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MR INVESTOR : DON'T GET CARRIED AWAY IN THE MAD DASH, AT LEAST, NOT YET

The Tracker Fund of Hongkong was launched last Monday amid cheers and all the hullaballoo, leading up to the Government of the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC), trying to dispose of its $HK220-billion, blue-chip portfolio, purchased in order to prop up the Hang Seng Index.

The HKSAR Government has stated, very openly, that it wants to divest itself of the huge portfolio in an orderly manner; and, this is one way to accomplish this task.

It appears to TARGET that this flotation is doomed, but it will take a little while before it dies the death that befits it because, as soon as investors come to learn that they can do much better, plonking money down on the individual stocks of their choice, it may appear that The Tracker Fund is a success.

The Tracker Fund is, whatever one may wish to call it, a type of mutual fund, the market value of which will rise and fall with the Hang Seng Index.

The HKSAR Government made its bed, and now it must sleep in it.

Be that as it may, last Monday, queues of people lined up outside banks, waiting for the chance to put their money on the line in order to have a small slice of The Tracker Fund.

The attraction, for the man-in-the-street, was the 5-percent bonus that he would receive if he did not sell his units in The Tracker Fund for at least one year.

This is, of course, only a gimmick because, putting money in the bank, just about any bank, would guarantee a net yield greater than 5 percent.

But the most important aspect of stock markets, for the week of October 25 through October 30, not just in the HKSAR but also around the world, was what would happen in Washington.

For last week, stock markets were watching US economic reports on such matters as labour costs and overall economic growth.

This report, which was known to be scheduled for release last Thursday, was seen as being a possible indication of how the Federal Reserve Board was likely to think at the November Open Market Meeting.

Again the question: Will the Fed push up interest rates, thus causing jitters, round the world, the HKSAR, being no exception in view of the fact that the Hongkong dollar is linked to the US dollar and, as a result, interest rates in the HKSAR would have to follow US interest rates?

As TARGET has stated before, due to the tightness of the labour market in the US, many companies are forced to compete for staff, and that means that they have to pay more in order to attract them.

The knock-on effect is clear: Inflation.

And inflation is one devil that the Fed hates and is bound to try to eradicate.

The previous Friday, October 22, the Dow Jones Industrial Average had closed the week at 10,470.25. This represented a gain over the previous Thursday's close of about 172 points, or 1.70 percent.

The Dow recovered all of the losses of Thursday, October 21, when it sank about 94 points, compared with the close on Wednesday, October 20.

That Wall Street was in for a rocky ride, last week, was well expected, but cosmetic considerations in the HKSAR – The Tracker Fund, etc – were seen, before the market opened last Monday, as being factors, which could help chart the course of this market.

One other factor, which was expected, last Monday, to influence trading in the HKSAR for most of last week, was, once again, the matter of the PRC's proposed entrance into the WTO – World Trade Organisation.

It had been reported that the PRC Government's Prime Minister, Mr Zhu Rong Ji, had had a speedy meeting with Mr Lawrence Summers, US Treasury Secretary, in Lanzhou, an industrial city in the North-Western Province of Gansu.

The meeting was unscheduled, reports stated, as it was an unscheduled detour during Mr Summers's attendance at the 12th Meeting of the China-US Joint Economic Committee.

What effect the one-hour meeting will have on trade and human rights relations between the US and the PRC remains to be seen, and, in any event, it will be up to the US Senate to ratify any proposals of the US to back the PRC for its entrance to the world's most prestigious trade *'club'*.

The Hang Seng Index, after opening up more than 158 points, continued to gain strength in the first hour of trading, moving up 190 points in the first 30 minutes of the opening bell.

By the close of trading, the Hang Seng Index stood at 13,034.18, up 171.10 points, or about 1.33 percent, compared with the previous Friday's closing level.

But the Hang Seng Index did not close at its high – and that was a worrying factor for some investors: It could not hold on to gains for very long.

The turnover was $HK8.81 billion, which was down from the previous Friday's volume of activity when the turnover hit $HK9.17 billion.

It seemed ominously like the precursor to a market that would fall at the slightest hint of bad news.

In other parts of Asia, stock markets were mixed as the Japanese yen appeared to be gaining, marginally, against the US dollar: The Japanese economy is more jittery about US interest rates than most economies.

This is the way that other parts of Asia fared on Monday, October 25:

Thailand	Plus 2.70 percent
Indonesia	Minus 1.18 percent
Malaysia	Plus 0.09 percent
The Philippines	Minus 1.35 percent
South Korea	Minus 2.52 percent
Singapore	Plus 0.14 percent
Taiwan	Plus 1.60 percent
Japan	Plus 1.20 percent

Tuesday

Wall Street had gone into reverse gear on Monday, October 25, with the Dow, falling about 1.10 percent, ending the session at 10,349.93.

New York investors saw 120.32 points shaved off the Dow Jones Industrial Average by the close of trading, but, at one point, it was much worse.

The claw-back of about 30 points, during the day, was considered positive, but the jury was still out on Monday as to the direction of the market.

The opening of The Stock Exchange of Hongkong Ltd saw investors rush to sell scrip, pulling down The Index by 105 points within 5 minutes of the opening.

Subsequent selling pressure increased the losses by another 24 points in the next hour of trading and, by the lunch break, The Index had fallen a total of 114.24 points, representing a loss of about 1.11 percent, compared with Monday's close.

The afternoon trading was just about a repeat of the morning session, as losses were piled on losses, erasing completely, the gains of Monday.

At the close of trading, the Hang Seng Index stood at 12,797.36 for a loss of 236.80 points, or about 1.82 percent, on a turnover of $HK5.92 billion.

There was no special news, affecting the HKSAR stock market. Investors were, basically, following New York and the fears that were being expressed on the other side of the world.

In Tokyo, the Nikkei-225 hardly moved, ending the session at 17,671.79, for a gain of about 23 points – which means nothing, of course.

Throughout most of Asia, last Tuesday, with the exception of Indonesia, of course, where changes to the structure of government are being announced, daily, the situation was very dull.

Other Asian markets reflected the dearth of important news:

Thailand	Plus 0.27 percent
Indonesia	Minus 0.47 percent
Malaysia	Minus 0.57 percent
The Philippines	Plus 0.37 percent
South Korea	Minus 0.23 percent
Singapore	Minus 0.44 percent
Taiwan	Plus 0.25 percent
Japan	Plus 0.13 percent

Wednesday

Brokers complained that they were falling asleep, during the morning session; so dull was trading on The Stock Exchange of Hongkong Ltd.

The market was reacting to what had happened in New York, on Tuesday, when it was announced that the components of the Dow Jones Industrial Average had been changed to include high-tech leaders while dropping some of the old-times, such as Sears, Goodyear, Union Carbide and Chevron.

On Tuesday, trading on The New York Stock Exchange was especially subdued with the Dow, at the close, reflecting this with a loss of just 47.80 points, or 0.46 percent, closing the session at 10,302.13.

Nervousness about the prospects of inflation and what the Fed might do to interest rates was the reason for the market's apprehension.

When the stock market opened in the HKSAR, the Hang Seng Index fell 22.32 points.

It continued to lose ground, during most of the morning session, so that, by 11:40 am, it had shaved off more than 95 points, compared with the close on Tuesday.

By the close of trading, the Hang Seng Index was stuck at 12,709.07 for a loss of 88.31 points, or about 0.69 percent, compared with Tuesday's closing level.

The yen gained against the mighty US dollar and stood at 105 at 3:30 pm, Hongkong time.

However, in Europe at one point, the yen rose to 103.72 before retreating amid suggestions that The Bank of Japan was likely to take a hand in the matter unless the nonsense stopped.

The importance of how *'Japan Incorporated'* views a violent de facto yen appreciation against other *'hard'* currencies was mirrored, late into the evening of last Tuesday, when the powerful electronics manufacturer, Sony Corporation, announced that, due to the speedy appreciation of the yen against the US dollar over the past 8 months or so, its profits had shrunk about 25 percent in the 6 months to September 30.

That being the case, in the next half, to March 31, it is widely expected that profits will fall again, logic dictates, because the yen continues to strengthen.

While there was some heavy selling on The Tokyo Stock Exchange, it was dominated by some of the biggies, which tended to distort the true situation. Be that as it may, the Nikkei-225 did register a 1.64-percent loss for the day.

In the US, it was announced that that Government had posted the largest budget surplus in history during fiscal 1999.

The surplus was about $US122.70 billion (about $HK944 billion), compared with the 1998 surplus of about $US69 billion (about $HK530 billion). The fiscal year ends September 30.

What must be borne in mind, however, was that this surplus does not take into account the affects of inflation, during the 2 years.

Whatever it means, one thing is certain: The US economic prospects seem sound, regardless; and, the surplus must indicate a booming economy.

Around Asia, this was how the other markets fared:

Thailand	Minus 0.45 percent
Indonesia	Minus 2.98 percent
Malaysia	Minus 0.57 percent
The Philippines	Plus 1.80 percent

South Korea	Minus 0.45 percent
Singapore	Minus 1.22 percent
Taiwan	Plus 0.01 percent
Japan	Minus 1.64 percent

Thursday

The HKSAR woke up to no surfeit of news, but the Hang Seng Index, nevertheless, put on about 200 points at the opening and continued to strengthen throughout most of the morning session.

By the lunchtime break, The Index stood at 12,992.70, up 283.63 points, about 2.23 percent, compared with Wednesday's close

Overnight, Wall Street had put on about 93 points, a little less than one percent, with the Dow, closing at 10,394.89. Most of those gains had been recorded in the final 30 minutes of trading.

The Dow's constituent stocks, however, having been changed to include hi-tech stocks, such as Microsoft, to name but one huge mover, and having dumped some of the laggards, in order to reflect, better, price movements on The New York Stock Exchange, have to be viewed, at least in the short term, as casting a different view on Wall Street, compared with just one week previous.

With new Dow rules, so to speak, international investors had to readjust their sights in order to compensate for the changes – which must, in the long term, prove to be beneficial to all concerned.

The gains on Wall Street on Wednesday were amid rumours in Europe that interest rates were on the way up in order to combat suggestions of inflation.

Nearly all of the early morning gains were wiped out in the afternoon session in the HKSAR, as the Hang Seng Index finished the day at 12,758.88, an increase of 49.81 points compared with Wednesday's closing level.

The turnover remained fairly subdued at $HK7.89 billion, slightly higher than the $HK6.27 billion, recorded on Wednesday.

The talk on the trading floor was that investors preferred to wait for economic data in New York and Washington, scheduled to be announced on Thursday, in the US.

Overnight, there had already been some indications of a bullish nature with the news that mortgage lending rates in New York, having risen.

The 30-year, fixed-rate mortgage was averaging 7.96 percent per annum for the week ending October 29. This is up slightly from level of 7.93 percent for the week, ended October 22.

On The Tokyo Stock Exchange, investors there appeared to have the same opinion as did Hongkong investors, preferring to wait for the US economic data before making a firm commitment as to investing.

In other news, unrelated to share trading in the HKSAR, Microsoft was making waves, with Mr Steven Ballmer, President of the giant, telling the world that Microsoft was looking to forge links with all kinds of people in these 416 square miles.

Sun Hung Kai Properties Ltd has, already, announced that it has a tie-up with Microsoft.

If that is not a measure of confidence in the immediate future of the HKSAR, then nothing is.

While The Stock Exchange of Hongkong Ltd closed down for the night, few international traders slept since most of them were waiting to see what would happen in Washington and New York.

Here is how the other markets in Asia closed last Thursday:

Thailand	Minus 0.71 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 7.98 percent
Taiwan	Minus 0.15 percent
Japan	Minus 0.49 percent

Friday

It was Buy ! Buy ! Buy ! at the opening of The Stock Exchange of Hongkong Ltd as everybody and his cat thought that the market could not be held back.

And the cats had it: The Hang Seng Bank could not be held back.

But more seasoned investors, especially in Europe, were warning that the dust had not settled in the US, regardless of bullish reports that appeared to indicate that that economy was booming -- and would continue to boom.

At the opening, the Hang Seng Index shot up about 360 points, representing a gain of about 2.82 percent, compared with the close of trading on Thursday.

The market was reacting, of course, to economic reports from the US where it was announced that the US economy had posted its strongest quarterly advance this year.

At the same time, it was announced that wage costs were under control in spite of the country's economic gurus, stating that unemployment levels were at the lowest point in a generation.

The Dow put on 227.64 points, about 2.20 percent, to 10,622.53 by the close of trading on Wall Street, last Thursday, New York time.

The *'heat'* was said to be off the US economy, at least for the time being, with the Fed, unlikely to raise interest rates in the coming November Open Market Meeting.

We have all heard those remarks.

The fillip that drove the HKSAR market to much higher levels was a US economic report, which stated that the Gross Domestic Product (GDP) had grown 4.80 percent in the third quarter. This was measured against a 0.90-percent, annual rate gain and a 1.10-percent rise in the second quarter.

It is, normally, held that GDP is a key to being able to gauge the direction of an economy and the extent of growth of that economy.

Reason for happiness, no doubt, and it tended to reinforce the belief that US interest rates would remain unchanged for a while, at least.

By the close of trading, the Hang Seng Index had recorded a gain of 498.07 points, or 3.90 percent, compared with Thursday's closing level, coming to rest at 13,256,95.

But the turnover was a little suspect at $HK9.82 million – hardly the volume of which bulls are made.

What made the turnover especially suspect was the fact that about $HK2 billion of that $HK9.82 billion turnover could be pinpointed to the 21.37 million shares of HSBC Holdings plc, which changed hands.

This represented more than 20 percent of the entire volume of activity of the entire market.

The fact that the gains on the Hang Seng Index were not broadly based appeared to suggest that there could be violent swings in store for the HKSAR stock market in the coming week.

The week's trading had been interesting, without question, but it was clear that, in reality, The Index had hardly budged, gaining just 393.87 points for the week, equal to about 3 percent

Other Asian markets played follow-the-leader with one lone exception:

Thailand	Plus 1.90 percent
Indonesia	Plus 2.76 percent
Malaysia	Minus 0.98 percent
The Philippines	Plus 3.41 percent
South Korea	Plus 1.53 percent
Singapore	Plus 2.19 percent
Taiwan	Plus 0.32 percent
Japan	Plus 3.03 percent

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