

**MR INVESTOR :  
THE UNSTOPPABLE HANG SENG INDEX**

Investors did not fully realise, at the opening of The Stock Exchange of Hongkong Ltd, that there was a major potential problem, lurking in the wings, last Monday.

The problem, to which targetnewspapers.com is referring, once again, was the very erratic exchange-rate movement of the Japanese yen against other 'hard' currencies.

The previous Friday, November 26, one saw the Japanese currency strengthen more than 1.50 percent against the US dollar, to about 101.25, and a similar amount against the Euro, rising to about 100 yen against the Euro.

Last Monday, The Bank of Japan was forced to step in to push the yen back to the 104 level against the US dollar, a full 2.72 percent higher than the previous week's close in late European trade.

The Bank of Japan had been forced to do something because it was reported last Monday that industrial output in Japan had fallen in October by about 2.30 percent, compared with September's figures.

The worrying aspect about Japan's external trade figures was that, in September, there had been a 0.60-percent drop in industrial output, compared with August.

A strong yen will slow down economic recovery in Asia's most important economy.

On The Stock Exchange of Hongkong Ltd, the market, after shooting up more than 307 points soon after the opening, equal to about 2 percent, fell to selling pressure, with the Hang Seng Index ending the session at 15,461.11, a gain of about 186.58 points, or 1.22 percent, compared with the previous Friday's closing level.

The Total Turnover was about \$HK9.80 billion which, considering the toing and froing, taking place, it was not a very high volume of activity.

It may be considered somewhat boring to have to repeat the same old lines, but trading continued to be dominated by just about 4 counters: China Telecom (Hongkong) Ltd; HSBC Holdings plc; Hutchison Whampoa Ltd; and, Cable and Wireless HKT Ltd.

These 4 counters accounted for about \$HK2.85 billion of the total volume of activity, equal to about 29 percent.

On The Tokyo Stock Exchange, trading was quite hectic for a while as the Nikkei-225 fell to a low of 18,722.89, but then regained some of its earlier losses, closing at 18,850.27, for a contraction, compared with the previous Friday's close, of about 64.23 points.

The story in Japan was all about the country's ever-strengthening currency and how it would cut deeply into corporate profits.

Without the US markets and Europe to show Asia a lead, many HKSAR investors took a punt, last Monday, in the hope that they had read international stock markets correctly.

Over the weekend, it had been reported in Washington that US personal incomes had posted the biggest gains in the past 66 months.

Although the statistics were aided by farm subsidies and union contract-signing bonuses, the statistics were impressive, analysts pointed out.

The official figures indicated that US personal incomes had risen by 1.30 percent in October. In September, there had been no appreciable changes, the US Commerce Department said.

When a country can prove that personal incomes are on the way up, or have been proved to have risen, significantly, it is a sure-shot sign that consumer spending will rise, also.

This is good for business, all round.

How this important information would be translated into stock prices on Wall Street remained to be seen last Monday.

This is the way that things shaped up in Asia last Monday night:

Thailand	Plus 2.17 percent
Indonesia	Minus 2.27 percent
Malaysia	Closed
The Philippines	Plus 1.01 percent
South Korea	Plus 1.59 percent
Singapore	Minus 0.60 percent
Taiwan	Plus 3.01 percent
Japan	Minus 0.34 percent

## **Tuesday**

The narrowness of trading on The Stock Exchange of Hongkong Ltd should be a matter of some concern, but nobody paid much attention to this seemingly little known fact, as China Telecom (Hongkong) Ltd, HSBC Holding plc, Hutchison Whampoa Ltd and Cable and Wireless HKT Ltd continued to play a dominant role in the performance of the Hang Seng Index.

These 4 counters represented about 27 percent of the Total Turnover, last Tuesday, of about \$HK11 billion.

The Index dropped back 83.92 points to 15,377.19, about one half of one percent, compared with Monday's closing level, but the drop was a vast improvement, compared with trading, earlier in the session.

By the lunchtime bell, The Index was off more than 177 points, after falling much further in frenzied earlier trading.

Most of the blue chips gave up ground, with China Telecom, falling about one percent, and HSBC, shedding nearly 2 percent.

The potential and very real power of large-scale trading in a publicly listed entity with a relatively large market capitalisation can move the Hang Seng Index, without question - and this is well known, allowing for legal manipulation of the HKSAR stock market should the spirit be upon a determined individual.

In Japan, the situation on The Tokyo Stock Exchange mirrored what was happening in the HKSAR, as the Nikkei-225 fell 292.04 points, about 1.55 percent, to 18,558.23.

It was reported that The Bank of Japan was, again, supporting the foreign exchange market, buying US dollars and selling yen.

By the end of trading, last Tuesday, the US dollar-yen rate stood at 102.30 while the Euro-yen rate improved to 103.27 - the Euro had gained a full 3 percent since the close of trading on Friday, November 26.

While trading in Japan was somewhat subdued, last Tuesday, it was on the heels of a reported, multi-billion-dollar deal between Hutchison Whampoa Ltd, Motorola Incorporated (of the US) and Japan's giant telecommunications company, NTT DoCoMo.

NTT DoCoMo, it was reported, was about to pay about \$HK5 billion for 21 percent to 30-percent, minority stake in Hutchison's telecommunication's offshoot, via a New Issue of shares in Hutchison Telephone Ltd.

The deal was a win-win situation for all parties, with Hutchison, being able to have a slice of Japan, and for NTT DoCoMo to have a slice of the HKSAR market and, perhaps, a slice of the expanding PRC market.

Aside from the prospects of a Japanese partnership with Mr Li Ka Shing's HKSAR Empire, little else of material significance was happening in the HKSAR, last Tuesday.

This is the way that things shaped up in other parts of Asia last Tuesday:

Thailand	Plus 0.20 percent
Indonesia	Plus 0.17 percent
Malaysia	Minus 1.51 percent
The Philippines	Closed
South Korea	Plus 3.36 percent
Singapore	Minus 0.66 percent
Taiwan	Minus 1.32 percent
Japan	Minus 1.55 percent

### **Wednesday**

While the Total Turnover was, still, very respectful, at about \$HK10.56 billion, trading on The Stock Exchange of Hongkong Ltd was dull, last Wednesday.

Trading dominance by a few heavyweights was there, yet again, but little else of any consequence was taking place and, in such an atmosphere, the Hang Seng Index started to drift lower.

By the close of trading, The Index stood at 15,377.19, up about 45.33 points, compared with Tuesday's close.

The Index had been up by as much as 100 points in early trading, but investors' fears of the unknown cut deeply into those early gains.

A little further north of the HKSAR, a late selling spree wiped out earlier gains on The Tokyo Stock Exchange, with the Nikkei-225, shedding 62.28 points, coming to rest at 18,495.95.

The selling was spurred by reports that the strength of the Japanese yen, during the past 6 months, had taken its toll on many companies' profits.

While Japan wrestled with its problems, in other parts of Asia, it was becoming increasingly obvious that Japan's losses were other countries' gains.

The People's Republic of China, for instance, with its governmental-controlled currency, was having a bit of an export boom which, in some aspects, at least, must have been caused due to the knock-on effect of the strong Japanese yen - which would make PRC exports appear to be cheaper, relative to similar products, manufactured in Japan.

Late in the day, Japan's NTT DoCoMo confirmed that it was buying into Hutchison (see Tuesday's report). But, by the time that confirmation came, the stock market was closed for the day.

To the surprise of some people in the HKSAR, it was reported that the November 26 publication of a New Issue, Hudson Holdings Ltd, had been received with mixed emotions, and the Issue had been under-subscribed.

Hudson announced that the number of valid applications was equivalent to about 0.82 times the total number of new shares on offer. (please see [TARGET Intelligence Report, Volume One, Number 146, of November 26](#) for details of our analysts' opinion of this New Issue)

There are many people who maintain that many of the most recent new issues should receive the same type of investor response.

In other parts of Asia, this is how the ball bounced, last Wednesday:

Thailand	Plus 0.23 percent
Indonesia	Plus 2.35 percent
Malaysia	Minus 0.24 percent
The Philippines	Plus 0.18 percent
South Korea	Plus 0.25 percent
Singapore	Minus 1.27 percent
Taiwan	Plus 0.59 percent
Japan	Minus 0.34 percent

## Thursday

While Hutchison Whampoa Ltd and its deal with NTT DoCoMo was the talk of the day - for the third straight day, in fact - back in the Land of the Rising Sun, there was a much more important event unfolding.

The Japanese yen was on the run, again, pushing down the Euro to its lowest level, ever.

By the close of trading in Tokyo, there was a great deal of talk about the fact that it appeared that The Bank of Japan was not taking any definitive action on the matter of the strength of the yen.

In late trading in Europe, the yen had gained even more of a dominant role, with the Euro, being traded at 99.99 yen, and the US dollar, being traded at 102.76 yen.

The effects of a continued strong Japanese currency will be felt, not just in Asia, but around the world, in due course: It is just a matter of time.

But, for investors on The Stock Exchange of Hongkong Ltd, their only concern appeared to be how high would the shares of Hutchison Whampoa Ltd be driven up.

The NTT DoCoMo had not put any money into shareholders' coffers at this point in the negotiations, and there were still grave questions, being asked, as to which of the 6 mobile telephone companies in the HKSAR would come out on top of the pile.

The details of the deal with Nippon Telephone and Telegraph Corporation were that Hutchison would sell 19 percent of its cellular telephone arm to NTT DoCoMo for about \$HK3.19 billion.

The share price of Hutchison hit \$HK101, a record level, on the back of the news.

The Total Turnover for the day was \$HK11.54 billion, of which trading in Hutchison shares accounted for about 7.25 percent of this figure.

The Hang Seng Index rose 180.52 points, compared with Wednesday's close, with Hutchison accounting for the lion's share of the gain - about 100 points, in fact - coming to rest at 15,603.04.

But the closing level contrasted, markedly, with the lunchtime close, when the Hang Seng Index was registering a gain of about 48.08 points.

This would indicate that it was only a late buying spree, which gave The Index that extra little push.

Aside from the Hutchison-NTT DoCoMo situation and the continuing saga with regard to the Japanese yen, there was precious little else to report, last Thursday.

This is how things shaped up on other Asian bourses:

Thailand	Minus 0.80 percent
Indonesia	Plus 0.14 percent
Malaysia	Minus 0.01 percent
The Philippines	Minus 1.51 percent
South Korea	Minus 3.13 percent

Singapore	Plus 0.85 percent
Taiwan	Plus 0.52 percent
Japan	Plus 0.10 percent

## **Friday**

It was, without question, an unstoppable Hang Seng Index, which captured investors' imagination, last Friday.

From a purely economic standpoint, there was little reason for the Hang Seng Index to rise 1.52 percent, to 15,840.41, but one cannot argue with success, whatever the reasoning may be.

The Index recorded about half of the day's gain in the morning session, and then continued its run-up in the 90-minute afternoon session.

New World Development Company Ltd hit the Top 10 Most Active Issues with about \$HK723-million worth of scrip changing hands. Trading in this counter accounted for about 4.78 percent of the Total Turnover of about \$HK15.13 billion.

While the 'big boys' stole the spotlight, for the most part, new listing, Hudson Holdings Ltd, suffered badly on its first day of trading - and, in targetnewspapers.com opinion, for good reason.

The closing level of the shares of this counter was 83 cents, after hitting a high of \$HK1.07 and a low of 76 cents.

The Offer Price of \$HK1 per share is unlikely ever to be seen on the boards of The Stock Exchange of Hongkong Ltd, but the closing level was, just about, equal to the Adjusted Net Tangible Asset Backing Per Share on an Enlarged Share Capital Basis.

The Hang Seng Index's gains were, also, on the back of more than a little social unrest in the HKSAR.

There was a bit of a fracas on the island of Peng Chau, over a dispute between the Police and a couple of teenagers, and there was a great deal of disappointment over the determination of the HKSAR's Court of Final Appeal (CFA) with regard to a previous determination of the Standing Committee of the National People's Congress (NPC) in respect of the Right of Abode Ruling.

It was held that the determinations of the NPC were unrestricted and that any decisions of the NPC were '*a valid and binding interpretation*'.

Thus ends the controversy.

Henceforth, any Court of Final Appeal Ruling may be subject to the monitoring station, known as the Standing Committee of the NPC.

The immediate result of the CFA's decision was to cause more than a little unrest in the Central District of the HKSAR with people - mostly those who are affected by the CFA's Ruling - attacking the police outside Central Government Offices.

It was not too long ago that hundreds of HKSAR-based solicitors were walking through Central, trying to let the PRC Government know, by this walk, that they wanted the CFA's rulings to be sacrosanct, as is in the case in other English Common Law jurisdictions.

Times have changed, it appears.

In Europe, there were other concerns, with the international exchange rate of the Euro, being the centre of a great deal of discussion.

The Euro was quoted at below \$US1, but on a par with the yen-US dollar rate of 102.60 in late trading in Asia.

While The Hang Seng Index headed for record territory, in other parts of Asia, things were not as buoyant:

Thailand	Minus 1.25 percent
Indonesia	Plus 2.52 percent
Malaysia	Minus 1.12 percent
The Philippines	Minus 0.82 percent
South Korea	Minus 0.14 percent
Singapore	Plus 0.02 percent
Taiwan	Plus 1.63 percent
Japan	Minus 0.79 percent

-- E N D --