MR INVESTOR : THE HANG SENG INDEX IS ON THE WAY DOWN

With no Wall Street to use as a yardstick, The Stock Exchange of Hongkong Ltd was considerably quieter, last Monday.

The volume of activity shrank about 26 percent, compared with the previous Friday's level of activity, to $HK12.98 billion. The Top Ten Most Active Issues represented about 35 percent of the Total Turnover.

The New York Stock Exchange was closed for Martin Luther King Day, last Monday, so that investors of the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC) had to make a stab at what was likely to take place in the largest securities market in the world for the short week of January 18 to January 22.

The Hang Seng Index ended the session up 32.33 points to 15,574.56, compared with the previous week's closing level, after hitting a high in the morning of 16,605.

The market was listless for most of the day as investors preferred to sit on the sidelines in view of some important news that was confirmed, early in the trading session.

It was reported that publicly listed Wing On International (Holdings) Ltd had decided to close some more of its departmental stores in the HKSAR, bringing down the number of stores from 9 stores to 7 stores.

Wing On Departmental Stores Ltd, a subsidiary of publicly listed Wing On, is – or should that read, *'was'* – the leading departmental store in these 416 square miles so that the closure of more of its stores must be indicative of a continued poor retail situation.

More than 100 workers will be thrown into the street, it was reported, although the Company was quick to suggest that they could be deployed.

Cable and Wireless HKT Ltd announced that it had decided to bite the management bullet and would reorganise top management in order to fight off the aggressive competition that it was facing from a number of HKSAR-based adversaries.

These included, of course, City Telecom (H.K.) Ltd and New World Telephone Ltd, both of which have made huge gashes to the Bottom Line of Cable and Wireless since 1997.

Cable and Wireless said that it would start to put emphasis on information technology, veering away from heavy reliance on traditional sources of income, namely being just a provider of fixed-line telecommunications and a long-distance operator (a monopoly which it held for many a decade).

Better late than never, one may be inclined to comment, but the staid, British management style of this once giant in its field might be difficult to overcome.

While there was nothing much to report about trading on The Stock Exchange of Hongkong Ltd, last Monday, except to note that the Li Ka Shing Group was under selling pressure for most of the day, in London, there was considerable activity on the foreign exchange markets (FOREX).

The *'play'* was in the Japanese yen where traders noted that it was gaining strength, once again, against the US dollar.

The fact that the Nikkei-225 (the Japanese benchmark for trading on The Tokyo Stock Exchange) was moving up rapidly heightened speculation on trading in the currency of the Land of the Rising Sun.

The yen rose to its highest levels since January 10 to hit a high of 104.65 yen to the US dollar. The previous Friday, it was trading at 105.69 yen, 1.04 yen, or just one percent, higher than last Monday's level.

Last Monday, the Nikkei-225 hit the highest levels in the past 30 months in spite of the appreciation of the yen against most *'hard'* currencies.

At the close of trading on The Tokyo Stock Exchange, the Nikkei-225 stood at 19,437.23, up 480.68 points compared with the previous Friday's closing level.

The Bank of Japan had not suggested raising interest rates, last Monday, and it had not intervened on FOREX markets, also.

In other Asians markets, this is the way the investment ball bounced, last Monday:

Thailand	Plus 1.04 percent
Indonesia	Plus 1.82 percent
Malaysia	Plus 2.71 percent
The Philippines	Minus 0.23 percent
South Korea	Plus 3.72 percent
Singapore	Minus 2.11 percent
Taiwan	Plus 1.35 percent
Japan	Plus 2.54 percent

Tuesday

Pacific Century CyberWorks Ltd, China Telecom (Hongkong) Ltd, China Aerospace International Holdings Ltd and New World Cyberbase Ltd were, together, responsible for much of the gains, made on The Stock Exchange of Hongkong Ltd, last Tuesday.

Together, these 4 counters accounted for about 22 percent of the Total Turnover and helped, considerably, in pushing the Hang Seng Index up by about 1.38 percent to 15,789.20.

The 212.64-point Hang Seng Index gain was difficult to fathom because the stock market of the Hongkong Special Administrative Region (HKSAR) has been extremely worried of late about the upcoming US Federal Reserve Board Open Committee Meeting, due to convene Tuesday-week, February 1.

It is generally expected that the Fed will opt to raise interest rates by at least 25 basis points at this meeting.

In spite of the fact that the Hang Seng Index rose by about 1.38 percent, last Tuesday, it was noted that losers outstripped gainers by a ratio of about 1.45:One.

Also, it was obvious that the market was being dominated by a handful of counters, namely, Hutchison Whampoa Ltd, Cheung Kong (Holdings) Ltd and China Telecom (Hongkong) Ltd, these 3 counters, having been responsible for about 283 Hang Seng Index points, countering the losses of big guns of the ilk of HSBC Holdings plc and Sun Hung Kai Properties Ltd, both of which came under considerable selling pressure.

The narrowness of trading on The Stock Exchange of Hongkong Ltd has been of some concern to a number of people for some time because it means that one may not use the Hang Seng Index as an accurate indicator of trading on this market, the second largest bourse in Asia.

In addition, the emphasis of late on telecom issues and issues, even vaguely concerned with hi-tech, colours securities trading, leaving behind *'bread-and-butter'* counters, which tend to be forgotten in the mad dash by investors to try to latch on to winning, in-vogue shares.

In Japan, the Nikkei-225 came under considerable pressure, following Monday's gains of about 2.54 percent, which saw the Nikkei rise to a 30-month high.

Last Tuesday, the Nikkei lost about 240.66 points, about 1.24 percent, coming to rest at 19,196.57.

The strength of the yen (see Monday's report) was, in part at least, responsible for some of the losses, but the main reason was a market correction – which was, probably, a reasonable reaction to Monday's record-making spurt.

One big loser on The Tokyo Stock Exchange, last Tuesday, was Sony Corporation, the share price of which lost 850 yen, or about 3.45 percent, compared with Monday's closing level of 24,630 yen.

There was little to stimulate trading in the HKSAR, last Tuesday, as traders preferred to stand on the sidelines, waiting for something to break.

Not so in most other parts of Asia, however, as many stock markets saw marginal erosions to share prices, with the lone exception, being Thailand.

This is the way that other Asian markets perceived the situation:

Thailand	Plus 1.48 percent
Indonesia	Minus 2.53 percent
Malaysia	Minus 0.40 percent
The Philippines	Minus 1.07 percent
South Korea	Minus 0.18 percent
Singapore	Minus 0.95 percent
Taiwan	Minus 0.70 percent
Japan	Minus 1.24 percent

Wednesday

It was an absolute bloodbath on The Stock Exchange of Hongkong Ltd, last Wednesday, as the Hang Seng Index shed 513.86 points, equal to about 3.26 percent, compared with Tuesday's close.

HSBC Holdings plc was a major culprit, involved in the massive sell-off, as about 13.91 million Bank shares switched, with the price, falling to $HK93 per share.

The nearly 3-percent fall in the share price of this giant banking group, naturally, had to have an impact on the entire market, but there appeared to be no valid reason for the run on The Bank counter.

In terms of the amount of trading in the The Bank's scrip, aggregating to about $HK1.30 billion, it represented about 8.36 percent of the Total Turnover of about $HK15.55 billion.

It was suggested that, if the Fed did raise interest rates on February 1 or February 2, at its Open Committee Meeting, The Bank would suffer.

The Top Ten Most Active Issues were responsible for just about 43 percent of the total volume of activity, emphasising, yet again, just how narrow is trading on this stock market.

One factor, which boded ill for trading in the HKSAR, last Wednesday, was that the bloodbath was on an increased Total Turnover, indicating, perhaps, that some investors were either losing their collective nerve, or they were being forced to sell out, for one reason or another.

One big loser was China Telecom (Hongkong) Ltd, the share price of which fell about 4.65 percent ($HK2.20 per share) to close at $HK45.10 per share. It accounted for nearly 27 percent of the fall in the Hang Seng Index for the day.

A seemingly unsettling factor, that, perhaps, affected trading in the HKSAR, was the confirmed news that there was a major social problem in Indonesia – with the Chinese ethnic population, being singled out for this problem.

Religious violence was reported on the island of Lombok where tens of thousands of people were trying to flee from the troubled zone, crowding the tiny airport and the ferry terminus.

In the HKSAR, the Office of the Telecommunications Authority (OFTA), a branch of the HKSAR Government, confirmed that it had launched a full-scale investigation into the proposed, January 2 increased monthly telephone fees of mobile telephone operators in the Territory in order to ascertain whether or not price-fixing had been involved.

All the mobile telephone operators, simultaneously, announced on January 2 that they would increase monthly billing costs to consumers by $HK20 per customer.

It would be difficult not to come to the conclusion that collusion had been involved, but that is for OFTA to determine.

An interesting aspect of trading on The Stock Exchange of Hongkong Ltd, last Wednesday, was that a number of *'cold'* shares suddenly became rather *'hot'* issues – even though the market was in full retreat.

One such counter was Herald Holdings Ltd, the share price of which closed at 44 cents after hitting a high of 47.50 cents per share (please see TARGET Intelligence Report, Volume One, Number 129, dated November 3, 1999 for information about this company).

Unlike many go-go shares, Herald is a solid little company, which has been around for many a year, making money, year, after year, after year.

Clearly, it has been *'discovered'* by certain parties, looking at fundamentals rather than dreams.

In Japan, The Tokyo Stock Exchange was not spared the bloodbath of the other Asian stock markets, as the Nikkei-225 dropped 298.82 points, equal to about 1.56 percent, compared with the close of trading on Tuesday.

Losers outnumbered gainers by a ratio of about 1.5:One.

It was said that Tokyo was concerned about Wall Street and was following the Dow Jones Industrial Average.

Here is what happened in other Asian bourses, all of which were under considerable selling pressure for the entire day:

Thailand	Minus 0.21 percent
Indonesia	Minus 4.43 percent
Malaysia	Minus 1.71 percent
The Philippines	Minus 1.27 percent
South Korea	Minus 4.36 percent

Singapore	Minus 2.80 percent
Taiwan	Minus 1.07 percent
Japan	Minus 1.56 percent

Thursday

The shocking news on Thursday, the exact details of which hit the streets on Friday morning, was the determination of the Government with regard to the 6 mobile telephone companies: They were all guilty of colluding, together.

Mr Anthony Wong Sik Kei, Director-General, OFTA, said that warning letters had been sent to all 6 telephone operators that it would not tolerate price fixing.

But that is as far as the HKSAR Government is willing to go: A warning letter.

With strong evidence of wrongdoing, overwhelming evidence, it was suggested, it appears that that HKSAR Government is unwilling to take action against the perpetrators, especially those who are very well heeled.

The Stock Exchange of Hongkong Ltd was unphased by the Government's pronouncements, and trading, though subdued, continued as though nothing had happened.

The Hang Seng Index finished the trading session at 15,215.31 on a Total Turnover of about $HK16.59 billion.

The 60-point gain was insignificant since, in the morning session, The Index had been 31 points higher than Wednesday's close.

Cheung Wah Development Company Ltd was the *'darling'* of investors as more than 207.11 million Cheung Wah shares changed hands, representing a turnover in this counter of about $HK1.86 billion, or about 11.21 percent of the Total Turnover.

The reason that there was so much interest in this counter was due to confirmed news that Softbank Corporation, the world's largest investor in Internet companies, had taken control of Cheung Wah in order to use it in its regional expansion plans.

Cheung Wah gained about $HK8.47 per share to close at $HK10 per share, a gain over Wednesday's close of about 637 percent.

Against the gains, made by Cheung Wah, HSBC Holdings plc continued to lose ground, giving up another $HK1.50 per share to end the session at $HK91.75 per share.

Trading in this counter, alone, amounted to about $HK994 million, or about 6 percent of the Total Turnover.

In Japan, The Tokyo Stock Exchange experienced somewhat of a rebound as the Nikkei-225 put on 110.26 points, said to be due to overnight reports of the record close on the US NASDAQ – now widely acclaimed as being the benchmark of the performance of hi-tech stocks.

Sony Corporation continued to be the choice of most Japanese investors, and its share price rose a little more than one percent, to close at 23,700 yen, up 250 yen on Wednesday's closing level.

In the US, it was reported that the US trade deficit grew to a record level in November 1999, widening to $US26.50 billion (about $HK206 billion), up from the October 1999 figure of $US25.60 billion (about $HK199 billion).

Also, in November, US exports hit a record level, rising 0.70 percent to $US82.90 billion (about $HK644 billion).

All this points to a booming economy, to be sure.

Microsoft Corporation surprised Wall Street with a profits' announcement, which confounded analysts.

The largest software company in the world announced that it earned 47 cents (US) per share, during the second quarter, ended December 31, 1999.

This is about 31 percent better than the comparable period in 1998.

A frightening piece of news, however, came from Europe where Deutsche Telekom of Germany announced a 45-percent plunge in 1999 profits, compared with the 1998 figure.

Deutsche Telecom is Europe's largest telecommunication company and so that loss was right out of left field for many analysts.

The company blamed its poor results on competition and the cost of recent acquisitions.

One cannot help but wonder whether or not one should take this as an omen for the future of many similar companies, around the world – including the HKSAR, of course.

Whereas Wednesday saw all Asian stock markets shed some of their fat, not so last Thursday:

Thailand	Plus 0.06 percent
Indonesia	Plus 2.16 percent
Malaysia	Plus 1.87 percent
The Philippines	Plus 0.24 percent
South Korea	Plus 0.76 percent
Singapore	Plus 2.69 percent
Taiwan	Minus 0.16 percent
Japan	Plus 0.58 percent

Friday

As the broader-based, Dow Jones Industrial Average, the benchmark of The New York Stock Exchange, continued to come under pressure, so the HKSAR markets, and especially trading on The Stock Exchange of Hongkong Ltd, continued to be especially nervous.

The Hang Seng Index was in full retreat, last Friday, dropping another 106.90 points to end the week on a frenzy of selling pressure.

The Index, officially, saw the weekend out at 15,108.41, a loss of about 0.70 points, compared with Thursday's close, but it was noted that the 120-minute, morning session saw The Index at 14,937.96, a full 277.35 points lower than Thursday's close, or down about 1.82 percent on the day.

Clearly, there had been a great deal of short-covering in the 90-minute afternoon session.

Dragging down the Hang Seng Index, a great deal, was HSBC Holdings plc, the share price of which gave up about 1.40 percent to close the week at $HK90.50 per share, after falling to a low of $HK89.50 per share.

The turnover in this counter, alone, was about $HK1.37 billion, representing about 9 percent of the Total Turnover of about $HK15.12 billion.

The Bank's losses represented about 45 percent of The Hang Seng Index's loss for the day.

The Top Ten Most Active Issues represented about 40 percent of the Total Turnover.

The Dow Jones Industrial Average had lost about 1.20 percent of its value, last Thursday, and represented a falling trend, in international eyes, since it had been falling for 3 straight days, up to that point.

The NASDAQ was running away at a furious pace, but that index is very narrow, with concentration on hi-tech counters, many of which are very suspect.

For the HKSAR stock market, there are a great many questions, still to be answered, as to the logic in the way in which many, so-called hi-tech stocks are demanding high Price-Earnings Multiples – some without any earnings, at all.

At the end of the day, when all the dust settles, the question is going to be, simply: *'OK, we have invested with you. Now, where is our profit?'*

That little question has yet to be answered.

With the February 1-2, US Federal Reserve Board Open Committee Meeting, scheduled for next Tuesday and Wednesday, and with the Fed, strongly expected to raise US interest rates at least one quarter of one point, there is likely to be continued selling on The Stock Exchange of Hongkong Ltd, this week.

It will be interesting to see whether or not The Index will fall below last week's nadir of 14,937.

In Japan, The Tokyo Stock Exchange got a bit of a mauling, too, as the Nikkei-225 fell about 129.92 points to end the week at 18,878.09.

The falls in Tokyo were on the eve of the Group of Seven (G7) Meeting of Industrialised nations, due to start last Saturday and resume, again, on Sunday.

The question that Japan wants answered: *'Will you 6 guys, help us in stabilising the international exchange rate of the yen?'*

The Japanese yen's international exchange rate is playing havoc with the economy because it continues to be among the preferred currencies of the world and, as such, its strength against *'hard'* currencies, such as the US dollar and the euro, is having a direct impact on Japan's international trading account.

Every time the yen hits a new high, it is like a knife, cutting into the profits of Japanese businesses, which find it increasingly difficult to compete, price-wise, with similar products, manufactured in competing countries.

The G7 comprises members of the governments of the US, Japan, France, Germany, Great Britain, Canada and Italy.

For the week, then, the Hang Seng Index lost about 2.79 percent of its value, or 433.82 points, week-on-week.

Other Asian bourses faired similarly:

Thailand	Minus 1.86 percent
Indonesia	Minus 0.81 percent
Malaysia	Plus 0.33 percent
The Philippines	Plus 0.45 percent
South Korea	Minus 2.19 percent

Singapore	Minus	1.60 percent
Taiwan	Plus	1.30 percent
Japan	Plus	0.68 percent

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