

HO/FO 039/27

- DESKBY²
- 1) Mr. ~~Scholar~~
 - 2) Prime Minister

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GRS 750

CONFIDENTIAL

DESKBY 271300Z

FM HONG KONG 271030Z OCTOBER 82

TO IMMEDIATE F C O
TELNO 1229 OF 27 OCTOBER 82.

FOR PRIVATE SECRETARY
FROM GOVERNOR

YOUR TELNO 894: FALL IN HONG KONG STOCK EXCHANGE

THE STEEP FALL IN THE HANG SENG INDEX ON 26 OCTOBER
(TO ITS LOWEST POINT SINCE MARCH 1980) IS ATTRIBUTABLE TO
A COMBINATION OF:

- A. GENERAL UNCERTAINTY ABOUT THE FUTURE.
- B. THE TURBULENCE IN WORLD MARKETS (THE RECORD FALL IN PRICES ON THE NEW YORK STOCK MARKET OF 25 OCTOBER WAS FOLLOWED BY A VERY LARGE FALL IN TOKYO):
- C. THE LIQUIDITY PROBLEMS IN PARTICULAR OF CARRIAN INVESTMENTS LIMITED, WHICH HAS INTERESTS IN SHIPPING, TRAVEL AND RESTAURANTS (AMONG OTHER THINGS) AS WELL AS PROPERTY. ON 26 OCTOBER CARRIAN LAUNCHED A HONG KONG DOLLAR 500 MILLION ISSUE OF CONVERTIBLE LOAN STOCK (OF WHICH 50 PER CENT IS UNDERWRITTEN BY THE HONG KONG AND SHANGHAI BANK) IN ORDER TO RAISE CASH, AND ANNOUNCED THAT ITS INTERIM DIVIDEND, ALREADY DECLARED, WOULD BE REPLACED BY A ONE-FOR-TEN BONUS ISSUE. THESE MOVES WERE ILL PREPARED AND VERY BADLY RECEIVED BY THE MARKET. THE SHARES OF OTHER PROPERTY-BASED COMPANIES WERE MARKED DOWN HEAVILY. E D A INVESTMENTS LIMITED AND OTHER ARE IN TROUBLE. BANKS ARE DOING THEIR BEST, BUT SOME PROPERTY BANKRUPTCIES WOULD NOT BE SURPRISING.

2. WE ARE UNDOUBTEDLY IN FOR A BUMPY RIDE OVER THE NEXT FEW MONTHS AND I HOPE THAT MINISTERS WILL NOT PAY TOO MUCH ATTENTION TO DAY-BY-DAY FLUCTUATIONS IN THE HANG SENG INDEX. APART FROM (A) AND (B) IN PARA 1 ABOVE, THE FOLLOWING FACTORS ARE LIKELY TO AFFECT MARKETS HERE FOR SOME TIME TO COME:

(I) THE WORLD RECESSION. THERE IS VERY LITTLE EXPECTATION HERE OF AN EARLY SUSTAINED RECOVERY IN THE US AND MAJOR EUROPEAN ECONOMIES AND CONSEQUENTLY NO REAL CONFIDENCE IN A GROWTH IN EXPORTS IN THE SHORT TO MEDIUM TERM. BUT ORDER BOOKS OF THOSE EXPORTING TO THE US HAVE RECENTLY IMPROVED.

(II) THE DOWNTURN IN THE LOCAL PROPERTY MARKET. THOUGH UNCERTAINTY OVER 1997 HAS UNDOUBTEDLY BEEN A MAJOR CAUSE OF THE PRESENT DEPRESSED STATE OF THE MARKET, A FALL IN PROPERTY PRICES WAS INEVITABLE SOONER OR LATER, GIVEN THE STRENGTH OF THE SUPPLY RESPONSE TO THE UPSURGE OF DEMAND IN THE LATE 1970'S. SINCE THE STOCK MARKET HERE IS STRONGLY PROPERTY-ORIENTED, SHARE PRICES WILL CONTINUE TO BE AFFECTED.

(III) THE CURRENT WEAKNESS OF THE HONG KONG DOLLAR, CAUSED IN PART BY THE STRENGTH OF ITS US COUNTERPART.

3. WE WILL OF COURSE BE DOING WHAT WE CAN TO STEADY THE MARKETS AND RESTORE CONFIDENCE. THE MEANS AVAILABLE INCLUDE:

(A) CONVENTIONAL OPERATIONS THROUGH THE EXCHANGE FUND WHENEVER APPROPRIATE:

(B) ASSURING PEOPLE HERE THAT THIS GOVERNMENT IS CONTINUING TO INVEST IN THE FUTURE (AS IN MY LEGCO SPEECH ON 6 OCTOBER): AND

(C) ATTEMPTING TO PUT PRESENT PROBLEMS IN PERSPECTIVE (IN A SPEECH TO THE AMERICAN CHAMBER OF COMMERCE ON 26 OCTOBER THE DIRECTOR OF LANDS REMINDED HIS AUDIENCE THAT WHILE LAND PRICES HAD FALLEN BY AS MUCH AS 40 - 60 PER CENT IN RECENT MONTHS THERE HAD BEEN RISES OF UP TO 300 PER CENT BETWEEN 1978 AND 1980).

4. THAT SAID, HONG KONG WILL REMAIN A HIGHLY VOLATILE PLACE OVER THE COMING MONTHS AND STEADY NERVES WILL BE NEEDED.

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