



Weekly Technical Outlook

Good Rebound Potential Towards 880

KLCI

865.88

The forced selling contagion on small-cap stocks on Bursa Malaysia depressed the benchmark Kuala Lumpur Composite Index (KLCI) to a new seven-month low, before staging rebound on a positive catalyst ahead of the weekend. Average daily trading volume rose to 452.5 million shares last week, against 388.5 million shares the previous week due to increased bargain hunting activity. KLCI lost another 3.23 points or 0.37 per cent week-on-week to close at 865.88.

New spot month KLCI June futures contract traded on Bursa Malaysia Derivatives Bhd eased 2 points or 0.2 per cent week-on-week to settle last Friday at 864 for a 1.9-point discount to the cash index, a marginal improvement from a 3.1-point discount the previous Friday. Short covering and fresh long positions were established mostly on Friday as traders anticipate a strong technical rebound early next week.

KLCI fell from intra-week high of 870.52 on Tuesday after a meek two-day rebound gave way on eroding market confidence over its sustainability. The index dipped to a fresh seven-month low of 858.84 late Thursday before staging a decent rebound ahead of the weekend, prompted by local fund buying with the assurance from five major local banks on the availability of margin-financing facilities improving market sentiment.

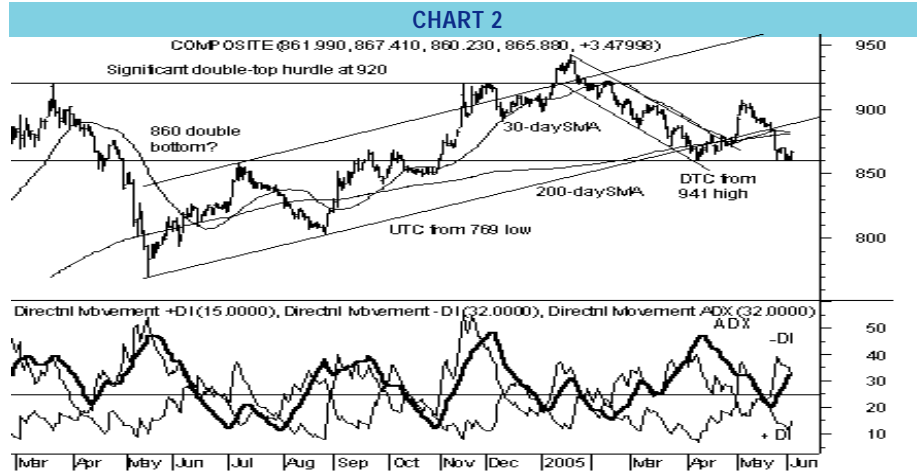
Small-cap stocks plunged further south with the second board and Mesdaq sector indices dipping towards their record lows, as forced selling from brokers spread to more speculative lower liners. Week-on-week, the Second Board Index (SBI) slipped another 4.89 points or 5.6 per cent to close at 83.18, a new seven-year low, while the Mesdaq Composite Index (MCI) dipped 3.43 points or 3.8 per cent to end at 86.92, a fresh two-year low.

The daily slow stochastics indicator hooked up a second time from the very oversold region to register a bullish divergence against the KLCI, suggesting a stronger technical rebound is on the cards (**Chart 1**). The 14-day Relative Strength Index (RSI) has also reversed upwards after touching the 30-point mark, reinforcing upward momentum in the near-term.

CHART 1



However, the daily and weekly Moving Average Convergence Divergence (MACD) trend indicator declined further, implying a sustainable up-trend resumption is still pending. The ADX line on the 14-day Directional Movement Index (DMI) rose further with a reading at 32, which indicate the present down-trend has yet to reverse, but narrowing -DI and +DI lines could neutralize this negative trending signal (**Chart 2**).



Conclusion

Bullish momentum indicators, reinforced further by a bullish divergence on the daily slow stochastics, suggest high probability for a more significant technical rebound this week. The double-bottom of 860 on KLCI could prove to be an important support platform to anchor rebound towards 880, which reside near the all-important 200-day SMA previous support-turn-resistance level. This level could prove to be a tough nut to crack, unless market sentiment improve further.

Immediate support is maintained at 860 (IS), and immediate resistance remained at 880 (IR). A decisive end to the current forced selling wave should convince investors to turn more bullish and increase their exposure this week, as the assurance from the five local banks on providing margin-financing should pacify jittery sentiment. Hence, we do not discount the possibility of a breakout above 880, which will enhance further upward momentum towards the 900 (R1) formidable resistance.



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for **TA SECURITIES HOLDINGS BERHAD**
 (Formerly known as Botly Securities Sdn Bhd)
 Yaw Chun Soon, Executive Director - Operations