SOUTH CHINA MORNING POST

23 May 1989

$65 billion wiped off shares as index plunges 339 points

By MARTIN WINN

HONGKONG share prices yesterday suffered their heftiest one day fall since the October 1987 crash as waves of panic selling, prompted by the political crisis in China, swept through the stock market with analysts predicting further falls this week.

More than $65 billion was wiped off the value of shares as local and foreign investors rushed to dump stock in reaction to the continued unrest in Beijing.

The Hang Seng index plummeted 339.06 points or 10.8 per cent to 2,806.57, close to its low point for the day after a late morning rebound was squashed by an onslaught of sellers.

It was the biggest one-day drop since October 26, 1987, when the index plunged more than 30 per cent after re-opening from a four-day closure, and followed a 132.03-point slump last Friday.

Turnover also hit a post crash high, with $3 billion of shares changing hands, compared with the previous record of $2.93 billion on January 30.

Market experts said that further falls were likely in the next few days because investors were nervous about how the confrontation between students and the Chinese Government will be resolved.

They noted that overseas institutions, which account for about 40 per cent of the local stock market, were concerned about the knock-on effects of the mainland unrest and had resumed selling Hongkong stocks late yesterday, pointing to continued selling pressure today.

"Any bounce in the market is likely to be met by more selling," said Citicorp Scrimgeour Vickers' research director Nick Peacock. "The uncertainty in China will cast a cloud over the market for some time".

South China Securities' director Howard Gorges added: "The market is entirely driven by uncertainty. If there's good news from Beijing tomorrow, it could shoot up. If there's bad news, it could fall sharply."

(Cont'd on Page 3, Col 1)

$65 billion wiped off bourse

(Cont'd from Page 1)

Share prices plunged sharply in early trading on the back of sell orders from Europe and the United States over the weekend and on local investors' fears of an imminent government crackdown in Beijing.

The Hang Seng index fell a colossal 350 points to around 2,794 in the first 20 minutes, amid scenes of frenzied dealing not seen since the 1987 crash.

Shares rebounded about 100 points to 2,887.89 at midday, partly on unfounded rumours that hard-line Chinese Premier Li Peng would resign, but resumed falling on reports that the army would soon enter the Chinese capital.

Speculation that the Hongkong Government had entered the market to prop up prices failed to stem the tide of selling and the market finished near its low for the day.

Acting Financial Secretary David Nendick declined to comment on whether officials had used the multi-billion dollar exchange fund to support share prices.

He stressed that the fund could only be used in specific circumstances to preserve the local currency, which has been unaffected by the political upheaval in China and yesterday remained on the strong side because of its link with the US dollar.

"I can't comment on the affairs of the exchange fund, but people must draw their own conclusions from what the fund can be used for," said Mr Nendick.

He praised the market for behaving in a mature way yesterday and said he was pleased there were enough buyers to stop a drastic decline in shares.

"No one likes to see markets fall, but it is falling in a way which shows we have come a long way since 1987," he added.

Hongkong's reputation as an international finance centre suffered a severe blow in October 1987, when Stock Exchange officials reacted to plunging world share values by closing down the local market for four days.

Stock Exchange chief executive Francis Yuen yesterday ruled out any repeat attempt to shut down the market.

"We'll try to maintain systematic and orderly trading," he said.

Mr Yuen blamed the plunge on heightened political tensions in China and urged investors to take account of Hongkong's own strong underlying economic factors.

"The volatility should prove a short-term phenomenon," he said at an impromptu press conference at the exchange.

Share prices slumped across the board yesterday, with second-line speculative stocks particularly hard hit.

Among the blue chips, Hongkong Bank dropped 45 cents to $5.85 and Swire Pacific $3 to $19.10. Li Ka-shing's Cheung Kong was down $1.15 to $9.55 and Hongkong Land lost $1 to $9.30.

Two companies were early victims of the collapse. Underwriters of Hopewell Holdings' record $3.86 billion rights issue said that the deal might be cancelled because of a likely poor response from investors. And optical firm Swank International said it was delaying its stock market flotation.

Sam Chan

Anxious investors watch share prices plunge.

Trading in Hang Seng index futures was also frantic, with 3,300 contracts changing hands, another post-crash record.

The Hongkong Futures Exchange reacted to concerns that some investors might default because of heavy losses by raising traders' margin requirements by $3,000 to $18,000 for each contract.

The futures market was the heaviest casualty of the 1987 crash when it had to be bailed out by a Government-sponsored lifeboat, but is now propped up by a $200 million guarantee fund.

Analysts said that regardless of how the situation in Beijing is resolved, the Hongkong market would continue to be dogged by doubts about a power struggle among the Chinese leadership.

"People are in a bit of a quandary, and are treating almost any news that comes out of China as bad news," said Hoare Govett research chief Philip Niem. "It would be a brave person who stepped into the market at 2,800".

Brokers said share prices might rally sharply if the People's Liberation Army refrained from forcibly moving demonstrators and Mr Li Peng and senior patriarch Deng Xiaoping stepped down.