

TECHNOLOGY STOCKS RALLY

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Foreign Investment Hits Record High

Korean stock prices jumped up to 1,007.72 points on November 16. The composite KOSPI gained 130 points during the first half of this month. The month's strong performance was helped by rallying telecommunications, Internet and information technology (IT) related stocks. Especially, IT and Internet stocks are enjoying an unprecedented boom in the domestic stock market as well as the overseas market. Value-added IT sector businesses such as data communication companies have attracted heated attention from investors.

This upsurge was mainly based on foreign investors' heavy buying. The inflow of foreign capital to the Seoul bourse began to grow sharply in late October. The foreign investors' net buying of Korean stocks is estimated to reach 2.34 trillion won (US \$2.15 billion) in November, the highest level since 1992 when the Korean stock market was first opened to foreigners. The surge in the inflow of foreign funds was attributed to the recent credit rating upgrading by Standard and Poor's (S&P) and the scheduled rating adjustment by Moody's. Possibility of including Korean shares in the Financial Times/S&P World Index, which is a key barometer for European investors, was also encouraging the foreign capital inflow.

In addition, investors' buying spree resumed when instability regarding Daewoo related financial debacle and restructuring issue of investment trust companies in the financial market abated. It was thought that market instability would reach its peak on November

11, when investors were allowed to retrieve 80% of their holdings of beneficiary certificates invested in Daewoo bonds. However, owing to the government's repeated announcements and realized actions to supply enough liquidity in the market, there have been no massive redemption calls and in turn, investors in stock market returned to buy shares.

After the KOSPI skyrocketed in the first half of the month, institutional and individual investors began to sell their stocks on short-time profit-taking. The KOSPI dropped to 949.16 points on November 26 by program selling. In spite of this profit-taking behavior, the general public's sentiment toward the market prospect remains too good, especially regarding the hi-tech shares to be discouraged by profit-taking selling. Unless there comes a significant change in the monetary policy stance, these two countervailing forces will be major players in the market.

External factors also show a similar mixed picture. The stronger won, high oil prices, and reluctant capital movement due to the potential Y2K problem are negative factors. Meanwhile, the strong yen continuously provides favorable prospects for Korean exporters. Moreover, synchronized stock markets around the world affect the domestic market in a positive way as long as the U.S. market remains strong.

In sum, even though these domestic and external factors will interact with each other to show ups and downs, no single dominant force is expected to show up in the market. The Seoul bourse is most likely to show short term rallies moving between 950~1,000 points during the remainder of this millenium. **VIP**