

**MR INVESTOR:  
DOWN AND DOWN SHE GOES AND  
WHERE SHE STOPS, NOBODY KNOWS**

While the Government of the People's Republic of China (PRC) played at being funny buggers, flexing its military muscles off the Fijian Coast, opposite Quemoy and Matsu, in an attempt to put the fear of God in the Government of the Taiwan, in Washington, it was announced that, for the second time in the past 3 months, there were definite signs that inflation was well under control in the world's single, most-important economy.

According to the US Labour Department, the Core Producer Price Index (CPPI) fell 0.10 percent in August. This followed the July statistic, which indicated that there was little change in the CPPI, compared with June.

The CPPI is a measure of prices that are paid to US producers for goods and services, excluding food and energy.

Simply put, the measure of the CPPI, being relatively unchanged, month-over-month, is thought to be a sure-shot indication that inflation is being checked.

For investors of the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC), while not being as sophisticated as their Wall Street counterparts, it was noted, on Friday, September 10, that bond rates were on the move in the US.

When The Stock Exchange of Hongkong Ltd opened for business last Monday, it was almost dead from the opening bell.

Try as it might, following one trading surge after another, the Hang Seng Index failed to make any headway.

By the close of trading, The Index stood at 13,860.85, up just 4.92 points, compared with the previous Friday close.

However, the turnover was a respectable \$HK9.08 billion which, though down from the previous Friday's volume of \$HK10.66 billion, was, nevertheless, a sign that interest in stocks, listed on The Stock Exchange of Hongkong Ltd, had far from waned.

At the same time, the well-worn axiom, that a market that can not go up, must come down, must have hit home to the more-experienced analysts of the HKSAR.

What must be irking some professionals in the HKSAR, and they are few and far between, in any event, is the dribble, issuing forth from one gweilo, would-be broker, who appears to have little pet phrases, constantly repeated, when asked to comment on the HKSAR market.

For Monday, it was Page One of this gweilo's book of stock-market phrases: *'I think the market is taking a bit of a breather.'*

A breather from what?

Mondays' trading, in the HKSAR, is rarely an indication of anything because the HKSAR leads the world with regard to foreign exchange rates and stock-market sentiment in Asia.

It is, normally, the middle of the week that sets the trend.

What is, perhaps, more telling for the HKSAR and the PRC is the poor response that the PRC Government is obtaining from the US Government in respect of the PRC's entreaties to join the world's most exclusive trading

club: The World Trade Organisation (WTO).

Over the September 12 weekend, Dow Chemical Corporation announced that the \$HK7-billion petrochemical plant project in the northern port city of Tainjin was on hold, pending the outcome of the PRC Government's negotiations in trying to elicit the support of the US for its entry into the WTO.

It was, also, reported, on Sunday, September 12, that President Bill Clinton had failed to find a common ground with President Jiang Ze Min of the PRC over reciprocity in the PRC for WTO members' goods.

What President Clinton meant, of course, was that the US needed some kind of assurance that US-made goods would be granted free access to PRC markets in exchange for the US sponsoring the PRC Government.

It is well known that the PRC could well dwarf many of the economies of the world as soon as it is granted equal status in the WTO.

And, to this end, many US companies have made special mention of the benefits of having the PRC become a full member of the trading club.

These companies have lobbied Washington to support the PRC's application to the WTO – in order to increase their profits.

For the HKSAR, however, it is questionable as to the long-term benefits of the PRC's entry into the WTO: It could be another nail in the HKSAR's trading coffin, in due course.

## **Tuesday**

As expected, the Hang Seng Index could not rise last Tuesday, and gave up all of Monday's gains, and then some, as The Index finished the day at a negative 56.82 points, at 13, 804.03.

The reversal was small, representing about 0.41 percent, compared with Monday's trading. The turnover was surprisingly high at \$HK11.32 billion.

All things considered, a high turnover on a market which cannot go anywhere may well be an indication that there are some worried investors who are willing to let go of their holdings at relatively depressed levels.

Worried was hardly the word for investors who had backed Mr James Henry Ting, Chairman of publicly listed Semi-Tech (Global) Company Ltd -- because that Company announced major financial problems.

But its announcement in the HKSAR was weeks after the situation had surfaced in Canada where Semi-Tech Corporation, a subsidiary of Semi-Tech (Global) had filed with the Toronto Court for protection under Chapter 11 of the Bankruptcy Act.

Semi-Tech is the controller of the Singer sewing machine, a company that has been manufacturing sewing machines for more than 148 years.

There is bound to be an investigation into the affairs of this Company in order to determine whether or not there had been any insider trading because the tentacles of Mr James Henry Ting reach into most of the capital cities of the world and include interests in giants of the electronic industry, such as Akai Electric Company Ltd of Japan, Sansui Electric Company Ltd of Japan, Toyo Holdings Ltd of the HKSAR, as well as scores of private companies.

Meanwhile, back on the stock-exchange floor in Exchange Square, a certain gweilo stockbroker remarked, publicly: *'I think the market is backing and filling ... My own view is that it is healthy.'*

Yuk!

In other parts of Asia, other territories's stock markets were not '*backing and filling*', but were suffering: Thailand's stock market was off 0.36 percent; Indonesia's stock market fell 1.33 percent; Malaysia's stock market was off 1.14 percent; South Korea's stock market was off by about 1.26 percent; Taiwan's stock market gave up 1.06 percent; while Japan's mighty bourse dropped 0.74 percent.

The only Asian territories, which recorded any gains, last Tuesday, were Singapore, whose stock market put on 0.15 percent, and the Philippines, which managed a marginal gain of 0.60 percent.

Meanwhile, in Auckland, New Zealand, the US negotiators made no progress with the PRC negotiators over the PRC Government's bid to join the WTO.

In Japan, last Tuesday saw the Japanese yen strengthen, yet again, against the US dollar as the US dollar hit the lowest level against the Rising Sun's currency, ending the day at 106.77 yen against the greenback.

This is the US dollar's lowest score since August 1996.

Last week, TARGET stated that it was unlikely that intervention by The Bank of Japan on the foreign exchange markets would have any impact on the international stage with regard to the Japanese currency.

Well, chalk one more up for TARGET.

### **Wednesday**

The Japanese yen continued its relentless climb, hitting another 3-year record level last Wednesday.

It put on 1.50 percent in one day's trading, closing the session in Tokyo at 103.36, the highest point since January 2, 1996.

Since the beginning of June, this year, the yen had gained about 16 percent against the US dollar, according to last Wednesday's statistic.

On the Tokyo Stock Exchange, the Nikkei-225 Index dropped 132.07 points to 17,777.22 in direct contrast to the ever-strengthening yen.

In the HKSAR, the stock market was not oblivious to the situation in Japan as the yen hit one high after another. The Hang Seng Index nearly collapsed, during the day, but ended the day with a loss of 373.43 points, coming to rest at 13,430.60, on a turnover of \$HK9.70 billion.

Back in the offices of TARGET's favourite, gweilo stockbroker, he told the world that '*It's certainly taking a cautious approach ... ahead of the Consumer Price Index ...*'.

This erudite comment followed Tuesday's historic quote that the market was '*filling and backing*' and looked '*healthy*'.

In the US, there was reason for some concern, as it became known that US retail sales had risen 1.20 percent in August, as opposed to the July statistic. This represented the fastest jump in US retail sales in the past 6 months.

Shades of higher US interest rates?

Generally, around Asia, especially Southeast Asia, things were not bubbling over with the Taiwan market, off 1.06 percent, South Korea, down 1.26 percent, Malaysia, shaved down by 1.14 percent and Indonesia, down 1.33 percent.

The Hongkong market led the pack with its 2.71-percent fall.

Last Wednesday saw very little Asian business news, that could have affected the HKSAR stock market to any great extent, and the reports of 100,000 people, having been arrested in the PRC, in preparation of the October 1 celebrations, marking 50 years of rule by a Communist (democratically elected) dictatorship, was, just about, expected.

The PRC Government put out a Press Release which stated that the arrests were in the interests of the celebrating population since, after all, they do not want to be bothered by trouble-makers, screaming for this and that: Freedom from oppression; freedom of speech; freedom from fear; freedom of assembly; and, freedom to worship in the church of their own choice, just to name a few of the old standards.

### **Thursday**

The approach of Typhoon York closed down all businesses in the HKSAR, last Thursday. As a result, The Stock Exchange of Hongkong Ltd had to close its doors.

However, around the region, things were popping, with Japan, notably, causing havoc, internationally, as its currency continued to rise against most *'hard'* currencies.

This necessitated Prime Minister Keizo Obuchi to make a statement on the subject, with a strong suggestion that the unstable market value of the yen was likely to have a destabilising effect on the Japanese economy.

*'It is important that foreign exchange moves in a stable manner. There is the worry that a rapidly strengthening yen would have a negative impact on the economic recovery,'* he stated.

But the yen was not listening to the Prime Minister of Asia's largest and most important economy and, by the end of the day, it had hit 104.99 yen against the US dollar, a 42-month high.

Clearly, what is bound to happen, in view of the strength of the Japanese currency, will be to make Japanese goods and services more expensive, by a least 20 percent since the beginning of the year.

One recalls that, some years ago, Japanese industrialists had to have a special raw-materials adjustment clause, inserted in international contracts, where goods were produced in Japan because of the fear that, in a contract of any material significance, the principal may balk at having to be hit with a surcharge due to the inability of the Japanese producer to absorb any substantial increase in the cost of raw materials, imported into Japan.

It was just as well that Typhoon York had closed down trading on The Stock Exchange of Hongkong because, otherwise, it would have been more than likely that the Hang Seng Index would have headed south, again, probably knocking on the 13,000 *'door'*.

This is because, without exception, all other major stock exchanges in Asia were off, substantial amounts:

Thailand Negative	1.18 percent
Indonesia Negative	2.39 percent
Malaysia Negative	1.55 percent
The Philippines Negative	1.29 percent
South Korea Negative	1.64 percent
Singapore Negative	1.02 percent
Taiwan Negative	1.50 percent
Japan	Closed

While there were, clearly, problems in Asia, in the US there was more bullish news about the state of that economy.

The Federal Reserve Board announced that US industrial production rose in August for the seventh consecutive month of increases.

Output increased by 0.30 percent in August, compared with July, while, in July, there had been an increase over the June figures by 0.70 percent.

Increases in the number of motor cars, produced in Continental United States, rose 8.10 percent in the month of August, after falling in the month of July by 4.60 percent over the June statistic.

With a strong US economy and, obviously, plenty of disposable income, US consumers are on a buying binge -- and this matter will have to be addressed at some time, with The Fed, taking some kind of action to cool down the market

The Fed likes to use higher interest rates as its weapon of choice.

## **Friday**

Pressure eased on the Asian foreign exchange markets as the Japanese yen started to ease against that US dollar, early last Friday.

And, after a very shaky start on The Stock Exchange of Hongkong Ltd, a start which saw the Hang Seng Index on the very doorsteps of the 13,000 level, the market reversed its course and ended up a sliver, at 13,484.84, for a marginal gain of 54.24 points on the day.

For the week, therefore, The Index had lost a total of 371.09 points, equal to a loss of about 2.68 percent, compared with the close of trading on Friday, September 10.

It was, in one way, lucky that a storm of the magnitude of Typhoon York had struck the HKSAR, last Wednesday night, extending gale force winds into Thursday, because, otherwise, it was more than likely that the 13,000 barrier would have been breached in view of what is happening in Asia.

The news of the day was, of course, that the US Congress was unlikely to endorse the PRC Government's application to join the WTO, at least, not this year, and that HSBC Holdings plc was having more than a little trouble, landing control of its multi-billion US dollar takeover of Republic New York Corporation.

The problem, with regard to the proposed takeover of Republic Bank, concerns dealings in the securities division of the New York-based banking giant.

It appears that there is a little case of alleged massive fraud, amounting to about \$US504 million (about \$HK4 billion).

The share price of HSBC fell like a rock, by about 3 percent, last Friday, coming to rest at about \$HK92.

The questions, which are, now, being asked:

1. Will HSBC, now, want to buy the New York bank and, if so, for how much?
2. Will HSBC, now, renegotiate the purchase price for the bank in view of the charges, laid against Mr Martin Johnson, a fund manager at Republic Bank, and the man at the forefront of suggestions of fraud?
3. Will HSBC, now, pull out of the proposed acquisition of the New York bank?

There are some people who maintain that, perhaps, it would be a good idea for HSBC to pull out the deal in view of what '*due diligence*' had uncovered. Are there any more skeletons in the Republic Bank closet?

While the HKSAR stock market managed to keep its investment head above water, in other parts of Asia, the same was not true. The stock-market bears of other Asian capitals were having a field day as the following indicates:

Thailand Negative	1.98 percent
Malaysia Negative	0.90 percent
The Philippines Negative	0.19 percent
South Korea Negative	3.83 percent
Singapore Negative	1.45 percent
Taiwan Negative	0.03 percent
Japan Negative	2.73 percent

In Japan, it was nearly chaos as the Japanese currency made a nosedive to record the biggest, one-day loss in the past 3 months.

The value of the yen vis-à-vis the US dollar fell to 107.12, down from Wednesday's level of 103.20 (Thursday was a holiday in Japan).

The reason for the fall was widespread speculation that the Japanese Government might attempt to persuade other countries to help drive the yen to even lower levels in order to protect, somewhat, the Japanese economy.

The Japanese Finance Ministry is trying to put the matter of the strong Japanese yen as part of the agenda for the upcoming Group of Seven Industrialised Nations Meeting, scheduled for later this month.

What is most worrying, not just for Japan, but for every trading partner with Japan, is that an unstable currency makes it difficult to conduct normal trading relations.

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