



## The Betty Letters

*My Dear Grandchild,*

*I think that the Hang Seng Index should fall to about the 5,000 level if that which I am being told, as well as that which I have read of late, is the least bit accurate. With the US economy, already, having, officially, enjoyed its first quarter of negative growth, and with every likelihood that the fourth quarter of the present Fiscal Year, also, likely to record negative growth, famous economists, around the world, will, in years to come, be talking about the US recession of the late 2008. Even Mrs Janet Yellen, President, Federal Reserve Bank of San Francisco, has described the US economy as being 'deeply worrisome.' When I hear such things from another housewife, especially an American housewife, then, I get really scared. If the US economy's growth continues to contract and consumers in that part of the world continue to tighten budgets, where does that leave little Hongkong? It leaves Hongkong with a big headache, that's what it does to these 416 square miles and the 7 million-odd people who live here. And so, as I have already stated, The Hang Seng Index, which is supposed to be the thermometer of The Stock Exchange of Hongkong Ltd, should fall close to the 5,000 level. Exports, especially to the US and Europe, are the lifeblood of both Hongkong and China. If exports continue to contract, as seems inevitable, so does the spending power of every housewife in this part of the world. The Government of China may try to create more domestic consumption in order to counter the present problems – as well as those, bound to come – but it is highly unlikely that increased domestic consumption can be sufficient, at least at this stage of the game, to counter the losses from faltering export growth with regard to the country's biggest trading partners. In short, we are in for it. Stand by: The worst is yet to come! Therefore, it follows that down will come The Hang Seng Index.*

*And where does that leave Hongkong companies? It leaves them in a cleft stick. And where does that leave the housewives of Hongkong? It leaves them in a position of not being able to save any of their housekeeping money to buy new clothes and necessities, such as having a facial once a week. I have read, of late, that Hongkong banks are not opening up their umbrellas when the rain comes down – I am speaking, euphemistically, now – because they have thrown away their umbrellas. Banks are not willing to renew loans to even strong companies for fear that horrors are being hidden from bank examiners. Look, for instance, at what happened at CITIC Pacific Ltd () and the statements of its Chairman, Mr Larry Yung Chi Kin (). According to Chairman Larry Yung Chi Kin, he did not know, at least, not fully, of the unauthorised foreign-exchange transactions in Australia, unauthorised foreign-exchange transactions which caused the company, that he is supposed to be controlling, to experience about \$HK15.50 billion in foreign-exchange, translation losses. The CITIC Group (beneficially controlled by the Government of China) has stated that it would inject about \$US1.50 billion into CITIC Pacific Ltd in order to bolster its balance sheet. However, I can imagine what banks in Hongkong feel about the CITIC Pacific Ltd situation. For what reason, one may query, was not a profit warning issued earlier before, as the saying goes, the faeces hit the fan. The answer, of course, is face: The face of Chairman Larry Yung Chi Kin. If something like this could happen at this huge conglomerate, banks in Hongkong must be thinking that it could happen to any company or anybody. Fair or unfair, banks tighten credit to everybody and cause even further problems for the economy of this little pimple on the bottom of China. By the banks' concerted actions, of course, the financial situation in the territory is worsened; and, the fact that interest rates are not being kept in line with the falls in interest rates*

*in the US, exacerbates the situation even further. So, again I repeat, The Hang Seng Index is likely to fall closer to the 5,000 level.*

*Is there is a solution to this problem? Yes! The Hongkong Government must come to the aid of qualified businesses and individuals if the banks are unwilling to act as responsibly, as is their sworn mandate. Instead of donating \$HK2 billion to build (or rebuild) a panda park and access roads to the park at Sichuan, the People's Republic of China, the Hongkong Government could establish an entity, the mandate of which would be to sift through applicants, requiring short-term loans for one reason or another, and make the money available to these qualified entities/individuals. The interest rate would be competitive with existing lending rates so that, at the end of the day, this entity would make a profit which, in turn, could help to offset any future budgetary deficit – which I, fully, expect. By such an action, not only would it be a boon to Hongkong businesses and individuals, but it would act as a sort of buffer to any sudden falls in the Hongkong economy. This idea is not a new one, but it is one that has been tried and has proved to be a successful interim measure in times such as these. Of course, I realise that this idea is not in keeping with the concept of a free-market economy, but, out of necessity, it seems to be the only immediate and viable solution. As soon as retail banks see that they have strong competition from a Hongkong, financial entity, they, out of necessity, must rise to the occasion and, then, in due course, things will right themselves, once again. That does not mean that the Hongkong Government's new entity needs to be disbanded. Not at all. It would be there like a chicken bone in the throats of Hongkong banks, just in case they think that they can 'blackmail' Hongkong businesses and individuals, in the future.*

*I know that I am thinking from the point of view of a housewife, but don't forget that I have the backing of my froglike husband, Bo-Bo. And even though he is a little soft and flaccid, these days, he is still able to function, albeit with a little prodding from me as well as a little deft massage on occasions.*

*Talk to you next week.*

*Chief Lady*

***While TARGET makes every attempt to ensure accuracy of all data published,  
TARGET cannot be held responsible for any errors and/or omissions.***

*If readers feel that they would like to voice their opinions about that which they have read in **TARGET**, please feel free to e-mail your views to [editor@targetnewspapers.com](mailto:editor@targetnewspapers.com). **TARGET** does not guarantee to publish readers' views, but reserves the right so to do subject to the laws of libel.*

