CAPITALCORP INVESTMENT WEEKLY

MONDAY JULY 27, 1998

JULY 20 — 24, 1998	1 YEAR AGO	1 MONTH AGO	LAST WEEK
Market Cap (RM bil)	735.14	280.31	255.82
— Main Board	670.94	265.09	242.73
— Second Board	*64.20*	*14.22*	*13.09*
KLCI (pts)	*1,045.89*	*455.37*	*418.40*
SBI (pts)	*522.73*	*99.87*	*91.13*
3-mth Klibor	8.060	11.030	11.000
RM/US$	2.6300	3.8900	4.0300

WEEKLY VOLUME LEADERS

counter	*Close (RM)*	*High (RM)*	*Low (RM)*	*+/- (RM)*	*+/- (%)*	*Vol (m)*
UEM	1.010	1.480	0.890	-0.420	-29.37	56.77
Tenaga	3.800	4.680	3.680	-0.760	-16.67	28.49
Time Eng	0.320	0.385	0.250	-0.065	-16.88	25.02
RHB Capital	1.300	1.630	1.230	-0.280	-17.72	23.07
MRCB	0.845	1.050	0.810	-0.150	-15.08	22.93

WEEKLY TOP GAINERS

counter	*Close (RM)*	*High (RM)*	*Low (RM)*	*+/- (RM)*	*+/- (%)*	*Vol (m)*
Tai Wah-F	0.210	0.210	0.210	0.060	40.00	0.002
Kemayan-W	0.125	0.125	0.125	0.025	25.00	0.001
Palmco-W	0.260	0.260	0.215	0.045	20.93	0.003
PJ Dev-W	0.120	0.120	0.100	0.020	20.00	0.004
Juang Kuang-W	0.120	0.120	0.100	0.020	20.00	0.040

WEEKLY TOP LOSERS

counter	*Close (RM)*	*High (RM)*	*Low (RM)*	*+/- (RM)*	*+/- (%)*	*Vol (m)*
George Kent-W	0.040	0.090	0.005	-0.050	-55.56	0.192
Metroplex-W	0.010	0.020	0.010	-0.010	-50.00	0.072
F&N-W	0.030	0.055	0.015	-0.025	-45.45	0.057
Sportma	0.480	0.805	0.475	-0.390	-44.83	0.345
TNTT-W	0.130	0.230	0.130	-0.100	-43.48	0.006

WHAT'S INSIDE

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ECONOMICS & STRATEGY

Moody's downgrade puts market on the tether

Economic data from the Asian region continues to show no signs of recovery. Although current account balances have improved sharply, this has come almost entirely from a plunge in imports, indicating weakness in domestic demand. Export demand has been very disappointing despite the massive currency devaluations. The latest trade numbers show negative year-on-year (yoy) export growth virtually across Asia (with the exceptions of Indonesia, Philippines, China and Korea). In Malaysia, exports (in US$ terms) tumbled by 9.7% y-o-y for the first five months of the year, while cumulative imports fell by a higher 22% y-o-y. This is in sharp contrast to Mexico's experience, when its exports surged almost immediately after its infamous Dec 94 peso devaluation.

Saving the banking system, pump-priming the economy and a gradual easing of interest rates are policies the Malaysian government has chosen to ride out this recession. Further currency depreciation appears to be a risk the government is willing to take to arrest the economic slowdown. The country needs an estimated RM16b to recapitalise the banks via the proposed Special Purpose Vehicle (SPV), RM10b for Danaharta to buy and manage bad loans, RM12b to revive strategic infrastructure projects and RM7b for various socio-economic projects.

The asset management company or Danaharta is expected to start operating in August. Besides allowing banks to focus on disbursing loans to viable businesses, Danaharta would help provide a floor to asset prices by allowing assets to be sold quickly. The longer it takes for assets to clear, the more potential buyers will adopt a wait-and-see attitude. Besides the often-voiced concern that Danaharta may be used to bail out troubled companies or individuals, our specific concern is that weak or failing financial entities which made bad lending decisions are prevented from sinking. A handful non-financial institutions are expected to fold within the next year or two, and it is not too far-fetched to expect one or two financial institutions to "gracefully" collapse.

The government said that it will offer bonds valued at US$10b to finance Danaharta’s operations. The agency’s initial funding target is US$2.4b (or RM10b). The government has not tapped the global bond market since 1990 and its foreign debt commitments are not pressing. Estimates are that short-term foreign debt stands at US$15b (c. 30% of total foreign debt) compared with foreign reserves of about US$21b.

The six-point economy recovery action plan may have its schedules hampered by the latest revision of country ratings by S&P and Moody's. The international roadshow to promote its impending bond issue has been derailed, but we expect this to be a temporary setback to the government. More likely than ever, the resources at EPF and Petronas remain close to its reaches **[Chris Leow CFA, 254-9966 ext 361].**

TECHNICAL VIEW

Cautious trade is still advocated

The KLCI closed lower at 418.40, or 26.91 pts below the previous week's close. On Monday, the market topped out at intra-day high of 455, before settling below 450. Thereafter, the index fell progressively throughout the week, closing up on Friday. The weak regional currencies and stockmarkets were factors running against local sentiment. Further downgrades by S&P and Moody's also put Maybank and Public Bank to a rating watch, with negative implications. This hurt an already weak market. Plans by the government to restart stalled mega-infrastructure projects also caused the index to cave in. The NEAC's six-point action plan for economic recovery had a negligible effect for the moment, overshadowed by peculiarly-timed Moody's downgrades on the country's rating.

Technically, the MACD signal continues to indicate a positive bias with bullish divergence. The daily RSI is near 30 and pointing up. Daily diverging action with price is still intact but can only be confirmed with a move above 50 *(see chart)*. The RSI support trendline is still intact but the market needs to move up this week for it to remain valid. The downtrend channel has resistance at 435 as of today, on a daily closing basis.

Wave-analysis indicates that a base is starting to build around the 415 level *(see Long term view*, July XX). It is imperative that the market starts to rally from these levels for this particular long-term count to be valid. The non-confirmation or break of this level (i.e. a daily close below 410 pts) would mean that the market is headed for the 355-385 levels before a significant rebound can be seen. As the effect of Moody's downgrade is digested, a close scrutiny of this potential development is recommended. **[P. Cherry Simon 254-6677]**

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