well below the average of 20 times earnings over the past ten years. But while indicators suggest that Malaysian stocks are cheap, investors are still casting a wary eye on the economic slowdown in the US, the largest buyer of Malaysian goods," reported a foreign news service.

Because of the weak volumes clocked by TMT last week, it is still premature to call for a market reversal. No doubt the market was steady enough to trigger a short-term buy signal, however, what we are currently experiencing - the feeling of a rebound - may be just another "secondary up-trend". Charles H. Dow defines a secondary trend as one that moves counter to the main or primary trend. The primary trend is still "down". What we are currently witnessing could well be similar to the 19-session rally between January 3 to February 2 when the KLCI rebounded from 657 to 736. If this is the case, then do not expect the market to bounce much further this week. Our view last week, to watch out for the resistances of 596-611-626, is still valid.

One can see from the KLCI's monthly chart (see chart) that the KLCI is still capped by the downtrend Resistance line. Also, both the monthly stochastic and MACD indicators have not triggered any bullish signal as yet. Whilst a steady Dow had possibly helped the KLCI last week, we are of the view the Dow is merely experiencing a "return move" back up to the 10,500 level after slumping to 9,106 on March 22. The break down from its "diamond" formation (see chart) on March 12 is significant in that it signalled the market's bearish reversal. After this return move, we expect the Dow to continue with its downtrend to test 8,300. This "diamond" formation as a reversal pattern will be superceded if the Dow can rally past 11,000. If so, the "diamond" formation reverts to a "continuation" pattern.

A weak Dow will continue to pressure the Asian markets. Even if the longer-term effect of a weaker Dow in our view means an inflow of hot

funds into Asia, the initial knee-jerk reaction would be to sell-down the Asian markets if the Dow fell sharply.

So far, Dow's anticipated fall had eluded us, thanks to Alan Greenspan's surprised interest rate cut nearly two weeks ago, which led to a 399-point rebound on April 18. But can the Fed reverse the "tide" of the US market, with another interest rate cut? Even so, it is uncertain if the US market will respond like on April 18.

Sentiments in the US had improved momentarily on the back of the US home sales data which trigger hopes of a quick US recovery, but note that these gains may be capped by stale bull liquidations; bulls who had bought stocks above the 10,800 level.

Nearer home, there is still the fear that continuous weakness of the Indonesian Rupiah, Thai baht and Japanese yen could deteriorate further, pressuring Malaysia to re-peg its Ringgit. Such fear subsided over the past three weeks but we are not out of the woods on this exchange rate issue. Political uncertainties in Indonesia over the weekend have also sidelined investors. It would pay to monitor the situation to see if there is any deterioration.

The local bourse will attempt to stage further rebounds this week. But the long black candle of April 6 will prove difficult to overcome.

We expect stale bulls to cap rises and possibly the emergence of fresh foreign selling of heavyweights now that TMT have rebounded by about 38 per cent from their April 10 low. We would be cautious about buying further.

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