

# Losing steam

## Will KLCI be able to hold above 900-point level?

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**T**he local stock market lost further steam last week amid a host of unfavourable factors both domestically and abroad. The Kuala Lumpur Composite Index (KLCI) ended last week at 909.18 points, 9.2 points or 1% lower than the 918.38 points registered the previous Friday. The KLCI retracted by 4.54% from its high of 952.59 points reached on Aug 3.

Trading volume was also lower last Friday, with 336.86 million shares changing hands, compared with 376.85 million shares traded the previous Friday.

Now that the index has reached a new low, hopes in mid-July of it hitting the 1,000-point level by the year's end have probably been thrown out the window. In fact, the mood has become somewhat defensive, with analysts asking whether the index can hold at the psychologically important 900-point level.

"Nine hundred is more of a psychological level. I would say the KLCI would find stronger support at 870 points, where government institutions are likely to come in to lend some support to the market, provided there is still no keen interest from foreign and local funds," says the head of dealing at a local stockbrokerage.

After falling for three consecutive weeks, the KLCI suffered a further setback last week when crude oil prices hit close to US\$70 per barrel, as oil production in the Gulf of Mexico was halted due to Hurricane Katrina. Meanwhile, the depreciation of the rupiah by 10% over the greenback in the past one month has led to fears of a contagion effect in the region. However,

analysts say this was merely a knee-jerk reaction.

"We don't think the rupiah's depreciation will have any material impact on the Malaysian economy," says SBB Research in a report. It expects the ringgit to trade around 3.77 to 3.78 against the US dollar in the short term.

Investors point to oil prices as their primary concern, due to the hypersensitivity of oil prices to fears of supply disruption.

"While some say oil prices may ease soon, it is still worrying how sensitive our economy, and hence the market, is to the oil price factor. Our oil is still heavily subsidised, yet our domestic economy is so vulnerable to even a slight increase in fuel prices. Imagine what will happen when the government cuts the oil subsidy further," says a head of research-turned-private investor.

Second-quarter corporate earnings, affected by slowing economic growth, were a let-down last week. Negative corporate news spooked investors further — in particular, the unexpected quarterly loss at Proton Holdings Bhd and the sum of RM729.77 million which

Telekom Malaysia Bhd was ordered to pay after losing the arbitration case against DeTeAsia Holdings GmbH.

"The problem with local sentiment or the index is that it gets swung easily by events on big caps. Most reports generated by brokers nowadays are on big caps and these are aimed at foreign clients whose primary concern is liquidity. Medium and small cap stocks were largely ignored and this hurts participation by retail investors, so you don't see a fluid market with cyclical interest from different segments of investors," says the private investor.

