

**MR INVESTOR :  
THE H.K.S.A.R. GOES NOWHERE, FAST**

The week of January 10 started off in similar fashion to the previous week's trading on The Stock Exchange of Hongkong Ltd: The Hang Seng Index rose 442.52 points to 15,848.15 on a Total Turnover of about \$HK19.57 billion.

The gains in The Index represented about 2.87 percent, compared with the closing level of Friday, January 7.

There was no valid financial reason for The Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC) to see the jump in the Hang Seng Index, but it did not matter to most investors since the HKSAR likes a rising market, regardless of whether or not there is a valid reason.

And, just like the previous week, the old favourites were very much in fashion, led by the '*darling*' or the '*darlings*': Pacific Century CyberWorks Ltd.

The price of Pacific Century CyberWorks Ltd closed at \$HK15.75 per share, a gain of \$HK1.35 per share, compared with the closing level of Friday, January 7.

More than \$HK2.26-billion worth of this Company's stock changed hands, with the volume of activity in this counter, representing about 11.55 percent of the Total Turnover.

The closing level of the Hang Seng Index, last Monday, was only after the near complete absorption of a bout of profit-taking that had shaken the market, very violently, following the fast run-up of more than 567 points when The Index hit 15,971.10, earlier in the day.

What was not known in the HKSAR, last Monday during trading, was that the largest merger in the history of the world was about to be announced: The acquisition by America Online Incorporated of Time Warner Incorporated.

This merger was said to be worth upwards of \$US181 billion (about \$HK1,406 billion).

The deal, if approved, will give the combined company a market capitalisation of about \$US350 billion (about \$HK2,720 billion).

The gains on many of Asia's most important stock markets were, of course, due in large part to the gains on Wall Street on Friday, January 7, when the Dow Jones Industrial Average shook off some of the gloom and doom of earlier in the week to finish the session at 11,522.56, an improvement of about 2.50 percent, compared with the closing level of Thursday, January 6.

Whereas, many people were of the opinion that the mad dash to purchase so-called, hi-tech stocks was coming to an end, the turnabout last Monday appeared to scotch that suggestion.

Even though the HKSAR stock market appeared very strong, last Monday, there were many who were sitting on the sidelines, afraid that the Hang Seng Index could follow a similar pattern to the previous week when hundreds of millions of dollars were wiped out as the stock market turned south.

Most other Asian stock markets took their cue from the rises on The Stock Exchange of Hongkong Ltd as the following statistics indicate:

Thailand	Plus 1.36 percent
Indonesia	Plus 1.54 percent

Malaysia	Plus 0.32 percent
The Philippines	Plus 2.29 percent
South Korea	Plus 4.07 percent
Singapore	Plus 1.15 percent
Taiwan	Plus 2.91 percent
Japan	Plus 0.14 percent

## Tuesday

While there may have been little reasoning to Monday's booming stock market in the HKSAR, on Tuesday, there was every reason for the stock market to go a little mad on the back of the news of the largest merger in the history of the world (see Monday's report).

But it was not to be: The Hang Seng Index finished the day just 13.95 points higher than Monday's closing level at 15,862.10.

At one point, during the morning's trading session, The Index was more than 100 points higher, but the afternoon's 90-minutes session saw profit-taking wipe out most of the morning's gains.

The merger of AOL and Time Warner did put a spark in the market, to be sure, and many usually quiet issues did benefit from speculation, but caution appeared to be overriding aspect of last Tuesday's trading session.

The Total Turnover remained high at about \$HK19.81 billion, and Pacific Century CyberWorks Ltd continued, for the 10<sup>th</sup> day in a row, to be top dog in the Top Ten Most Active Issues.

But the icing on this counter was fast losing its gloss even though the turnover in this stock continued to be extraordinarily high, considering everything and the fact that it has yet to justify its high valuation.

One factor, which is of great concern to the HKSAR stock market, is the Open Market Meeting of the US Federal Reserve Board, due on February 1.

The consensus is that the Fed will raise interest rates by 25 basis points early this year, and then have another shot at it, probably raising interest rates by about 50 basis points, later in the year.

This is all speculation, of course, but there is good reason to believe that this could be a reasonable scenario.

On Tuesday in New York, it was announced – and, no doubt, the Fed took note of this – that US wholesalers' sales rose in November 1999 at the fastest rate for the previous 5 months.

This means that US manufacturers will have to crank up the machines another few notches in order to keep up with the demand for product in the US.

The official figure for sales in November was that they were up about 1.60 percent, compared with October sales, the biggest single increase since June 1999.

It appeared that clothing and electronic goods were the hottest items, coveted by US consumers.

The US economy has grown by about 4 percent (or better) per year for the past 3 years – an unprecedented growth.

Also, the US Commerce Department announced that consumer spending in the month of November was about 7.60 percent higher than consumer spending for the comparable month in 1998.

That the US economy is hot is an understatement – and the Fed is expected to try to cool it down for all concerned, according to bankers, contacted by TARGET.

While the Hongkong Special Administrative Region's stock market was cool to cold, last Tuesday, not so in the Land of the Rising Sun.

On The Tokyo Stock Exchange, the Nikkei-225 gained 657.51 points in a booming market, the result of excitement, generated by the AOL+Time Warner merger.

Sony Corporation, the Chairman of which stated, just the previous week, that Sony's share price should not be higher than 20,000 yen, else it would be a '*bubble*', saw a great deal of investor interest with the result that the share price rose another 5,000 yen – about 6.53 percent -- to 81,600 yen.

The gambling theory is that Sony could find itself merging, or being merged, with another international giant, just like Time Warner and America On-Line.

While there was little action in Wall Street with regard to the Dow Jones Industrial Average (up about 0.40 percent), NASDAQ saw its Composite Index rise 167.04 points, or about 4.30 percent, to 4,049.66, a direct result of the merger of the giants.

The bloodbath of '*yesterday*' had been forgotten in the excitement, generated by the biggest corporate marriage in the history of the world.

This is the way that other Asian stock markets viewed the international situation last Tuesday:

Thailand	Minus 1.52 percent
Indonesia	Plus 1.09 percent
Malaysia	Plus 3.46 percent
The Philippines	Minus 0.07 percent
South Korea	Minus 0.60 percent
Singapore	Minus 0.99 percent
Taiwan	Minus 1.93 percent
Japan	Plus 3.61 percent

### **Wednesday**

The Hang Seng Index appeared to be following a similar pattern to that of the week of January 3 through January 7.

The Index was off nearly one percent, 147.90 points, dropping to 15,714.20 on a Total Turnover – the lowest for the week – of about \$HK14.44 billion.

HSBC Holdings plc came under a great deal of selling pressure, losing another \$HK1.75 per share, falling to \$HK96.25 per share for no apparent reason.

The Turnover in this counter, alone, was about \$HK709 million, representing nearly 5 percent of the Total Turnover.

Pacific Century CyberWorks Ltd was still the most actively traded counter, however, and it continued to come under fire, losing about 3 percent of Tuesday's closing level, ending the session at \$HK16 per share.

The Turnover in this issue was a little more than \$HK1.15 billion, representing nearly 8 percent of the Total Turnover.

Trading on The Stock Exchange of Hongkong Ltd is influenced, greatly, these days by what is happening in the largest economy of the world, that of the US.

On Tuesday, Wall Street was stressed as NASDAQ fell 3.17 percent, 128.48 points, to 3,921.19.

NASDAQ, of course, is the benchmark for technology heavy stocks, to a very great extent, so that, in view of the fact that tech-stocks are the flavour of the month, a rollicking and a bollixing in this sector of the market has a tendency to unbalance the entire market.

The merger of AOL+Time Warner did not seem to set the market on fire, as had previously been expected, and so investors on The New York Stock Exchange appeared to be losing heart, to some extent at least.

The Tokyo Stock Exchange Ltd suffered a similar fate to The Stock Exchange of Hongkong Ltd with the Nikkei-225, falling 173.50 points, just below one percent, to 18,677.42.

Investors in this market used the same excuse for uncertainty as investors in the HKSAR: The possibility of the Fed, raising interest rates, early next month; and, the falls in Wall Street.

In London, however, there was a lot of talk that The Bank of England would pre-empt the Fed and raise interest rates by as early as last Thursday.

It was suggested that the worst thing that could happen would be if The Bank of England were to do nothing.

It was expected that there would be an announcement before noon, last Thursday, that interest rates would rise between 25 basis points and 50 basis points.

It is said that no news is good news, but for international stock markets, this is not always the case.

If central banks in important economies of the world are seen to be doing nothing, or not doing sufficient to prevent a reversal of fortunes in their respective economies, then the more sophisticated investors, and especially large institutions, turn their backs on these economies and look afield for safer havens for long-term investments.

That The Bank of England had to do something was unquestionable. The question was: What would it do?

This is how the world situation was seen in the eyes of Asian stock markets, last Wednesday:

Thailand	Plus 1.33 percent
Indonesia	Minus 0.84 percent
Malaysia	Plus 2.70 percent
The Philippines	Minus 1.86 percent
South Korea	Minus 2.68 percent

Singapore	Plus 0.74 percent
Taiwan	Plus 2.44 percent
Japan	Minus 0.92 percent

### Thursday

The Hang Seng Index continued to drift, last Thursday, as investors waited to see what the United Kingdom determined to do with regard to interest rates in one of the strongest economies in the European Union.

Such a determination, it was felt, could well be the precursor to what the US Fed would do in the first week of February when it held its Open Market Committee Meeting.

As it turned out, The Bank of England did what everybody thought it would do: Raise the key lending rate by 25 basis points.

The Hang Seng Index lost more than 140 points, during trading in the morning session, but by the close of trading at 4 pm., Hongkong time, The Index had recovered some of its earlier losses, but was still in negative territory, at 15,633.96.

The closing bell recorded an 80.24-point loss on Wednesday's close, a loss of about one half of one percent.

Still hugging the limelight (and this is becoming rather boring to report) was Pacific Century CyberWorks Ltd, the share price of which gained \$HK1.25, about 7.81 percent, to \$HK17.25 per share.

The Total Turnover was \$HK15.18 billion, with Pacific Century CyberWorks, being responsible for about 8.64 percent of the total volume of activity.

While trading was taking place on The Stock Exchange of Hongkong Ltd, in the Legislative Council, a fiery debate was taking place between certain Legislative Councillors and the Chief Executive of The Hongkong Special Administrative Region of the People's Republic of China, Mr Tung Chee Hwa.

Mr Tung Chee Hwa accused the leader of the HKSAR Democrats, Mr Martin Lee, Q.C., of making *'irresponsible'* statements with regard to the holier-than-holy New China News Agency (Xin Hua News Agency), the HKSAR propaganda agency of the PRC Government.

Never in the history of these 416 square miles has the population seen or heard of the unprecedented outbursts in the Legislative Council.

To say that the outbursts were unsettling to the investment community would be to state the obvious, but the HKSAR, being what it is, the dust would settle, most people rationalised, and, at the end of the day, the PRC Government would prevail.

Which is, probably, a good thing for, thus far, the PRC Government has not interfered in HKSAR business affairs, too much, since assuming sovereignty over the old Hongkong on July 1, 1997.

What was, perhaps, more important to the tourist industry of the HKSAR and the retail industry of the HKSAR was the suggestion, made recently and repeated in last Thursday's Legislative Council Meeting, that the Administration would propose a sales tax on retail purchases.

The HKSAR has not had a very good time, economically, since 1997 and so a sales tax, no matter how small, initially, is being seen as aggravating an already poor situation.

What the Government of the HKSAR has confirmed is that funds are flowing out of this tiny PRC enclave – and *'thart ain't good,'* as Daniel Boone would have said.

In Japan, The Tokyo Stock Exchange saw investors return to their old stomping ground, resulting in the Nikkei-225, gaining 155.87 points, coming to rest at 18,833.29, by the close of trading.

The information technology sector of The Tokyo Stock Exchange was responsible for much of the gains.

Gainers outpaced losers by a ratio of about 1.76-to-One.

On Wall Street, the Dow Jones Industrial Average was up 31.33 points to 11,582.43 – which just happened to be a new record for that bourse.

Once again, the Dow's gains were fueled by hi-tech stock activity.

Elsewhere in Asia, this is how the situation looked, last Thursday:

Thailand	Minus 0.27 percent
Indonesia	Plus 0.21 percent
Malaysia	Plus 2.41 percent
The Philippines	Minus 0.79 percent
South Korea	Minus 0.41 percent
Singapore	Minus 1.37 percent
Taiwan	Minus 0.41 percent
Japan	Plus 0.83 percent

## **Friday**

The Chairman of the US Federal Reserve Board, Mr Alan Greenspan, made it official: At this time, he favoured raising interest rates.

Mr Greenspan made his pronouncements, during a speech, last Thursday night, New York time.

However, any US interest-rate increases are, more than likely, to be of a minor nature, he hinted, something along the lines of trimming the economic boughs of the US economy, rather than pruning the entire tree.

He, also, said that inflation and unemployment in the US continued to be low and quite controllable.

Even so, while the Dow Jones Industrial Average went from one record level to another, on The Stock Exchange of Hongkong Ltd, the trend continued to be down, down, down.

The Hang Seng Index fell 91.73 points to 15,542.23 on a Total Turnover of about \$HK17.51 billion.

The same names were in the Top Ten Most Active Issues, but trading picked up for Pacific Century CyberWorks Ltd, Mr Li Ka Shing's *'little'* baby, where trading topped \$HK2.26-billion worth of scrip.

Trading in Pacific Century CyberWorks, still top dog in the Top Ten Most Active Issues, represented nearly 13 percent of the Total Turnover, confounding many investors who saw no rational reason for this counter to hug its position of dominance for more than 10 straight days of trading.

The share price of Pacific Century CyberWorks ended the day at \$HK16.75, down about 3 percent, compared with Thursday's closing level.

From the point of view of news in the HKSAR, there was nothing of any note to stimulate trading, for all of last week, but that has been the situation for some months now, in any event.

The only thing that appears to influence trading in the HKSAR, these days, are the antics on Wall Street – even though they may have no direct bearing on trading on The Stock Exchange of Hongkong Ltd, or in most other Asian stock markets, for that matter.

New York's famous Wall Street will be closed, today, for Martin Luther King Day so that whatever trading takes place in the HKSAR, today, will have to be marked down to those, who are willing to take a flyer.

In Japan, trading on The Tokyo Stock Exchange continued to be brisk, last Friday, with the Nikkei-225, gaining another 123.26 points, ending the week at 18,956.55.

The week of January 15 ended with the Hang Seng Index, having gained a mere 136.60 points, or exactly 0.88 percent, compared with the week, ending January 7.

This is the way that other Asian stock markets ended last week:

Thailand	Plus 3.48 percent
Indonesia	Minus 0.10 percent
Malaysia	Plus 4.23 percent
The Philippines	Plus 0.84 percent
South Korea	Minus 0.32 percent
Singapore	Minus 0.07 percent
Taiwan	Plus 1.50 percent
Japan	Plus 0.65 percent

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