THE U.S. FEDERAL RESERVE TIGHTENS THE THUMBSCREW ANOTHER 50 BASIS POINTS
(And More To Come)

As the world awaited the pleasure of Dr Alan Greenspan, the Chairman of the US Federal Reserve, Asia's stock markets, by and large, adopted a wait-and-see position in light trading, last Monday.

But they all lost ground near the close of trading as investors cut and ran for cover, not knowing what the near-term future may bring.

Last Tuesday, New York time, that is May 16, the Fed decided which way interest rates would go in the short term, and it had been widely believed, for the previous fortnight, that they would be boosted by about one half of one percent (50 basis points).

The Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC), of course, did not know how much the rate rise would be and so many investors stayed on the sidelines.

The Stock Exchange of Hongkong Ltd watched a quiet opening, as the Hang Seng Index barely moved in the 180-minute morning session, which saw 45.39 points, chopped off the previous Friday's closing level.

The afternoon session, however, was slightly different as investors determined not to take too many chances on what Dr Greenspan might do – and so there was a bit of a selling spree, resulting in the Index, losing 185.25 points in the 90-minute afternoon session.

At the close, the Index was stuck at 14,881.30 points, a loss of 230.64 points, compared with the previous Friday's close. The Total Turnover was about $HK10.07 billion.

While some brokers called Monday's trading, profit-taking, in truth, investors and, especially, fund managers, were concerned about the continuing unparalleled strength of US economy and what measures would be taken by the Fed to cool it before inflation eroded all the good work of the past decade or so.

That measures would be taken was well understood and expected, and stock markets' retreat in the US, as well as in Asia, was due in large measure to the anticipated brakes, about to be applied by the strongest man in the world: Dr Alan Greenspan.

In the HKSAR, the 1.53-percent loss on the Hang Seng Index was spearheaded by trading in China Telecom (Hongkong) Ltd (Code: 941), the share price of which fell in short order, losing nearly 4 percent to hit $HK55.50 on a volume of about 13.70 million shares.

Trading in this counter, alone, represented about 7.75 percent of the Total Turnover.

It was the third, most active counter.

Hutchison Whampoa Ltd (Code: 13) was the top dog in the Ten Most Active issues, with about 10 million of its scrip, changing hands, resulting in the volume on this counter, hitting about $HK1.07 billion, or about 10.63 percent of the Total Turnover.

Hutchison's share price finished the day at $HK106 for a loss of about one half of one percent.

Pacific Century CyberWorks Ltd (Code: 1186), an Internet-investment company about which there has been a great deal of talk, concerning its finances and its ability to chew all that it has tried to swallow, during the past 6 months or so, gained about three quarters of one percent to rise to $HK13.70 per share, after hitting $HK13.45.

One could not help but wonder who was picking up shares in this company since it had next to nothing to recommend it, at this juncture in its short history.

In spite of everything, advancing issues swamped declining issues by the ratio of 1.31:One.

On The Growth Enterprise Market (The GEM) of The Stock Exchange of Hongkong Ltd, The Growth Enterprise Index shed about 1.27 percent, falling to 614.28 points. The Total Turnover was $HK119.74 million.

While the ratio of gainers to losers was about 1.22:one, the pathetic performance of this market has come to make it a bit of a joke: Hardly any interest has been demonstrated from anybody, other than vested interests in the HKSAR, that is.

In Tokyo, it was a similar story to that, being told in the HKSAR.

The Nikkei-225 hardly moved, during the session, with the closing level, being 17,313.69 yen, a loss of about 44 yen, compared with the previous Friday's close.

There was some interest in Japanese motor-car stocks, with Honda and Nissan, being the talking points of some brokers.

There was some concern that these 2 motor-car giants would do badly if the US economy faltered, and a statement from Management of Honda, about fears of a strengthening yen, vis-à-vis the US dollar, appeared to bolster those fears.

Honda lost daily limit, 500 yen, to hit 4,100 yen, a loss of about 11 percent in one day's trading. It was followed closely by Toyota Motors, the share price of which gave up nearly 3 percent, falling to 5,190 yen.

Asia, it appeared last Monday, was awaiting the pleasure of Dr Alan Greenspan and, since New York had yet to open for business, Asian investors were of 2 minds (Israeli investors, being of 3 minds or more) as to which way the winds of change would blow.

This is how things looked in other Asian stock markets, last Monday:

Thailand	Minus 1.36 percent
Indonesia	Minus 1.98 percent
Malaysia	Minus 0.21 percent
The Philippines	Minus 1.44 percent
South Korea	Minus 1.57 percent
Singapore	Minus 0.75 percent
Taiwan	Minus 1.11 percent
Japan	Minus 0.25 percent

Tuesday

A very unconvincing stock market saw the Hang Seng Index climb back 278.99 points, equal to about 1.88 percent, just hours before the Chairman of the US Federal Reserve, Dr Alan Greenspan, was due to announce whatever he was intending to announce at the US Federal Reserve Open Market Committee Meeting, held in Washington, last Tuesday, Washington time.

The HKSAR stock market saw selective buying, mainly of the old favourites, as some investors took a flyer in the belief that all that had been suggested – that there would be a 50-basis-point increase in US interest rates – would come to pass.

The Total Turnover of $HK10.73 billion was hardly reminiscent of a bullish market, especially when about 47 percent of the volume of activity could be pinpointed to just a handful of counters, all of which have large market capitalisations.

China Telecom (Hongkong) Ltd (Code: 941) was one of the big gainers, last Tuesday, as its share price rose 3.60 percent to close the day out at $HK57.50 per share on a volume which saw $HK900-million worth of its scrip change hands.

Chine Telecom, with a market capitalisation (at last Tuesday's closing level) of about $HK788 billion, naturally, had an impact on the market, in general. It was the second most active counter.

As was the case in last Monday's stock market, nearly all of the movement in the Hang Seng Index came in the final 90 minutes of trading since, in the morning session, the Hang Seng Index saw only a 51.74-point upward movement.

The afternoon session, however, saw the Index rise another 227.25 points, putting a smile back on the faces of a number of investors and brokers, alike.

It was apparent that some traders, afraid of the unknown with regard to the Fed, covered short positions rather than leave themselves in a position of vulnerability.

Property issues are bound to be hit, the market watchers were saying, no matter what the Fed decides because property prices move against interest rates: As interest rates rise, property prices, normally, fall.

The ratio of gainers to losers was 2.18:One.

The stock markets in Asia were taking their cue from Wall Street where, on Monday, New York time, the Dow Jones Industrial Average had gained about 1.20 percent, hitting 10,934.57, while the NASDAQ had shot up about 3.10 percent, rising to 3,717.57.

The gains on The New York Stock Exchange represented the fourth day in a row that key indices had made headway in spite of the threat of higher borrowing rates in the US.

What helped New York was a US Government report that indicated that consumer prices had been contained in the month of April.

That being the case, it means that the Fed, so the belief was, would not be too harsh on the marketplace.

On The GEM, The Growth Enterprise Market of The Stock Exchange of Hongkong Ltd, the Total Turnover shrank once more, hitting just a shade over $HK90 million.

This represented less than 8 percent of the $HK1-billion-plus Total Turnovers of a few months prior.

The Growth Enterprise Index chalked up a fractional gain, equal to less than one half of one percent, ending the session at 617.25.

Gainers were ahead of losers by the ratio of 1.22:One.

But it was a market, which could, fairly, be described as dead, evidenced by the low Turnover.

In Japan, it was a completely different story to the one, being told in the Hongkong Special Administrative Region.

The Nikkei-225 put on a show of strength, rising 237.56 yen to hit 17,551.25 yen as several companies announced cracker-jack financial results for the past year.

It appeared that, unlike The Stock Exchange of Hongkong Ltd, traders in Japan had taken stock of the US Fed's impending move and factored into their calculations, a one half percent, interest-rate increase.

The market's benchmark, the Nikkei-225 Index, would have been much higher had it not been for the conservatism on the part of international and domestic funds, which preferred to wait on Dr Alan Greenspan's interest-rate decision.

Telecommunication counters put on healthy gains, with Hitachi, up 2.19 percent to 1,400 yen, NEC, rising 2.85 percent to 2,890 yen, and Toshiba, gaining just a shade over one percent to 1,090 yen.

Japan had been encouraged by New York's performance on Monday, New York time.

Gainers on this market outpaced losers by about 1.50:One.

No other news of any materiality influenced the stock markets of Asia, last Tuesday.

The World Trade Organisation (WTO) talks between the Government of the People's Republic of China and the European Union (EU) were continuing, but a breakthrough was not in sight as Asia tucked itself in for the night.

All but 2 Asian stock markets managed to make respectable gains, last Tuesday, as the following shows:

Thailand	Plus 3.20 percent
Indonesia	Minus 3.60 percent
Malaysia	Plus 0.78 percent
The Philippines	Minus 0.60 percent
South Korea	Plus 2.48 percent
Singapore	Plus 2.15 percent
Taiwan	Plus 3.10 percent
Japan	Plus 1.37 percent

Wednesday

On schedule, the US Federal Reserve determined that it had to act to cool down the US markets, pushing overnight bank lending rates up by 50 basis points to 6.50 percent.

That is the highest level in the past 9 years.

An official announcement from the Fed warned of the growing threat of inflation in the largest economy of the world, today.

The Fed's announcement appeared to make it clear that Dr Greenspan's messages of the past few years were not getting through to those who had the power to take definitive action, and that his many mini, interest-rate increases of 25 basis points were not having the desired effects.

Then, try this 50-basis-point increase and see how you like that, he appeared to be saying to the US economy.

The Stock Exchange of Hongkong Ltd appeared to be shocked by the news, not so much at the increase in the interest rate, but the fact that there was a guarantee of more interest-rate increases to follow, by the reading the script of the Fed.

The Hang Seng Index fell … and fell … and fell.

By the end of the session, The Stock Exchange of Hongkong Ltd was looking at the Index, standing at 14,827.81, a loss, compared with Tuesday's close, of about 2.19 percent.

The piercing of the 15,000 level was bad news for chartists who saw the market as on the way down – and in a hurry.

Everybody and his cat had worked that one out at least 2 months ago.

China Telecom (Hongkong) Ltd (Code: 941) was again under heavy fire as investors cleared out, pushing down the price of the shares of this blue chip telecommunications company, one of the 3 largest such companies, operating in the People's Republic of China (PRC), by more than 6 percent.

China Telecom was the most active counter with about 30 million of its shares, changing hands between a high of $HK58.75 per share and a low of $HK53 per share, settling at the end of the day at $HK54 per share.

This one company had shed about $HK48 billion of its market capitalisation in a matter of just 24 hours.

And more was likely to come by the looks of things, last Wednesday.

The Total Turnover of about $HK12.67 billion was dominated by the losses in China Telecom, whose volume of activity amounted to about 13 percent of the entire business, transacted during Wednesday's trades.

Hutchison Whampoa Ltd (Code: 13) was the second most active issue and it, like China Telecom, suffered a similar fate, as investors dumped the stock, pushing the price down to $HK97.75 per share on a volume of about 7.55 million shares.

Trading in the scrip of Hutchison represented nearly 6 percent of the total volume of activity on the stock market.

And if that was not enough, the *'daddy'* of the Li Ka Shing Camp, Cheung Kong (Holdings) Ltd (Code: 1), saw about 4.50 percent of its market capitalisation wiped out as investors sold the shares, forcing down the price to $HK79.75 per share.

Cheung Kong was the fourth most active counter and represented about 4.66 percent of the Total Turnover.

The largest bank in the HKSAR, HSBC Holdings plc (Code: 5), was not spared the sell-off as about 7.50 million of its scrip found their way onto the trading floor, pushing down the share price to $HK85, a loss of about one half of one percent, compared with Tuesday's closing level.

The ratio of losers to gainers was about 1.88:One.

It was a forgone conclusion that the HKSAR would follow the US in raising interest rates last Friday, at the latest, because the US dollar is linked to the Hongkong dollar so that there may not be too much disparity with the pegged rate of exchange.

On The GEM, The Growth Enterprise Market of The Stock Exchange of Hongkong Ltd, it was another dull and very uninteresting day: The Growth Enterprise Index shed 3.91 points, equal of 0.63 percent.

The Total Turnover was a little better than Tuesday's volume, at $HK114.47 million, but hardly anything about which to write home to mommy.

The continued thin trading conditions made for an inaccurate market assessment of trading since, with just a relatively small amount of money, it was possible to move any counter, up or down at will.

The 3 most active counters – tom.com Ltd (Code: 8001), Sunevision Holdings Ltd (Code: 8008) and Timeless Software Ltd (Code: 8028) – represented about 72 percent of the volume of activity.

The ratio of losers to gainers was 6.50:One.

In Japan, it was announced that Toyota Motor Corporation, the largest motor-car manufacturer in the Land of the Rising Sun, had gained a 25-percent increase in its second half profits, compared with the comparable period one year earlier.

It Net Profits to March 31, 2000 stood at about $HK14.78 billion.

But Toyota's announcement did little for The Tokyo Stock Exchange, which saw the Nikkei-225 felled by 147.22 yen to 17,404.03 yen.

Japan was hit by the very real prospects that the interest-rate rise in the US, announced on Tuesday, was only the first biggie, with many others to follow.

This was a fair assessment of the situation – especially as the Fed had stated this in very clear terms.

NTT DoCoMo Incorporated, Japan's largest cellular telephone operator, shed 120,000 yen – about 3.41 percent – falling to 3.40 million yen. In the previous 2 days of trading, it had gained 5.70 percent.

The *'parent'* company of NTT DoCoMo, Nippon Telegraph and Telephone, shed about 2.90 percent, probably in sympathy with its offshoot.

Other major losers included Oracle Corporation. Japan, a subsidiary of its US-based namesake, the share price of which shed about 4.10 percent, while audio equipment producer, Pioneer Electric, dropped 3.70 percent of its market capitalisation, falling to 3,380 yen.

Losers were just a shade ahead of gainers by the ratio of about 1.12:One.

Aside from the Taiwanese stock market – which was given a boost by the Government, which asked loyal investors to step in to prop up the sagging markets – Asia was in 2 minds as to which way to invest, but the bears appeared to be ruling the day:

Thailand	Closed
Indonesia	Plus 3.23 percent
Malaysia	Plus 0.23 percent
The Philippines	Plus 1.73 percent
South Korea	Minus 2.62 percent
Singapore	Minus 2.31 percent
Taiwan	Plus 4.10 percent
Japan	Minus 0.84 percent

Thursday

For the first time in 5 trading sessions, the Dow Jones Industrial Average and the NASDAQ Composite Index both shed some of the previous 4 days of gains, with the Dow, falling 1.51 percent to 10,769.74, while the NASDAQ shed nearly 2 percent, dropping to 3,644.91.

The reality of the situation was sinking in for the US stock markets, to be sure.

Leading the declines in the Dow was computer systems provider Hewlett-Packard, off $US8.44 per share to $US130.07 per share, while the NASDAQ was hit by a fall in the share price of web portal, Lycos, which shed $US15.13 to hit $US57.50 per share.

Most other hi-tech and Internet-related issues lost ground in a market that was inclined to look for much lower levels.

And it was crunch time for the HKSAR stock market and the Japanese stock markets, with The Stock Exchange of Hongkong Ltd, leading the way with a loss of another 505.21 points, pushing down the Hang Seng Index by 3.41 percent to hit 14,322.60, compared with Wednesday's closing level.

The Total Turnover for the market was about $HK17.90 billion, a somewhat frightening figure for a falling market since it represented an increase in the volume of activity of about 41 percent, compared with last Wednesday's Turnover.

And this indicated that the worst had yet to come.

The Hang Seng Index had hit one of its lowest levels since the middle of 1999.

Frightening stuff!

One of the leading property counters in the HKSAR, Cheung Kong (Holdings) Ltd (Code: 1), appeared to be leading the retreat as its share price shed nearly 9 percent, falling to $HK72.75, after hitting an intra-day low of $HK70.25.

It was the most-active counter for the day, with its turnover, hitting a near high for any one day's trading in any one counter at $HK4.18 billion. Cheung Kong's volume of activity represented about 23.34 percent of the Total Turnover.

One of the main reasons that Cheung Kong was getting it in the neck was that it had been removed from an international stock index, prepared by an international merchant banking/stockbrokerage group, one that is often used by international fund managers as a type of benchmark for shares, listed on The Stock Exchange of Hongkong Ltd.

The Ten Most Active issues on The Stock Exchange of Hongkong Ltd represented about 68.29 percent of the Total Turnover – one of the highest levels of concentration of just 10 counters in many a moon.

Losers outpaced gainers by the wide range of 2.73:One.

Aside from property counters, banks came under very heavy fire, with HSBC Holdings plc (Code: 5), Hang Seng Bank Ltd (Code: 11), Dao Heng Bank Ltd (Code: 223) and The Bank of East Asia Ltd (Code: 23), all suffering at the hands of traders, who couldn't seem to wait to find buyers for the banking scrip.

At the close, HSBC Holdings was being quoted at $HK83.25 per share, down 2.06 percent, Hang Seng Bank, off 2.92 percent to $HK66.50 per share, Dao Heng Bank shed 70 cents per share to fall to $HK31 per share, and The Bank of East Asia gave up 3.81 percent, falling to $HK15.15 per share.

Aside from heavyweight financial counters, China Telecom (Hongkong) Ltd (Code: 941), the second most-active counter, was, again, hit hard as investors dumped the giant's scrip, forcing down the share price to $HK50.25, a loss of 3.75 percent, compared with Wednesday's closing level.

China Telecom, as at last Thursday's closing level, had had 13.46 percent of the its market capitalisation wiped out in a period of just 4 trading days. In cold, hard cash, this represents about $HK103 billion.

That's a lot of ice creams for the kids on the block.

On The Growth Enterprise Market (The GEM), the Growth Enterprise Index was chopped down by about 1.37 percent, ending the day at 604.93 on a Total Turnover of about $HK99.67 million.

tom.com Ltd continued to hug the Number One Spot on this failing marketplace as about 3.61 million of its shares changed hands, with its share price, shedding 2.31 percent to fall to $HK6.35.

That price was a long way from the January 3, 2000 share price of $HK15.35.

The ratio of losers to gainers was about 2.17:One.

In Japan, investors, locked into The Tokyo Stock Exchange, watched the Nikkei-225 fall 328.74 yen to hit 17,075.29 yen; apparently testing its more recent lows.

It shot right through the 17,000 level in early trading as chartists began to foretell of doom and gloom on the horizon of the Land of the Rising Sun.

The hi-tech company, and one of the largest producers of consumer electronics in the world, Sony Corporation, was under a great deal of pressure, and was forced to give up 2.38 percent of its market capitalisation, falling to 11,490 yen per share.

Softbank, the Internet investor, watched its stock price fall daily limit 2,000 yen (about 8.85 percent) to hit the skids at 20,600 yen.

Softbank's running mate (it is unlikely to appreciate this statement), Hikari Tsushin, shed 1,000 yen to 8,500 yen per share. That represented a loss of about 8.90 percent, compared with Wednesday's close.

Pity the investors who backed on this Japanese horse!

The number of shares which fell to selling pressure was ahead of those which bucked the trend by the ratio of about 2.48:One.

Three stock exchanges of the 8 major stock exchanges were closed, last Thursday. It was lucky for them that they were shut otherwise, no doubt, they would have suffered a similar fate to the stock exchanges that were open for business.

This is how the rest of Asia went to bed last Thursday:

Thailand	Minus 1.27 percent
Indonesia	Closed
Malaysia	Closed
The Philippines	Minus 0.83 percent
South Korea	Minus 1.96 percent
Singapore	Closed
Taiwan	Plus 0.02 percent
Japan	Minus 2.14 percent

Friday

With the NASDAQ under pressure, shedding 3 percent on Thursday, New York time, it was hardly a surprise to many investors in the Hongkong Special Administrative Region (HKSAR) to see its knock-on effect in the second most-important stock market in Asia.

And it was widely expected that the NASDAQ would continue to lose ground in the coming sessions, leading into the following week.

The NASDAQ had shed106.25 points last Thursday while the Dow Jones Industrial Average had managed to squeeze a 7.54-point gain in a Wall Street.

Wall Street, meanwhile, was more than a little concerned about near-term increases in interest rates in the US.

Investors round the world were, also, surprised to learn that a couple of the lesser-known, European *'dot.com'* companies had closed shop, having gone through hundreds of millions of US dollars of investors' funds.

If it could happen in Europe, it could happen anywhere: For what reason should Asia be ruled out was the question, being bantered round trading floors.

It has been determined that one in every 4 Internet start-up companies are, presently, on the ropes and, if they cannot get more funding, they are likely to collapse.

For every 100 Internet start-up companies, it is known that 99 will close down within one year of being founded.

But Japan was the shocker for Asia, last Friday, as Nissan Motor Company reported the biggest loss for any Japanese motor-car manufacturer in history: A $HK234 billion loss for the Financial Year, ended March 31, 2000.

Nissan, an affiliate of the French motor-car manufacturer, Renault S.A., had to bite the bullet in the past Year as it strove to save the Japanese giant from the scrap heap.

Much of the reported loss, in the past Year, was brought about due to Renault's determination to close loss-making plants, asset sales, and a cut-back about 14 percent of the entire Nissan workforce, representing the axing of about 21,000 jobs.

The Tokyo Stock Market's benchmark, the Nikkei-225, fell sharply as a result of the report and, also, due to what was happening on Wall Street, the previous night, Tokyo time.

On The Stock Exchange of Hongkong Ltd, the Hang Seng Index, after coming to life in early trading, which saw the luncheon bell, having the Index up about 218 points, compared with Thursday's close, drifted in the 90-minute afternoon session.

When the week's trading came to a halt, at 4 p.m., the Index had recorded that it had gained about 1.09 percent, up 155.66 points, ending the hectic week's losses at 14,478.26.

The Total Turnover was about $HK14.59 billion, of which figure Cheung Kong (Holdings) Ltd (Code: 1), China Telecom (Hongkong) Ltd (Code: 941) and Hutchison Whampoa Ltd (Code: 13) represented about 38.59 percent.

Cheung Kong gained 50 cents per share, rising to $HK73.25, after hitting a low of $HK71.25 per share, China Telecom put on 75 cents per share, rising to $HK51 per share, after it hit a low of $HK49.40 per share, and Hutchison shed another 2.81percent, falling to $HK95 a share, after it had hit the skids at $HK94.75 per share.

In spite of widespread selling in certain sectors of the market, gainers were still ahead of losers by the ratio of 1.20:One.

As expected, interest rates in the HKSAR were raised, in line with the hike in interest rates in the US, following the determination of the US Federal Reserve the previous Tuesday (please see Wednesday's report).

On The GEM, The Growth Enterprise Market, tom.com Ltd (Code: 8001) continued to lose ground as it, also, continued to be the most active issue. It ended the session at $HK6.15 per share for a loss of 3.15 percent, compared with Thursday's closing price.

The Growth Enterprise Index shed 1.09 percent to end the week at 598.31 on a Total Turnover of about $HK129.55 million.

Of the 10 Most Active issues, the top 4 counters – tom.com Ltd, Timeless Software Ltd (Code: 8028), Sunevision Holdings Ltd (Code: 8008) and Smartech Digital Manufacturing Holdings Ltd (Code: 8068) – represented about $HK103.60 million, or about 80 percent of the entire volume of activity.

Advancing issues were about equal with declining ones.

In Japan, the Nikkei-225 fell 173.46 yen to 16,858.17 yen, bringing proceedings on that market to a halt for a week that saw more losses than gainers, to be sure. At one point, earlier in the day, the Nikkei-225 hit an 11-month low of 16,858.17 yen.

Some of the major Internet-related losers were Softbank Corporation, down 9.70 percent to 18,600 yen and Hikari Tsushin, down another 11.70 percent to 7,500 yen.

But there were quite a few counters that encountered losses of 10 percent and more on the day.

One such counter was Japan Telecom whose share prices slid daily limit of 500,000 yen to 4.48 million yen, a loss of about 10.04 percent in just a couple of hours of trading on The Tokyo Stock Exchange.

Stockbrokerage giants, Nomura Securities Company watched investors mark down that stock by 8.62 percent to 2,385 yen, while Nikko Securities Company followed suit, with its share price, shedding 7.80 percent, just a nose in front of its rival, Daiwa Securities Company, whose share price slumped 7.10 percent.

The ratio of gainers losers to losers was just about even, at about 1.02:One.

And this is how the smaller Asian markets closed out the week of May 19, 2000:

Thailand	Closed
Indonesia	Minus 1.06 percent
Malaysia	Plus 3.08 percent
The Philippines	Minus 2.18 percent
South Korea	Plus 2.49 percent
Singapore	Minus 0.96 percent
Taiwan	Plus 0.36 percent
Japan	Minus 1.02 percent

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