

THE KOSPI WILL BE SLIGHTLY UPWARD

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External Factors Keep Korean Stock Market Bearish

In August, the Korean stock market was largely swayed by external factors such as the possibility of the devaluation of the Chinese yuan, the fluctuation of the Japanese yen, Russia's declaration of debt moratorium and the movement on Wall Street. The Korean stock market was hit early in the month by the news that Korea's July exports marked the biggest year-on-year decline in 13 years and also by the flood damage in the Kyonggi and Seoul regions. The local bourse was also bearish because the deluge of rain that had also poured down in China and the resulting contraction of domestic demand.

The KOSPI once again dipped below the psychologically important 300-point level after the suspension of Hannam Investment Securities Co's operations was reported in the middle of the month. The index continued to descend as international hedge funds continued to sell the Hong Kong dollar as well, triggering concerns over a possible devaluation of the yuan and another wave of a massive currency crisis in Asia. The Japanese yen continued to falter despite the Japanese government's assertion that it was ready to support its currency.

Share prices maintained a bearish stance and traded up and down around the 300-point level because of two factors late in the the month. First, investors were disappointed over the poor first-half performance of listed firms. The second was the news of Russia's moratorium.

Russia's economic woes at first only did slightly damage to local stock market, but as the news worsened during the following days it swayed the KOSPI considerably. As the Russian ruble tumbled against the dollar, stock markets all around the world tumbled, including in the U.S., Europe, Southeast Asia, Japan and, of course, Korea.

Market Will Be Slightly Bullish

The Korean stock market is likely to recover to a slightly bullish mood in the coming month. The Korea's weight in the Morgan Stanley Capital International (MSCI) index will be hiked by 100 percent September 1, and U.S. investors will add to their holdings in the local stock market, which should boost the local investment sentiment. The local market has slumped because of the turmoil in international stock markets; therefore one can say negative factors are already reflected in the market. The recent strength of the yen will be also a positive factor in the KOSPI. These positive factors are likely to be offset slightly by negative ones, however. Russia's continuing difficulties and the possibly unstable economic condition in Latin America will dampen investors' sentiments around the world.

Technically the KOSPI already confirmed the 300-point support line during August. Therefore, we expect that the KOSPI will be in a slightly bullish mood and hold on upward box trading between 320 and 350 points in September. **VIP**

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