

SLUGGISH ECONOMY HURTS THE STOCK MARKET

Looking for Some Good News

The stock market tumbled again in September as economic figures indicated that the economy is still on the downside of a business cycle. The nation's potential gross national product (GNP) growth rate dropped to 6.8 percent on average in the past three quarters from 7.2 percent in previous years, according to an estimate by the Bank of Korea (BOK). The central bank predicted that the 6 percent-level potential GNP growth rate would continue in the second half of the year, which will hardly motivate investors to actively participate in the securities market.

The KOSPI recovered to the 800-point level on September 17. The market rebounded above the 800-pt. psychological resistance level mainly because of the additional expansion of the foreign ownership ceiling. However, the KOSPI relinquished its gains due to the increasing selling pressure. Favorable factors such as tax-benefited savings schemes and the foreigners' ceiling expansion were discounted by the disappointing economic situation. Also, the weakened customer deposits at the brokerage houses and repayable margin accounts outstanding are the other technical factors that are forcing investors to recoup the recovery of the market. As a result, the KOSPI marked 759.36 points as of September 20, which is a fall of 227.48 points, or more than 23 percent, from the yearly high of 986.84 points on May 7.

The average daily trading volume recovered up to 22.39 million shares and the customer deposits at brokerage houses remained at 2.4 trillion won. Also, the market liquidity will remain stable due to the government's continuing flexible monetary policy. But as worries increase over expectations that the government will tighten the M2, we expect that the 3-year corporate bond yield, a

benchmark rate, will average between 11.90-12.10 percent. This might dilute the positive effects of the previously mentioned bright signals.

Another piece of bad news is that the market tumbled during the middle of September 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 August and September.

A Great Deal of Patience Is Needed

The declining customer deposits and the ample margin accounts outstanding will continue to depress the market's movement. However, the possibility of a rebound due to the market's sharp tumble cannot be ruled out. Even though hostile mergers and acquisitions (M&A) have become unlikely because of the new measure from the Fair Trade Commission, there is still a possibility of M&A's among financial institutions and communications-related companies.

The market is likely to consolidate between the 750 and 800-point levels. Because of the increasing selling pressure by the repayable margin accounts and equity supply standing at 290 billion won including the rights issue of Hyundai Engineering & Construction and the public offering of LG Semicon, the market rebound is expected to be limited. By sector, small-medium individual and M&A theme stocks are expected to lead the market whereas large-capital shares are not likely to be gainers. **VIP**

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