

Hongkong stock market

1997 and all that' The Economist

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With less than 15 years to the end of Britain's lease on the New Territories, investors in Hongkong are now starting to take fright. A cut in the local prime rate from 15% to 14% on Monday (July 26th) failed to bring out the bulls, even temporarily. Earlier in the month, mere speculation that lower American interest rates would bring down Hongkong rates in their wake, was enough to put almost 50 points on the Hang Seng index. In the first three days of this week, the index fell by more than that, closing on Wednesday at 1,233 and breaching what had been seen as a support level at 1,250.

The fall reflects in part the colony's concern at the local economic effects of world recession. But the psychological effect of uncertainty about the colony's political future is now overhanging the stock market as never before. Brokers say they expect the market to stay this way at least until Mrs Thatcher visits Peking in September, when they hope the Chinese will clarify their intentions.

The political uncertainty further worries the property-dominated stock market because of the practical problems of bank lending to developers. One reason the government has shelved a decision on a new HK\$40 billion (US\$6.8 billion) airport is the difficulties involved in raising long-term money from international banks while the future is so clouded.

Similarly, it has been difficult for some time in Hongkong to get a home loan stretching longer than 12 years. The Hongkong government has, however,

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said that it will guarantee 15-year mortgages provided by commercial banks under its own home-ownership scheme for locals to buy low-cost government-built flats. Only one bank is cheerfully offering 15-year mortgages on any New Territories property without requiring any guarantees—the Hongkong branch of the Bank of China.