

28 OCT 1997

HONG KONG'S CURRENT DEBACLE RAISES THOUGHTS OVER PM'S VIEWS

By: Siti Hawa Othman

KUALA LUMPUR, Oct 28 (Bernama) -- Of late, Malaysian Prime Minister Datuk Seri Dr Mahathir Mohamad has been lambasted for his criticisms on excessive speculation having caused the gloom in regional currency and equity markets. However, analysts say that the current speculative attack on Asia's financial stronghold, Hong Kong, should silence his critics.

"(Almost) everybody has criticised him (Dr Mahathir) but nobody has said that he is wrong," one analyst said.

Hong Kong, in trying to defend its HK-US dollar peg, has let interest rates soar. This had led to a 10.4 percent collapse in its stock market last Thursday. The move also sent shockwaves across the region as well as impacting on European and US bourses, including a 132-point drop on Wall Street last Thursday.

The Hong Kong market recovered last Friday but another fall on Monday triggered the biggest point drop of 554.26 in the history of Wall Street to 7,161.15 points yesterday and the ripple-effect shattered other global bourses as well including Japan.

"If another fall occurs on the Dow Jones, then they will voice their discomfort over the +big boys+ who started it all," another analyst said.

Wall Street could see further downside if it fell below the 7,000 level while Japan could see a further slide in the Nikkei to below 16,000, analysts said.

At the close of Tuesday's trading, Hong Kong's Hang Seng Index plunged 13.7 percent to 1,438.31, the Nikkei was down 4.3 percent to 16,312.69 points while the Kuala Lumpur Composite Index fell to its four-and-a-half year low of 647.32, down 46.07 points.

One analyst said the latest attack on Hong Kong should make one realise that speculators would not be satisfied until their needs were fulfilled.

Although he had voiced his concern over "rogue speculators", Dr Mahathir has been attacked by the foreign media. Some Malaysians, who had been reaping the fruits of Malaysia's economic success from the groundwork laid by the prime minister, even murmured that Dr Mahathir had opened his mouth too frequently and which subsequently caused the local currency and equity markets to fall.

Hong Kong managed to hold stave off the first attack after the flotation of the Thai Baht.

But the HK dollar was attacked after Taiwan's dollar had fallen to a 12-year low and when the Hong Kong Monetary Authority tried to defend Asia's last major currency still pegged to the US dollar by raising the rates and spoke of using some of its foreign reserves to defend the currency. When the HK dollar was attacked, the impact on HK stocks was devastating.

"We can't go head on with the hedge funds. They are too strong. Take the case of Taiwan, it is structurally stronger than other markets in the region but it still could not go head-on with the hedge funds. It is a waste of effort to spend their reserves in trying to defend the currency," one analyst said.

While many blamed the current financial crisis on loopholes in the economic structure of emerging markets but then it was rather unlikely that many other markets, including that of Hong Kong's, could be experiencing the same weaknesses.

Some far-sighted analysts said the prime minister was right in pointing

out about the danger of excessive speculation in damaging new economies but then he could not fight the problem all alone. Even Hong Kong's chief executive Tung Chee-hwa sang the same tune as that of Dr Mahathir's last week when the HK dollar was attacked.

He said speculators decided to have a go on the HK dollar after their successful attacks on other regional currencies but stressed that his government was "committed to maintaining the US/HK peg."

With the fall of other leading financial and stock markets which were once thought to be structurally strong, their leaders are now saying what Dr Mahathir had said all along that their economies' strong fundamentals did not warrant such attacks (and criticisms).

The current global equity turmoil over the past few days is not so much the issue of currency as some analysts put it.

"It's more on trading. Hong Kong is one of the biggest trading nation in the world and anything that happens to the territory would affect its trading partners including that of Europe and the US," one analyst said. --
BERNAMA

SHO SHY