

Clob investors were net buyers of KL stocks during Asian crisis (p. 118)

Their combined holdings in M'sian companies doubled to 11.7b shares in August last year

By Alvin Tay
[SINGAPORE] Singapore's Clob investors were not responsible for the sell-down of the Malaysian stock market during the Asian economic crisis, figures obtained by BT show.

In fact, the figures show that, far from being speculative short-sellers, Clob investors were substantial net buyers of Malaysian shares in the 20 months prior to Sept 1 last year, when Malaysia imposed capital controls.

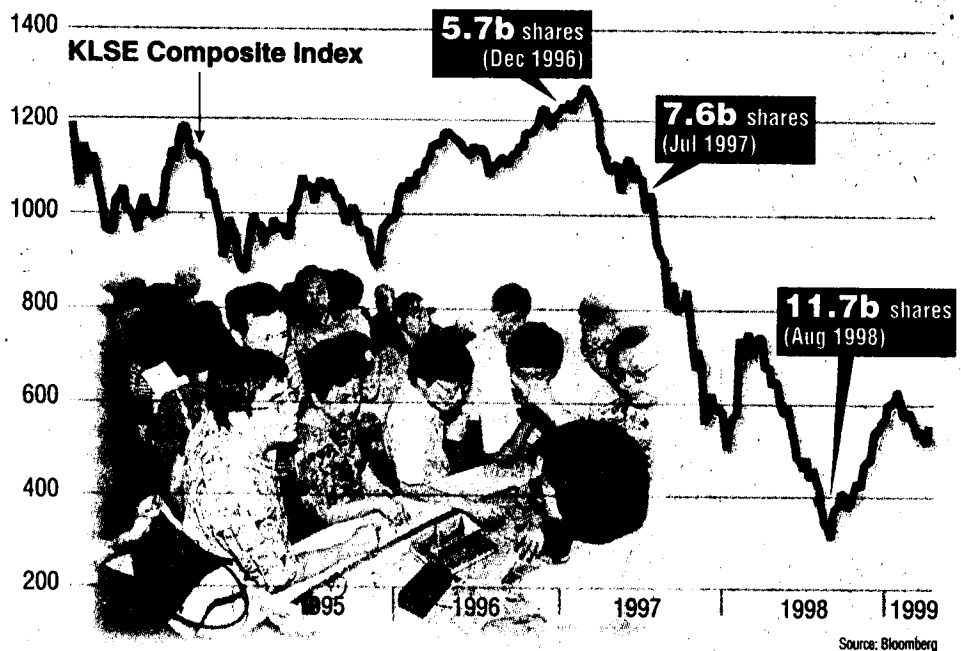
The figures were obtained from the Stock Exchange of Singapore (SES) in response to BT queries on the trading volumes on Clob, Singapore's over-the-counter market. The SES figures show that:

- ◆ When the economic crisis struck on July 2, 1997, Clob investors owned 7.6 billion Malaysian shares. This was itself 33 per cent higher than the 5.7 billion total on Dec 31, 1996, when the Malaysian Central Depository (MCD) completed its scripless settlement of mainboard stocks on the Kuala Lumpur Stock Exchange (KLSE).

- ◆ Despite the Asian economic crisis and the consequent problems in Malaysia, Clob investors continued to support the Malaysian market by pouring more money into Malaysian stocks, increasing their aggregate shareholdings each month to reach 11.7 billion shares in August last year. This was double the total as at Dec 31, 1996, and 54 per cent higher than the aggregate shareholdings at the start of the Asian economic crisis.

Higher exposure

Clob investors' combined shareholdings of Malaysian shares



When contacted, SES president Lim Choo Peng said: "Clob investors in Singapore had been buying far more Malaysian shares than they sold,

as evidenced by CDP records.

"Investors here had been providing support throughout the financial crisis until capital controls were introduced. The sell-down of the KLSE Composite Index could not have originated from Singapore."

Malaysia imposed capital controls on Sept 1 last year, effectively ending the trading of Malaysian shares on Clob.

Another key finding in the SES figures is that Clob investors helped fund Malaysian-listed companies by coughing up nearly RM\$420 million to subscribe to 24 rights issues between January 1996 and June 1998.

These figures come as a surprise especially in view of frequent allegations from across the Causeway that speculative short-selling and dumping of Malaysian shares on Clob had caused the fall in the KLSE Composite Index (KLCI).

The latest accusation was contained in Tuesday's White

Paper on the Malaysian economy, tabled in the Malaysian Parliament, which said: "Over-the-counter activity on Clob, besides affecting trade on the KLSE, also undermined the KLSE with its unchecked short-selling activities."

But the figures from SES in fact support the contrary position: that Clob investors provided significant price support to Malaysian stocks.

The SES, in recent replies to articles published in the Malaysian press, has also highlighted that there had been negligible short-selling of Clob shares, as evidenced by low levels of buying-in, typically below 0.5 per cent of Clob turnover of Malaysian shares.

Continued on Pg 18

Clob investors were net buyers of KL stocks

■ *Continued from Pg 1*

The Malaysian White Paper also claimed that "arbitrage activities, that is, buying Malaysian stocks on the KLSE and selling them on Clob to take advantage of price differentials, had caused outflow of funds".

A Singapore-based analyst pointed out that this implied that prices on Clob were persistently higher than on KLSE, which was never the case. Arbitrage took place in both directions, he said.

Another key question BT wanted to address was whether Singapore investors are sitting on paper losses and whether they are likely to sell their Clob shares at the current levels, if they are allowed to trade.

The KLCI hit a high of 1,314.46 on Jan 5, 1994 but plunged to 262.7 at its lowest point on Sept 1 last year. The KL market has moved up in recent months and closed at 556.58 points yesterday.

Despite the recent recovery, anyone who bought KL stocks prior to December 1997 would still be sitting on paper losses. Analysts say it is unlikely that Clob investors would want to sell their shares at current levels — unless unequal treatment of Clob investors vis-a-vis other investors prompts them to opt for a quick exit.

A major issue right now is how the Malaysians will resolve the issue of Clob shares frozen in MCD accounts. A decision on this could be in sight, going by Tuesday's re-

marks by First Finance Minister Daim Zainuddin urging the KLSE to resolve the matter expeditiously.

SES figures also show that between December 1996 and August last year, when the KLSE Composite index suffered its biggest fall, the market value of Malaysian shares held by Clob investors was, on average, only 3 per cent of KLSE's total market capitalisation.

So quite apart from Clob investors being net buyers, the turnover on Clob also would not have had any major impact on the KLCI's movements — whether up or down.

The SES figures, however, provided a more detailed look into this issue by analysing the three biggest daily falls in the KLCI in each of the past five years.

The finding: in each of these 15 "worst days" for KL stocks, only an average of five Clob stocks were among the top 30 losers on the KLSE. And some of these Clob counters were not even component stocks of the KLCI, and would not have figured in the KLCI's drop.

Furthermore, trading in these Clob counters was a fraction of the corresponding KLSE volumes for these same counters. Generally, fewer than three Clob counters among the top 30 KLSE losers enjoyed trading volumes that equalled or exceeded 20 per cent of the corresponding volumes on the KLSE.