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Analyst sees brighter prospects for HK in the longer term

5p.c. rise in economy predicted

HONGKONG'S economy is likely to grow about five per cent next year, against a forecast 16 per cent rise in the gross domestic product this year, a research analyst predicted yesterday.

Hoare Govett analyst Mr Charles Edmond also said the Hang Seng index – which has risen some 20 per cent this year – is likely to consolidate at 420 or just above, but might face a correction at about 430.

Edmond, a member of the Y's Men's Club of Hongkong, was addressing a club lunch meeting in the Mandarin yesterday. His topic was: The Hongkong Economy and Stock Market: Performance and Prospects – a Personal View.

Edmond made his predictions on the assumption that Opec's oil price increase – which will probably be announced tonight – would be in the order of 10 per cent. "Given a rise of that size, next year should see a modest growth in Hongkong's exports," he said.

Hoare Govett, a major member of the London Stock Exchange, has been operating in Hongkong for four years and is an overseas member of the Hongkong Stock Exchange.

Over a longer period, "Hongkong has the potential for tremendous internal stimulus" to boost the growth rate, said Edmond, citing recent trends such as the development of the Metro, the property boom, and the rise in consumer spending.

Meanwhile, the expected brisk growth in loan demand provides a very favourable technical situation for the stock market over the next few months, with bigger bonuses than last year's at Chinese New Year likely to give share prices an extra lift.

"However, at the 430 level on the Hang Seng index things may get sticky and prices run back," though overall, prospects are quite good, said Edmond. In the immediate future he saw the index consolidating just above the 420 mark then rising perhaps 10 per cent by Chinese New Year in mid-February.

However, that compares poorly with predictions widely made early this year that the index could close the year at between 550 and 600 points. In fact its current level shows about 20 per cent growth from January, but several factors have inhibited a boom.

One, of course, was China. However, the death of Chou En-lai had largely readied investors for the passing of Chairman Mao, and his death had a short-lived effect.

Another major reason has been the high level of liquidity of Hongkong companies, which emerged from the recession very liquid. With borrowings small, the flow of funds into the stock market has been limited, said Edmond.

The American economy has also posed questions, particularly because of the often conflicting reports and opinions on its progress. However, the analyst noted that worries Carter might make radical changes in economic policy are now abating.

Currently the most pressing external factor is the size of Opec's oil price boost. "My personal opinion is that they will choose an eight to 10 per cent increase," said Edmond, adding that the market was looking for 10.

The ending of anxiety, therefore, if that figure is chosen would probably firm up the market. If the rise is as little as eight per cent stocks will get a definite lift.

Looking ahead, the next budget is not likely to cause investors any headaches, said Edmond, but the prospects of further restrictions on Hongkong's lifeblood, exports, and continuing uncertainty about the direction of world economies may inhibit gains. Edmond summarised his views as "cautious optimism."

The London market's influence, which has at times been great, is not likely to figure greatly in the near future, said the analyst. Much of the foreign money in Hongkong at the moment is coming from Europe and Malaysia, he said, the former for issues such as those of Stelux and Cheung Kong and the latter mainly being channelled into property.

"There is plenty of money about for investment in the stock market, and most of it is local. The impetus will come from private investors rather than institutions," Edmond predicted.