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MR INVESTOR:
STAND BY FOR A BLOODBATH !

Things started to pop, last Monday, October 11, as soon as The Stock Exchange of Hongkong Ltd opened its doors for business.

But the things that were popping had nothing to do with the direction of the Hang Seng Index – which was in reverse from the first sounds of the opening bell.

Over the weekend, supporters of the independence stance of Taiwan hoisted their flag in various parts of the territory – which the Government of the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC) quickly pulled down.

The independence issue of Taiwan is not negotiable, and the PRC Government made this only too clear on Sunday and Monday, October 10 and 11.

While the issue of flying the Taiwan flag had little importance with regard to the economy of the HKSAR, nevertheless, the Hang Seng Index shed just short of one percent, falling to 12,992.72 on a volume of $HK6.68 billion.

The flag, pulling-down business was a somewhat distressing situation, but the real problems, of immediate importance to investors, surrounded matters, much closer to home on The Stock Exchange of Hongkong Ltd.

During trading, last Monday, it was announced that the Government of the HKSAR would launch its Tracker Fund of Hongkong in order to unload its cache of $HK216-billion worth of blue-chip stocks, stocks which were purchased by the Government, last year, in its attempt to try to prevent the stock market from falling further.

The launch date is put at October 25, with the Government praying that it will be a success – in order to justify its controversial actions.

One can only imagine what will happen when the icing comes off the US markets, and how that guaranteed eventuality will hit Asian exchanges, forcing all share prices down, again.

Such a meltdown is in the offing, to be sure, and, when it hits, the Tracker Fund will take it on the nose, more than most, due to the composition of the fund.

There was said to be a great deal of caution and apprehension about this fund because, among other things, it means that it could start to sell scrip on the trading floor, thus dampening the ardour of many HKSAR and international investors, who may have been considering, stocking up on some of the blue chips.

The HKSAR Government has given assurances that it will seek to maintain an orderly market, but the psychological effect of having a fund, waiting to pounce on a rising stock market, is somewhat daunting, regardless of what the Government may state.

Also, last Monday, the news was made official: The Securities and Futures Commission (SFC) had initiated an investigation into another publicly listed issue: China Prosperity Holdings (Hongkong) Ltd.

This is the second such investigation into irregular trading activities on The Stock Exchange. The other public issue, under the SFC's microscope, is Process Automation (Holdings) Ltd, the management of which confirmed that an SFC investigation had begun, just one week prior.

In other parts of Asia (Tokyo was closed last Monday), losers outpaced gainers, but only by a narrow margin and, for the most part, trading patterns throughout Asia mirrored those of the HKSAR:

Thailand	Minus 0.86 percent
Indonesia	Minus 0.71 percent
Malaysia	Plus 0.48 percent
The Philippines	Plus 0.31 percent
South Korea	Minus 0.60 percent
Singapore	Plus 0.37 percent
Taiwan	Minus 0.72 percent

A total of 3 new issues were announced to hit the HKSAR Exchange, early last week, and the total amount of money, taken up by these issues, was about $HK2.66 billion.

The flotations were Unity Investments Holdings Ltd, CNOOC Ltd, and Brilliance China Automotive Holdings Ltd.

These 3 floats came on at the same time that the Government announced details of the Tracker Fund.

It means that money is going to be tight for the next few weeks until the decks are cleared again.

Tuesday

As though Asia smelt that something big was afoot, The Stock Exchange opened its doors, last Tuesday, with sellers, ruling the trading floor.

The number of *'calls'* for money from various quarters, hanging over the stock market, was well known, and had been discounted to a large extent, but the bears dominated trading, throughout the session, pulling down the Hang Seng Index by 1.79 percent to 12,759.35.

The 233.37-point loss was produced on a volume of activity of $HK7.71 billion.

Definitely, the amount of money, about to be dragged out of the stock market, was a dominant factor, last Tuesday, to be sure, but what was happening in the US was also on the minds of many investors.

There is a widespread belief that the Federal Reserve Board will raise US interest rates soon, and this is expected to be announced at the November meeting of the Fed.

Uncertainty is much worse than fact, most of the time, and the one thing that any stock market does not like is uncertainty.

After the market closed, the Hang Seng Bank Ltd, 62 percent owned by HSBC Holdings plc, announced that it would reward its shareholders with a Special Dividend of $HK4.10 per share.

Since the closing price of Hang Seng Bank scrip stood at about $HK83 per share, last Tuesday, this Special Dividend represented a 5-percent *'gift'* to shareholders.

But, on the other side of the coin, since HSBC Holdings plc will stand to benefit the most from this generous gift, questions were making the rounds as to whether or not the reason for the Special Dividend was to finance another strategic move – perhaps a takeover – by the *'parent'*, HSBC Holdings plc.

The matter of the rationale behind the Special Dividend is vital because it would be patently wrong for HSBC Holdings plc to cause its 62-percent-owned HKSAR banking subsidiary to perpetrate an act, which was advantageous to the *'parent'*, but disadvantageous to the subsidiary.

In other news, The Tokyo Stock Exchange managed to hold its ground as the yen behaved itself, trading in the very narrow band within the 106 range to the US dollar.

The closing bell saw the Nikkei-225 at 18,090.81, a gain of just 28.63 points compared with the previous Friday closing rate.

This is the way that other Asian markets faired last Tuesday:

Thailand	Plus 3.05 percent
Indonesia	Minus 2.17 percent
Malaysia	Minus 0.24 percent
The Philippines	Minus 0.18 percent
South Korea	Plus 2.62 percent
Singapore	Minus 0.19 percent
Taiwan	Plus 3.00 percent

Wednesday

The world awoke, last Wednesday, to the international and very shocking, news that, overnight, there had been a successful coup d'etat in Pakistan, with the Army, taking control of the government.

And on Wall Street on Tuesday, the Dow Jones Industrial Average gave up 2.20 percent, a loss of a little more than 231 points, with the Index, falling to 10,417.

There was valid reason for the sell-off on Wall Street since the market had been running hot, with many issues, trading at Price-Earning Multiples, which were, really, not warranted.

In addition, Wall Street appeared to be bracing itself for an interest-rate hike next month when the Fed will meet, again.

The biggest loser on Wall Street was the giant electronics manufacturer, Raytheon Incorporated, whose shares lost $US18.75 each (about $HK143 per share), falling to $US24.25 (about $HK184) per share.

The reason for the sell-off in Raytheon was because the Company announced that sales and profits, during the Current Financial Year and for the next Year, would be less than had been forecast.

Also, it had determined to take a $US700 million (about $HK5.32 billion) charge against the cost of reconstructing and project delays.

Another big loser was BankAmerica Corporation, which shed 81 cents (US) per share to $US53.56 (about $HK407).

BankAmerica will be hurt, right in the belly, when the Fed shifts interest rates up a notch.

But it was Pakistan, which stole the thunder from Wall Street, because this country, with nuclear capabilities, was confirmed to be politically unstable – and it stands next door to the largest democracy in the world: The Republic of India.

Tensions, between India and Pakistan, have been raging for decades so that the coup d'etat, led by General Parvaiz Musharraf, Chief of the Armed Forces of Pakistan, did not bode well for the rest of the region … and the world.

It was felt, with some justification, that unless the political situation in Pakistan stabilised in a hurry, it would upset the rest of Asia.

When the stock market opened in the HKSAR, The Index fell like the proverbial lead balloon, losing 232 points at the opening.

Within 25 minutes of the opening bell, The Index had fallen to 12,506, a drop of 247 points, compared with the close on Tuesday.

And then, just 5 minutes later, The Index had shaved off another 23 points, for a 270-point loss.

By the close of trading, the Hang Seng Index touched 12,475.87, a loss of 283.48 points for the day. The volume of activity was $HK8.98 million.

The fears, late in the trading session, centred round, what is known in the parlance as, *'forced selling pressure'*.

This is a situation which exists when a stock market falls at such a pace that holders of scrip, purchased on margin, are forced to liquidate some of their positions because they cannot afford to '*put up the margin'*, topping up any financial shortfall for which they are committed by virtue of the terms and conditions by which they purchased the scrip, initially.

In other parts of Asia, it was mostly losers, all day long, with the exception of Taiwan and Indonesia, both of which stock markets just managed to edge out of the red ink:

Thailand	Minus 2.56 percent
Indonesia	Plus 0.10 percent
Malaysia	Minus 1.11 percent

The Philippines	Minus 0.76 percent
South Korea	Minus 0.09 percent
Singapore	Minus 1.50 percent
Taiwan	Plus 0.02 percent
Tokyo	Minus 1.86 percent

Thursday

Wall Street was still out to lunch when the HKSAR's financial gurus stumbled to Exchange Square, ready to face, what they suspected would be, another wild day of selling.

Overnight, US stock markets had continued to reel under selling pressure, with the Dow Jones Industrial Average, giving up a further 184.90 points, ending the Wednesday session at 10,232.16.

There was not one reason for Wall Street's fall, but there were so many valid reasons, political and otherwise, that investors just thought that it was best to take a breather from the seeming chaos, holding their fire for another day.

The situation with regard to the coup d'etat in Pakistan had produced nothing, of a substantive nature, last Thursday morning, and, if anything, it was clear that the military in power in that mixed-up country had no idea how to proceed.

The British Broadcasting Corporation (BBC), in a series of extremely interesting and telling probes into the Pakistan coup d'etat, reported that it had been able to determine that the military claim that it had been caught in a force majeure situation and did not, really, want to stay in power for too long a period of time.

The military told the world that it wanted to restore the country to civilian rule.

But who would be the ruler?

While the world waited, stock markets came under pressure, unsure of the outcome of the Pakistan crisis, and other economic and trade crises, round the world.

In Europe, overnight, most stock markets gave up one percent, or more.

It was unclear whether or not the US and Europe were reacting to Asia, or vice versa.

In Tokyo, it was announced that The Bank of Japan had, at last, decided to get off its butt and do something to curb selling pressure of the US dollar in favour of the yen.

The Bank of Japan announced that it would increase its market operations, henceforth, in order to ease monetary policies.

This caused an immediate reaction from the international community …and the yen fell to 107.50, almost immediately The Bank of Japan had made its proclamation.

Late in the trading session, the financial bombshells hit, one after another.

First, the Chairman of the Fed, Mr Alan Greenspan, said that surging stock market prices had increased risks for investors and lenders, and financial institutions should consider boosting their reserves in order to weather any and all market reversals.

His remarks hit international markets, resulted in the selling of US dollars in Asia in favour of the Japanese yen, which rose to about 106 yen to the US dollar – just the opposite of what had happened in Japan, following the statements by The Bank of Japan.

Second, it was announced, during the day, that the PRC largest oil producer, CNOOC Ltd, had shelved its plans for a global fund-raising exercise due to weak demand for the stock. It had been trying to raise about $HK20 billion, altogether. Investors gave it the cold shoulder.

It will, still, continue with its fund-raising exercise, but it will be pared down by about 60 percent of its original plans.

And then, TARGET wonders as to investors' love for this stock, the management of which is, in essence, political in its calling.

This is the third time in the last few weeks that this type of thing has happened in Asia, with Thailand and South Korea, both canceling fund-raising exercises for its respective stock markets.

Then, if that was not enough, the leaders of the Pakistan coup d'etat, General Parvaiz Musharraf, announced that he had declared himself to be the country's Chief Executive, dissolving the Pakistani Parliament – but democracy in the country was alive and kicking (!).

Back in the HKSAR, the Hang Seng Index could not help but reel from the multiple blows, seemingly coming from every quarter. It shed more than 120 points, early in the trading session.

But basement traders, apparently, stepped in to put a financial finger in the stock market *'dyke',* causing a slight recovery, which allowed The Index to end the session at 12,486.82, for a gain of 10.95 points, compared with Wednesday's close.

The turnover was $HK13.16 billion – indicating, as TARGET has suspected, earlier in the week, that one of 2 things was taking place: Either margin calls were forcing partial liquidation; and/or certain investors were terribly worried about what was happening, both domestically and internationally.

In other Asian stock markets, it was a repeat performance of that of the HKSAR:

Thailand	Minus 0.66 percent
Indonesia	Minus 0.73 percent
Malaysia	Plus 0.10 percent
The Philippines	Minus 0.20 percent
South Korea	Plus 1.23 percent
Singapore	Plus 0.81 percent
Taiwan	Plus 0.55 percent
Tokyo	Plus 0.15 percent

Friday

It was another bloodbath for investors as soon as the stock market opened last Friday morning, with the Hang Seng Index, dropping more than 76 points at the opening, and widening its losses to 108 points within 2 hours of the opening bell, having sounded.

As if the HKSAR had not been hit, sufficiently, in the past week or so, another slap in the face was announced: The Government's land sales, held last Thursday afternoon, after the Thursday stock market had closed, had been somewhat of a failure, with bids, being well below what had been anticipated.

The main worry was that there was a distinct absence of interest in the land auction, with the *'big boys'*, showing a complete disinterest in the bidding.

If property prices fall in the HKSAR, it is a sure-shot sign of things, boding not well in these 416 square miles.

After the closing bell had rung on The Stock Exchange of Hongkong Ltd, New World Development Company Ltd announced that its Net Profits, for the Financial Year, ended June 30, 1999, had fallen by about 41 percent, compared with the 1998 Year.

It had been expected that there would be a fall in this giant's profits, but it is always a shock when the news hits to the street.

Then, also after the market closed, another shocker: CNOOC had decided to postpone its dual listing, completely.

On Thursday, Management had said that it would cut its call for $HK20 billion by 60 percent, but last Friday, the doors, clearly, were closed to it for investors had turned their backs on the PRC's largest oil producer.

By the close of trading, the Hang Seng Index had dropped to 12,299.08, registering a loss for the day of 187.74 points, or 1.50 percent.

For the week, therefore, the Hang Seng Index had shed a total of 6.50 percent, compared with the previous week's close.

After the HKSAR stock market closed, however, it was announced in Washington that US producer prices had hit their highest levels in 9 years.

The Producer Price Index (PPI) increased to a larger-than-expected 1.10 percent in September, after rising 0.50 percent in August, the US Labour Department stated.

Even with the removal of volatile food and energy prices – known as the *'core'* PPI – prices rose 0.80 percent in September after registering a fall of 0.10 percent in August.

This will be viewed by the Fed as being a little more ammunition to put into its interest rate gun, expected to be fired in November.

In Tokyo, the situation mirrored, to some extent, what was happening in the HKSAR.

The Nikkei-225 *'benchmark'* slip about one percent last Friday, ending the week at 17,601.57, for a one-day drop of 178.69 points.

Despite the attempts by The Bank of Japan, to keep tabs on the yen, the exchange rate of Japan's currency rose in late trading, last Friday, following the statements of the Chairman of the Fed, who issued a veiled warning about the high Price-Earnings Ratios of stocks, being traded on US stock markets.

The yen traded at about 106.20, late in the session, and there were fears that it could make another run for the 100-yen *'door'*.

After Asia went to bed, it was Europe's turn to suffer the consequences of the world's economic turmoil.

The Financial Times shed 132.10 points to end last Friday's session in London, England, at 5,907.30. This represented a loss of about 2.20 percent in one day's trading.

Europe is not immune to what is happening in the US and Asia, and has to take stock of the worldwide situation.

Here is how Asia ended the week of October 15:

Thailand	Minus 1.14 percent
Indonesia	Plus 0.02 percent
Malaysia	Minus 2.29 percent
The Philippines	Minus 1.56 percent
South Korea	Minus 0.39 percent
Singapore	Minus 2.43 percent
Taiwan	Minus 0.77 percent

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