

## TECHNICAL REBOUND EXPECTED IN OCTOBER

*by Jong-Gon Park**KOSPI Plunges to 620 Point Level*

The Korean stock market continued to plunge throughout September. The Korea Stock Price Index (KOSPI) dropped over 70 points, or 11 percent during the month and recorded a six-month low of 625.07 points on September 29th. The sluggishness in share prices on the Korean bourse was the result of a series of negative factors, including the impending insolvency of the automotive Kia Group, the depreciating local currency of the Korean won, and the surging money market yields.

When Kia asked for court mediation in a last ditch effort to save Kia Motors, investors went into a panic selling. Kia filed an application for court protection for debt rescheduling; however, the main creditors are trying to force the ailing Group to be put into court receivership.

Yields for three-year corporate bonds and overnight call money have been steadily climbing, reaching an annual 12.65 percent and 14.6 percent, respectively, on September 29th. The Korean won further depreciated to 914 won per dollar. The recent currency crisis in Southeast Asian countries such as Thailand, Malaysia and Philippines has left Western investors doubting the Asian market as a whole. That includes Korea. Rising concern over the won's continued depreciation has led most foreign investors to dump local shares in great amounts, including their one-time favorites such as KEPCO.

The average daily trading volume for September shrank under 30 million shares. As of September 29th, the level of outstanding

margin loans, amounting to 356.5 billion won, still surpassed the customer deposits at brokerage houses (248.4 billion won).

Blue-chip shares including POSCO and KEPCO were mostly lower due to the sell-off by foreign investors. Semiconductors were sharply lower, depressed by falling 64-M DRAM prices overseas. Kia Motors continued to weaken after banks rejected its application for loan restructuring. Financial shares such as commercial banks, merchant banks and brokerage houses were all mixed to lower due to the fear of potential bankruptcies of subcontractors of Kia.

*Expected Technical Rebound*

Share prices in the local market, which have dropped about 20 percent during last one and a half months, are expected to rebound technically during October. However, the rebound will be limited, because there are few signs of concerns easing over the unstable Korean won and the ongoing financial crisis.

However, we predict no more sudden drops in share prices in the near future, as the KOSPI went under the previous low level of 620 points and plunged too fast too quickly. In fact, low level of trading volume at the end of the month signals a strong technical rebound to occur in the near future. If the Kia crisis is somehow resolved in a reasonable manner, we cannot exclude the possibility of a strong rally. Therefore, it is recommended that investors take a conservative investment strategy, watching the Kia's situation closely. **VIP**

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