

## KOREAN BOURSE LAUNCHES A NEW BULLISH TREND

### *KOSPI Tops 1,000*

#### Review

**B**argain huntings which had set in late August was a signal for the coming out of a deep long-run dull market for the last 9 months. The equity market has become active as the lingering uncertainty was cleared away after the Chusok holiday. The Korea Stock Price Index (KOSPI) crossed the 1,000 point mark in mid September, which was the first time since mid January this year.

The recent rally of the Korean stock market was mainly due to several complex factors, such as the

expectation of an economic soft landing, ample market liquidity, low interest rates, and the extension of global financial income taxation on bonds, certificates of deposit(CDs), and commercial papers(CPs). The decision for the expansion of global financial income taxation on bonds, CDs, and CPs by the government and ruling party will increase the relative advantage in stock investment compared to bond and money market instruments.

### *Current Bullish Trend Likely to Continue*

#### Outlook

**T**rading during late September and October should continue its bullish pattern helped by the liquidity-driven market. Individual customers' deposits at brokerage firms are likely to rise sharply in conjunction with the recent rapid surge of the stock market. Actually, deposits have stabilized at a 2.7 trillion won level during the last several months despite the decline in fixed income yields. The global financial income taxation on bonds and CDs will spark the flow of funds into tax-exempted equity securities, which will be preferred when it is implemented next year.

There are factors other than global financial taxation causing the rise in stock prices. Most importantly, the plan to build new satellite cities around Seoul will not only provide a big boost to housing builders, but it will also generate demands for raw materials related to housing construction. Also, brisk sales and exports, the restructuring of the domestic securities industry, and economic cooperation between North and South Korea may assist in the upsurge.

Given the abundant liquidity, the current mood of the Korean bourse is likely to continue in October. Now that the long-awaited topping of 1,000 points by the KOSPI has occurred, the KOSPI is expected to pass the all-time high of 1,145.01 points set on November 9, 1994.

Most likely, it is time to increase the proportion of the share holdings of corporations as we expect a continuing surge in the Korean stock market. Although the market is expected to suffer from temporary profit-taking as a result of a very short-term rapid rally, we recommend a buy-and-hold strategy until the end of this year. Investors may target the core blue-chips which are undervalued compared to their performances, construction shares with SOC(social overhead capital) advantages and new satellite cities plans, and information and communication shares with their high growth potential. **VIP**

*(Park Jong-Gon)*