

STOCK MARKET STAGGERS WITH UNCERTAINTY

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No Leading Buyers in the Market

The Korean stock market moved up and down in the broad range between 790 and 860 points, owing to snowballing concerns over a possible crisis on November 10. Before November 10, investors will be able to redeem only 50% of their funds exposed to Daewoo bonds, but from November 10 to February 2000 they are allowed to retrieve 80%, and from February 2000 onward, 95%. Amid wild speculations on Daewoo's bad debts and creditors' fear of huge losses, the stock market seemed to have lost its surging momentum. The KOSPI rose over 866 points on October 14, buoyed by expectations that resolution of Daewoo bonds is in sight. However, the KOSPI tumbled down to 793.42 points on October 27, as rumors about the so-called "November financial debacle" spread out over the bourse.

Large selling pressure by domestic institutions, in particular investment trust companies (ITCs), played a key role of pushing the KOSPI downward. However, in the short run, ITCs are still selling stocks to prepare enough cash to ready themselves for investor redemption of bond funds. Only foreign investors kept their net buying stance, as they went bargain hunting on quality stocks, in particular in the banking and brokerage firm's sectors.

A controversial government decree urging the top 30 chaebol to reduce their debt-to-equity ratio below 200% by the year's end was also feared to batter the stock market. Running against the tight deadline, debt-ridden

companies are flocking to the stock market to implement massive new rights issues. The 30 largest groups are planning to issue new stocks worth about 3.3 trillion won (\$2.73 billion) in November, the second largest amount this year after 6.7 trillion won recorded for last June.

Clouds over the Market Clear Away

In spite of these development in October, one can expect that financial instabilities centering around the Daewoo Group's breakdown and investment trust companies (ITCs) are to gradually subside and thus contribute to boosting market strength. Still, the results of due diligence on the Daewoo units and following loss sharing amongst financial institutions pose yet another challenge to the market. Concerns are raised that the problem debts of Daewoo might amount to far more than the optimistic assessments because of the intricate cross loan guarantees and transactions among Daewoo units. Nevertheless, the jitters in the financial markets are now showing signs of abating. The KOSPI rebounded sharply to 833.51 points at the month's end, spurred by heavy purchases by domestic institutional investors and foreign investors. In particular, foreign investors have regained their status as net buyers since October, purchasing a net 907 billion won. As the full extent of Daewoo's problems will be revealed at last, the unease that stems from uncertainty is expected to fade. New momentum is likely to reappear in the market next month. **VIP**