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MR INVESTOR : DON'T CATCH A COLD ON THIS ROLLER-COASTER STOCK MARKET

It would be accurate to describe last week's stock market in the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC) as having been guided, almost completely, by events which occurred in Europe over the previous weekend, with pressure on the US dollar, and with European stock markets, reeling from the effects of Wall Street's late plunge.

While The Stock Exchange of Hongkong Ltd was closed on Monday, October 18, to allow people to celebrate the Chung Yeung Festival, and while people ran to high places, as is the custom, business was pretty much as usual, with the more sophisticated investors, watching what was happening round the world in order to get a *'feel'* for what the week was likely to bring.

In Europe, late on Friday, October 15, the US dollar came under pressure, yet again, with the Japanese yen, hitting 105.60, following a week, which saw the yen, hovering in the high 107 range.

The reason: It was widely expected that it would be announced, within one month, that the icing had fallen off the US economic cake, resulting in the Federal Reserve Board, shifting US interest rates up a notch, a full 100 basis points.

Further, the previous Friday also saw the Dow Jones Industrial Average fall below the magic 10,000 level and, although it was only a momentary drop, it set the stage for the remainder of trading on Wall Street for the end of the week.

The importance of this drop: The 10,000 barrier has been pierced – it happened once; it can happen again … and soon.

The Dow finished the week on its lowest point at 10,019.71 for a loss of 266.90 points, or about 2.60 percent, compared with the previous Thursday's closing level.

Wall Street is haunted by fears of yesteryear, when Black Friday in 1987 saw the Dow shed 30 percent of its value in a couple of consecutive trading sessions. If that should happen again, losses for the man-in-the-street could be disastrous.

The Chairman of the Fed, Mr Alan Greenspan, had given the market ample warning of the Fed's fears, making it only too apparent that the US Administration is watching Wall Street's antics.

What is of great concern to the US Government are matters, relating to fundamentals, both of a microeconomic nature and a macroeconomic nature, fundamentals that are being considered as a beacon, lighting the way to future concerns.

First came news that wholesale prices in the US hit the highest level in 9 years, with a whopping 1.10-percent leap in September.

This was double the amount of increase that had been anticipated.

Then came another blow when, on Friday, October 15, it was announced that US retailers were stockpiling inventories; and, that sales, in the month of August, had grown at the fastest pace in the past 2 years.

The official figures: Inventories rose 0.30 percent to $US1.12 trillion, after a similar 0.30-percent rise in July; and, business sales grew 1.30 percent to $US845.20 billion, after increasing 0.50 percent in the month of July.

No one statistic can mean much in isolation, of course, but the Fed's backroom boys are doing their sums, and the totals do not look at all appealing for the US economy.

Unless their Chairman calls for the brakes to be applied to the economy.

On Monday, in the HKSAR, it was announced that flotation of Brilliance China Automotive Holdings Ltd on The Stock Exchange had come unstuck with only 6.40 percent of the HKSAR tranche of shares having been taken up.

The previous week, it had been announced that CNOOC, the PRC's largest oil producer, had had to back out of its listing for fear that it, too, would suffer similarly to Brilliance China.

Brilliance China, from a long-term view, is about as shiny as lead, in any event, but its more recent successes made it appear, on paper at least, to be much better than a great deal of the other *'rubbish'*, coming out of the PRC.

In Japan, it was announced that Nissan Motor Company would lay off 21,000 workers and will shut down 3 manufacturing plants in the next 2 years. It aims at cutting its existing workforce by 14 percent, it announced.

This is part of a $US9 billion (about $HK69 billion) financial restructuring programme for Nissan, which, at one time, was one of the motor-car manufacturing leaders in the Land of the Rising Sun.

So much for the Japanese work ethic where one has a job for life.

In other parts of Asia, while the HKSAR stock market had a holiday, it was blood-letting day on Asian bourses:

Thailand	Minus 3.17 percent
Indonesia	Minus 2.59 percent
Malaysia	Minus 0.82 percent
The Philippines	Minus 0.77 percent
South Korea	Minus 4.22 percent
Singapore	Minus 3.29 percent
Taiwan	Minus 1.07 percent
Japan	Minus 1.85 percent

Tuesday

The Hang Seng Index took its lead from remarks, heard on Wall Street, rather than what had happened on Wall Street, last Monday – because the 96.57-point gain of the Dow was, just, not believable.

That it took place was undeniable, but the way in which the Dow had risen made investors, round the world, feel more than a little uncomfortable.

While the closing level of the Dow was, officially, 10,116.28, it was only in the last half an hour of trading that caused it to move into the black. Most of the day, the Dow was in red ink.

Better, perhaps, as an indicator as to what was happening in the US stock markets was reflected in the NASDAQ, which ushered in a host of losers, outnumbering gainers by a ratio of 2:One.

The NASDAQ lost the equivalent of 1.59 percent, making the Dow's accuracy as a barometer of Wall Street, very suspect.

In the HKSAR, the Hang Seng Index was under pressure the entire day, and, by the close of trading, it stood at 12,134.13, down 164.95, compared with the previous Friday's closing level.

Considering everything, the loss of about 1.34 percent was not that bad since other markets in the Asian region were suffering much worse, having had to take their knocks on Monday.

The turnover last Tuesday was $HK7.48 billion.

Internationally, the *'heat'* was off Pakistan as it had been announced that the military rulers wanted to take the country back on the path of democracy. Sighs all around.

After the market closed, it was announced in Washington that things in the US economy were not so bad, after all.

Wages and price pressures, the US Labour Department announced, were under control.

The Consumer Price Index (CPI) rose 0.40 percent in September, due in large to increases in the prices of tobacco, energy and clothing. A month earlier, the CPI had gained 0.30 percent over the previous month.

The so-called *'core CPI rate'*, which excludes food and energy costs, rose 0.30 percent in September, matching the August gain, the Labour Department said.

In a separate announcement from Washington, the Commerce Department stated that US housing construction starts fell 3.20 percent in September to a seasonally adjusted annual rate of 1.62 million units.

This data was, last Wednesday, seen as being a potential for US interest rates to stay pat.

This will be decided at the Fed's Open Market Committee Meeting, scheduled to be held on November 16.

In other parts of Asia, it was still in the grips of the previous Friday's plunge on Wall Street, with a few notable exceptions where politics overshadowed other factors:

Thailand	Minus 1.59 percent
Indonesia	Plus 5.50 percent
Malaysia	Plus 3.21 percent
The Philippines	Minus 0.43 percent
South Korea	Minus 1.79 percent
Singapore	Minus 0.51 percent
Taiwan	Minus 0.68 percent
Tokyo	Minus 0.12 percent

<u>Wednesday</u>

The stock market was supposed to have fallen, again, but it was not to be, as investors jumped in, fearing that the *'shorts'*, contracted in Tuesday's selling splurge, could come back to haunt them.

The reason that many investors had been infected with cold feet, last Wednesday, after selling the market short on Tuesday, was due to Wall Street, yet again, since it was only too clear that the Hang Seng Index was following the rises and falls on The New York Stock Exchange.

On Tuesday, in New York, the Dow advanced 187.43 points to 10,392.36. This represented a gain of about 1.80 percent, compared with Tuesday's close.

The Hang Seng Index, buoyed by massive purchases of scrip in HSBC Holdings plc, Cheung Kong (Holdings) Ltd and Hutchison Whampoa Ltd, put on about 3 percent, closing the session at 12,498.56.

Since the market had been heavily weighted, thanks to the aggressive purchases of some of the blue chips, representing about 72 percent of all trading, it was not seen by the more sophisticated investors as meaning very much, something like a knee-jerk reaction rather than too many people, chasing too few stocks, or genuine investor purchases.

The turnover was just $HK7.04 billion – which, really, is not much considering that the Hang Seng Index had put on 364.43 points.

Definitely, the stock market on Wednesday was not seen as being reminiscent of the bull markets of yesteryear.

In Indonesia, the stock market in that mixed-up, Muslim country went mad, first moving up more than 10 percent at the opening, only to lose all of its gains, falling more than one percent, compared with the Tuesday's close, and, then, rebounding to close up 0.13 percent.

The reason that Indonesia was in turmoil was due to the election of a new President, a Muslim moderate: Mr Aburraham Wahid.

It had been widely expected in Indonesia that Ms Megawati Sukarnoputri would get the job, following the withdrawal of the former, rather unpopular President, Mr Bacharuddin Habibie, from the race.

And then, after the announcement of the election of Mr Wahid as President, all Hell broke out on the streets of the Capital City, Djakarta, which ran red with blood as one political faction fought with another.

As the Thursday morning sun shone over the Capital City's skyscrapers, the riots were still continuing on the streets of Djakarta.

Anybody, who invests in Indonesia at this stage in the game, had better not be suffering from stomach ulcers.

In Europe, it was announced that negotiations were continuing between Hutchison Whampoa Ltd and the German telecommunications giant, Mannesmann.

The object of affection of Mannesmann was the Hutchison's associate, 44.80 percent owned, UK-based mobile telephone carrier, Orange plc.

The deal was said to be worth about $HK207 billion.

That was about the only reason that there had been so much activity in the shares of Hutchison and Cheung Kong on The Stock Exchange of Hongkong Ltd: No other reason could be ascribed to the interest in these 2 blue chips.

In Washington, it was announced that the US trade deficit with the PRC was about $HK54 billion in August.

The US Government wants trade reciprocity with the PRC Government as a prerequisite to endorsement of the PRC to the WTO (World Trade Organisation).

The US Government has a strong argument because, in the first 8 months of 1999, the trade deficit amounted to a record level of about $HK330 billion, up from the comparable 1998, first 8 months when it reached the record level of $HK283 billion.

On the foreign exchange markets, the Japanese yen gained marginally against the US dollar, with late trading in London, pegging the yen-US dollar rate at 106.21, up from 106.60.

In other Asian stock markets, the trend was, generally, to follow-the-leader, in this case, New York:

Thailand	Plus 0.76 percent
Indonesia	Plus 0.13 percent
Malaysia	Minus 0.26 percent
The Philippines	Plus 1.36 percent
South Korea	Plus 2.37 percent
Singapore	Plus 2.13 percent
Taiwan	Minus 0.34 percent
Japan	Plus 1.63 percent

Thursday

It was difficult to know what was the single, most important event that caused the Hang Seng Index to react on Thursday: The announcement of the Vice President of Indonesia, Ms Megawati Sukarnoputri; the Mannesmann deal of the takeover of Hutchison's associated company, Orange plc, a deal worth, as far as Hutchison was concerned, about $HK113 billion; or, what was happening on Wall Street, which saw the Dow fall 1.60 percent.

The rioting stopped in Indonesia as soon as it was announced that Ms Megawati Sukarnoputri had been installed as the Vice President, the Number Two slot in the Government.

It is widely known that, since Indonesia's new President, Mr Aburraham Wahid, is in poor health, generally, should he be unable to function, then the very popular Ms Megawati Sukarnoputri would take over the reins of Government.

The stock market in Indonesia jumped at the news, as did the Indonesian rupiah, with the currency jumping up about 10 percent on Thursday afternoon.

But Wall Street was the worst news to hit the HKSAR on Thursday, for it was clear that that market was not out of the woods by a long shot.

The Dow shed 171.29 points, or 1.60 percent, to 10,221.07.

That was the close, but it was a roller-coaster ride, most of the day, with the Dow, at one point, plunging more than 214 points in a period of about 15 minutes.

International Business Machines Corporation (IBM), the world's largest manufacturer of computers, fell $US22.25 (about $HK173) per share to $US90.50 (about $HK702) per share.

The reason: The very real prospects that IBM's profits this year will not be anywhere near expectations.

Trading on Wall Street is, definitely, not for the faint of heart.

On The Stock Exchange of Hongkong Ltd, the Hang Seng Index limped along, most of the day, and ended the session up just 24.44 points at 12,523 even.

The turnover was $HK7.61 billion.

Again, blue chip purchases, pushed by Hutchison and Cheung Kong, accounted for most of The Index's upward movement – which was no great shakes, in any event.

On Thursday, the official announcement, that Mr Li Ka Shing, the Chairman of Hutchison and Cheung Kong, had decided to accept the Mannesmann offer to take up Hutchison's stake in Orange plc, had not hit the trading floor.

But it was considered a safe bet that Mr Li would sell: Money is money, after all, and $HK113 billion is a lot of money, isn't it?

In Japan, the Nikkei-225, lost ground, ending Thursday's session at 17,448.27, a loss of 86.44 points, compared with Wednesday's closing level.

What is becoming only too apparent in Japan, these days, is that the Japanese work ethic and traditional business ethics are changing rapidly, with more and more Japanese giants, making it very clear to its workers that, if push comes to shove, the workers will be out of the door long before management vacates its seat.

Quite a number of Japanese companies have laid off workers, with Nissan, being just one of the most prominent companies to bite the bullet.

This is the way other parts of Asia faired last Thursday:

Thailand	Minus 0.17 percent
Indonesia	Plus 5.49 percent
Malaysia	Plus 0.28 percent
The Philippines	Minus 1.64 percent
South Korea	Minus 1.47 percent
Singapore	Minus 0.39 percent
Taiwan	Minus 0.15 percent
Japan	Minus 0.49 percent

Friday

With the $HK113-billion deal clinched, with Hutchison to receive $HK113 billion for its part of the sale of Orange plc to Mannesmann of Germany, one would have thought that the Hongkong stock market would have reacted, positively.

But it did not, with the Hang Seng Index, falling 12 points at the opening and, then, rebounding 97 points in the next 45 minutes of trading, at 11 am.

Hutchison barely moved at the news of the takeover by the German engineering and communications giant, probably because its share price had, already, appreciated on the news.

Hutchison was at about the $HK78 range in early trading and the market was appraising what it would mean to the Company in terms of dividend payouts.

It must have been realised that, with the Company flush with cash, it could easily afford to give a bonus to its shareholders, of which Cheung Kong would be the biggest recipient of any payout since it owns about 50 percent of Hutchison.

However, Chairman Li Ka Shing scotched the suggestion, coming out to clearly state that the huge wad of extra Hutchison cash would be used as working capital for other areas of the Group.

By the time that the market opened in the afternoon, Hutchison, which, by that time was trading at about $HK78 a share, had been responsible for about 10 percent of the $HK5-billion worth of activity and the Hang Seng Index had chalked up a gain of about 135 points, compared with the closing rate on Thursday.

At the close of trading, the Hang Seng Index had recorded a gain of 340 points with The Index, coming to rest at 12,863.08.

While the stock market's gain represented an improvement of about 2.72 percent, compared with Thursday's closing level, it was duly noted that the daily turnover was only $HK9.17 billion – hardly indicative of a bull market.

Most of the 200-point gain came in the last 30 minutes of trading, due in part to short covering – because it had been felt that the market would follow the Dow's close on Thursday.

In Tokyo, the Nikkei-225 was shaved by about 9.47 points to 17,438.80, which was, definitely the result of the Thursday Dow close.

This is the way other Asian markets ended the week of October 22:

Thailand	Plus 2.41 percent
Indonesia	Minus 2.00 percent
Malaysia	Plus 0.08 percent
The Philippines	Minus 1.91 percent
South Korea	Plus 0.12 percent
Singapore	Minus 0.01 percent
Taiwan	Minus 1.24 percent

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