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KLSE not expected to see heavy selling

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THE Prime Minister's shock resignation from his political posts and subsequent retraction last Saturday is not expected to spark massive selling in the stock market this week although there will likely be some downward bias in the next few days until things become clearer.

"The stock market will probably skew towards the negative in the initial phase, at least until there is greater certainty on what's happening," an investment analyst with a foreign bank-backed stockbrokerage said.

Until the business and investing community gets a clearer picture of what will happen with regard to the country's leadership, he said, there would be a lot of rumours and speculation flying around.

"Speculation of a change of guard could lead to all sorts of political uncertainties which would be negative for the market," the executive director of the Malaysian Institute of Economic Research, Professor Dr Mohamed Ariff Abdul Kareem, told Business Times.

As it stands, the Kuala Lumpur Stock Exchange Composite Index (KLCI) has been moving within the 740-755 region in lacklustre trade this month, amid distractions from the ongoing World Cup football finals and the year's two most anticipated initial share offerings by Communications Bhd and PLUS Expressways Bhd.

The KLCI hit a year to date peak of 808.07 on April 23, but has since fallen some 8 per cent or 64 points to 743.35 last Friday. The lowest the KLCI has sunk to this year was 682.83.

On a more positive note, analysts pointed out that the country's macroeconomic fundamentals are sound.

"The economic outlook is positive and that will be the positive factor that negates the downside political risk," said the analyst with the foreign brokerage.

Nevertheless, he said, the recent events had pushed to the forefront of foreign investors' minds the delicate issue of political transition.

"Dr Mahathir's shock announcement KLSE not expected to see heavy selling does increase the risk premium of investing in Malaysia.

"It raises issues such as policy continuity and economic direction all over again," he remarked.

Analysts noted that Dr Mahathir's potential resignation, coupled with the demise of PAS president Datuk Fadzil Noor yesterday, would create a "power vacuum" of sorts, which could heighten political uncertainty in the country.

BNP Peregrine Sdn Bhd associate director Choong Wai Kee said Dr Mahathir's retraction would placate the stock market but heighten talk that the general election might be held sooner rather than later.

"(Dr Mahathir) is not going to do things that will kill the local stock market. There'll be no panic in the market (today) but a lot of speculation about the general election being held earlier than expected," Choong said.

Analysts and market observers concurred that the stock market's performance this week boils down to how the business and investing community interprets events that unfold.

"It's hard to say how they will interpret it ... if they see it as an indication that the Prime Minister is seriously considering stepping down, that will create some political uncertainty which may have an adverse impact on investor sentiment and business in general," Mohamed Ariff said.

However, he added, it could have the opposite effect if events convince them of Dr Mahathir's continued strong hold over the Government.

"If it is seen as a strengthening of his position, it just may boost local investor sentiment," he said, noting however that foreign investors could be sidelined.

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