

KOSPI EXPECTED GO UNDER 400 POINTS

by Jong-Gon Park

Share Prices Turned Down in April

April was a tragic turnaround for stock investors. The Korea Stock Price Index (KOSPI) plunged more than 53 points, which wiped out all the gains made in previous months. Furthermore, there is a real possibility that the index will fall even further.

The KOSPI, the benchmark index of Korean stock market, was recorded at 406.25 points on April 27th in this year, a 74.79 points drop (15.54 percent) from the 481.04 point at the end of March. This was the lowest level in nearly four months. Turnover was tepid with an average 43.86 million shares changing hands per daily.

At one point earlier in the month, the stock index recovered rapidly, helped by the news that the government's \$4 billion sovereign debt issue was successfully offered in New York, and that the usable foreign reserves would reach around \$30 billion by the end of April.

However, the reports that foreign creditors were moving to call in on their loans to Korean firms earlier than expected as well as declining deposits at trust accounts at banking institutions further fanned fears of a freeze in cash flow in the domestic market. The continuing labor unrest aggravated the already weakened sentiment. This, coupled with the relentless profit taking linked to the index futures market, served to prompt the index to plunge more than 60 points toward the second half of the month. Most blue-chip shares such as Samsung Electronics, POSCO and KEPCO, which have been foreign favorite shares for a long time, led the current market collapse.

During the month, currency or won-dollar rate remained fairly stable at a level below

1,400. However, there are some worries among investors that the won might start depreciating again, because many external factors like the uncertainty of Japan's economic boosting measures and China's currency policy could harm the Korean won. The yield on guaranteed corporate bonds with a maturity period of three years almost did not change during the month, staying at around the 18% level helped by the stable market liquidity. The overnight call rate decreased to under 20 percent on April 27, the first time since the IMF bailout package at the end of last year.

Index Will Pierce Down Through 400 Point Level

Despite the Korean index's drastic fall over the short period, individual investors as well as institutional investors will be expected to remain conservative with their negative sentiments. Many foreign institutions are also not ready to add Korean stocks to their portfolios. In fact, foreign investors will welcome bankruptcies, no matter how large and broad their impact is on the economy and the stock market, because only strong companies will emerge out of the current financial crisis. Foreigners will wait with patience for promising signals. Whenever the government makes a correct move, they will respond to it, adding more money to the Korean stock market.

Consequently, downward movements of stock prices are expected to go on further, with the KOSPI breaking the level of 400 points, largely due to weakening foreigners' purchasing power and spreading worries about possible chaos in June among investors. **VIP**

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