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Market undertone firm, correction seen healthy

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SHARES on the Kuala Lumpur Stock Exchange (KLSE) are expected to trade sideways to lower this week on persistent profit-taking and waning buying interest, said analysts.

The exchange's key barometer Kuala Lumpur Stock Exchange Composite Index (KLCI) is anticipated to trade rangebound at between 650 and 660 with a strong support at 640 and a resistance at the 670 level.

"As seen in last week's trading apart from last Monday's, market sentiments seems to be tapering off with investors cashing in their gains."

"I believe this technical correction will see some following this week as the market is anticipated to take a breather," one analyst of a local broking house said.

However, analysts said the market undertone remains firm as they see the technical correction as healthy in giving room for investors to digest the recent run-up as well as providing investors a reason to buy at cheaper levels.

They said the stock market will continue to see speculative and rotational plays from stockists and punters as further news concerning corporate takeover bids unravel.

Dealers expect these plays would not involve Second Board companies which is expected to see more profit-taking activity since last week's strong gains.

They foresee technology companies would continue to see further upside this week coming from local institutional funds and positive sentiments towards Intel Corp's chief executive Craig Barrett's comment that the semiconductor industry has bottomed out.

Meanwhile, analysts were mixed on Prime Minister Datuk Seri Dr Mahathir Mohamad's comment that banks to forgive part of the loans owed by ailing companies as the Government looks to speed up efforts to pare in overdue corporate debt.

Some believed that it would hurt sentiments on banking stocks as it would negatively impact banks' profits while others believe that it would not have much impact as non-performing loans (NPLs) is an old issue.

"I don't believe that it would have any impact on banking stocks. These counters are expected to follow the general direction of the overall market as seen last week," said one analyst covering the banking sector.

On a week-on-week basis, the 100-quality stocks KLCI rose 12.92 points to 659.25, the broader Emas Index added 3.77 points to 160.18, the Second Board Index gained 6.09 points to 122.49 and the Industrial Index was up 26.68 points to 1,269.40.

The market opened with a bang last Monday when the KLCI jumped 11.18 points or 1.73 per cent to 657.51 while the Second Board Index saw one of its biggest gains of 12.18 per cent of 9.55 points to close at 125.95 last Monday.

Second Board companies that saw hefty gains were EPE Power Corp with a 90 sen gain to close at RM3.20, EG.Com Bhd 47 sen at RM2.17, Nauticalink 34 sen at 92.5 sen and General Soil Engineering Holdings 19 sen at RM1.04.

The last two trading days of last week saw the re-emergence of profit-taking and selling pressure which saw the KLCI on both occasions close lower.

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