

16/06/2002

Market distraction

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WHAT HAVE 22 MEN RUNNING AFTER a football got to do with the stock market? Quite a bit, say analysts. The World Cup, held every four years, apparently is a distraction to many investors, be they high-end fund managers or retail investors. Exchanges traditionally suffer lacklustre interest during the month-long period, which has also always coincided with summer holidays in the European and Western countries.

Little wonder then, that daily volume on the Kuala Lumpur Stock Exchange has been low since the start of the World Cup. And things are expected to remain that way until the event ends on June 30.

To some, this World cup phenomenon may seem an exaggeration but consider this: a local media has reported punters in Malaysia will bet up to RM1 billion on results of World Cup matches. Imagine how much liquidity the KLSE would be missing out on from these investors. Also, some of the world's biggest investment houses in the likes of Morgan Stanley and Goldman Sachs have dedicated a portion of their recent weekly research reports towards the World Cup.

If you are still not convinced then consider the findings of a local research house. The report says that in the last six World Cups the KLSE CI was either down or flat, four out of the six times.

Huge IPOs another factor

In preparation for the subscriptions of Maxis and Plus shares, fund managers have in recent weeks been re-arranging their portfolios. To achieve this they have been disposing shares in the market to get their cash hoard ready. This saw shares on the local market trending downwards since early May, after a rally which saw the CI breaching the 800-point level.

The two IPOs, which are expected to mop up RM6 billion in liquidity, are the biggest since the listing of Tenaga Nasional and Telekom Malaysia Bhd in the early 1990s.

Analysts say there is enough liquidity in the system to cater to these huge listings. Maxis and Plus would also cause a shake up in the rankings of the top KLSE stocks in terms of market capitalisation once listed.

In recent weeks fund managers were also fine-tuning their portfolios ahead of the free float changes to the benchmark Morgan Stanley Capital International Index, which came into effect towards the end of May. MSCI is a widely followed benchmark among the fund manager community.

Fundamentals remain intact

While the market is expected to go into an expanded phase of consolidation until July, the underlying fundamentals in the economy remain strong.

The Malaysian economy grew by 1.1% for the first quarter of 2002, reversing two consecutive quarters of negative growth. Dealers reckon the next rally would take place some time in September, just before the next Budget is tabled.

Deficit Budget for 2003

On the subject of the Budget, Prime Minister Datuk Seri Dr Mahathir Mohamad who is also the Finance Minister has said the upcoming Budget 2003 would be another deficit budget, but he reassured the deficit should be less than 6% of the GNP.

While Malaysia has been incurring deficit budgets since 1998, analysts note it is only alarming when it breaches the 10% (of GNP) scale. They

note Malaysia has been able to contain the size of its fiscal deficit well below that critical level since 1998.

The deficit is also getting smaller compared with previous years, an indication the government is unwinding its pump-priming efforts on a gradual scale (as opposed to abruptly) to ensure a sustained recovery momentum in the long term.

Corporations in the spotlight

Tenaga Nasional Bhd took the spotlight when it was revealed the company is embroiled in a lawsuit by UBS Warburg over a bond issue that was planned in 1997. Fearing potential losses from the lawsuit and dissatisfaction over the lack of disclosure of the legal suit, investors sold down Tenaga shares. Analysts point to a wiping out of RM3 billion of market capitalisation as a result of the UBS Warburg issue.

Telecommunication companies were also in the news. First up is a continuation of the Telekom-TRI saga. The latest news at the time of writing was TRI urging its shareholders to reject Telekom's proposal to appoint its representatives to the board by removing four of TRI's incumbent directors, including Tan Sri Tajuddin Ramli.

Then there is the whole 3G scenario. Five bids have been submitted to the government for 3G licenses, out of which three would be successful. The outcome will be announced end July. All telcos have participated in the bid (except DiGi), which means there will be some level of punting on telco stocks (DiGi excluded) based on future earnings from 3G services.

At the time of writing, the first quarter corporate results by listed companies draws to an end. The results have been mixed. Gaming counters posted higher earnings than expected while national carrier Malaysia Airlines System Bhd (MAS) registered another loss-making position.

For the coming months, under-capitalised companies on the KLSE would remain in the news with the Dec 31 2002 deadline to meet the SC's minimum paid-up capital requirement fast approaching. Those failing to meet this face possible imposition of trading restrictions.

Kashmir dispute

On the overseas front, investors are keeping a close eye on the rising tension in Kashmir. With both India and Pakistan being major importers of Malaysian palm oil, a war between the two nations is likely to impact Malaysia's economy more than any conflict in the Middle East. The KLSE CI closed on June 6 at 752.88 points.