

**MR HONGKONG INVESTOR  
DON'T BE MISLED:  
THINGS ARE NOT IMPROVING**

You may paint a skunk in any colour of the rainbow -- and it will, still, stink when it decides to fart.

That, just about, sums up TARGET's opinion of the antics of trading on The Stock Exchange of Hongkong Ltd for the past week.

While the Hang Seng Index gave every indication of trying to rise, a material amount, during the week, it could not make headway against the ever-strengthening winds of economic and political woes -- which have been blowing from north to south, over the past few years, and appear not to be abating.

The Hang Seng Index finished the week at 12,471.61 points, up 414.36 points, or about 3 percent, compared with the close of trading on May 28.

The 'strike' by Cathay Pacific pilots, no doubt, dampened a great deal of ardor which may have been felt by some hopeful investors of the previous week, but the clincher, which closed the coffin lid, tightly, on any sizeable rise in the Hang Seng Index, was the fear of what may have transpired on June 4, the 10<sup>th</sup> Anniversary of the bloody Tiananmen Square Massacre in Beijing when some 200-odd people (this is the official count), all armed to the teeth with maan tau, were slaughtered by the valiant troops of the People's Liberation Army (PLA).

As it transpired, nothing happened at Tiananmen Square on June 4.

And nothing much happened in the HKSAR, either.

The fear of what may happen in the future is, just about, always worse than the reality of the situation, but investors, normally, paint the worst scenario when they cannot see properly.

To the credit of the Government of the People's Republic of China (PRC), last Tuesday's reduction in Stamp Duty on trading in 'B' shares, a reduction, amounting to about 25 percentile points, was welcome news to PRC traders; and, it did, for just one day, result in sizeable burst of activity -- approaching 10 percent, in fact -- on PRC stock exchanges.

The PRC Government is, clearly, becoming more progressive with regard to some of the requirements of capitalism, but economic fundamentals will always out over government cosmetologists' balms.

The trouble is that sugar-coating an economy does not make that economy sound: All the cosmetic treatment in the world will not alter the fact that the economy of the Hongkong Special Administrative Region (HKSAR) of the PRC is, still, quite ill.

Also, one cannot help but wonder whether or not the economy of the PRC is sound, according to international standards of accounting.

Last Tuesday's trading on The Stock Exchange of Hongkong Ltd was noticeably subdued, probably due to the many negative features about the economy of HKSAR, most of which are becoming only too apparent.

A reduction in Stamp Duty on share-transactions in the PRC cannot have any material, or lasting, effect on companies, doing business in the HKSAR, and/or HKSAR companies, some of which have large investments in the PRC, doing business with the rest of the world.

International institutions realised this, only too well, last Tuesday. Clearly, these institutions are not keen 'to play' the PRC game of scrip tag.

Proof of this assertion was fast in coming, early last week, when, hard on the heels of the PRC Government's June 1 announcement, of the cut in Stamp Duty, came confirmation from the HKSAR Government that retail sales for the first quarter of 1999 were off by 10 percent by volume compared with like period in 1998.

In value terms, the first quarter's figures were off by 14 percent, compared with the first quarter of 1998.

Domestically, it is clear that the HKSAR is still in an economic quagmire, of that there can be no question.

On the political front, still dogging the HKSAR is the matter of the non-entry of the PRC into the WTO -- World Trade Organisation -- and the distinct prospects that the US Government will continue to oppose the entry of the PRC to this important trade organisation.

US President Clinton, despite everything, is backing the PRC's entry into the WTO, according to reports last Friday, but President Clinton is only the President: He has a great deal of opposition in the Senate.

Accusations of PRC spying in the US, and the non-performance of the PLA to protect US interests in the PRC, did nothing to cause US Senators and Congressmen to be disposed to back the PRC Government in its avowed intent to be a member of the world's most prestigious trade 'club'.

While the Balkans 'war' (it is, really, only one-sided) appeared set to end, with the North Atlantic Treaty Organisation, stopping its shooting up of civilians, military targets, and what-have-you, the threat of what might have transpired on the 10<sup>th</sup> Anniversary of the Tiananmen Square Massacre hung heavily over trading, generally.

The political situation put the damper on most attempts to raise the level of the Hang Seng Index for most of last week.

In the past, the Tiananmen Square Anniversary had been somewhat of an anticlimax, compared to the build-up in the HKSAR. But there had been strong suggestions, early last week, that 'something' would happen this year.

It is highly unlikely that the PRC Government's PLA would have deployed its tanks to control 'armed' Chinese students in Beijing -- as happened in 1989 -- and HKSAR politicians, Martin Lee, Szeto Wah, Emily Lau, etc, were very unlikely to be parading outside the New China News Agency, waving the Spirit of Democracy (on the other hand, one may never be certain what some of the nuts, who sit in the Legislative Council, may do in order to gain a little international publicity).

If all this sounds familiar to TARGET's readers, in that this analysis is similar, in spirit at least, to that which this scribe wrote, exactly one week ago, they would be correct -- because precious little has happened to the HKSAR economy to make TARGET believe that the stock market can make any material headway.

**Recommendation:** Employ caution when considering a punt on The Stock Exchange of Hongkong Ltd, at least in the short term.

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