

WILL THE BULL MARKET CONTINUE?

The KOSPI Rebounds Over 100 Points During 8 Trading Days

The Korea Stock Price Index(KOSPI), having dropped some 300 points during the year of 1996, started this year in a decreasing mood with the index plunging some 32 points during four consecutive days starting from January 4th, threatening the 600-point level by Jan. 7, 1997. Then, the impossible happened—the market began to rebound drastically and investors went on an aggressive buying spree. The KOSPI rose over 100 points from 611.05 (Jan. 7th) points to 711.86 points(Jan. 16th) in only eight trading days, although it fell back to around 670 a week later. Blue-chip stocks such as KEPCO, Samsung Electronics and Hyundai Motors led the bullish market, and noble shares (stocks over 100,000 won) and small- and mid-sized shares followed them.

The reasons for this recent positive sentiment are attributed to several factors. First, investors were seeing a light at the end of the tunnel for the on-going strikes. Expectations that the strikes would come to an end served as a rebounding factor in the already devaluated stock market. Second, President Kim Young-sam's Presidential Commission on Financial Reform, proved to have a more than expected positive effect on the market, with hopes for a stronger financial sector through mergers and acquisitions (M&A) between local banks. Rumors of possible M&As spreading through the Korea Stock Exchange (KSE) also served as a factor boosting the market. Third, investors were convinced that the balance between supply and demand had finally stabilized, with customer deposits exceeding the amount of outstanding margin loans.

Dual Forecasts Coexisting in the Local Market

However, market observers are divided into two sides, positive and negative forecasters for the future local bourse. The negative side points out that the recent surge is a part of a much awaited rebound from the dramatic fall at the end of last month. The main reason can be attributed to continuing depression of the local economy and political strains. They say that the recent bullish market will settle down as early as within a few days, after going through a slight readjustment.

On the other hand, the positive market observers insist that the current index is a signal of new bullish trends that have been long awaited. They expect the index to work its way up to 750 points by the beginning of February. Their opinions are based on the following. First, the economic factors were fully reflected in the Korean stock market during last year and the projections for this year's economy will not worsen any more than now. Increased customer deposits in broker houses are speaking by proxy for this. Second, interest rates are expected to decrease throughout the coming month, maintaining its position well below 11 percent. It will be mainly due to a drop in facility investments and a decrease in businesses' demand for additional capital as well as the government's strong intention of easing interest rates. Third, the forthcoming presidential election, whatever the outcome, is also expected to cause ripples in the stock market. **VIP**

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