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Market rallies round

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IT HAD BEEN A MARKET DRIFTING along without much direction, no thanks to the World Cup fever which captured the attention of many an investor last month. That is, until a political bombshell was dropped on June 22 during the annual UMNO General Assembly, namely, that the country's long-standing leader was stepping down.

Not knowing what to make of the news at that juncture, it was only natural investors felt jittery the following Monday. One does not need to be an investment analyst to know political stability always rates high on the criteria of investors - local and foreign alike. The Kuala Lumpur Stock Exchange Composite Index (KLSE CI) shed 16.85 points to 726.5 points on June 24, clearly a knee-jerk reaction to the announcement.

But as a sign of an increasingly mature political mindset, coupled with an increasing sensitivity towards the concerns of investors, a quick succession plan was announced by the deputy leadership. When Prime Minister Datuk Seri Dr Mahathir Mohamad returned from a 10-day break (leaving right after his resignation announcement), he confirmed the succession plan, namely, that he would be stepping down in October 2003 and his current deputy, Datuk Seri Abdullah Ahmad Badawi, would succeed him as Prime Minister.

A day before the premier's return, the market took a turn for the better. On July 2, the CI closed at 743.36 points, a rise of 18.71 points from the day before day.

While it may seem the market had regained its confidence and recouped its losses incurred the last week of June, it should be noted the rally took place just before the market closed and the rise in share prices was not broad-based. The rally was led by market heavyweights such as Tenaga, Maybank and Petronas Gas. Tenaga alone for instance accounted for nearly 40% of the index gains that day.

Domestic concerns aside, external factors continued to weigh down on the market. It is no secret markets around the world, Malaysia included, depend on the performance on the world's largest capital market - the US.

As such, sentiments on the KLSE took a knock following a spate of corporate scandals in the US. First Enron, followed by WorldCom, then Xerox. Mainly because of this, the Nasdaq bourse slumped to its lowest close in five years. The contagion effect was felt at the KLSE and its CI dipped to a low 704 on June 26.

Strangely, this problem cropped up right smack in the centre of a US economic recovery - the US economy expanded during the first quarter at 6.1%, the fastest in two years. As such, the fear is these accounting issues may hinder the recovery.

Thankfully, aiding the US' recovery is the fact that the Fed has left interest rates unchanged at 1.75% in its latest meeting, but it has hinted it may raise rates once the economy improves.

On the bright side, with the risk premium of US stocks rising, some analysts think foreign funds are likely to flow out of the US, and the Asian region including Malaysia, is likely to benefit.

On June 25, international rating agency Moody's Investor Services announced a possible upgrade of Malaysia's credit rating. This follows moves by other rating agencies such as Fitch Ratings and Standard & Poor's earlier this year.

However, sentiments for the immediate term are likely to remain volatile

because of external factors, mainly the development of the accounting nightmare in corporate US.

Going by history, there may be a rally before Budget 2003. What is significant about the coming budget is that it can be used as a platform to illustrate a problem-free transition of leadership of the country.

If it avoids significant policy changes and provides some assurance to foreign investors that our market is attractive, then, who knows - the KLSE may just hit the 800-850 CI point target that many research houses are predicting by year's end.