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Market trots into the Year of the Horse

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THE YEAR-END RALLY OF THE KLSE IN 2001 may not stay in the mind of investors as the most memorable event of the year. After all, it was a rally that lacked the kind of excitement seen in previous occasions. Part of the usual year-end window dressing undertaken by many companies, the rally saw stock prices rising 15% over the last two months of last year.

The exchange's Composite Index (CI) closed at 696.09 points on Dec 31 2001. Alas, this was four points short of making it to the 700 mark that many were hoping the CI would touch. Nevertheless, the market closed the year on a happy note, according to market analysts, as the CI had regained the points it lost as a result of the Sept 11 attack in the US. Contributing to the optimism was a decline in fears of international instability stemming from the Afghanistan war, and a quicker-than-expected indication of recovery of the US economy.

But instead of galloping into the Year of the Horse with a rush of speed, the market ushered in the first day of trading down 2% on profit-taking as investors cashed out of a prior six-day rally. The market decline was led by the bigger capitalised stocks on the exchange, in particular Telekom Malaysia and Tenaga Nasional Bhd. And to think these two were the very stocks that had led the year-end rally.

Tenaga and Telekom, each of which gained 8-10% in stock price the last week of December, lost 20 sen and 50 sen respectively on Jan 2 2002. The KLSE CI closed on that day at 682.83, down 13.26 points from the Dec 31 closing.

The correction was temporary and expected for the stock market and the CI closed higher the day after (Jan 3 2002) at 685.80 points. Going forward into the Year of the Horse, market sentiments remain positive, as the US economy is poised for a recovery sooner than initially expected.

Recently released data on the US consumer confidence index, which showed a rebound, suggest the world's biggest economy may be lifted out of a recession by middle of this year. A recovery in the US economy should help lift the performance of Asian and European economies.

The Malaysian economy is also expected to recover in year 2002 with efforts put in place by the government, namely the two pump-priming measures announced last year. In an interview early this year Prime Minister Datuk Seri Dr Mahathir Mohamed, who is also the Finance Minister, said the Malaysian economy would grow 0.5% - 1% in 2001, rising to 3% in 2002.

But while data for November show that the country's trade surplus of RM3.9 billion is at a four-month low, economists have detected enough signs in increased imports to support their view that the economy will improve going into year 2002. Government measures to put more money into the wallets of tax payers through higher individual tax rebates and lower retirement fund contributions have worked well to cushion the effects of the downturn in the external sector. Private consumption, analysts note, has been relatively firm last year despite fears of an economic slowdown.

In view of this, analysts expect more trading activity on the KLSE over the short to medium term period as funds realign their equity portfolios to position themselves for the anticipated turnaround in the economy. The main driver for the stock market, according to analysts, will be liquidity, with global interest rates likely to remain low for the best part of 2002. As at mid-December 2001, Malaysian foreign reserves stood at

US\$30.71 billion, enough to finance five months of retained imports and six times the short-term external debt, and enough to provide domestic liquidity for the government's expansionary measures.

In fact Bank Negara Malaysia was reported as saying it expects to see more short-term net inflow of currency loans, securities and deposits over 2002 due to the low interest rate regime in the US. With the possibility of another 25 basis point-cut in Fed rates by the US' FOMC on Jan 30 2002, analysts say money is likely to flow into this part of the region where the returns are higher. Similarly, analysts believe Malaysian exporters who have been parking their export earnings offshore all this time may consider investing at home given the positive outlook locally.

What may be a cause of concern for the equity markets are developments on the international front, among others the debt crisis in Argentina and the falling Japanese yen. The conflict between India and Pakistan if it does escalate into a war would also affect the positive undertone building up in most regional bourses.

As for the KLSE, analysts say companies undergoing restructuring would continue to see interest amid speculation of asset sales and acquisition. Among the most actively traded stocks last December were those of the country's biggest corporate borrower Renong, and its stablemates Intria Bhd and Time Engineering Bhd. Their share prices rose as investors betted on brighter prospects ahead as the group pushed on with efforts to cut its debt.

Media group The New Straits Times Press found a buyer for its block of Commerce Asset Holdings shares in the form of EPF. NSTP announced the proposal to dispose its 11.8% stake in CAHB for RM910 million cash or RM6.50 per share to the EPF, using the proceeds to de-gear its balance sheet and lower interest expense. CAHB closed higher at RM7.40. Following this sale, speculation turned to Renong's 12.4% stake in CAHB.

Renong management, however, declined to reveal if they were also in talks with EPF for the disposal of Renong shares in CAHB.

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