

MARKET WILL RECHARGE ITS ENERGY

by Jong-Gon Park

KOSPI Plunges Suddenly For Technical Reasons

The Korea Stock Price Index (KOSPI) attempted to reach the 800 level for four consecutive days between June 14 and 17, only to fail. After then, the composite index lost ground, falling about 60 points during second half of June. KOSPI plunged to 738.43 points on June 27th from the yearly high of 792.29 points on 17th. The setback of the period was large enough to wipe out the gains of the early half of this month. Trading was also sluggish, with just lower than 25 million shares changing hands as opposed to the 80 million shares early June.

The sudden drop was mainly attributed to a reversal of the decline in interest rates and a slow-up in the appreciation of the Japanese yen. Profit-taking by foreign investors also contributed to the fall in share prices late June. In addition, the government's decision to list Korea Telecom on the market in October contributed to the weakened investment sentiment. However, while it is true that there were many fundamental factors, behind all of this was a technical reason: share prices rose too high, too quickly. Trading volume recorded twice ever high of over 80 million shares without an index surge. The market ceased to go anywhere as trading noticeably lost steam.

During the period, individual investors remained bullish overall, but only by a small margin, while institutional investors maintained their aggressive selling. Foreign investors, who had been steadily increasing their positions in the Seoul bourse, drastically

decreased their buying tendencies, ending with a small net buying position.

The worst performers were the troika stocks such as constructions, trades and finances, which were leading shares in the last rally. Large-cap shares also decreased significantly.

Market Will Recharge Its Energy through Further Consolidation

The July market will hover for the time being. The liquidity-driven market based on fundamentals such as low interest rates and a strong yen failed to rise further because a visible economic recovery is not likely in store until the fourth quarter.

With the level of outstanding margin loan accounts rising to 3.3 trillion won and surpassing customer deposits at brokerage houses (3.26 trillion won), fears of a yet another imbalance between supply and demand in the market are rising. Furthermore, the supply for the coming month of July is expected to be the highest this year, with 710 billion won worth of stocks expected to flood the market. An additional 500 billion won worth of shares which are on margin loan accounts have to be settled by the end of coming month, adding weight to the already burdened market.

The Korean stock market is likely to undergo further adjustment in July with share prices steadily bottoming out. The market will recharge its energy while remaining below the 760-point level before seeking other avenues for a rebound. **VIP**

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