VOLUME One No. 104 M O N D A Y September 27, 1999

MR INVESTOR: THE HANG SENG INDEX COLLAPSES BELOW MAY'S LEVEL

The Hongkong stock market was expected to open strongly, from the first sounds of the opening bell, last Monday, September 20, due to very positive economic news in the US, the US economy being, by far, the most-important, single market in the world, today.

However, it was not to be since, while international news may have been considered bullish, at least, early in the week, locally, things were not at all good.

Unemployment in the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC) was on the rise, it was reported last Monday. This news was, officially, released after the market had closed.

But the bad tidings were known, well in advance of the opening bell.

The increasing plight of workers in the HKSAR, followed 2 months of declining unemployment figures, giving rise to some people, thinking that the worst was over.

Mr Tang Kwong Yiu, the HKSAR Government Economist, announced last Monday that unemployment in the HKSAR was 6.10 percent of the workforce, a full 0.01-percent increase over the May to July statistic.

While this increase, for the period June to August, may appear to be small, what is important is that the trend has been reversed, from a declining unemployment rate to an increasing unemployment rate.

According to Government statistics, the situation, today, is that 220,000 worker-residents of the HKSAR are out of jobs. This is an increase of about 3,700 worker-residents, who are unemployed.

In addition, the Government announced that 102,000 worker-residents are working fewer hours than they would like, putting the under-employment rate at 2.90 percent of the workforce.

And so, down went the Hang Seng Index, which ended the day, off 12.47 points to 13,472.37 on a volume of $HK10.63 billion.

Over the weekend of September 18-20, an avalanche of important data flowed out of the US Government's offices, from the close of Wall Street to the bullish sentiment, vis-à-vis new housing starts in the US.

While US housing starts are more important, fundamentally, to the US economy, to the September 17 week close of the Dow Jones Industrial Averages, it was Wall Street's bullish sentiment which was expected to give the HKSAR stock market the courage to move ahead, following the previous week's *'sickness'*.

The Dow put on a show of strength, on Friday, September 17, moving up 66.17 points to10,803.63 in the biggest single gain of the past fortnight.

The Standard and Poor 500 gained a full 1.30 percent to 1,335.42 while the NASDAQ Composite Index climbed 2.20 percent.

Housing starts, it was reported on Sunday, September 19, rose to a seasonally adjusted annual rate of 1.68 million units in the month of August.

This compared with the July figures, which indicated that there had been 3.90-percent improvement in housing starts over the month of June.

Rising incomes in the US, coupled with unemployment at a 29-year low, is a sure-shot indication of a bullish sentiment in the US economy -- and, probably, with more good news to come.

Summarising: In the month of August, there was another increase of 0.40 percent in housing starts, compared with July, while the July statistic was indicative of a huge demand for new housing starts.

The trend is likely to continue, unabated.

The Federal Reserve Board was scheduled to meet last week and to issue its latest assessment of the US economy -- which was fully expected to be another bullish statement to the effect that the US economy is strong, and getting stronger, with inflation being contained: The same, sweet song.

Amid all this positive news, the Hongkong stock market was fully expected to take heart, but when this would be reflected in the Hang Seng Index was the question, being asked last Monday.

In Tokyo, the Nikkei-225 advanced about 233 points to 17,575 amid news that The Bank of Japan was planning action to take the heat of the yen.

Japan's economic recovery is fragile, in the extreme, so that, if the economy is to continue to improve, it is necessary that export prices remain competitive on the world stage.

A strong yen means, of course, that Japanese products and services are under pressure to try to compete with other Asian countries, which have the edge with regard to labour costs and land costs.

If the international ardour for the yen can be cooled, then Japanese businesses should benefit: Hence, the interest in purchasing Japanese stocks and shares.

In the PRC, there were discussions at the highest level as to what extent the State should intercede in respect of financially unhealthy PRC-Government owned enterprises.

The 4th Plenary Session of the 15th Central Committee opened last Monday, and, high on the agenda, was the matter of State-owned enterprises and what to do about these enterprises' inability to show a profit.

Tuesday

The big news last Tuesday was not just the killer earthquake in Taiwan, but the renewed buying of Japanese yen, round the world, and the shocking announcement from the US Government with regard to the US trade deficit for July.

The Japanese currency surged on international money markets, last Tuesday, rising once again to the 103.96 yen against the US dollar. This is equal to a drop of about 2 percent, compared with the previous Friday's rate.

What did not help the US dollar's erosion, vis-à-vis the Japanese yen, especially, although it did, also, lose some credibility on other FOREX markets, was a report, emanating from the US Government, that stated that the US trade deficit widened to a record level in July.

According to US Government reports, the US international trade deficit of goods and services widened to $HK25.18 billion in July. It was widely expected to be no more than $HK1.38 billion.

It seemed imperative, last Tuesday, for the Japanese Government to convince the Group of Seven (G7) Industrialised Nations to come to the aid of Japan by selling yen.

On The Stock Exchange of Hongkong Ltd, the Hang Seng Index closed lower, down 51.91 points to 13,420.46, on a volume of activity, equal to $HK9.81 billion.

The turnover continued to be high, relative to a few months ago, and this must have started to worry more sophisticated investors since a high turnover in a market that cannot not rise is indicative of a situation whereby investors are being forced to sell for considerations other than the usual reasons, such as not wanting to pay financial charges for margin accounts.

There were certain stockbrokers in the HKSAR, who talked about the lack of any definitive direction in the marketplace, which was, indeed, a valid comment, but, in a market which is unable to rise on a relatively high turnover, no news, no matter how fundamentally intriguing, is likely to affect the market's direction.

In Tokyo, however, it was a different story as the Nikkei-225, probably encouraged by the news of what was about to take place with regard to the Japanese Government and the yen's continued strength against most other currencies, rose a little more than 2 percent to just a hair off the 18,000 level.

In other markets, around Asia, it was a mixed bag of plusses and minuses:

The Philippines Plus	0.99 percent
Taiwan Minus	0.56 percent
Thailand Minus	2.00 percent
South Korea Plus	2.52 percent
Malaysia Plus	4.12 percent
Singapore Minus	0.65 percent

Wednesday

It may be known as *'Bloody Wednesday'*, in time -- because last Wednesday, it was bloodbath day throughout most of Asia.

Tokyo felt it the worst as the Nikkei-225 collapsed, losing 3.40 percent, compared with Tuesday's trading session.

The Nikkei ended the session at 17,325.76, down a total of 607 points.

The seemingly unstoppable rise in the exchange value of the Japanese yen against most other *'hard'* currencies, and especially against the mighty US dollar, plus a 2-percent-plus loss, overnight on Wall Street, were said to have conspired to bring about the losses in the Nikkei.

Tokyo spilled over into the HKSAR as the Hang Seng Index shed 1.73 percent, ending the session at 13,187.62 after hitting an intra-day low of 13,108.61. The turnover was $HK9.82 billion.

On May 3, the Hang Seng Index stood at 13, 333 so that last Wednesday's fall was a sure-shot indication that the HKSAR stock market has gone nowhere for the first half of this year -- and there is no fundamental reason for it to rise.

While some market players blamed Wall Street and Tokyo for the losses, experienced in the HKSAR, the real bugbear is the economy: It is sick.

TARGET will never understand the reason that the HKSAR Government committed something in the region of $HK200 billion to try to support the stock market, earlier this year, because it would appear that the only thing that the Government accomplished by this controversial move was to load up on stocks, listed on The Stock Exchange of Hongkong Ltd.

One cannot hold on to a leaf of a bow of a tree and not expect to fall when the leaf gives way to the weight of an inert body.

Now, one is told that the Government will spend tens of millions of dollars more in order to have a bunch of merchant bankers put together a game plan in order to create a unit trust/mutual fund (something) in order to find a method to unload the cache of shares with which it is, now, stuck.

Meanwhile, the Government is suffering opportunity cost loss as well as holding onto a low-yielding asset.

And to think: Some people were applauding the HKSAR Financial Secretary for his brave move in trying to support the stock market just a few months ago!

The other Asian stock markets to suffer, in varying degrees, included:

Indonesia Minus	0.33 percent
Malaysia Minus	2.45 percent
The Philippines Minus	0.88 percent
South Korea Minus	1.66 percent
Singapore Minus	1.96 percent
Taiwan	Closed due to the earthquake

Thursday

Japan was closed due to the Japanese equivalent of the Chinese Mid-Autumn, last Thursday.

And it was just as well because Hongkong continued to reel from the effects of the uncertainty, which has been surrounding the Japanese currency over the past few months.

A strong Japanese yen, vis-à-vis other *'hard'* currencies, means that *'Japan Incorporated'* will find it increasingly more difficult to export its products and services, due to the fact that Japan's Asian competitors, not faced with a run on their currencies, can undercut Japanese prices.

Also, a continuous dent in the Japanese economy will, eventually, have an impact on other parts of Asia since the Japanese tourist, and Japan's inability to export components, such as electronic components and simple mechanical components, at competitive prices, compared with its other Asian suppliers, means that Asian customers of Japanese products will have to look for alternative sources of such items, thus increasing their manufacturing costs in order to accommodate the requirements of new suppliers.

In addition, less disposable income in Japan will impact, directly, on tourism in Asia with the Japanese tourist, staying closer to home.

In the HKSAR, last Thursday, at one point during trading, the Hang Seng Index nearly touched the 13,000 level, but support pulled it up to close at 13,214.44, for a gain of 26.82 points, compared with the close of Wednesday.

The turnover continued to be relatively high at $HK8.29 billion, but subdued, compared with the turnovers of a few months ago -- and this was about the only positive factor in an otherwise *'sick'* stock market because, if the turnover had stayed high, at about the $HK10-billion level, or even higher, it is indicative of forced sales.

One gweilo stockbroker admitted, openly, that the HKSAR stock market should have been down even further, and the fact that it did not fall, as expected, was a somewhat positive sign … but only *'somewhat'*.

In other parts of Asia, it was sellers who were having the upper hand as Thailand's market continued to fall, dropping 2.05 percent, Indonesia's stock market shed 3.17 percent, Malaysia saw an erosion of another 1.95 percent in her stock market, and the Philippines gave up another 0.61 percent.

The stock markets of South Korea, Taiwan and Japan were all closed, for one reason or another.

There was no special news to stimulate trading on The Stock Exchange of Hongkong Ltd, last Thursday, and, with no special news on the horizon, it was expected that continued paring of The Index would be evident in the near future.

The HKSAR Government appears bound and determined to float off its $HK200-billion holdings of HKSAR blue chip stocks, and, to this end, there was continued talk as to how the float would be effected.

But, as The Index continues to fall, with no letup in sight, the cream had gone a little rancid in the Government's stock-market *'cake'*.

Friday

For the final day's trading on The Stock Exchange of Hongkong Ltd, investors were faced, with not only the homespun problems in the economy of the HKSAR, but, also, a late and rather violent sell-off in New York.

In the wake of another 2-percent drop on Wall Street, the Hang Seng Index gave up another 1.38 percent, ending the week at the lowest point since May 3.

The Index closed at 13,032.07, after touching 12,931.35 for an intra-day low. The volume of trading was $HK9.89 billion.

What appears to have gone unnoticed, for the most part of late, is that the relatively heavy trading, for all of last week, means that much more scrip is changing hands than the number of shares which changed hands, a few months ago.

Simply put: If the turnover, of, say, 3 months ago, was $HK10 billion when The Index was 10 percent higher than last Friday's close, then it must mean that 10 percent more shares changed hands last Friday due to the fact that share prices, last Friday, were 10 percent lower than 3 months ago.

And this must mean that some people are loading up on scrip -- which is a positive sign, in a way.

Against this, however, is the probability that, as share prices fall, there is every likelihood that investors, who bought shares on margin, are, now, subject to margin calls.

This could put pressure on the market, again, as investors are forced to sell in order to cover open positions.

In Tokyo, a similar situation was unfolding as the Nikkei-225 shed 2.62 percent, ending the short week's trading at 16,871.73.

In the past fortnight, The Tokyo Stock Exchange has seen erosion, equal to about 5 percent.

The problem in the Japanese stock market is, of course, pressure on the yen as it continues to strengthen against most *'hard'* currencies, with emphasis, of course, on the currency of its most important, single customer, the United States of America.

Throughout most of last Friday, the yen stayed between the well-defined band of 103 yen and 104 yen: The FOREX markets are awaiting news from the Group of Seven (G7) Industrialised Nations to learn whether or not there will be a concerted international effort to cool the ardour of international investors for their taste for the Japanese currency.

In other Asian stock markets, it was minuses all the way, with the stock market in Indonesia, down 2.01 percent, Malaysia, off 1.82 percent, the Philippines, shedding 1.18 percent, and Singapore, giving up another 2.39 percent.

And that is, pretty much, how Asia finished the week of September 24: Weak and getting weaker.

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