The Stimulus Effect

BEARISH SENTIMENT CONTINUES TO PLAGUE THE MARKETS DESPITE POSITIVE NEWS ON THE AVAILABILITY OF STIMULUS PACKAGES.

TEXT CHARTNEXUS MARKET RESEARCH TEAM

A slump in housing demand that started off from the US has spread into a broad recession causing diminishing demand, driving down oil prices and affecting the economies around the world. Following the financial meltdown, the automakers were next to get affected. Are we seeing the end or is this just the beginning?

Since the financial crisis started with the collapse of Lehman Brothers, global stock markets have been on a free fall. Countries such as Iceland have been left virtually bankrupt after the crash of their financial markets brought on by their massive exposure to foreign debts. With constant rumors of more bankruptcies from big companies previously labeled as "too big to fall", the financial markets have been unable to make a convincing turnaround and instead are currently testing multi-year lows. What was cheap is now getting cheaper and investors who refused to cut loss are now holding stocks that are only a fraction of what they paid for. This has created a lot of unwilling long-term investors that are now just waiting sideways for the market to recover just to be able to see their paper losses reduced – eventually causing trading volumes to dwindle on our local bourse.

Governments around the globe provided stimulus packages with the hope of saving jobs and their economies. The Singapore government has also announced its US13.6 billion stimulus package in a bid to ease the worst recession in the country's history. The stock market received a short-term boost which quickly faltered due to the skepticism on whether or not the stimulus package would work. As an indication, when the stock market doesn't rally after a piece of positive announcement, it probably may not advance after all. It must be noted that the stimulus package will take more time to show results. Meanwhile, in the short-term, we can expect the stock market to remain extremely volatile.

STRAITS TIMES INDEX (STI)

Graph 1, STI Weekly
Source: www.chartnexus.com

Graph 2, STI February 2009
Source: www.chartnexus.com

Since the STI reached a low of 1,590 on October 24 last year, it has been trending higher with anticipation that the new US president can save the whole market from this great economic crisis. The market cheered every appointment of President Barrack Obama's team. However, this has not been the case lately with the STI trading flat and forming a bearish pennant on the weekly chart.

With more governments announcing stimulus plans worldwide, more and more people are getting hopeful that a solution can finally be found to pull the financial market out from what could be the worst financial meltdown since the 1930s. However, as time passes, confidence on the effectiveness of the stimulus measures has weakened, especially so with regional markets showing bearishness. From the second STI chart, we can see that the 20-day moving average has nicely resisted the STI. For the last few weeks, the STI has been trying to stay above the psychological 1,700 points level. When the bears tried to break the 1,700 points level, the bulls fought back to maintain that level. Current readings from the indicators show that the bears are still in control, which means that the downtrend is still intact.

CAPITALAND

Capitaland has been trading in a range from the support level of $2.38 to the resistance level of $3.28. After Capitaland announced the right issues, it bounced from the support at $2.38. However, it must be noted that the price is approaching several strong resistance levels such as the 50-day and 100-day moving averages. It will be interesting to watch those levels closely. The breakout of such well-defined trading range is often sustainable and may lead to the birth of a new trend.

SEMBCORP

Source: www.chartnexus.com

We observed a symmetrical triangle formation on the chart of Sembcorp. As triangle patterns are known to be trend continuation rather than reversal, the probability of the stock breaking down to test the low $1.90s is higher. Also, the converging of the moving average lines suggests that a breakout into a new trend is beckoning.

With the STI and a lot of other stocks trading near the moving average resistance, traders who trade on the long side ought to be prudent as it will be on the riskier side. In a bull market, we look for support to buy, while in a bear market we look for resistance to sell. Hence, when the rebound happens, it may be a better strategy to look for the resistance to sell. We are in a bear market after all. **SI**

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