

JANUARY'S OUTLOOK IS GLOOMY

The KOSPI Seesaws, Then Hits New Lows

The Korea Stock Price Index (KOSPI) fell below the 700 marker in the first week of December for the first time since September 1993. The KOSPI continued to fall and eventually broke the 660-point barrier on 18th December. This resulted from a combination of factors including the continued economic downcycle, high interest rates and an oversupply in the market. Specifically, the news that the current account deficit for 1996 would hit a record high also contributed to the bear sentiment in the market. Moreover, the 3-year corporate bond rate rose to 12.65 percent. Investing in the stock market has become less attractive, and raising funds has become more difficult for companies. Aggravating matters, the margin account balance of around 2.8 trillion won is still larger than the customer deposits of 2.5 trillion won. The KOSPI soared above 700 points two days after the Ministry of Finance and Economy asked major pension to buy up some 300 billion won worth of stocks within this month in its bid to curb the recent bearish market on 20th December. However, the KOSPI dropped back down to the 650 level.

The Bear-Sentiment Will Prevail Through January of the New Year

Generally, the world stock market is bullish at the start of a new year. The January effect is when the optimism of a sound economy prevails in the stock market. However, the January effect is not expected to take place in the Korean stock

market. The primary reason is that the economic cycle is still in a downtrend and the supply-demand situation in the stock market is unbalanced, although large amounts of funds will be diverted to the stock market. There will be an excessive amount of margin loans, which will still dominate the customer deposits. Furthermore, the high interest rates will not disappear in the near future. These factors will have a negative impact on the investment environment, especially on individual investors who will increase their net selling positions. This cloudy market sentiment will dominate the KOSPI for the early part of next year. There has already been a three-parallel downturn, a 25 daily moving average, 75 daily moving average and 150 daily moving average.

Reaching the 900 level by the End of 1997

The KOSPI will jump to above 900 points by December 1997. Many economic research institutes have predicted that the economic cycle will experience an upturn and the major Korean export industries will show a recovery from the second half of next year. The market rates are expected to stabilize because the Korean government is adamant about lowering market interest rates to a level comparable to other developed nations, and the demand for funds will decrease due to the decline of new equipment investment. The year 1997 is a presidential election year, which could further boost the KOSPI by the autumn of next year. Therefore, the stock market is expected to rebound strongly as of the second half of 1997, reaching 900 points by the year-end. **VIP**

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