

BLUE-CHIPS AND CYCLICAL STOCKS WILL LEAD THE MARKET

The KOSPI: a Mountain Curve in February

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Last month, the Korean stock market was like a mountain curve, climbing and sloping. During the first half of February, the Korean Stock Price Index (KOSPI) jumped smartly after the lunar New Year Holidays amidst an announcement by the Bank of Korea that no tightening of the money supply was planned. This helped market sentiments ease and the KOSPI to regain the 720 points level.

On the back of ample liquidity in the money market, customer deposits continued to rise to break through the 3 trillion won level for the first time in more than five months. On the other hand, outstanding margin loans have remained relatively stable at the 2.7 trillion won level. The cut in the reserve requirement ratio for bank deposits on Feb. 23 also eased possible worries in the market. The Bank of Korea also announced that it would supply 700 billion won to commercial banks through three-day repos to increase short-term money liquidity.

The KOSPI stood at 722.32 points on Feb. 15th, having increased by 39.19 points from 683.13 points on Feb. The trading volume was also sustained at a solid level of 32 billion shares during the period.

However, a sudden tumble occurred as market liquidity deteriorated and interest rates rose sharply. Foreigners and institutional investors, who had been on a two-week buying spree, started to sell off early in the week. Individual investors, who bought the stocks, also sold out as they were psychologically affected by the drop in customer deposits, which fell again below three trillion won, and the sharp hike in

3-year corporate bond yields. On Feb. 21st, the bond rate rose by 0.13 percent in one day as the primary market volume for next month's issues reached a historical high.

After all of this, the KOSPI was at 676.59 points on Feb. 24th, having fallen by 45.73 points from the recent peak. In particular, the drop in the KOSPI on Feb. 21st was the second largest for this year, falling by 24.41 points for the day. The fall was led by massive profit-taking by investment trust companies, which were soon followed by other institutional investors and then by individual investors.

Blue-chips and Economy-sensitive Stocks Will Lead the Market

While most shares fell during the recent plunges in Korean stock market, some blue-chips and cyclical stocks went against the tide, mainly due to the expectation of an economic turnaround and rumors of an early foreign limit expansion.

The rally in early February in the Korean stock market was largely based on the improved liquidity of the market, falling interest rates and expectations of improving economic conditions. Of course, there are no solid signs of a turnaround in the economy. However, there are no indications that the local economy will worsen, either. This will be the factor that will ease investors' sentiments.

Expectations of a three-percent foreign ownership limit expansion and the turnaround of local economy will help the blue-chip shares and economy-sensitive stocks to be leaders in the coming bullish market. **VIP**

(Jong-Gon Park)