

TIME CONSOLIDATION IS NEEDED

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KOSPI Plunges on Yen's Weakness and Rising Rates

Korean stock prices faced deep consolidation in the past month after three-month ever strong rally since February this year. The Korea Stock Price Index (KOSPI) jumped up more than 300 points, roughly 65 percent during last three straight months from February to April. However, stock prices turned bearish in May on the weak Japanese yen and rising interest rates. Seoul's composite index nose-dived to 695.60 on May 24, down 118.64 points (15 percent) from the year's high of 814.24 on May 10.

Korean stock prices took the downward trend on account of a record rise in U.S. consumer prices and likelihood of an interest rate raise. Prospects of higher rates in U.S. sent the Japanese yen lower against the U.S. dollar to the 124 yen level, damaging the retreating investor sentiment. Weaker yen deteriorates the competitiveness of Korean exports, as Korea and Japan vie directly with each other in similar product areas.

Foreign investors, who had contributed to the strong rally of local bourse, poured out their stocks after mid-May, recording a net selling position last month. Prudent investor sentiment overwhelmed the market, triggering the KOSPI to slide back below the psychologically-important 700 point barrier on May 24.

Furthermore, the rebounding trend of long-term interest rates amid rising bond yields pulled down the KOSPI; rising bond yields

incurred local investors to take money out of the equity market. Accordingly, customers' deposits at securities houses, a gauge for domestic investor sentiment, stand at 8.34 trillion won as of May 31 from a high of 9.166 trillion recorded on May 12.

Stock Prices Need Time Consolidation

Many listed companies have scheduled rights issuance for June. The value of rights to be offered in June is 4 trillion won, the largest amount ever for a single month, by 64 firms. Concerns are aroused regarding some issues which have already plummeted near or below their initial offering prices, since a further decline would bring highly undesirable results for those shares. Although listed firms have not yet decided at which price their new shares will be offered, they will be forced to lower the projected amount of funds they expect to raise, if share prices continue to fall.

Regardless of the substantial amount of right issues scheduled for June, an additional stock price drop is not expected to occur. It is because economic indicators show positive signs of recovery, and liquidity, including deposits on beneficiary certificates in investment trusts and mutual funds, is still abundant in the stock market. Although price consolidation in the local stock market seems to end at the level of 700 points, more time consolidation is needed for additional rising. **VIP**