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Index expected to remain under influence of trading momentum

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IN A short and concise strategy report produced by a foreign investment bank, it seems that the impact of the Bali bombing is beginning to take its toll on the local economy. This is mainly due to concerns expressed by local businesses as investment and consumption slow down fearing another surprise terrorist attack. However, domestic demand is likely to drive growth next year given the global uncertainties. It was indeed a timely comment when Prime Minister Datuk Seri Dr Mahathir Mohamed pointed out that the price of cars is not expected to dip even after the Asean Free Trade Area implementation come 2005. This may help the postponement of current consumption.

Listless trading did little to help market sentiments last week. The Kuala Lumpur Stock Exchange Composite Index (KLCI) failed to make significant progress despite some favourable development to the local banking industry. On the converse, it was another round of consolidation within the tight 650-660 band. Transgression beyond this band was matched by opposing pressure. Extension to last week's high of 661.55 drew some selling interest pushing it lower to close at 656.68.

Remnants of the impulsive buying pressure two weeks ago were still prevalent despite the recent correction. Blue-chips retained their respective levels despite having their gains trimmed early part of last week. However, the congestive trading phase mentioned in a previous article is expected to last as technical indicators have yet to produce strong signal, which may suggest otherwise.

Under restrictive trading environment, current support and resistance levels are likely to induce closer following. The toeing of the index to the Gann support line is one clear example of such conviction. For the previous consecutive 15th trading session the index managed to close above this level. Moving into this week we may expect a similar result as the index is expected to remain under the influence of trading momentum. The market may struggle to break its immediate resistance at 661.

The spot contract of the KLCI Futures closed at the 652.50 last week, some 4 points discount to its cash counterpart. Average volume improved to 757 contracts with open interest stabilising around 2460 contracts.

It was a volatile ride on the futures market last week as switching of domineering forces swung it to both extreme ends of the market. We saw a clear break both above the 660 and below the 650 level. High trading range has always attracted scalpers to the market. Reluctance to carry overnight positions resulted in some last-minute liquidation. Thus, it was not surprising to see the spot contract closing much closer to its cash counterpart.

Positive gains last week reversed some of the short-term bearish sentiments in the market.

The intersection of the %K and the %D lines on the stochastic could further suggest the triumphant of the bulls. While this may be the case, failure to close above 660 and subsequent corrective trade ending at 652 may suggest a weak bull.

With no firm changes in the technical readings, the spot contract is likely to ground itself closer to the cash index, in this case the 650-660 level. However, some downside pressure may prevail under the settings of a slower momentum. Immediate support may be located at the 645 level.

Technical Readings On the KLCI

* Average daily volume close largely unchanged at 165.00 million shares with its oscillator closing lower at -2.66.

* The Moving Average Convergence Divergence (MACD) remains positive with faster average above the signal line. Both lines remain at the negative region.

* The daily Relative Strength Index (RSI) closed at the neutral region. It ended at 51.85.

* The ADX indicator ended at 27. The positive DI closed above the negative DI.

* The index may find its resistance at 661, 665 and 673 levels. Support on the other hand maybe located at 653, 650 and 641 levels.

Technical Readings on the KLFI

* The MACD remains positive with the faster line below the signal line. Both lines remain at the negative region.

* The ADX ended lower at 24. The positive DI closed above the negative DI.

* The daily Relative Strength Index (RSI) closed at the neutral region. It ended at 53.30.

* The spot month may find its resistance at 661, 672 and 688 levels. Support on the other hand maybe located at 645, 637 and 620 levels.

* The subjects expressed above are based purely on technical analysis and opinions of the writer. It is not a solicitation to buy or sell.