

**MR INVESTOR :
THE PRC GOVERNMENT THREATENS WAR WITH TAIWAN**

Concern over the recent spectacular and unwarranted gains in computer issues and Internet-related counters caused US-quoted shares to fall in Europe, over the weekend of March 11-12, and this feeling spilled over into the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC) on Monday, March 13.

As a result, the Hang Seng Index shed about 4.12 percent, 735.18 points, to come to rest at 17,096.68 on a Total Turnover of about \$HK17.54 billion.

It was widely expected that the Dow Jones Industrial Average would open on Wall Street with a large sell-off, equal to about 2 percent of the closing level of the previous Friday.

Adding oil onto the waters of the HKSAR stock market was the coming Saturday's Presidential elections on the island 'State' of Taiwan; and, how, whoever is elected, will be viewed by the Government of the PRC.

Last Monday, there was a widespread sell-off of stocks and shares in Taiwan, with the Taiwan Stock Index (TWSE), falling a record, one-day loss of 617 points, equal to about 6.55 percent, compared with the closing levels on Friday, March 10.

With the TWSE Index, standing at 8,811.95, it represented the lowest level since January 6, 1996.

On that 1996 date, the PRC Government started popping off missiles in waters, surrounding Taiwan.

If a staunch, pro-democrat is elected to the Presidential 'hot' seat in Taiwan, and he advocates that Taiwan should make a determination to be an independent State, the PRC Government has threatened war.

Whether or not the PRC will carry out its threat, or whether or not the PRC has the capability to launch an attack on Taiwan, is immaterial: It is enough that a state of war should be declared.

The Government of Taiwan came out to support the Taiwan stock market, stating that 4 major State funds had been buying scrip in the marketplace.

That, being the case, the TWSE Index would, most likely, have fallen further, to be sure, had not the Taiwan Government come to the rescue.

On The Stock Exchange of Hongkong Ltd, as always, the slightest suggestion of things, going wrong, sends the Hang Seng Index into a tailspin.

Last Monday proved the rule was still valid.

The share price of China Telecom (Hongkong) Ltd was one of the biggest losers in the widespread sell-off, as the counter saw 8.22 percent sliced off its market capitalisation. The share price fell to \$HK67.

This one drop in one counter accounted for about 50 percent of the losses on the Hang Seng Index for the day.

Cable and Wireless HKT Ltd, now controlled by Pacific Century CyberWorks Ltd, shed \$HK1.25 per share, falling to \$HK22.65 per share, a drop of about 5.23 percent in one day's trading.

Pacific Century CyberWorks did not get off unscathed as it lost 6.50 percent of its market capitalisation, falling to \$HK20.70 per share.

With something in the neighbourhood of \$HK100 billion, being tied up, due to investors, applying for new issues, it was hardly surprising that the Total Turnover was relatively low, at the \$HK17-billion level.

But, of course, the turnover could get lower if things start going bump in the night.

The Top Ten Most Active issues represented about 48.80 percent of the total volume of activity, with the 3 most active counters, accounting for about 27.37 percent of all trading.

Whether or not Monday's trading activity was the beginning of a large-scale, stock-market meltdown, it was still too early to say, but it was certain that the stock market of the HKSAR would find it difficult to justify the levels of March 6, the high-water market for The Index.

On The Tokyo Stock Exchange, the Nikkei-225 fell 2.80 percent, 560.47 yen, to 19,189.93 yen.

NTT Mobile Communications Corporation, also known as DoCoMo, Japan's largest cellular telephone company, fell 13 percent to 3.39 million yen. It was trading at about 4.52 million yen on February 28.

Sony Corporation continued its decline, falling another 7.60 percent to 24,300 yen. In the previous 8 trading days, Sony has seen about 25 percent of its market capitalisation vanish as the share price of the giant electronics empire fell out of favour with the investing public.

Softbank Corporation, one of the largest Internet investment companies in Japan, lost 5 percent of its share value, falling to 94,200 yen. In the previous week, Softbank's management saw 30 percent of its market value eroded.

In other Asia stock markets, the situation was, just about, the same as in the HKSAR and Japan, with the exception of Taiwan where there was a terrible bloodbath for those investors who had gambled on that market's Index rising:

Thailand	Minus 3.04 percent
Indonesia	Minus 1.44 percent
Malaysia	Minus 1.29 percent
The Philippines	Minus 1.15 percent
South Korea	Minus 4.12 percent
Singapore	Minus 2.56 percent
Taiwan	Minus 6.55 percent
Japan	Minus 2.84 percent

Tuesday

Trading was relatively subdued on The Stock Exchange of Hongkong Ltd, last Tuesday, with the Total Turnover, dropping to about \$HK12.78 billion.

Of this figure, the 3 Most Active Issues -- Hutchison Whampoa Ltd, China Telecom (Hongkong) Ltd and Pacific Century CyberWorks Ltd -- accounted for about 25.74 percent.

Trading in the 10 Most Active issues, in aggregate, represented about \$HK6.05 billion, or about 47.34 percent of the Total Turnover.

The Hang Seng Index finished the day, down just under one percent, at 17,096.68, off about 167.52 points.

Taiwan and its Presidential Elections still haunted the HKSAR market (see Monday's report).

Losses in some counters were substantial, with Hutchison Whampoa, losing 4.80 percent to \$HK137.50 per share, Cheung Kong (Holdings) Ltd, off 3.70 percent to \$HK103 per share, SmarTone Telecommunications Holdings Ltd, falling 9.60 percent to \$HK31 per share, Television Broadcasts Ltd, shedding 9.28 percent to \$HK66 per share, and China.com Corporation, falling another 13.47 percent to \$HK4.17 per share.

The ratio of losers to gainers was about 2:One.

What is knocking the stuffing out of some of the so-called, hi-tech stocks is the realisation that it is not all *'jam'* on the stock-market *'bread'*.

An example of this was the Interim Announcement of SmarTone Telecommunications, which company announced a loss of \$HK393 million for the first half of its Financial Year to December 31, 1999.

How many other companies will follow suit?

In the Land of the Rising Sun, the Nikkei-225 shed just 48.09 points, about one quarter of one percent.

Banking issues were under considerable pressure, nevertheless, with Sanwa Bank, down about 7 percent to 1,050 yen per share, Daiwa Bank, off 7.26 percent to 281 yen per share, and Bank of Tokyo Mitsubishi, off nearly 4 percent to 1,439 yen per share.

The share price of Softbank Corporation continued its losing streak, shedding another 5.31 percent to close the day at 89,200 yen per share. This counter has lost about 51 percent of its market capitalisation since the middle of February.

Another big loser was Hikari Tsushin, the share price of which lost 5.65 percent, last Tuesday, to end the session at 83,500 yen. This counter has lost 64 percent of its market capitalisation in one month.

The ratio of losers to gainers on this bourse was about 1.25:One.

There was no positive news to stimulate trading on any Asian stock market and, if anything, the chickens were coming home to roost, with investors, beginning to remember the old saw: The stock market is a 2-way street.

This is how other Asian markets closed last Tuesday:

Thailand	Plus 2.62 percent
Indonesia	Minus 0.28 percent
Malaysia	Minus 0.40 percent
The Philippines	Plus 1.98 percent
South Korea	Minus 0.93 percent
Singapore	Plus 0.53 percent
Taiwan	Plus 0.27 percent
Japan	Minus 0.25 percent

Wednesday

The Premier of the Government of the People's Republic of China (PRC), Mr Zhu Rong Ji, laid it on the line to the voting population of Taiwan, last Wednesday: *'Do not just act on impulse, at this juncture, which will decide the future course that China and Taiwan will follow, otherwise I'm afraid you won't get another opportunity to regret.'*

Fighting words!

And the Taiwan Weighted Index fell out of bed, losing 2.21 percent, compared with Tuesday's closing level of 9,449.90.

On The Stock Exchange of Hongkong Ltd, widespread concern was being felt by a number of the more intelligent folk, and some of these folk have considerable investments, tied up in listed securities.

As a result of persistent and consistent selling, throughout most of the trading day, the Hang Seng Index shed about 1.08 percent of its former value, falling to 16,747.20 on a Total Turnover of about \$HK13.08 billion.

The Top Ten Most Active issues accounted for about 46.18 percent of the Total Turnover, with Mr Li Ka Shing's quoted companies, leading the pack -- down, down, down!

Pacific Century CyberWorks Ltd and Hutchison Whampoa Ltd saw sellers line up to dump the stock for fear of the unknown, with about 52.13 million shares in Pacific Century CyberWorks, changing hands, and about 7.51 million Hutchison Whampoa shares switching owners.

These 2 counters represented just about 16 percent of the total volume of activity for the day.

Suggestions abounded as to the reason for the continued fall in the Hang Seng Index, with SmarTone Telecommunications Holdings Ltd, being singled out due to its losses, sustained in the first half of its Financial Year to December 31, 1999 (see Tuesday's report).

SmarTone Telecommunications continued to see its share price fall, as another 5.50 percent was shaved off its market capitalisation: The share price fell to \$HK29.30.

Other telecommunication companies followed SmarTone Telecommunications's example, with Management of the largest telecommunications provider in the HKSAR, Cable and Wireless HKT Ltd, watching as its share price was felled by another 2.20 percent, to close the day out at \$HK22.20.

Even so, this is way too expensive for this counter's scrip since the price should be closer to \$HK10 per share than \$HK20 per share.

China Telecom (Hongkong) Ltd was another loser, falling to \$HK66.25 per share, a fall of 2.20 percent, compared with its closing level of Tuesday.

Other big losers included Hutchison Whampoa Ltd, off 1.80 percent to \$HK135 per share, and Sun Hung Kai Properties Ltd, down 2.70 percent to \$HK71 per share.

While stock-market pundits may make up all kinds of excuses for a stock market's rises and/or falls, with regard to The Stock Exchange of Hongkong Ltd of last week and, especially, the fall, experienced last Wednesday, it was due, in large part, to political considerations.

And the real bugaboo was, of course, the continued threats, emanating from the top echelons of the Government of the PRC in respect of the Presidential Elections in Taiwan.

To say that the market of the Hongkong Special Administrative Region (HKSAR) was unstable would be an understatement of great proportions.

In Tokyo, The Tokyo Stock Exchange appeared to be not too concerned about the continuing war of words between the PRC and Taiwan, with the Nikkei-225, falling just 63.24 yen to 19,078.60 yen.

Hi-tech stocks, nevertheless, came under heavy selling pressure with Sony Corporation, losing another 5.36 percent to 26,750 yen.

Japan's mobile telephone giant, Nippon Telephone and Telegraph -- NTT DoCoMo, as it commonly called these days -- gained amid gloomy news in the hi-tech section of the market, putting on about 9.25 percent to close at

4.25 million yen.

Softbank, taking its cue from NTT DoCoMo, shot up limit 5,000 yen to 94,200 yen. Hikari Tsushin was also up limit 5,000 yen, going back to 88,500 yen.

Only 2 stock exchanges in Asia were in the black, last Wednesday, and these 2 exchanges -- Indonesia and The Philippines -- only just managed to keep their heads above the choppy waterline:

Thailand	Minus 3.54 percent
Indonesia	Plus 0.16 percent
Malaysia	Minus 1.24 percent
The Philippines	Plus 0.32 percent
South Korea	Minus 1.09 percent
Singapore	Minus 1.53 percent
Taiwan	Minus 2.21 percent
Japan	Minus 0.33 percent

Thursday

It was politics, strictly politics, which caused the Hang Seng Index to shed a further 388.20 points, about 2.32 percent, in the fourth straight day of losses for investors of equities in the Hongkong Special Administrative Region of the People's Republic of China.

On a Total Turnover of \$HK12.97 billion, nearly all of the losses were felt in the 90-minute afternoon session, with the Top Ten Most Active issues, accounting for about 44.18 percent of the total volume of activity.

China Telecom (Hongkong) Ltd was the big loser, shedding about 5.28 percent of its market capitalisation as the share price headed for \$HK62.75, a fall of \$HK3.50 per share.

China Telecom was said to have been the one counter that helped bring down the Hang Seng Index by as much as 50 percent.

Another PRC stock, Legend Holdings Ltd, a company that is trying to manufacture personal computers to compete with the likes of Compaq and Dell, saw its share price fall 9 percent to \$HK11.50 per share.

The Li Ka Shing Group came under intense pressure, with Cheung Kong (Holdings) Ltd, shedding another 3.38 percent to close the day out at \$HK100.50 per share, Pacific Century CyberWorks Ltd, off 3.16 percent to \$HK19.95 per share, and Hutchison Whampoa Ltd, falling another 4.07 percent to \$HK129.50 per share.

SmarTone Telecommunications Holdings Ltd watched as investors dumped the stock, resulting in the share price, falling back another 2.56 percent to \$HK28.55 per share (see Tuesday's report on earnings of this company).

Sunday Communications Ltd, whose shares made their debut on The Stock Exchange of Hongkong Ltd and NASDAQ, were hotly sought after -- to be sold in a hurry while buyers were still around.

The share price fell to \$HK3.57, down from the Offer Price of \$HK3.78 per share -- off about 5.55 percent.

(For full analysis of the Initial Public Offer of Sunday, please refer to [TARGET Intelligence Report, Volume II, Number 48](#), dated Friday, March 10, or access the Internet at the address of www.tolfin.com, for full article, or www.targetnewspapers.com for précis)

The ratio of losers to gainers was about 6:One.

It was quite apparent that the stock markets of Asia would be very volatile until the war of nerves, between Beijing and Taipei, was resolved, following the Presidential Elections, which were held last Saturday.

On The Tokyo Stock Exchange, the Nikkei-225, the barometer of trading on the premier stock exchange in Japan, rose 174.63 points to 19,253.23, nearly one percent.

Sony, Softbank and Hikari Tsushin, the so-called, hi-tech stocks, all made comebacks, with Sony, gaining 0.97 percent, Softbank, putting on 5.31 percent, and Hikari Tsushin, recovering 5.65 percent of its earlier losses, experienced in the first few days of the week's trading.

It was just as well that 3 stock markets of the 8 major Asian stock markets were closed, last Thursday, since this gave investors time to ponder and to consider executing damage repair -- before the erosion of prices gathered momentum:

Thailand	Plus 2.49 percent
Indonesia	Closed
Malaysia	Closed
South Korea	Plus 0.44 percent
Singapore	Closed
Taiwan	Plus 0.49 percent
Japan	Plus 0.92 percent

Friday

The stock markets of the HKSAR and Singapore made violent recoveries, last Friday, with the Hang Seng Index, gaining 4.43 percent over Thursday's closing level, while the Singapore Straits Times Index put on 3.58 percent over the previous day's close.

The '*action*' was, without question, in the HKSAR where buyers marched in and refused to allow any selling pressure to upset their stated intentions.

On a Total Turnover of \$HK12.36 billion, the Top Ten Most Active issues accounted for about \$HK5.95 billion, or about 48.14 percent of the total volume of activity.

HSBC Holdings plc and China Telecom (Hongkong) Ltd were the most active counters and, between these 2 counters, some \$HK2.60-billion worth of transactions took place, representing about 21 percent of the Total Turnover.

Sunday Communications Ltd, which debuted on Thursday, saw investors dump the company's scrip, the market price of which hit a low of \$HK2.95. This compared with an Offer Price of \$HK3.78 per share.

Pity the poor fools who do not know how to read!

The screams from the Premier of the People's Republic of China, Mr Zhu Rong Ji, across the Taiwan Strait, appeared to be less vociferous, or perhaps there was too much wind, being exuded from the 3 Presidential candidates in the Taiwan Elections.

In any event, the threat of war between the PRC and Taiwan appeared to be fading as the main thorn in the side of the PRC Government, Mr Chen Shui Ban, the so-called pro-democracy candidate, hoping to replace President

Lee Teng Hui, gave the appearance of being more conciliatory toward Beijing. (please refer to Wednesday's report)

The overriding feature of last Friday's stock markets in Asia, not just in the HKSAR, was what was happening on Wall Street, where investors were flooding back into blue chips, forsaking, to a large extent, the hi-tech, no-profit, please-help-me (with cash) counters.

Taking their cue from Wall Street, the share price of HSBC Holdings plc gained 4.60 percent, rising to \$HK90 per share, and Dao Heng Bank Ltd, up 5.60 percent to \$HK31.80 per share.

Gainers outpaced losers by a ratio of about 5:2.

In Japan, The Tokyo Stock Exchange, like other Asian stock markets, made a impressive leap, with the Nikkei-225, hitting 19,566.32, a gain of 313.09 yen, or about 1.63 percent on the day.

Japan's stock-market gains were for the same reasons as the gains, experienced in other bourses in Asia, but there was one other factor, influencing Japanese investors: The scheduled US Federal Reserve Board's meeting tomorrow.

It was generally felt that there could well be another 25 basis points, added to US interest rates.

In fact, Dr Alan Greenspan, the Chairman of the Fed, just about stated this in his speech to the US Government, just last month.

With the Dow Jones Industrial Average -- the barometer of blue chips on Wall Street -- having gained a record, one-day's movement upwards of just a tickle below 500 points, Japanese investors were given heart and decided that they would follow suit.

Examples of a return to basics were Mitsui Fudosan, a well-established and quite ancient real estate company, whose share price jumped 9.05 percent to 940 yen, and Ishikawajima Harima Heavy Industries which saw its share price rise 5.26 percent to 120 yen.

In the hi-tech sector of the market, Sony Corporation lost a bit of its lustre, falling back to 26,640 yen, a loss of about 1.37 percent on the day, while Softbank Corporation regained 5.85 percent of its share value, closing at 105,000 yen.

The ratio of gainers to losers was about 2:One.

For the week, therefore, the Hang Seng Index lost ground to the extent of about 4.09 percent, compared with the closing level on Friday, March 10.

This the way that things came to a close in Asia, last Friday:

Thailand	Plus 0.99 percent
Indonesia	Plus 0.68 percent
Malaysia	Plus 1.55 percent
The Philippines	Plus 1.00 percent
South Korea	Plus 1.77 percent
Singapore	Plus 3.58 percent
Taiwan	Plus 0.93 percent
Japan	Plus 1.63 percent

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