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MARKET INTERVENTION

HK GOVT INTERVENTION MAY FORCE HEDGE FUNDS INTO LOSSES FRIDAY

MELBOURNE, Aug 25 (Bernama) -- Come Friday, the Hong Kong government is expecting hedge funds to take a loss over their short positions upon expiry of August financial futures and thereafter quit their double play.

Hong Kong, with foreign reserves amounting US\$160 billion and the one time Asian champion of the invisible hand and named the "most free economy in the world" by leading US institutions, has taken up the regional torch against "international speculators", a report in the Australian Financial Review said.

This week is crunch time in the Asian attempt to turn the tide against the massive US hedge funds widely blamed for the collapse of regional markets, it added in its Aug 24 publication.

The funds, however, are widely expected to roll over their short positions for another month or beyond, and are prepared to pay a five percent annual holding cost as they are convinced that further asset deflation in Hong Kong's property-dominated markets is inevitable.

The Hong Kong government's intervention in the share market last week, which pushed up the Hang Seng index by 4.2 percent, has been welcomed by Malaysian Prime Minister Datuk Seri Dr Mahathir Mohamad.

Dr Mahathir said that previously Hong Kong "refused to accept that an unregulated free market could be detrimental to its economy." Now, that philosophy had been "thrown out the window".

The move by Hong Kong, on which more than US\$1 billion has been spent so far, is being viewed in the region as the last brave stand of an Asian government against previously victorious speculators, the Review said.

It has also taken on increased significance because of the emergence of Greater China - Hong Kong, Taiwan and the mainland - as Asia's economic driving force.

Three years ago, the market capitalisation of the three comprised 35 percent of that of the region beyond Japan. Today, it is 70 percent, of which Hong Kong alone contributed more than half.

Economics Professor Pao Yu-ching, a member of the advisory committee of the Hong Kong Government's Exchange Fund, has attacked speculators' despicable double-play tactic of selling HK dollar and thus driving interest rates up while at the same time going short on the stock and futures markets that are thereby forced down.

"International speculators are a kind of parasite, wreaking havoc everywhere and inflicting heavy economic losses in many Asian countries," he was quoted by the Review. -- BERNAMA

TM SHY