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Bullish undertone expected to continue this week

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A CLEARER picture on Malaysia's fixed exchange currency regime is expected to dictate trading sentiment on the Kuala Lumpur Stock Exchange (KLSE) this week, equity analysts said.

Last Friday, Prime Minister Datuk Seri Dr Mahathir Mohamad said that Malaysia's peg may have to be "reexamined" if there is sustained weakness in the yen and devaluation of China's yuan. The ringgit is currently fixed at RM3.80 to US\$1.

Analysts said that if there was going to be a revaluation on the ringgit's peg to the greenback, it would be a boost for the equity market, especially for export oriented manufacturing stocks such as the semiconductor companies like Malaysian Pacific Industries and Unisem.

Tenaga Nasional Bhd (which has huge yen-denominated loans) and Proton (Perusahaan Otomobil Nasional Bhd (Proton) are also expected to benefit from further erosion of the yen's value.

However it may cause stocks of borrowers of US dollar-denominated loans to come under pressure. Among the major companies which have massive greenback loan repayments pending are Technology Resources Industries and Time Engineering.

The general consensus among equity analysts is that a bullish undertone will prevail this week on the KLSE on follow-through buying interest from retailers and local institutions.

"I strongly believe that investors remain bullish on equities for at least the near-term. Furthermore, people expect it (upward trend) would at least last a week or two as a prelude to the Chinese New Year," a head of research attached to a local broking house said.

Analysts said with the positive news in recent weeks over the bottoming out of the global economic slowdown to announcement of some technology companies posting positive earnings had positively boosted investors confidence.

Another boost to the equity market is the rumoured new set of guidelines for the insurance industry to reduce their minimum investment levels in low yielding Malaysia Government Securities (MGS), thus reducing the threshold for low risk assets to 10 per cent from 20 per cent.

This would make available more than RM4 billion in insurance funds for more attractive but higher risk bearing instruments, which includes the equity market.

"Blue-chip stocks as well as high beta stocks will also benefit," an analyst said, adding that the only drawback to the index would be profit-taking activities by investors.

"From the beginning of December up to last week the blue-chip Kuala Lumpur Stock Exchange Composite index (KLCI) had gained some 60 points - so heavy profit taking could take place," a dealer said.

He added that the KLCI may cool off before making a strong run a week before the Chinese New Year festival in the middle of next month.

Last Friday the 100 stock benchmark KLCI closed 9.57 points higher at 703.04 points from 693.47 points the week before.

This was the first time in more than six months that the KLCI had closed above the 700 psychological level.

The Emas Index meanwhile closed the week at 169.27 points, while the small capitalised Second Board Index stood at 144.22 points.

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