

ABUNDANT LIQUIDITY PUSHES STOCKS UP

Jong G. Park

(jgpark@hri.co.kr)

Investors Continue Buying All Month Long

The Korea Stock Price Index (KOSPI) set records this past month, surging more than 170 points (up 28.27 percent) and setting a new year-high at 793.98 points on April 27. During the first 18 trading days in April, the blue falling sign was on stock market boards for only three days. Aggressive foreign and local institutional purchases powered the KOSPI upwards last month amidst improved investment sentiment as progress seemed to have been made in chaebol restructuring amid soaring liquidity.

Hyundai and Daewoo announced strong restructuring schedules for the purpose of improving their capital structures. They revealed ambitious plans to sell of a steel maker and ship building unit, respectively in an effort to reduce their debt-equity ratios. Their restructuring plans have played a role of boosting the investment sentiment in the stock market.

Falling interest rates and abundant market liquidity prompted foreigners and institutional investors such as banks, securities firms and investment trusts to rush into the stock market in search of higher profits. Bank customers in particular are scrambling to invest their extra funds in newly-introduced unit-type trust accounts. Domestic banks are competitively introducing the new product in an attempt to counter the massive absorption of retail investment funds by securities companies' indirect investment products. Banks' money trust accounts, mainly for investments in stocks and bonds, drew about four trillion won in the two weeks since they were launched in mid-April.

Customers' deposits in the brokerage houses, a gauge for domestic investor sentiment, increased to a high of 8.5 trillion won, an increase of 3 trillion won.

Share Prices Need Consolidation

The government is thinking of inducing companies under bank-imposed restructuring obligations to reduce their debts through offerings while the stock market is bullish. The Kim Dae-jung Administration required 64 top-ranking conglomerates to submit their monthly rights issuance plans and asked the banks to monitor their implementation every month. It will not artificially raise the interest rates, despite the growing voices of concern on the stock market.

The Korean stock market is expected to continue in this bullish mood for some time. However, the share prices need short-term consolidation. The KOSPI has skyrocketed for the last two months at such a steep pace that the government is thinking of ways to stabilize the securities market, such as selling stocks owned by the government in order to control the speed of the stock price rally.

In spite of the external factors, there are a number of companies waiting to offer new right shares as well as equity linked debt instruments, such as convertible bonds and bonds with warrants. In the second quarter of this year, listed companies are planning seasoned equity offerings worth more than four trillion won. This may act as a hinge to the current upward movement of share prices. **VIP**