

TUESDAY JULY 7, 1998

JUNE 29 - JULY 3, 1998	1 YEAR AGO	1 MONTH AGO	LAST WEEK
Market Cap (RM bil)	746.8	321.7	283.7
— Main Board	682.6	306.0	269.6
— Second Board	64.2	15.7	14.1
KLCI (pts)	1080.61	526.36	473.78
SBI (pts)	564.73	111.19	98.06
3-mth Klibor	7.445	11.04	11.04
RM/US\$	2.5145	3.9350	4.1450

WEEKLY VOLUME LEADERS

<i>counter</i>	<i>Close</i> <i>(RM)</i>	<i>High</i> <i>(RM)</i>	<i>Low</i> <i>(RM)</i>	<i>+/-</i> <i>(RM)</i>	<i>+/-</i> <i>(%)</i>	<i>Vol</i> <i>(m)</i>
Maybank	4.340	4.500	4.100	0.140	3.33	92.9
AMMB	2.070	2.350	2.050	-0.120	-5.48	56.1
Magnum Corp	1.540	1.700	1.450	0.080	5.48	27.7
Tenaga	5.150	5.450	4.900	0.150	3.00	26.0
Genting	8.000	8.050	7.450	0.550	7.38	24.8

WEEKLY TOP GAINERS

<i>counter</i>	<i>Close</i> <i>(RM)</i>	<i>High</i> <i>(RM)</i>	<i>Low</i> <i>(RM)</i>	<i>+/-</i> <i>(RM)</i>	<i>+/-</i> <i>(%)</i>	<i>Vol</i> <i>(m)</i>
Kedah Cement	1.530	1.570	0.900	0.630	70.00	2.812
M Cement	1.660	1.700	1.240	0.440	36.07	1.883
Len Cheong	1.390	1.390	1.080	0.320	29.91	0.013
MU Ind	0.535	0.575	0.420	0.110	25.88	8.173
UMW Holdings	2.000	2.000	1.630	0.400	25.00	1.955

WEEKLY TOP LOSERS

<i>counter</i>	<i>Close</i> <i>(RM)</i>	<i>High</i> <i>(RM)</i>	<i>Low</i> <i>(RM)</i>	<i>+/-</i> <i>(RM)</i>	<i>+/-</i> <i>(%)</i>	<i>Vol</i> <i>(m)</i>
Hexagon	1.120	1.700	1.000	-0.960	-46.20	2.416
Cygal	1.330	2.050	1.010	-0.950	-41.70	0.030
Hing Yiap Knitting	1.070	1.500	0.990	-0.740	-40.90	1.346
Sg Bagan	60.00	82.00	60.00	-22.00	-26.80	0.016
Emico	0.745	1.050	0.730	-0.260	-25.50	0.004

WHAT'S INSIDE

Economics & Strategy	
Regional factors to take centrestage	2
Technical Views	
Look for further consolida- tion.....	3

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ECONOMICS & STRATEGY

Regional factors to take centrestage

Last week: Regional factors once again took centrestage in the equity markets last week. The KLCI ended 5% higher, after closing lower for five consecutive weeks. Along with most Asian bourses, the KLCI rebounded on Tokyo's bridge bank proposal. On Wednesday, Japan agreed to the creation of a bridge bank system, styled after the US Resolution Trust Co. The bank will ensure credit continues to flow to worthy borrowers of failed banks and absorb problem loans from failed institutions. For the moment, the bridge bank has soothed investors' fears of further liquidity crunch in the Asian economies. Many Japanese banks are believed to be cutting off credit lines to their Asian counterparts due to a sliding domestic economy and weak balance sheets. Japanese banks account for about US\$124b or one-third of all international lending to Asia, according to the Bank for International Settlements. On the local front, the Securities Commission said on Tuesday that it was immediately lifting the restrictions on submissions for new listings, capital raising exercises and restructuring schemes. Deputy PM Anwar Ibrahim had announced on Dec 5 a freeze on such activities.

Banks reduce BLRs: In line with the central bank's move to reduce the statutory reserve requirement (SRR) for financial institutions from 10% to 8% effective July 1, banks have already begun to ease their base lending rates. Last Thursday, Malayan Banking announced a cut in its BLR from 12.1% to 11.9%. Recently, RHB Bank, Perwira Affin Bank and OCBC Bank have all cut their BLRs to 12.1% from 12.3%. There is talk that the central bank is in the process of fine-tuning the formula for computation of the BLR. This involves a reduction in the administrative cost of funds, currently fixed at 2% to between 1.7 and 1.8%, which means banks could face a margin squeeze. This is bad news for banks which are desperate to **increase** their interest spread to cushion growing non-performing loans.

Where is the money? Last Thursday, Deputy PM Anwar Ibrahim announced a RM5bn Infrastructure Development Fund to revive 'critical infrastructure projects' which have been stalled or abandoned. So far, the projects earmarked to be revived are the East Coast Highway, National Sewerage System and the Kuala Lumpur Road Dispersal System. This fund is in addition to the RM7bn allocation for socio-economic projects and US\$2bn needed to allow Danaharta, the asset management company to buy and manage troubled loans. According to PM Mahathir Mohamad, Malaysia has obtained loans from Japan for several selected projects. The World Bank may also extend some loans towards socio-economic projects. But we suspect most of the money will probably be raised via a bond issue to foreigners. However, we will be competing with other beleaguered economies like Thailand, Korea and Indonesia for foreign money.

Business snippets - Breweries: Carlsberg Brewery terminated its sponsorship agreement for the Kuala Lumpur '98 16th Commonwealth Games last Wednesday, following an official notice from Sukom Ninety Eight Sdn Bhd. This could be a sign of a shift in the government's stance towards brewery companies. Some industry observers believe that the brewery companies were left off the hook in the 1997 Budget partly because they were spending huge amounts of money to promote the Commonwealth Games.

Market outlook: The much talked about half-year window dressing, which was a non-event, is over. Trading will probably be listless this week as almost all companies with FYs in Mar/Sept have already reported their interim or final results. Moreover, most of the annual reports for companies with FYs in Dec 97-Jan 98 have already been released. The market's direction will hinge on what Japan will do to fix its economy. Investors are looking for permanent tax cuts but we expect Japan to weave and bob around the issue. In the meantime, Asian markets will remain volatile as investor confidence swings between optimism and pessimism. **[Chris Leow CFA, 254-9966]**

TECHNICAL VIEW

The KLCI closed at 473.78, approximately 28 points higher than the previous week's finish. The strengthening of the yen and the announcement by DPM Anwar of the RM5 b package for infrastructure projects drove the mid-week rally amidst short-covering activities.

The technical indicators are pointing to a further consolidation of the index between 445 and 485 before the market decides on its next direction. The daily MACD is positive while the weekly MACD is starting to flatten out. The RSI has started to come down again from the 50 level but the RSI trendline (see bottom of chart) drawn from the 750 level has just been broken. This indicates that the index may have bottomed out temporarily and in early stages of a multi-week technical bounce. However, basic charting techniques show that the index is still confined within the down-channel that started from 742, which is dampening hopes for a recovery. *For indication of a breakout, keep an eye out for a move above the top of the channel.*

On a larger scale, the intermediate wave-count suggests that the index is within the periphery of a buy zone of between 415 and 455. However, the short-term picture indicates a minor 2nd wave-type consolidation downwards (*support must hold at 450*) followed by a minor 3rd wave rally to the upper-end of the resistance channel. Either way, it needs to break above 485.94 to confirm a breakout. Please refer to the earlier article on the long-term trends. **[P. Cherry Simon 254-6677]**

