

STOCK MARKET BEGINNING WITH GAINS IN NEW YEAR

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Abundant Liquidity Led the Bullish Market

The Korean stock market started the new year with solid gains thanks to the low interest rates. Other items of good news were the recent sovereign credibility upgrades by major international ratings agencies and expectations of the economic recovery. The Korea Stock Price Index (KOSPI) jumped up by 75.13 points, a 13.36% upward move, during the first 4 days in this year. Korea already ranked third among FIBV (international federation of stock exchanges) member countries in terms of stock price increase rate last year.

The January surge of Korean stock market was mainly attributed to low interest rates and abundant market liquidity. Nowadays, it is very hard to find financial products which guarantee an annual interest rate of over 10 percent. The 3-year corporate bond yield dropped to the all time low of 8% level, while the overnight call rate is hovering at the 6.0 percent level.

Given the government's strong will to lower such rates, financial commodities available at banks and other investment institutions are losing their relative attractiveness. This was a major factor behind the money flows to the stock market for more profitable (though riskier) gains. Actually, a lot of money has moved from commercial and merchant banks to investment trusts, mutual funds and the stock market. Customer deposits at the brokerage

houses, a gauge for domestic investor sentiment, increased to the highest level ever of 5.3 trillion won, reflecting ample liquidity in the stock market. The news of S&P and Fitch IBCA's upgrades of Korea's sovereign ratings from junk bond status to investment grade also catalyzed the stock market. After mid-January, however, external factors such as the Brazilian financial collapse and turmoil in the Chinese financial markets drew back the KOSPI to below 600 points.

A Short Correction is Expected

A short term correction of the stock market is expected in February. Major domestic institutional investors such as investment trusts and securities companies may thwart the recent rising mood by selling their holding shares for margin returns, since they would like to realize profits from stock investments before the fiscal year ends this coming March. However, the Korean stock market is expected to maintain its bullish trend in the long- and mid-term. After the selling moods of institutional investors related with the fiscal year's reports come to an end, stock prices will possess firm ground to rebound due to reassurances that the government will maintain low interest rates to stimulate the economy and stabilize the foreign exchange market. **VIP**

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