



Foreign and Commonwealth Office

London SW1A 2AH

6 October 1982

Prime Minister

The bank's analysis is also  
attached.

A.S.C.  $\frac{6}{10}$

Dear John,

Future of Hong Kong: Stock Market and Exchange Rate

/ As you asked, I enclose a note commenting on the recent  
/ fluctuations in the Hong Kong Stock Market and exchange rate.  
/ Some supporting material which shows the relative movement  
/ of the Hong Kong index as compared with others in the Far  
East is also attached. I also enclose a copy of Hong Kong  
Telegram No 1117 giving the Governor's views on the relative  
importance of the Hong Kong dollar rate and the Hang Seng  
Index.

The broad conclusion is that falls in both the Stock  
Market and the exchange rate were to be expected in the  
context both of Hong Kong's domestic economic position, and  
of the world economic situation. Moreover, the fall in the  
Hong Kong dollar has been markedly less than that of the  
stock market and to a considerable extent due to the rise of  
the US dollar. But this cannot disguise the fact that concern  
over the future of Hong Kong has accentuated the downward  
pressure. Even more to the point is that economic factors  
likely to encourage nervousness are likely to persist during  
the period in which talks with the Chinese on Hong Kong  
are being undertaken. Reports and rumours about the progress  
of these talks are likely to contribute to the market's  
already natural volatility. One example of this has been  
shown by the fact that yesterday's quite impressive rise  
was partly attributed to rumours that the Bank of China  
would be prepared to finance 20-year loans (ie beyond 1997).  
But as is clear, uncertainty is more inclined to push downwards  
than up.

/On the



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On the other hand, if the progress of the talks is reasonably reassuring, the natural tendency for the bulls to move in and push the markets upwards, with a corresponding boost to the Hong Kong dollar, is likely to be assisted. But firm prediction is impossible and the situation will have to be very carefully watched.

*Your ever  
for Holmes*

(J E Holmes)  
Private Secretary

A J Coles Esq  
10 Downing Street

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HONG KONG STOCK MARKET AND EXCHANGE RATE

1. The Hang Seng Bank index closed today at 866, 21% lower than on 24 September (1096). It had already fallen earlier in the year from a peak of 1445 on 12 January.

2. Sharp fluctuations in the Hang Seng Bank index are not unknown; in 1973 it fell from 1700 to little more than 200, although it should be said that the peak was the result of a period of intense and unsustainable speculation which is now precluded by subsequent regulation. The Hang Seng Bank index appears to fluctuate somewhat more than other Far Eastern indexes; some comparisons are attached. This is not altogether surprising. It is fairly heavily centred on property shares, and the market has always been quite speculative.

3. It is hard to single out the influences behind this year's fluctuations. Both economic and political developments have been important. There has been a steady deterioration of economic prospects over the year, resulting primarily from world economic conditions, although there may also have been some erosion of confidence domestically for political reasons. It seems reasonable to interpret the fairly sharp decline in recent days as disappointment over the result of the Prime Minister's visit to China, although it is hard to tell what hopes were entertained beforehand.

4. It is worth noting that the only improvement in the index seen in recent days - when it recovered yesterday by 60 points - was ascribed to rumours that the Bank of China was contemplating 20-year mortgage loans.

5. The exchange rate has fluctuated considerably less. It now stands at HK\$6.51 = \$1, slightly up on yesterday, but 6% below the level of 27 September (6.11). The dollar rate remained stable for most of the year at around HK\$5.80-90 but weakened a little from August, largely, it would appear, because of the unusual strength of the dollar. It is worth noting that today's rate against sterling (HK\$10.96) is still slightly stronger than at the beginning of the year.

6. The implied weakening of the property market and of confidence in the Hong Kong dollar are not such as to call into question the collateral of bank loans or of the government's ability to control the situation. But continuation of these trends for a long period would be another matter.

6 October 1982

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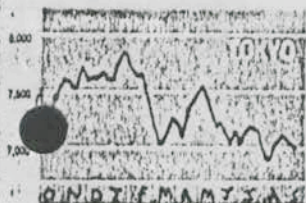
STOCK EXCHANGE INDICES 1982

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	High		Low		Range (% of mean)
Australia (All ordinary)	595	(4 Jan)	443	(8 Jul)	29.3
Hong Kong (Hang Seng)	1445	(12 Jan)	818	(4 Oct)	55.4
Japan (Dow)	7927	(27 Jan)	6848	(1 Oct)	14.6
Singapore (Straits Times)	811	(8 Jan)	557	(18 Aug)	37.1
UK (Industrial Ordinary)	596	(3 Sep)	518	(5 Jan)	14.0
US (Dow Industrial)	935	(21 Sep)	777	(12 Aug)	18.5

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### JAPAN

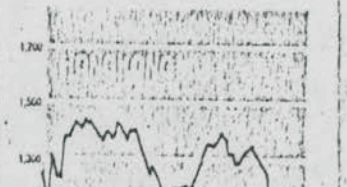
#### Nikkel-Dow Jones Average

Sept. 14	7,096.30
Sept. 15	closed
Sept. 16	7,087.90
Sept. 17	7,062.51
Sept. 18	closed
Sept. 20	7,042.63
Change on week	-0.44%

Sept. 20	% change	P/e	
Jan	on week	ratio	
Ayumi	810	+0.5	29.6
Bridgeline Tire	431	-2.9	18.6
C. Itoh	255	-1.2	44.3
Calpis	484	-4.3	391.0
Canon	835	+0.1	21.1
Citizen Watch	292	+0.7	13.1
Dai Nippon Printing	650	-0.8	17.4
Daiwa House	400	+2.2	25.9
Ebara Mfg.	355	+1.1	18.2
Fuji Photo Film	1330	-0.7	12.8
Fujitsu	847	+2.8	36.5
Honda Real Estate	508	+0.2	82.8
Hitachi	618	-2.1	25.9
Honda Motor	745	+1.2	24.1
I.H.I.	133	-1.5	17.8
J. E. O. L.	470	-1.5	41.2
Kajima Const.	319	-3.0	15.2
Kaneka	263	-1.1	45.9
Kao Soap	478	-0.2	21.8
Kashiyama	985	+2.1	12.8
Kirin Brewery	371	+2.5	15.9
Kumagai	—	—	40.0
Kumagai Gumi	293	+0.5	10.4
Mitsubishi Elec. Wks.	471	-1.8	14.8
Mitsubishi Elec. Ind.	1100	-1.1	20.7
Mitsubishi Estate	417	-0.7	24.8
Mitsubishi H. I.	160	-0.8	30.1
Mitsui & Co.	268	—	—

Wheat Real Estate	390	+1.8	32.2
Mitsubishi	241	+1.8	19.8
Nippon N. C. R.	520	-1.3	24.4
Nippon Hado	747	-1.7	11.2
Nippon Oil	869	+3.2	96.4
Nippon Steel	132	—	15.5
Nomura Securities	429	-0.7	14.7
N. Y. K.	215	-0.5	29.1
Olympus	1079	-1.8	24.5
Pioneer	1700	-0.6	12.3
Ricoh	500	+3.3	20.0
Sanko Steamship	181	-4.7	84.8
Sankyo Pharm.	945	+0.5	18.1
Sanyo Bank	502	+0.4	31.7
Sekisui Prefab Homes	600	+1.5	15.9
Sharp	888	+2.9	29.3
Shiseido	890	-0.1	18.2
Sony	3400	+3.0	16.8
Sumitomo Bank	500	—	20.0
Taisei Const.	225	-3.0	14.8
Takeda Chem.	788	-1.5	23.9
Tokai Marine and Fire	429	-0.5	25.4
Tokyo Elec. Power	825	+0.5	18.4
Toray	359	-0.3	30.8
Toto	505	-1.5	16.4
Toyoko Kyogyo	352	+2.5	15.0
Toyota Motor	875	+1.2	14.8
Yamaha Motor	648	-1.5	14.8

Haw Par	1.25	+1.8	4.4
H. Leong Fin	0.00	+3.4	2.0
Inchiao	2.02	+1.0	8.7
Inland & Peninsular	5.40	-5.2	4.6
Jacks Int.	2.49	+22.1	—
K.L. Kupong	1.58	+1.5	8.3
Kupong Ship	3.20	+3.8	6.1
Marjham	2.03	+1.2	5.7
Melayan Banking	5.55	+2.8	3.0
Melayan Breweries	—	—	—
Melayan Tobacco	4.87	+5.0	8.4
M.M.C.	1.87	—	9.2
M.U.I.	3.06	+0.7	1.4
Mutual Box Singapore	2.50	-0.8	7.0
M.P.H.	1.00	+0.5	—
National Iron	5.55	+2.7	4.5
N. Borneo Timbers	2.04	-1.9	3.7
O.C.B.C.	7.55	+2.0	1.1
Pan Electric	2.54	—	2.9
Pag Malaysia	2.18	+2.8	2.3
Sitel	4.20	+4.5	6.0
Sime Darby	1.75	+2.3	6.2
Singapore Land	6.85	+8.7	0.6
Straits Steamship	1.40	—	2.8
Straits Times	5.08	-0.4	2.1
Straits Trading	4.58	+2.7	5.0
Tractors	3.40	+3.7	8.8
United Engineers	1.04	-1.0	8.8
U.O.B.	3.34	—	4.9
United Overseas Land	2.14	+5.4	2.8
Wearne Bros	3.02	+6.3	3.3



### HONGKONG

#### Hang Seng Index

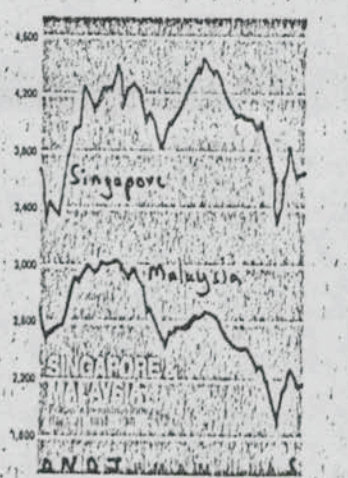
Sept. 14	1,092.63
Sept. 15	1,090.26
Sept. 16	1,090.10
Sept. 17	1,068.28
Sept. 20	1,117.78
Change on week	+3.46%

### SINGAPORE

#### Fraser's Industrial Index

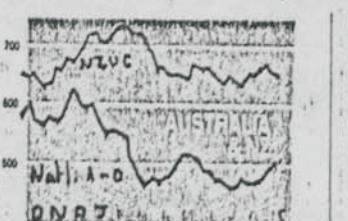
Sept. 14	3,626.39
Sept. 15	3,657.50
Sept. 16	3,665.01
Sept. 17	3,672.08
Sept. 20	3,685.03
Change on week	+2.37%

Sept. 20	% change	% yield	
on week			
Benjamin	5.30	+8.2	17.3
Boustead	1.62	+2.2	6.1
C. Sugars	8.70	+1.2	1.7
Cold Storage	3.42	+10.3	2.4
C.C.C.	2.80	—	0.3
Day Bank of Singapore	7.50	+1.9	2.1
Dunlop Estates	5.00	-3.8	5.6
Dunlop Industries	3.48	—	8.6
Fraser and Neave	8.45	—	4.4
Ganong	2.83	-2.7	4.4
Ganuxsa	3.34	+2.8	5.1
Harrisville	0.75	-1.7	8.7



Sept. 20	% change	% yield	
on week			
Associated Hotels	4.00	+2.6	16.4
Bank of E.A.	21.00	+1.6	1.1
Carah	2.025	+4.3	10.2
Chungking Ex. Div.	11.30	+2.7	1.7
Christ Light	14.00	+4.5	1.2
Conc.	1.60	+2.7	1.1
F. E. Consortium	1.16	+5.0	11.8
F. L. Hotels	1.06	+1.0	2.1
Great Eagle	1.41	+0.7	16.3
G. Island Cement	30.50	-1.8	4.3
Hang Lung Development	3.70	+2.1	4.1
Hang Seng Stars	84.00	+2.4	2.7
HALCO Ex. Div.	4.90	-3.9	16.4
Harbour Centre	36.50	—	18.4
H.K. Electric Ex. Div.	5.05	+1.7	5.1
H.K. & C. Gas	27.80	+6.9	1.1
H.K. & A. Wharf	4.15	+1.8	3.1
H.K. Land	6.70	+6.3	6.2
H.K. & S. Bank Ex. Div.	10.10	+3.6	5.1
H.K. & S. Hotels	30.50	-1.5	3.3
H.K. Realty "A"	5.05	+4.7	8.3
H.K. Telephone	33.60	+5.4	1.1
H.K. & Yau Ferry Ex. Div.	3.60	-2.7	1.2
Hopewell	2.30	+5.5	8.1
Hui Chong	1.27	+2.3	10.2

Hutchison Whampoa	17.40	+35.9	2.4
Inf City Holdings Ex. Div.	0.89	+4.5	4.3
Jerbina Matheson	17.40	+0.7	4.8
Jerbina Sec	13.00	+4.8	9.3
Lane Crawford "A"	8.40	—	8.9
Lai Chung Hong	2.75	+5.8	7.3
NAN Fung Textiles Ex. Div.	18.70	-7.4	10.2
New World	3.35	+3.9	8.9
Onion O. East C.	2.40	-5.9	13.3
Paul Y. Const.	3.70	+1.4	4.9
Pixley D. C. "A"	4.00	-1.2	7.5
Sincere	40.00	—	5.0
Sioux	3.00	-3.2	13.3
Sun H. K. Props.	5.75	+1.8	6.9
Svens Props Ex. Div.	7.25	+9.0	6.0
Svens Plac. "A"	11.10	+3.7	6.8
Tai Cheung	1.85	-2.6	11.9
Trasagar	2.50	—	8.0
Yan Kwong Ship	2.65	—	12.6
Wharfedale "A"	4.875	-2.5	8.2
Wheel Mar. "A"	3.70	-12.9	12.2
Wing On Holdings	4.00	—	5.0
Winnor Ex. Div.	2.85	+3.8	13.0
Wund Int.	2.40	+1.1	5.0
Yangtzeang	10.00	—	13.8
Zung Fu	1.34	—	10.1



Colas OJ	2.28	+6.5	7.5
Comasco	2.18	+2.3	0.9
CSIR	3.11	+2.3	5.8
Dunlop Australia	1.09	+7.9	7.3
EZ Industries	4.52	+7.1	0.7
Elder Smith GM	2.72	+3.8	6.1
Harold J.	3.30	+8.9	6.7
Harold & Weekly Times	2.23	+2.2	7.8
ICI Australia	1.95	+9.9	9.7
Lend Lease Corp.	—	—	—
MIM Holdings	3.34	+2.1	2.7
Myer Emporium	1.35	+5.5	6.5
National Bank	2.85	+0.6	9.2
North Broken Hill	2.29	+2.7	5.7
Peko Wallsend	5.32	+7.5	1.2
Pioneer Concrete	1.48	+3.5	8.8
Series	8.2	-0.4	1.1
Smith H.	4.13	+4.6	5.4
Thomas Nationwide Trans.	—	—	—
Western Mining	3.55	+3.5	2.4
Woodside	0.90	+12.5	—
Woolworths	1.51	+7.9	9.3

### NEW ZEALAND

#### NZUC Index

Sept. 14	648.23
Sept. 15	640.17
Sept. 16	632.71
Sept. 17	632.87
Sept. 20	633.02
Change on week	-2.96%

Sept. 20	% change	% yield	
NZUC	on week		
Alas Harvey	2.50	-3.4	7.6
Brisley	2.80	-2.8	3.2
Carter Hill	3.55	-3.5	6.2
Domestic Breweries	1.25	-2.4	8.1
Felix	1.53	-4.4	7.5

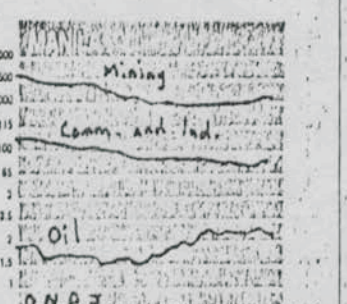
Fletcher Challenge	1.74	-2.8	8.8
Lion Breweries	1.75	-0.6	8.0
NZ Forest Products	2.88	-7.6	9.0
NZ Oil and Gas	0.33	-2.9	—
NZ South British	0.80	-2.4	9.4
NZ Steel	2.10	-2.3	8.6
UEB Industries	1.02	-0.8	9.5
Waltax NZR	2.18	-2.2	9.6
Wattle	1.62	-2.4	8.8

### THAILAND

#### Bangkok Book Club Index

Sept. 14	115.40
Sept. 15	111.14
Sept. 16	113.57
Sept. 17	113.21
Sept. 20	108.83
Change on week	-10.35%

Sept. 20	% change	% yield	
Bkht	on week		
Bangkok Bank	246.00	-9.8	17.1
Burjucker	321.00	-3.6	8.1
FCI	125.50	+12.5	10.8
Jaijapathan Cement	130.50	-24.4	8.8
Rama Tower	62.50	-19.6	—
Sun Cement	237.00	-17.4	3.8
Serm S&K	286.00	-2.1	—
Thai Farmers Bank	260.00	+12.2	12.3
Thai Glass	140.00	+3.7	—



### PHILIPPINES

#### Manila Mining Index

Sept. 14	1,055.07
Sept. 15	1,052.07
Sept. 16	1,029.52
Sept. 17	1,025.01
Sept. 20	1,013.74
Change on week	-6.44%

Sept. 20	% change	% yield	
Pava	on week		
Acqua Mng	0.062	—	—
Atlas-B	20.40	—	5.9
Baguio Gold-B	0.0017	—	—
Fe-Am	0.031	—	—
First Holdings	7.10	—	15.9
Lepanto-B	0.064	+4.5	11.9
Marcopper	1.56	-3.6	—
Manidogue-B	4.36	—	—
Phix-B	0.165	—	7.9
PLDT	32.29	-0.8	15.5
Phil Overseas	0.037	-2.6	2.7
Pioneer-B	0.001	—	—
Puoc-B	0.0231	—	—
San Miguel-B	10.23	+1.1	7.7
W. Mexico-B	0.001	—	—

### SOURCES

Japan: Nikkei Industrial (NIK); Hong Kong: Hang Seng Index; Singapore: Hang Seng Index; Australia and New Zealand: Fraser's Industrial Index; Philippines: Manila Mining Index; Indonesia: Jakarta Stock Exchange; Thailand: Bangkok Book Club Index; New Zealand: NZUC Index.



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TO IMMEDIATE FCO

TELEGRAM NUMBER 1117 OF 5 OCTOBER

FOLLOWING FOR DONALD FROM GOVERNOR

YOUR TELNO 809: FUTURE OF HONG KONG

THE FALL IN THE VALUE OF THE HONG KONG DOLLAR OVER THE PAST WEEK IS OF GREATER CONCERN THAN THE FALL IN THE HANG SENG INDEX, THOUGH THE LATTER HAS ALSO BEEN PRONOUNCED. THERE ARE A NUMBER OF FACTORS AT WORK, INCLUDING THE STRENGTH WORLDWIDE OF THE U.S. DOLLAR, THE OUTLOOK FOR WORLD TRADE AND THE DULL STATE OF THE PROPERTY MARKET HERE. BUT THE MOST IMPORTANT INFLUENCE HAS UNDOUBTEDLY BEEN NERVOUSNESS ABOUT THE FUTURE IN THE LIGHT OF THE PRIME MINISTER'S TALKS IN PEKING AND FUELLED BY THE VARIOUS STATEMENTS AND ARTICLES ABOUT SOVEREIGNTY WHICH THE CHINESE HAVE PUT OUT SINCE. I SHALL OF COURSE DO WHAT I CAN TO CALM THE SITUATION AND BOLSTER CONFIDENCE IN MY LEGCO SPEECH TOMORROW.

YOUDE

LIMITED  
HD/ HK+GD  
HD/ PLANNING STAFF  
HD/ ESID  
HD/ FED  
PS  
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