

KOSPI SKYROCKETED IN RECORD SURGE

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Low Interest Rates Accelerated Inflow of Funds to Market

The Korea Stock Price Index (KOSPI) jumped up to 579.86 points on December 15, a double-digit percentage jump or an increase of 120 points during the first half of this month. Volume, indicating the energy inside the market, swelled to an all-time high of 330 million shares from 100 million shares a month ago.

Gains were made across the board, spread across blue chips as well as financial and construction shares. In particular, some of shares in banking, brokerages and construction surged to over double their value.

The December rally in the stock market was mainly due to the low interest rates. Apparently affected by a steep fall in market interest rates, a massive amount of funds has been flowing into the stock market recently. The 3-year corporate bond yield decreased to an all-time low of below 8 percent thanks to the government's plan to further lower interest rates to boost the macroeconomy. The overnight call rate is hovering at the 6.0 percent level. As the market interest rates sharply declined, individuals and institutions rushed to the Korean bourse. Reflective of the liquidity-driven market, the daily trading volume of stocks reached almost 400 million shares on December 16th.


After the stock market skyrocketed during the first half of the month, there was a selling spree among retail investors who wanted to get short-time profit taking spread out over the market at a time. The news of the listing of Korea Telecom's shares on December 23 or 24 and the U.S. and British air strikes on Iraq were the hinges of the

continuing rally in the Korean stock market. The KOSPI corrected to 524 points on December 18th.

Index Expected to Rise Further

The Korean share prices are expected to continue to rise further following reports that Moody's may possibly upgrade Korea's sovereign rating from non-investment grade to investment grade in the near future. An upgrade by Moody's could encourage large amounts of foreign capital to flow into the nation's capital market and signify the progress being made by Korea to emerge from its crisis.

In other encouraging signs, Korea recently repaid US\$1.1 billion of the first tranche of its International Monetary Fund (IMF) bailout loan on December 18th. At the same time, the Ministry of Finance and Economy forecasts that Korea's usable foreign exchange reserves could surpass US\$50 billion next year with a US\$20 billion current account surplus.

Customer's deposits at the brokerage houses, a gauge for domestic investor sentiment, are still a record 4 trillion won level, reflecting ample liquidity in the stock market. Helped by abundant market liquidity and stable market interest rates, the market is expected to resume its upward trend of recent weeks and could pierce the 600 point-level in the near future. However, the recent market rally is attributed mainly to abundant market liquidity rather than economic fundamentals. An increase of stock prices without an improvement in fundamentals is short-lived and most gains will show corrections. Therefore, it is necessary for investors to look at the economic indicators that will soon be announced. 

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