

STOCK MARKET WILL STABILIZE

*by Jong-Gon Park**Kia's Insolvency Lowers KOSPI Drastically*

Korean investors were shocked to hear that the Kia group, Korea's eighth largest chaebol, fell under the protection of creditor banks. It was only a few months ago that Jinro and Dainong were put under the same rescue package.

Responding to the news, the Korea Stock Price Index (KOSPI) dropped a total of 38.47 points to 725.98 points on July 22nd from 764.45 points on July 14th, when Kia's creditor banks announced their decision to bail Kia out. The setback of the index more than wiped out the gains of the previous rise. The average trading volume for July shrank to 36.97 million shares, down from 51.06 million shares of the previous month. As of July 23th, the level of outstanding margin loans, amounting to 3.3 trillion won, still surpassed customer deposits at brokerage houses (3.26 trillion won).

Stock investors were jittery throughout the month, dumping enormous amounts of shares back into the market, as rumors of other conglomerates on the brink of insolvency—due to a serious shortage of funds—spread. The lowest performers for this month were the creditor banks that had doled out huge loans to companies such as Kia, and other firms recently mentioned as having financial troubles.

Foreign investors, who had maintained a steady, bullish position over the past few months, recorded the biggest net-sales figure for several days after the Kia bailout. Kia has greater recognition abroad than in the domestic market, so foreigners rushed to get rid of shares

related to Kia and its creditors. In fact, most of their sell orders were for shares of Kia's creditor banks and other Kia-related firms. Another large portion of the shares sold were of conglomerates recently rumored to be suffering from serious cash crises.

Market Will Hover between 720 to 770

Investors have to keep in mind that foreign investors have poured some 1.9 trillion-won worth of funds into the Korean market since May. It is sure that Kia's brush with insolvency has made many domestic and foreign investors jittery and has prompted doubts about the Korean economy's ability to resurface.

However, it is time to wait and see where the stock market will move. The Korean Stock Market has had a good run for the past several months, as interest rates fell and the Japanese yen strengthened against the U.S. dollar. Foreign investors as well as local speculators will not easily give up on the stock market. It is because that many participants in the market are expecting an eventual local economic recovery and foreign investors will most likely return to the market as the Kia shock fades out. Moreover, in August, the rally for the presidential election, scheduled this coming November, will start in earnest. During the campaign rally, many campaign promises will be made by presidential candidates, which will act as a good news for the local stock market.

Accordingly, August's composite index is likely to hover in the 720 to 770 point range. **VIP**

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