

## OVERSUPPLY IS THE HINGE OF CURRENT MARKET

### *The Korean Stock Market Returns to March Level*

The Korean stock market started May with a solid rise. However, due to the government's announcement that the supply side for the stock market was extended and the resulting weak investment sentiment, the KOSPI declined sharply in the middle of the month.

The KOSPI stood at 928.80 points on May 18th, down 58.04 points from the yearly high of 986.84 points on May 7th. The oversupply of stocks was the biggest factor for the drop in stock prices. The volume of newly issued stocks in May is estimated to be around 290 billion won, much larger than last month's. Furthermore, as stock prices rose earlier in the month, the government announced that the new listing of large companies, which had been delayed, and capital increases of financial institutions would be permitted. Many investors are worrying about a decrease in stock prices caused by this increasing number of new issues.

Rising bond yields also helped to pull down the stock market. As the three-year corporate bond yield rebounded up to 11% level, stock investors showed decreased interest in stocks.

Even though the market took a step backward, the average daily trading volume remained continuously firm and increased for the month to 46.65 million shares from 32.71 million shares in the previous month. Customer deposits at brokerage houses remained at 3.17 trillion won as of the 18th of this month, a slight increase over the previous month.

By sector, index-related large-capitalized shares such as KEPCO, POSCO, Samsung Electronics and Hyundai Motors led the sluggish market. Financial stocks including banks, securities and wholesale remained weak. However, mid- to

small-capitalized individual issues such as telecommunications, M&A-related shares and high-asset-value issues still showed solid performances.

### *Consolidation Will Continue for the Time Being*

The stock market curve is expected to remain parallel, ranging in the 920 to 940 point level. However, it is possible that the KOSPI will rebound to over 990 points if there is resistance at the 920-point level. The negative effect on the market caused by the government's allowance of new listings amounting to 2.5 trillion won in the third quarter will continue to affect the market during the month. However, the expected money market stability in next month will be a positive factor for the stock market. The overnight call rate may drop into the single-digits. The bond market will see interest rates fall due to money market stability and expected strong buying interests from institutional investors, since they sold off a part of their holdings last month.

By sector, the market will be led by financial shares such as banks and securities since those shares were isolated during the last rally. Ordinary income for banks is expected to increase 66 percent over the last fiscal year end. Securities shares will be favorably backed by the declining interest rates. It is also anticipated that individual issues having themes of M&A, telecommunications, and value stocks will be favorable for the short-term buy and sell. **VIP**

(Jong-Gon Park)

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