

## THE KOREAN STOCK MARKET WILL FREE ITSELF FROM SLUSH FUND SCANDAL

### *KOSPI Decreases Sharply Due to a Political Scandal*

The Korea Stock Price Index (KOSPI) stood at 937.04 points on November 15, having tumbled more than 60 points since October 19 when it was revealed that former President Roh Tae Woo possessed a large slush fund. Amid the growing talk that the prosecution was launching a large-scale investigation into the stock market to track down part of Roh's slush funds, stock prices fell sharply. This was reflected in the thin trading volume of 19 million shares and in the customer deposit levels, which averaged 2.4 trillion won. Not only have individual and foreign investors

stayed outside of the market, but institutional investors, who led the recent market movement, have also returned to their "wait and see" stance.

Another pressing issue was the dramatic drop in the electronics sector after reports surfaced that the American securities company Merrill Lynch had significantly revised downward its forecasts for the world semiconductor industry. Fears of an oversupply in semiconductors by 1998 resulted in a sharp decline in such issues as Samsung Electronics, LG Electronics, and Samsung Display Devices.

Review

### *The Market Will Rebound, Though*

Looking ahead, investors are advised to remain cautious. Although it was originally expected that the political scandal would peak by mid-November, it now appears that the investigation will continue to widen for yet another month. Accordingly, the KOSPI should once again move sideways in the coming month. However, once past this point, there is a strong possibility that the market will go on a run. It is believed that a technical rebound will occur once this political hurdle is passed, as the upside potential for the market is high considering recent encouraging developments.

Most significant is the liquidity situation. Although the yield on three-year corporate bonds inched up to 12.07 percent on November 9 due to

political uncertainty, the general consensus is that rates will begin to fall again by next month. This fall in rates should draw more institutional investors into buying positions. It is expected that institutional investors who seem to favor bonds over stocks in their portfolios will switch to stocks once the yield on three-year corporate bonds enters the 11 percent level. In addition, small investors will most likely be active in the stock market before the implementation of the global taxation system, and both institutional and small investors are likely to step into the market once the political scandal regarding the secret funds clears up. **VIP**

*(Jong-Gon Park)*

Outlook