MR INVESTOR:
IT'S BACK TO MAY, BOYS
TARGET WARNED: NOW IT'S REALITY

The economy of the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC) needed a shot of something, and so, when, on Saturday, August 27, the results of the second quarter GDP (Gross Domestic Product) figures were released, it was, as the saying goes, just what the stock-market *'doctor'* ordered.

The HKSAR Government announced that GDP rose about 0.50 percent in the second quarter of this fiscal year, compared with the like period in 1998.

The significance of this small increase in GDP is that it marked the end of the 15-month run of negative growth for the HKSAR.

While the statistics, relating to the GDP, were welcome news, no doubt, there was still the matter of retail sales in the HKSAR, which saw a drop of about 2 percent, during that time period, compared with the like 1998 second quarter.

Against a background of slightly improving economic data, was the negative data which flowed from the Hongkong Tourist Association.

While, on the surface, the Hongkong Tourist Association could say that July 1999 saw an increase in tourist arrivals to the HKSAR, compared with the same period in 1998, it, also, stated that 30 percent of those July arrivals, that is about 300,000 arrivals, were from the PRC.

Of the 900,000 July arrivals, it appears that the PRC and Taiwan accounted for about 50 percent of the total.

In terms of a couple of years ago, 900,000 arrivals is nothing, however.

Ask any hotelier what he thinks of 900,000 monthly arrivals, and he will tell you: *'Things are tough!'*

July arrivals from Japan, as an example, used to be the *'bread and butter'* for many a tour operator in the HKSAR, but this July saw a 10-percent decline of Japanese tourists, coming to the HKSAR.

While it is still early days to say that the economic turnabout has started, definitely, the stock-market pundits took heart, first thing on Monday, August 30.

The stock market on Monday, August 30, opened strongly, with the Hang Seng Index, shooting up more than 200 points within the first few minutes of the opening bell.

It was expected that it would open, strongly, but the big question was not so much the trading pattern on Monday, because that was fairly easy to predict, but what would happen for the remainder of the week.

By the close of trading on Monday, the Hang Seng Index had put on 305.53 points, coming to rest at 13,688.66.

The volume of activity was $HK6.77 billion – not very convincing for a market which was supposed to have the hallmarks of a bull.

There were pockets of impressive gains on certain counters, but the gains on Monday were, by and large, restricted to blue chips and special *'biggies',* which had, recently, announced some special activity.

The *'flash-in-the-pan'* issues come and go, investors in the HKSAR have come to realise, so that the more informed stock-market players and long-term investors have learned to be cautious.

Tuesday

Caution was, definitely, the name of the game on Tuesday, and it was time for an abrupt about turn: The Hang Seng Index shed more than 60 percent of Monday's gain, coming to rest at 13,482.77, a loss of 205.89 points, compared with Monday's close of trading.

As always, in the HKSAR, there were all kinds of reasons to describe what happened, all, that is, except the one logical reason: The HKSAR is still suffering the effects of the economic downturn of the past few years.

There was a report from the PRC's Propaganda Ministry that, effective January 1, 2000, it was the intention of the PRC Government to impose a tax on bank interest received. It was, generally, thought that this tax could be as high as 20 percent.

The report was said to have emanated from the National People's Congress where a number of economic and financial considerations have been the subject of debate since it is known that the economic situation in the world's most populous country is not the best.

A tax on bank interest received is, clearly, to get that money out of the banks and into circulation.

In addition, the PRC Government wants to pitch a $HK56-billion bond issue to be used to put a financial finger in that country's leaking economic dyke.

Also in the news, last Tuesday, was the welcome information that HSBC Holdings plc looked to have, inadvertently, killed the deal with the South Korean Government to take over Seoulbank.

The problem: The boys from HSBC want a little bit more than just promises from certain parties as to the extent of bad loans in this *'sick'* bank.

The Korean Government was inflexible … and so the deal looks as though it is off, at least, for the time being.

Some people sighed the sigh of relief at the news: Who ever heard of trusting the Korean Government with just a handshake?

Perhaps, the most important factor, which pulled down the Hang Seng Index, last Tuesday, was confirmation that The Tokyo Stock Exchange, like the Japan Bullet Train, had gone into reverse, losing 2.69 percent, during the day.

The same old reason was given for the losses: The strength of the yen vis-à-vis the US dollar is going to hurt Japan's ability to compete on the world's stage with regard to her exports.

Wednesday

Wednesday was not a good day for the HKSAR: The Government announced that mortgage lending was down about 13.50 percent in July, compared with the June figures.

This reflected, yet again, what TARGET had been writing since May: The economic situation in the HKSAR is far from being healthy.

The Government's statistics mean that, regardless as to the deafening applause from property moguls with deep pockets and very vested interests, moguls who would have us, all, believe that completed, residential property projects cannot keep up with consumer demand, the property market in the HKSAR is, still, in the doldrums.

People, in general, clearly, cannot see the clearing in the HKSAR economic *'forest',* and are reluctant to make long-term commitments, at least, not at this juncture in their lives.

In what was seen as a clear effort to make points with the consuming public, Citibank announced, last Wednesday, that it would offer any qualified, new homebuyer in the HKSAR, a fixed-term mortgage rate of 7.50 percent for the first 6 months of the purchase of a new home, be it a primary or secondary loan.

Also, from the banking sector came news from the PRC Government that Bank of China Group was having to make Bad and Doubtful Debt Provisions, for the first half of the Financial Year, to June 30, of about $HK4.72 billion.

This compared with Bad and Doubtful Debt Provisions, made one year earlier, of $HK1.72 billion.

The Provisions are to be applied to loans, made to PRC, State-run enterprises, such as bust Guangdong Enterprises (Holdings) Ltd.

The stock market was not overjoyed with the news.

As a result of the depressing news, the Hang Seng Index gave up about 60 percent of its earlier gains, just managing to nudge the black by 61.42 points, as the closing bell rang in The Index at 13,544.19.

It must be remembered that, at one point, during last Wednesday's trading session, the Hang Seng Index was up more than 1.48 percent, compared with Tuesday's close. This statistic compared with the closing level, which was equal to a percentage gain of just 0.48 percent, compared with the previous day's close.

The turnover for the day was $HK5.71 billion.

Thursday

On Thursday, the *'bloodbath',* which had begun in the latter part of Wednesday's trading, took hold with a vengeance, causing the Hang Seng Index to fall a total 180.08 points, for a loss of 1.33 percent.

The Index ended the session at 13,364.11 on a volume of activity of about $HK7 billion.

On Thursday morning, the Chairman of The Bank of East Asia Ltd, Mr David Li Kwok Po, publicly announced that it was highly likely that banks in the HKSAR may still have to bite the bad-loan bullet to PRC entities, even further.

This did not just apply to the PRC banking industry, but also to non-banking, lending institutions.

As a result of widespread fears as to the extent of the financial problems in the PRC, many banks, European and Asian, not just HKSAR banks, would be reluctant to enter into any fresh loans to be afforded to PRC entities, with or without PRC Government guarantees.

That, at least, was the implied innuendo of this very experienced banker's comments.

At the same time, the HKSAR Government announced that HKSAR banks were exposed to PRC institutions to the extent of about $HK254.80 billion; or, put another way, about 3.80 percent of the HKSAR's total banking assets are represented by this not inconsiderable amount of change.

This little statistic, the HKSAR Monetary Authority stated, was exposure to PRC, non-banking entities.

It is only too clear that the way in which the PRC Government has reacted to improper business practices, and far from satisfactory lending practices by entities, within its control, has been less than satisfactory - - and this is impacting, negatively, on the HKSAR as well as the PRC.

International lending organisations are not used to having quasi-governmental entities, as well as governmental institutions, anywhere in the world, act in a manner which, like Pontius Pilate, sees the government in power of the organisations, directly or indirectly, turn its back on the situation of the entity in trouble in an attempt to wash its hands of the problem, which, clearly, it should have been seen to control.

If the responsible parties will not take stock of the situation, there appears to be no reason for international lending institutions to have to continue to lose money with no hope of recovery.

Mr Li Kwok Po said that he has sent his opinions to Chief Executive Tung Chee Hwa in the hope that he will pass on the comments to the powers-that-be in Beijing.

The implications of that which Mr Li has said must indicate that more provisions are in the offing for The Bank of East Asia Ltd as well as other HKSAR banks.

Friday

Friday's stock market was dominated by nothing in particular – so brokers made excuses for the continued falls in the Hang Seng Index.

Last Friday, The Index fell to below the May 3 level, closing the week at 13,178.31, for a loss of 189.25 points, or 1.42 percent, compared with Thursday's closing level.

This is about 1.16 percent below the May 3, Hang Seng Index level.

The turnover for last Friday was $HK7.18 billion – and, now, that the volume of activity, on a daily basis, rises, so do fears of further falls in the Hang Seng Index.

In a bull market, definitely, the turnover has to be at a level whereby it is evident that buyers are chasing sellers.

Conversely, when the market is in reverse gear, the higher the volume, the more ominous must the volume be perceived – because it means that sellers (a) are chasing buyers and/or (b) sellers are willing to let go at lower levels.

One of the many suggestions that certain brokers were making for the continued declining stock prices was the possibility of interest rates, in the HKSAR, rising again.

The rates only went up one week before so that such as suggestion was inane.

It was announced, last Friday, that the PRC Government was starting, yet again, to lobby support of the US Government for its proposed entry into the world's most exclusive trade club: The World Trade Organisation (WTO).

The 134-member organisation can make things easy for the PRC to get its goods into more of the world's marketplaces, and at preferential taffic rates.

Without the support of the US Government, it is unlikely that the PRC Government could be successful with its application to the WTO.

While it is generally held that such entry would be a boon to the PRC, one wonders how, in the long run, it would benefit the HKSAR: Would it be another nail, hammered into the coffin of the HKSAR?

It is only too well known that the HKSAR is a thorn in the side of the PRC Government, so that the less reliance that the PRC Government has to repose in the HKSAR, the better the National People's Congress would feel out the southern rebels.

A very negative piece of news, that hit the HKSAR last Friday, was confirmation as to how fragile is the HKSAR property market.

Cheung Kong (Holdings) Ltd, which has said, over and over again, that it has every confidence in the future of the HKSAR and of the bubbling property market, announced that it was lowering the prices of its Laguna Verde housing project units by about 15 percent.

While everybody and his cat had been informed, months ago, about the success of this project, it now appears that about 30 units have remained, unsold – and, clearly, they cannot be sold without some inducement to prospective purchasers.

The new price for the sea-view flats will be $HK4,899 per square foot, down from the March price of about $HK5,774 per square foot.

This is likely to set the trend, for the time being, at least, and, obviously, Henderson Land Development Company Ltd and Sun Hung Kai Properties Ltd, 2 of the biggest properties developers in the HKSAR, will have to follow suit, lowering their prices, too.

So much for the bullshit of the past 3 months!

Of a lesser note, there was confirmation from publicly listed Magician Industries (Holdings) Ltd that it was bust, and that it was holdings talks with creditor banks with a view to restructuring its debts of about $HK210 million.

The problem with Magician is that it cannot wave a magic wand to make the debts go away; and, since the debts are only about $HK210 million, they are too small to enable the Directors of Magician to threaten creditor banks, brandishing a stick and saying: *'Take it or leave it! And, if you leave it, then you will have to make further bad-debt provisions.'*

Now, if the debts had been $HK2.10 billion, then that would have been a different story.

So, the trouble with Magician is that it did not borrow a sufficient enough sum of money to enable it to force creditor banks to heel.

And that was just about how the week ended, on Friday, September 3, 1999.

This week's outlook? Pretty much more of the same as last week – because the winter of (financial) discontent is still with us (sorry William Shakespeare for stealing your line).

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