

KOSPI WILL MOVE AROUND 500-POINT LEVEL

by Kyu-Seop Kwak
(e-mail: kskwak@hri.co.kr)

Share Prices Sharply Down in February

The Korean stock market continued the downward movement which began from the end of January. The Korea Stock Price Index (KOSPI) broke through the psychological support line of 500 points and was recorded at 498.42 points on February 24th, a 142.53 point (22.2 percent) drop from 640.95 points on January 11th. This was the lowest level of this year. Customers' deposits sharply fell from over 5 trillion won to below 4 trillion won on February 26th and the trading volume was just 114.16 million shares.

Even though President Kim Dae-Jung expressed confidence in an early economic recovery in his annual press conference, it did not impact stock prices significantly. Moreover, comments by Michel Camdessus, the head of the IMF, regarding the upward revision of Korea's 1999 GDP forecast to 2% growth also failed to bolster investor confidence. The sharp cooling-down in investment sentiment was largely triggered by the tumble in the yen's value as well as the sharp fall in the futures market. In particular, the Japanese yen's weakness had a profound effect on local stock investor sentiment until the end of February. Besides the weak yen, there were other unfavorable factors. Growing concerns over labor disputes and gloomy prospects for

Korea's exports in February sent a cold spell through the Korean stock market.

Continuous Decline Not Likely

Despite these circumstances, the news that the Federation of Korean Trade Unions, one of the nation's two union umbrella organizations, delayed its decision to quit the tri-partite agreement triggered a positive shift in investor sentiment. And investors seemed to confirm the bottom line. Therefore, the KOSPI jumped 20.92 points to close at 520.06 on the last trading day of February.

In addition, it is possible that the KOSPI will move up to over 550 points if there is program-led buying by retail and foreign investors for bargain hunting and the yen/dollar rate is stabilized at the level of 120 yen. The low interest rates in the financial market are positive factors, too. However, these factors can have only a limited effects since the customers' deposits and trading volume are not sufficient enough to support the index. Therefore, the Korean stock market is still fragile and susceptible to external shocks like the yen's movement. Consequently, Korean stock index is expected to seesaw in the range of the 500-550 points for a while. After that, the market will still remain in a cautious mood. **VIP**

"The sharp cooling-down in investment sentiment was largely triggered by the tumble in the yen's value as well as the sharp fall in the futures market."