

BAD NEWS PLAGUING THE STOCK MARKET

Worries Cause KOSPI to Decline

The stock market tumbled in June as economic figures indicated that the economy is currently on the downside of a business cycle. Many were worried about the increasing trade deficit and rising interest rates due to the Government's expected contractionary monetary policy. The market also sharply declined when the head of the Securities Supervisory Board was arrested on bribery charges. Reduced customer deposits at brokerages and the current high level of margin accounts outstanding further depressed the market sentiments. As a result, the KOSPI declined to 856.4 on June 17, down 130 points from the yearly high recorded in May.

The market tumbled again during the middle of June without any major negative news. Investors dumped shares as they were pessimistic about the market's near future. Because of worries over the Korean economy as well as the fact that the investment limits had already been reached on many issues, foreign investors' participation in the local stock market decreased significantly in May and June.

The Japanese yen's depreciation has also tended to hurt Seoul stock prices. In an analysis of the relationship between stock prices and the yen's movements, when the yen drops by 10 percent against dollar, domestic stock prices tend to decline by 2.55 points in a month, and nearly 70 points in a year. The weakened yen badly hurts domestic companies' price competitiveness in overseas markets and thus increasingly affects major export items' shipments abroad. It also results in hikes in interest rates in the local financial markets.

The average daily trading volume for the middle of June, 21.89 million shares, declined from the 24 million-share average of early June. Customer

deposits at brokerage houses also remained weak at 2.6 trillion won, down from the 2.8 trillion won in early June. By sector, theme stocks such as pharmaceutical issues have registered strong performances. Financials, construction and low-price, large-capitalized shares have shown intermittent upswings in June.

Rebound to the 900 Level Unlikely

The stock market is not likely to recover to the 900 point level since the current economic situation is not favorable to the market. The declining customer deposits and margin accounts outstanding will also continue to depress the market's movement. However, we cannot rule out the possibility of a rebound due to the market's sharp tumble at the end of June. The market will range between the 850-880 point levels. By sector, domestic-related shares will be favorable reflecting the downside of the business cycle. Theme stocks, especially M&A issues, are expected to lead the market in these bearish times.

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