

KOREAN STOCKS POSSIBLY OUT OF BEAR MARKET

KOSPI Regained 970p Level

The equity market has not kept up with the Korea's strong economic growth in the first half of this year. The Korea Stock Price Index (KOSPI) has steadily fallen during this period due to the lack of liquidity and the concern over tight money supply after the elections. On May 27, the KOSPI marked a new yearly low at 847.09, losing 166.48 points, or 16.43 percent from 1,013.57 on January 3. In response to the sluggish stock market, the government unveiled a set of measures to boost the stock market. The initiation of the Stock Market Stabilization Fund and the maintenance of net buying position by the institutional investors helped the KOSPI reach almost a 900-point level on its first move. However, the government's intervention to revive the stock market has failed to improve the already-frozen market sentiment. The KOSPI was hovering around a 870-point level in June.

The KOSPI has gradually moved up higher as the lingering uncertainty was cleared away after

Market Seems to Get Momentum

Given the improved mood after the elections, accompanied with increasing market demand, the market is likely to sustain its upward movement. The liquidity has increased due to the net buying of over 1 trillion won by foreign investors since July 1, in addition to the purchase of 450 billion won worth of stocks by the Stock Market Stabilization Fund since its first move.

Although the customer deposits in securities companies rose to 2.9 trillion won, the current level is not high enough to speed up upswing momentum. In addition, it is likely to face massive selling pressure from short-term profit-taking.

Whether or not the market sentiment is strong

the June 27 local elections. While stocks survived almost unscathed when Sampoong Department Store collapsed to the ground June 29, the KOSPI soared 15.18 points to close at 909.59 on July 1, the first day foreign buyers were allowed to purchase additional three percentage points (up to 15 percent) of equities. The index regained the 900-point level for the first time since it hit 903.01 May 9. The stock market shot up again July 13: the KOSPI gained 15.07 points, to close at 977.29, gaining 73.82 points, or 12.5 percent since the local elections. Trading was very active, exceeding 70 million shares for the first time in six months. Once the KOSPI reached the 970-point level, the index has been faltering, fluctuating around 960-point level. The recent rally can be attributed to such factors as lowered interest rates both domestically and internationally, improved market sentiment, increased customer's deposits, and a large capital inflow from abroad.

enough to speed up the recent momentum depends on the magnitude of additional foreign capital inflow through stock investment, the stability in the money market, and the size of domestic capital flow into the stock market. The large amount of capital can be moved gradually to the stock market stemming from the lowered corporate bond yield, the enforcement of the real name system for real estate transactions, the expected aggregate taxation on financial income, and improved market sentiment. Stock prices will power upward once the capital flow into the stock market is large enough to relieve the selling pressure from profit-taking.

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Review

Outlook