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MR INVESTOR:
DON'T BE CARRIED AWAY BY THE CROWD:
PLAY IT COOL

With the Dow Jones Industrial Average, having rebounded on Friday, September 3, following news that the US economy is not on the road to disaster, after all, it was expected, last Monday, Hongkong time, that the Hang Seng Index would respond accordingly.

Right on cue, The Index put on 206.85 points, rising to 13,385.16.

The turnover for the day was $HK8.10 billion -- which was quite respectable, all things considered, but few people believed that this was the beginning of a bull market.

Investors and stock-market players have seen too many false starts, since the beginning of the year, so that last Monday's stock market was shrugged off with *'but cannot it hold?'*

In the US, on Friday, September 3, the last trading day before the long, 3-day, Labour Day weekend holiday, the Dow put on a show of strength, gaining about 228 points, equal to about 2.10 percent.

The Dow closed the week at 11,071.80, following a run of weakness, which saw the Dow lose ground, day after day.

What turned the Dow's direction was the very positive news that 124,000 jobs had been created in the US in the month of August, down about 214,000 jobs, created in the month of July.

This means that the unemployment rate in the US is at a 29-year low.

It appears, only too clearly, now, that the US Federal Reserve Board is unlikely, at least in the short term, to have to consider another hike in US interest rates.

A negative point to the news: If US employers find the job market very tight, they may have to offer inducements to workers to come over to their companies; and this, in turn, could result in higher wages thus fanning the inflationary flames, anew.

Any wage rises of any magnitude are likely to mean that the US consumer will, somewhere down the road, have to pay the piper.

In Europe, last Monday, there was a feeling of relief, clearly, since most European stocks took heart from the US economic news of the previous Friday, with London's Financial Times 100 Index, advancing 38.50 points to 6,370.60.

The same type of story was true in Germany where the Frankfurt Xetra DAX added 40.96 points to 5,377.18. Paris saw its Paris CAC 40 gain 24.18 points to close the day at 4,696.55.

In Beijing, PRC Government negotiators and US trade officials sat down to have a cup of tea – and to discuss the possibility of the PRC, joining the World Trade Organisation (WTO).

The PRC Government had suspended having talks on the subject with the US Government, for the past 4 months, following the bombing of the Chinese Embassy in Yugoslavia by the North Atlantic Treaty Organisation aircraft – flown by US pilots who were using US Air Force fighter bombers.

<u>Tuesday</u>

The stock market on Tuesday was nothing but a wet squid, compared with last Monday's roaring trading session.

The Hang Seng Index gained just 10.93 points to close the session at 13,396.09 on a turnover of $HK8.46 billion.

Again, stock-market pundits found time to comment with the usual clap-trap, such as, *'The market is consolidating'* or *'It is taking a bit of a rest',* or the other standby*, 'It is healthy profit-taking.'*

The facts were, however, only too clear: The Index rose on Monday, in sympathy of New York's close the previous Friday; and, on Tuesday, with nothing to stir the hearts of investors on The Stock Exchange of Hongkong Ltd, interest in Hongkong stocks waned.

To be completely fair, with the exception of The Tokyo Stock Exchange, all other Asian exchanges experienced similar fortunes as the HKSAR, with The Singapore Straits Times Industrial Index, being but one classical example, gaining 5.64 points to 2,105.42 points.

In Europe, there was a similar pattern on the various bourses, too, as Germany, France, Belgium, Italy, Holland and Switzerland all saw their respective indices rise between 0.19 percent and 0.47 percent, or suffer a slight fall of between 0.03 percent and 0.36 percent.

In Tokyo, however, matters looked ominous for The Tokyo Stock Exchange, although very positive for the Japanese economy, in terms of trade.

The Japanese yen, after enjoying a run-up to the level of yen109 to the US dollar, saw interest in Asia's most important currency fall, dramatically, with the yen, posting its biggest single fall in the previous 2 months – since August 7, 1999.

The suggestion was that the proverbial penny, in so far as Japanese companies were concerned, had dropped -- because Japanese industrialists had been afraid, or, simply, failed to invest in expansion so that, as a direct result, one could not expect to see much growth in Japan, during the second quarter.

Hence, down fell the market value of the yen vis-à-vis the US dollar, coming to rest at the end of the trading day, in Asia, at yen111.01 per US dollar.

After the Tuesday, Tokyo Stock Exchange session had closed, the Japanese Government announced that capital spending in Japan had fallen about 13.40 percent in the second quarter, compared with the like period in 1998.

Back in the HKSAR, another publicly listed company reported poor earnings for the first half of its Financial Year, due mainly to further Provisions for Bad and Doubtful Debts.

Asia Financial Holdings Ltd announced that it had recorded a Net Profit to June 30, 1999 of about $HK74 million – about 28 percent less than the like 1998 Interim Period.

The 3 divisions of this Company – stock broking, banking and insurance – all logged in lower profits, the Company explained, with Asia Commercial Bank, taking the biggest *'hit'* as profits fell to $HK21.20 million, down about 55 percent, compared with the 1998 Interim.

Bad and Doubtful Debts in this bank amounted to about $HK50 million, equal to about 3 times greater than this category of Provision, deemed to be prudently required in the last Financial Year.

The bugger: Guangdong Enterprises (Holdings) Ltd.

More bad news, also, came from First Pacific Company Ltd when it reported, last Tuesday, a 74-percent decline in its Net Profit for the first half of this Financial Year, to June 30.

The Bottom Line was logged in at about $HK882 million, with the Company announcing that it was hurting in its Property and Banking Divisions.

The trouble with First Pacific is that it is perceived to be more of a wheeler-dealer than it is a trader, banker, or big-time operator in the telecommunications industry.

To some extent, due to its perceived image, stock-market players do not take the counter too seriously so that its fortunes do not have much, if any, effect on anybody in particular.

Its Banking Division, First Pacific Bank Ltd, in line with many other HKSAR banks, suffered at the hands of the requirements to make Provisions for Bad and Doubtful Debts, taking it on the nose to the extent of a drop in first-half earning by about 79 percent.

Net Profit dropped from the 1998 first half of about $US19.50 million to the 1999 first half earnings of about $US4.10 million.

No further comment is necessary from this medium: The statistics say it all.

Wednesday

It came as quite a shock when, without warning, The Bank of England raised interest rates in, what was once, the *'motherland'* of Hongkong, prior to July 1, 1997, that is.

Citing booming house prices and unemployment at the lowest levels in the past 2 decades in the United Kingdom, The Bank of England, the Central Bank of the United Kingdom, hiked up its securities repurchase rate, from 5 percent to 5.25 percent.

The United Kingdom is the European Union's third largest economy, and The Bank of England claimed that it was concerned that the UK economy could overheat, thus sparking inflation.

The already jittery stock market in the HKSAR shuddered at the idea of higher interest rates and so down came the Hang Seng Index.

The fall was not great, however, at just negative 39.46 points, with The Index, coming to rest at 13,356.63 on a turnover of $HK5.73 billion.

What was telling about trading on The Stock Exchange of Hongkong Ltd, however, was that, since the mad dash to pick up scrip on Monday, the market had, just about died on its feet.

Wednesday's trading volume, at $HK5.73 billion, was down about 32 percent, compared with Tuesday, when the turnover reached $HK8.46 billion.

There are a number of interpretations, possible, about this fact, but the most reasonable explanation is that investors were not willing to let go at these, relatively, low levels, which are only just, a *'hair'* about the May 3 mark.

While it was expected that European bourses would be somewhat afraid, in view of what The Bank of England had announced with regard to interest rates, the HKSAR does not have to concern itself, overly, with affairs in its former *'motherland'* since economic and financial considerations in Europe no longer impact on the HKSAR as they have done so in the past.

The lacklustre trading in the HKSAR was mirrored throughout most Asian stock markets last Wednesday, as the following illustrates:

Country	***Stock***	***Index Rise/Fall (Percentage)***

Australia	**2,993.60**	**+0.12**
Thailand	**426.75**	**+0.63**
Indonesia	**545.35**	**+0.91**
Malaysia	**752.74**	**-0.01**
The Philippines	**2,159.79**	**-0.40**
South Korea	**943.92**	**+0.07**
Singapore	**2,105.42**	**+0.27**
Taiwan	**7,945.76**	**-2.27**
Japan	**17,707.50**	**-0.28**

The only positive piece of news, if one may call it positive, was that down-on-its-knees Regal Hotels International Holdings Ltd announced that it had struck a deal with CDL Hotels International Ltd to sell most of its fixed assets.

The deal, worth about $US725 million (about $HK5.51 billion), means that Regal has divested itself of its 29 hotels, 27 hotels of which were either fully owned or the majority stake, previously held by Regal.

Regal's Chairman, Mr Lo Yuk Sui, is widely respected for having built up his once flourishing hospitality empire, contrary to the opinion of many people who richly forecast that he would fall, flatly, on his arse.

Those forecasters have been proved to be spot on the money, for, now, Regal is a nothing company, compared with its former glory.

But, to the credit of Chairman Lo, at least, the hotel sales will stop the public company from ending up on the rubbish dump – which would have pleased a number of people, no doubt.

Of course, it all depends what the Company will do with its money, which it will be receiving from the sales of the hotels – all of which are heavily in debt, by the way.

Thursday

It was astonishing to nearly all who viewed it: The Hang Seng Index enjoyed a bumper day – for no particular reason.

The Index ended last Thursday's session, up about 3.73 percent, compared with Wednesday's closing level, at 13,854.88, a gain of 498.25 points on the day.

The volume of activity was even more spectacular, at $HK11.44 billion.

In view of The Bank of England's determination to raise interest rates by 25 basis points, one would have thought that the HKSAR stock market would have been a little concerned. But far from it.

There was no valid reason for the stock market to rise, at all, and, if anything, there was good reason for The Index to come off a few digits.

TARGET cannot help but think that, perhaps, forces outside normal trading practices were at work last Thursday: Perhaps, somebody or some entity was propping up the market?

Something was afoot, clearly, since only the HKSAR market was given a shot of confidence: All the other exchanges in Asia continued to do almost nothing -- Bangkok, down 1.22 percent, Malaysia, up 0.31 percent, Singapore, down 0.38 percent, Taiwan, up 0.35 percent, Japan, down 0.37 percent, South Korea, down 0.74 percent and the Philippines, up 0.27 percent.

The talks between the PRC's top negotiator, President Jiang Ze Min, speaking from Australia, announced the fully resumed talks. But that was known on Monday.

An ominous warning, emanating from The International Monetary Fund (IMF), reached the HKSAR market after it closed. The IMF warned of the possibility of another international stock-market meltdown – and this could destabilize world markets.

In its Annual Report, The IMF said that emerging markets were particularly vulnerable due to their reliance on capital flows and borrowings from the West.

The IMF cautioned that, some day soon, there would have to be some belt-tightening and that it was prudent to prepare for such an inevitable eventuality.

In Tokyo, the value of the yen vis-à-vis the US dollar gained 2 percent, compared with Wednesday's closing level – also, for no particular reason since, on Thursday, there was a reversal of the Japanese Government's statement of the previous day, Wednesday, to the effect that, perhaps, Japanese industry did not do so badly in the second quarter, after all.

In a show of strength, the Japanese currency pushed down the US dollar to a level of yen 108.60 – the highest level since January 12, 1999.

It is well known that the Bank of Japan is not averse to stepping in and cooling down the money markets if it gets the urge so to do. This known fact is thought to have prevented the yen from strengthening even further, last Thursday.

Friday

The Bank of Japan may have had the best intentions in the world, in its attempts to control the ever-strengthening yen against other *'hard'* currencies, but on Friday, the US dollar shrank in its international market value against mighty Japanese yen as the Rising Sun's currency rose to the highest levels in the past 3 years.

The Japanese Finance Ministry had threatened and threatened to intervene in the international money markets in an attempt to cool down international investors' ardour for the Japanese yen; and, even though The (mighty?) Bank of Japan stepped into the money markets, last Friday, it did little good.

Artificial market intervention rarely accomplishes very much, in any event: Just look at the HKSAR Government with its huge cache of blue chips shares.

Last Friday, the yen posted even further gains, compared with Thursday's closing levels, internationally, hitting yen 107.74 soon after the Tokyo markets opened.

The last time that the yen had been that strong was on August 27, 1996.

At the close of trading in Japan, the yen had lost a little ground, to yen 108.90 vis-à-vis the US dollar.

Back in the HKSAR, the Hang Seng Index took a bit of a breather, following Thursday's booming stock market, putting on just one point to close the session, and the week's (official) trading at 13,855.93.

This is just about 4 percent better than the May 3 level.

The turnover for the day was $HK10.66 billion, which is still good for the bulls, they will claim.

It became clear, last Friday, that that which TARGET had suspected was, in fact, true: External forces were at play in the HKSAR so that the week's rise in the Hang Seng Index, of 677.57 points, or 5.14 percent, was suspect, to be very polite.

The Government of the PRC announced last Friday that it was to allow PRC corporate entities to invest in PRC stock-market issues.

This must mean, without question, that PRC entities will have their funds spill over into the HKSAR stock market, in due course – if not, immediately.

And this makes this scribe wonder whether or not over-speculation by PRC entities in the equity markets will lead to more problems should these entities get into financial trouble and run a little short of the ready.

For what reason the HKSAR stock market had risen during the past week, TARGET has no idea, because, fundamentally, things have not changed in the HKSAR.

In addition, warning after warning has come from erudite economists to the effect that the worst is not yet behind the economy.

Other Asian stock markets did not fair well, during the entire week, and last Friday was no exception as Thailand gained just 0.09 percent, Malaysia put on 1.59 percent, South Korea managed a gain of 1.20 percent, Singapore struggled with a rise of just 0.27 percent, and Japan edged up just 0.19 percent.

The stock market in the HKSAR is, basically, fragile, no matter what fund managers and investment houses may say: Many people appear not to be able to see the wood for the trees.

TARGET repeats, yet again: Play it cautious because there could well be another meltdown.

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