

MR INVESTOR
DON'T LOOK AT THE COLOUR, FEEL THE TEXTURE

Contrary to good, economic and common sense, the Hang Seng Index picked up 2.23 percent, during last week's 5 trading days. The Hang Seng Index finished the week of June 21-25 at 13,784.51.

This gain was made in spite of one warning after another that the economy of the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC) was far from being out of economic trouble.

In addition to the bad economic news, most of which came out last Thursday, the determination of the Standing Committee of the National People's Congress (NPC) put more than a little dent in the English Common Law shrine of the HKSAR.

While any and all reasons were given for the seeming euphoria in the HKSAR, during last Monday's trading session, euphoria which caused the Hang Seng Index to rise, through the 14,000 level, perhaps the most ridiculous suggestion for the stock market's rise, that TARGET was told, was the HKSAR Government's announcement.

The announcement was that the investing public would be permitted to buy into Government's cache of billions of dollars worth of HKSAR blue-chip stocks, all of which it purchased when the stock market was on its knees, last year, through a kind of mutual fund arrangement, yet to be crystalised.

On the day of this news, the Hang Seng Index jumped about 4.37 percent to 14,069.33!

But the Government's announcement will have no effect on the HKSAR economy, no new jobs will be created, and, if anything, it means a further drying up of some of the cash liquidity, splashing around.

If anything, this could put the damper on the stock market in the short run.

Then, 3 new flotations were announced last week -- and not one of them was worth a bucket of beans, in TARGET's opinion.

The most shocking piece of news, last week, was the statement, emanating from a senior NPC official, the Vice Chairman of the Standing Committee on the Legislative Affairs Committee, Mr Qiao Xia Yang.

Mr Qiao said that the HKSAR Court of Final Appeal was wrong in not consulting the Beijing Government with regard to the Right of Abode Controversy.

(Closing ranks on the PRC loved one?)

This being said, it was only too clear that the PRC Government had every intention in the world of reversing the HKSAR's Court of Final Appeal's ruling on this matter.

So, out of the window goes a huge chunk of the foundations of the HKSAR law -- which was supposed to be sacrosanct.

Mr Qiao remarked that the Court of Final Appeal was out of sync with the '*true legislative intent*' of The HKSAR Basic Law.

He, also, said: '*In order to guarantee the correct implementation of The Basic Law (of the HKSAR), it is necessary and appropriate for the NPC Standing Committee to make interpretation of the relevant provisions.*'

Now that the PRC Government has made this determination, Pandora's Box is wide open, allowing more inspired PRC jurists, of the ilk of Mr Qiao, to assist the HKSAR High Court judges, and the HKSAR Courts, in general, to understand what is up and what is down.

Earlier in the week, the World Bank stressed to the Government of the PRC as to the urgency of getting PRC consumer spending stepped up if the PRC Government was to meet its 7-percent growth target for this year.

The World Bank said: *'Lower growth, the greater the risk in China at this time, could cripple job creation and exacerbate financial problems embedded in the corporate sector ...'*

It was only a couple of weeks ago that PRC banks lowered interest rates in an effort to try to get money out of banks and into the economy. But it is not happening.

Then, the Foreign Trade and Economic Cooperation Assistant Minister for the PRC Government, Mr Ma Xiu Hong, came out with some even worse news about the PRC economy.

Mr Ma said that, for the first 5 months of this year, new direct foreign investment contracts totalled \$US14.53 billion (about \$HK112.61 billion). This, he said, was a fall of about 17 percent compared with the comparable period in 1998.

As for exports, Mr Ma said that, in the first 5 months, they were off by 5.30 percent, compared with the like period in 1998.

What is bad in the PRC must, eventually, cascade down to the HKSAR.

Then, adding to the HKSAR problems came news that HKSAR university graduates were facing keener competition, with the number of jobs, being offered, off about 11 percent compared with last year.

On the same day of this report, the HKSAR Government unleashed a report which stated that retail sales in the month of April fell by 10 percent, to \$HK14.30 billion, compared with the like period, one year ago.

But, while the absolute statistics speak for themselves, what one must remember is that the fall of 10 percent was on a lower base since, in the past year, prices have fallen, dramatically.

When this is factored into the equation, one sees that, in reality, the drop in retail sales in the month of April may have been considerably more than 10 percent. Perhaps, closer to 15 percent?

The Chief Economist of The Hongkong General Chamber of Commerce, Mr Ian Perkin, probably had the right idea when he said: *'It was the third successive month that retail sales had slumbered around the \$HK14-billion level ... Retail sales, this year, have been the weakest in dollar terms since 1992 and, in real terms, they are the weakest they have ever been in the 1990s ...'*

Negative economic news about the HKSAR does not appear to be affecting the stock-market players in the HKSAR, these days, with the Hang Seng Index, going in the wrong direction, as far as good common sense dictates.

The late English writer, Somerset Maugham, was once said to have remarked that, if most of the people go to the left, the chances are that the correct direction is right.

What will happen this week is anybody's guess, but TARGET stands by its previous belief that this stock market has no reason to be anywhere near the 13,000 level, never mind, being close to the 14,000 level.

-- E N D --

