Information and Advice on World Stockmarkets from Securities Research Company's . . .

International Investor

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Inside International Investor

Editor and Research Director: James R Cornell (B.Com.)

World Stockmarket Forecasts

Stockmarket	One-Year Forecast	Fundamental Indicators	Technical Indicators	Monetary Indicators	Economic Indicators	Historical Performance (in US$) 3 mths	6 mths	12 mths	Share Index
Australia	35%	Neutral	Bearish	Bearish	Bearish	-8.5%	-8.0%	-6.9%	3,096.30
Austria	40%	Bullish	Bearish	Bearish	Bearish	+4.9%	-8.1%	-13.9%	1,134.47
Belgium	35%	Neutral	Bearish	Bearish	Bearish	+4.0%	-16.3%	-15.8%	2,895.37
Canada	49%	Bearish	Bullish	Bullish	Bearish	+1.1%	+25.0%	+39.7%	9,747.67
Denmark	51%	Bearish	Bullish	Bearish	Neutral	+4.3%	+11.6%	+27.9%	892.93
Finland	46%	Bearish	Bullish	Bearish	Neutral	-2.3%	+35.5%	+130.1%	17,458.88
France	46%	Bearish	Bullish	Bearish	Bearish	-1.1%	+13.6%	+36.9%	4,193.01
Germany	43%	Neutral	Bullish	Bearish	Bearish	-7.8%	+14.7%	+32.8%	7,438.95
Ireland	35%	Bearish	Bearish	Neutral	Neutral	-7.7%	-6.6%	-7.9%	4,969.95
Italy	50%	Bearish	Bullish	Bearish	Neutral	-8.1%	+18.1%	+19.8%	32,066.00
Japan	33%	Bearish	Bearish	Neutral	Neutral	-15.9%	-13.0%	+16.6%	16,800.06
Netherlands	38%	Bearish	Bullish	Bearish	Bearish	-2.7%	+5.4%	+12.0%	958.10
New Zealand	27%	Bullish	Bearish	Bearish	Bearish	-12.1%	-15.2%	-9.6%	2,192.86
Norway	53%	Bearish	Bullish	Neutral	Neutral	-3.7%	+1.4%	+13.2%	739.45
Spain	34%	Bearish	Neutral	Bearish	Bearish	-11.4%	-1.8%	+3.0%	1,022.89
Sweden	48%	Bearish	Bullish	Neutral	Neutral	-7.8%	+23.7%	+66.0%	6,378.00
Switzerland	37%	Bearish	Bullish	Bearish	Bearish	+12.3%	-0.6%	+0.9%	7,841.60
Un. Kingdom	37%	Bearish	Bullish	Bearish	Bearish	-2.3%	-7.3%	-2.3%	6,626.40
USA	42%	Bearish	Bullish	Neutral	Bearish	+4.8%	+3.1%	+11.3%	1,477.26
Argentina	46%	Bearish	Neutral	Neutral	Neutral	-7.6%	-5.6%	-5.3%	19,844.68
Brazil	60%	Neutral	Bullish	Bullish	Neutral	-15.6%	+17.2%	+39.1%	16,222.48
Czech Rep.	59%	Bearish	Bullish	Bullish	Neutral	-13.2%	+16.1%	+11.7%	1,824.00
Chile	47%	Bullish	Neutral	Neutral	Bearish	-9.0%	+3.8%	+4.5%	5,017.40
China	53%	Bearish	Bullish	Bullish	Neutral	-10.2%	+5.5%	+27.0%	771.20
Greece	38%	Bearish	Bearish	Bullish	Neutral	-13.8%	-25.1%	-2.4%	4,534.83
Hong Kong	34%	Bearish	Neutral	Neutral	Bearish	-11.7%	-3.7%	+22.5%	15,284.10
Hungary	41%	Bearish	Bullish	Neutral	Bearish	-9.8%	+8.4%	+27.6%	9,346.27
India	36%	Bearish	Bearish	Neutral	Neutral	-19.1%	-8.1%	+6.0%	4,453.47
Indonesia	38%	Bearish	Bearish	Bullish	Bearish	-27.3%	-36.7%	-28.7%	444.45
Israel	49%	Neutral	Bullish	Neutral	Bearish	-10.7%	+24.7%	+43.9%	483.20
Korea	44%	Bullish	Bearish	Bullish	Bearish	-15.0%	-19.6%	-1.2%	760.69
Malaysia	40%	Bearish	Bullish	Neutral	Bearish	-6.0%	+23.0%	+20.5%	891.25
Mexico	54%	Bearish	Bullish	Bullish	Bearish	-20.5%	+1.5%	+23.8%	6,627.34
Philippines	31%	Bearish	Bearish	Neutral	Neutral	-14.2%	-24.9%	-42.6%	1,512.75
Poland	41%	Bearish	Bullish	Bearish	Neutral	-13.4%	+22.2%	+15.9%	19,851.50
Portugal	45%	Neutral	Bullish	Bearish	Neutral	-14.9%	+8.8%	+16.3%	2,906.12
Russia	40%	Bearish	Bullish	Neutral	Bearish	+4.8%	+73.2%	+101.4%	2,053.77
Singapore	37%	Bearish	Bearish	Bullish	Bearish	-9.7%	-16.2%	-0.7%	1,910.40
Sth Africa	32%	Neutral	Bearish	Bearish	Bearish	-12.8%	-13.6%	-1.7%	7,506.86
Taiwan	45%	Neutral	Bullish	Neutral	Bearish	-8.0%	+14.4%	+22.5%	8,883.45
Thailand	29%	Bearish	Bearish	Bullish	Bearish	-13.4%	-18.0%	-32.1%	339.28
Turkey	65%	Bearish	Bullish	Bullish	Bullish	-9.6%	+46.9%	+106.7%	16,196.00
Venezuela	57%	Bullish	Bullish	Bullish	Bearish	+13.2%	+23.4%	+10.9%	6,908.62

One Year Forecasts predict the probability that a stock-market will rise over the next year. Investors should seek to invest in markets with forecasts of 60-100%, while avoiding markets with forecasts of 0-40%. Bullish = Favourable. Bearish = Unfavourable.

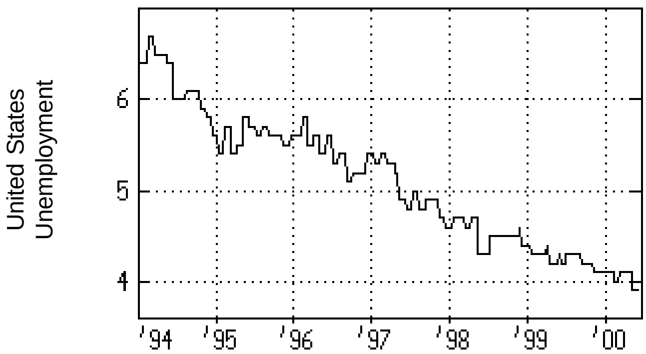
Stockmarket Outlook

The NASDAQ index soared 19.0% last week to 3813.38 - just 24.5% below its March peak. Triggering this jump was the news that US unemployment had risen to 4.1% in May (up from 3.9% in April).

Suddenly market expectations have changed: The rise in unemployment shows that the Federal Reserve has successfully engineered a *soft landing*, slowing the economy, removing inflationary pressures and will therefore not need to raise interest rates any further! Are stockmarkets heading back up?

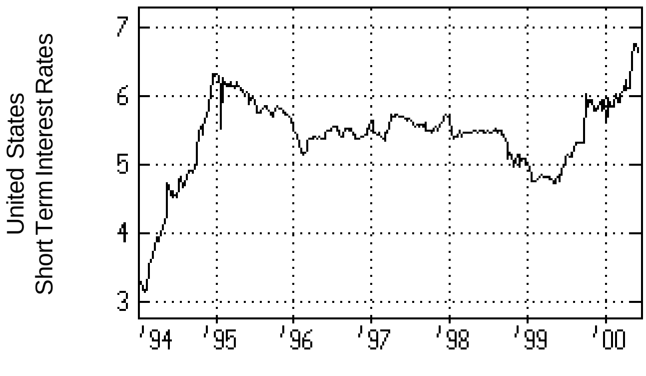
Unfortunately, economic management is not that easy or that simple.

Unemployment statistics are very volatile. Monthly US unemployment figures have risen 30% of the time over the last six years, yet the unemployment trend has been clearly downwards (from 6.5% in 1994 to 4.1% today). The latest one month increase in the unemployment statistics does not, therefore, indicate that the trend has reversed!



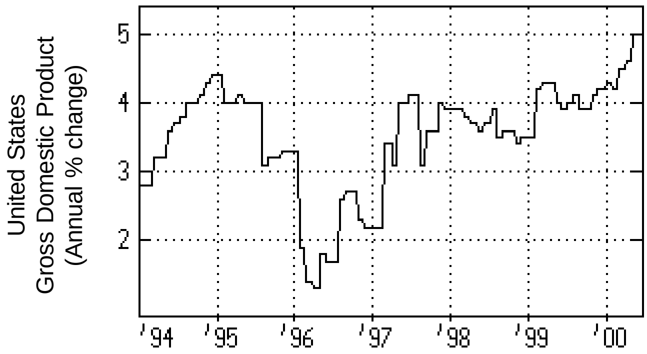
Interest Rate Outlook Still Unfavourable

While US interest rates have risen to new highs recently . . .



. . . (and pushed up interest rates in other countries) it is likely that the Federal Reserve will *continue to raise interest rates further*. Even if Unemployment continues to rise - which we doubt - inflationary pressures have built up in other areas of the US economy. Very rapid growth over recent years (see chart below) leads to shortages, which result in price increases. The Federal Reserve will need to continue to slow the economy by raising interest rates further.

This rising interest rate environment is unfavourable for stockmarkets and was the main factor that led us to start building up a cash reserve in February. This interest rate environment has not changed, so we will increase that cash reserve this month (to about 30-40% of our international portfolio) and hold this until the investment outlook improves.



Outlook for Asia

We shall continue to hold our equity investments in Asia, believing that this region offers long term growth potential following on from the 1997 crisis. Economic growth is expected to remain high - around 5-7% per annum - in this region.

The main area in need of restructuring in Asia is the de-leveraging of corporate balance sheets (i.e. exchanging high debt levels for equity financing). This process can be achieved via several means. In the West, high debt companies are allowed to fail and are liquidated. This quickly writes down debt levels and releases capital and labour resources for use in other areas. Asia has rejected this method which places a high social cost on workers who lose their jobs.

Instead, interest rates have been kept relatively low (i.e. all domestic savers subsidise companies that are able to service their debts and keep their businesses running), while economic growth and export surpluses are used to slowly repay debts. Companies have also taken advantage of higher share prices to raise some additional equity to repay debts. Across Asia, trade surpluses and new equity have each contributed about 5% towards the reduction in debt levels over the last year. This, however, has led to some complacency and real economic restructuring has been deferred.

A slowdown in US activity (reducing Asian export surpluses) and higher US interest rates (depressing equity prices) will slow these methods of debt reduction - and force real restructuring. Companies *need* to sell assets to maintain and accelerate the rate of de-leveraging, while domestic investors need to be forced to exchange debt (which in the past has appeared risk free - but isn't) for equity.

Asian stockmarkets have recently experienced a sharp decline. We always expected these stockmarkets would remain volatile. The *silver lining*, however, will be that this new *crisis* may finally force major restructuring upon the corporate sector.

Recommended International Investment Funds

We are recommending the sale of **TR European Growth Trust plc** and **Ivory & Simes UK Smaller Companies Trust plc**. We started building a cash reserve in February - owing to the unfavourable outlook for major stockmarkets - and these latest sales will build our cash reserve to about 30-40% of our international portfolio.

While we believe the worst of the recent decline is over, stockmarkets will likely remain depressed and trend lower for several months. The sale of the two funds above complete our planned exit from the major stockmarkets and we shall probably hold this large cash reserve until the stockmarket outlook improves and we decide upon the best place and time to re-invest in equities.

Fund Report

Over the last year **Schroder Asia Pacific Fund plc** has increased its holdings in Taiwan and Korea, mainly focused on IT equipment manufacturers - especially semi-conductor manufacturers such as Taiwan Semiconductor, United Microelectronics and Samsung Electronics. These companies have experienced strong revenue growth which the Fund Manager believes will result in "a sharp recovery in profits". The fund has been "more cautious about internet and telecommunication stocks", limiting its exposure to larger companies like SK Telecom (in Korea) and China Telecom.

Current Advice	Investment Fund	EPIC Code	Initial Recommendation --- Date ---	Initial Recommendation Offer Price Foreign	Offer Price NZ Cents	Prem/ Disc to Net Assets	Recent Price Bid-Offer or Last Sale	Recent Price NZ Cents	Gain or Loss %
	Europe								
SELL	TR European Growth Trust plc	TRG	11/02/97	157.5p	374.7	+6%	471.0p	1540.7	+311
	Asia								
HOLD	AIB Govett Greater China Fund	*	13/08/96	212.9p	480.4		213.45-227.89p	721.9	+50
BUY	Fleming Asia WARRANTS	FAIW	07/03/00	43.8p	141.7		29.75p	97.3	-31
BUY	Fidelity Asian Values WARRANTS	FASW	10/03/98	17.5p	49.7		26.75p	87.5	+76
HOLD	Gartmore Pacific Growth Fund	*	29/10/85	41.4p	105.4		212.19-226.79p	718.0	+581
HOLD	HSBC Asian Fund	*	10/11/98	34.4p	106.3		54.65-58.01p	184.3	+73
HOLD	HSBC Hong Kong Growth Fund	*	07/04/98	159.4p	481.6		194.70-207.50p	657.8	+37
BUY	Schroder Asia Pacific WARRANTS	SDPW	13/07/99	25.5p	75.8		20.75p	67.9	-10
	Japan								
HOLD	Baillie Gifford Shin Nippon plc	BGS	11/01/94	156.0p	440.3	-21%	187.0p	611.7	+39
HOLD	Invesco Japan Discovery Trust	IJD	13/07/99	95.5p	284.0	+5%	168.0p	549.6	+94
	Korea								
HOLD	Baring Korea Trust	*	12/04/94	81.1p	209.4		72.75-78.23p	246.9	+18
	Thailand								
HOLD	Old Mutual Thailand Trust	*	08/12/98	49.0p	155.9		50.04-54.89p	171.6	+10
	International								
HOLD	Aberdeen Emerging Markets	*	13/08/91	39.0p	116.1		70.92-75.04p	238.7	+106
BUY	Templeton E/Markets WARRANTS	TEMA	13/07/99	40.3p	119.7		21.75p	71.2	-41
	United Kingdom								
SELL	I & S UK Smaller Coys IT plc	ISU	11/02/97	160.0p	380.6	-19%	231.5p	757.3	+99

* United Kingdom based Unit Trust

Other Shares and Warrants

Alternative investments in the UK listed investment trust shares and warrants recommended above include **Fidelity Asian Values** shares at 93¾ pence (-12%, i.e. 12% *below* net asset value), **Fleming Asian** shares at 106½ pence (-13%), **Schroder Asia Pacific** shares at 84½ pence (-15%), **Templeton Emerging Markets** shares at 112 pence (-27% - a very high discount), **Baillie Gifford Shin Nippon** warrants at 52¾ pence, **Invesco Japan Discovery** warrants trade at 95 pence, **I & S UK Smaller Companies** warrants at 127½ pence and **TR European Growth** warrants at 303 pence.

Fund Recommendations:

Sell TR European Growth Trust plc

Sell I&S UK Smaller Companies Trust plc

It is by coincidence that these two UK listed investment trusts were both recommended in February 1997 and that we are now recommending their sale at the same time! Our intention this year - starting with some fund sales in February - has been to reduce our exposure to the major stockmarkets. Share prices are relatively expensive in the United States, the United Kingdom and Europe. So in the current environment of interest rate rises we are cutting back exposure to these stockmarkets and holding a large cash reserve until the outlook for equities improves.

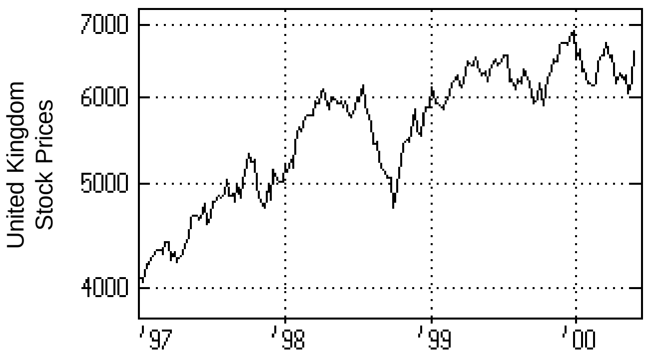
The decline in technology shares since March has had an impact on share valuations globally. I & S UK Smaller Companies Trust shares are down from their March high - although TR European Growth Trust shares have *almost* recovered to a new high.

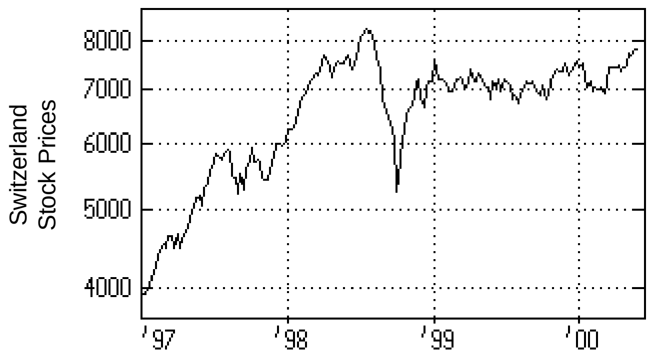
Both listed trusts have been excellent investments over the last three years and four months: TR European Growth Trust has better than *quadrupled* (up +311% in NZ dollar terms, or 53% p.a. compounded) while I & S UK Smaller Companies Trust has *doubled* (up 99%, or 23% p.a. compounded).

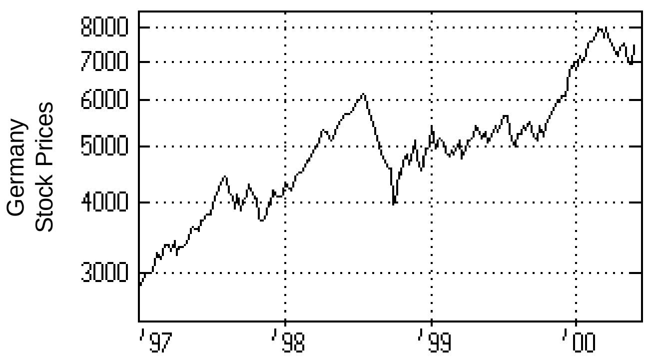
In addition, dividends have made a small contribution: TR European Growth Trust has paid a total of only 2.05 pence (plus Tax Credits), adding just over 1% to our total return. I & S UK Smaller Companies Trust has produced a slightly higher yield. Together with a dividend of 2.75 pence (net) payable on July 5 (the shares have traded ex-dividend since May 15) we shall have received a total of 13.05 pence (net) in income from this investment. That adds just over 8% to our total return.

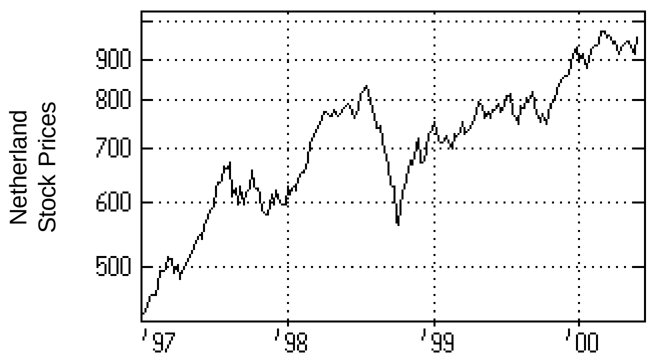
Summary and Recommendation

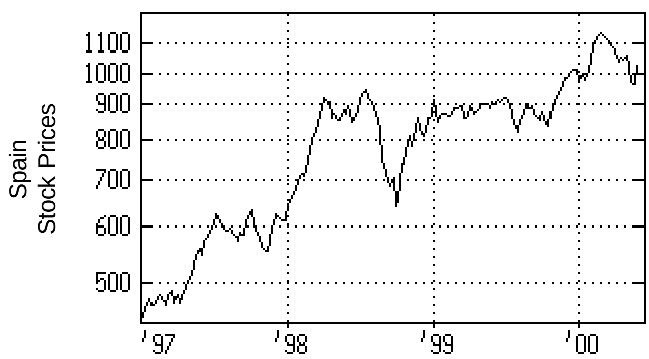
Both TR European Growth Trust and I & S UK Smaller Companies Trust are good investment funds, but the time has arrived to cut back our exposure to European and United Kingdom equities. Therefore we recommend selling both of these UK based listed investment trusts.











Recommended Funds Geographic Portfolio Spread

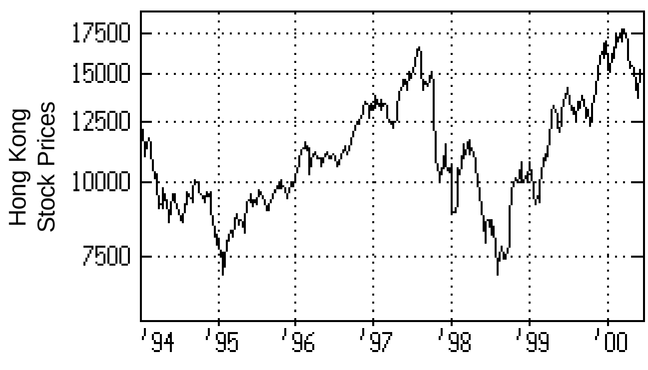
Compared with three months ago, many of our recommended funds have taken a more defensive position by increasing their cash holdings. **Templeton Emerging Markets** now has 18.3% of its portfolio in cash (up from 0.9% three months earlier), **Invesco Japan Discovery** has 9.3% in cash (previously nil), while **Fleming Asia**, **HSBC Asian** and **HSBC Hong Kong** each hold about a 9% cash reserve (up from 2-4% previously).

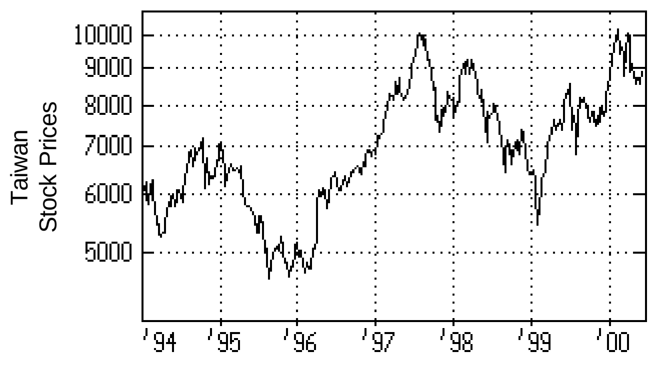
Changes in asset allocation have varied widely amongst our Asian funds: **Govett Greater China** has significantly increased its holdings in Taiwan (up to 33% from 7% three months ago) while cutting its investment in China (down to 3% from 15%). **Schroder Asia Pacific** has also increased holdings in Taiwan (up to 23% from 13%) and Korea (up to 24% from 17%). **HSBC Asian** has also significantly increased its investment in Taiwan (up to 20% from 6%), while reducing investments in Hong Kong, Korea and Singapore. Taking a different view, **Fleming Asia** has increased holdings in Hong Kong and India, while reducing investments in Taiwan and Korea.

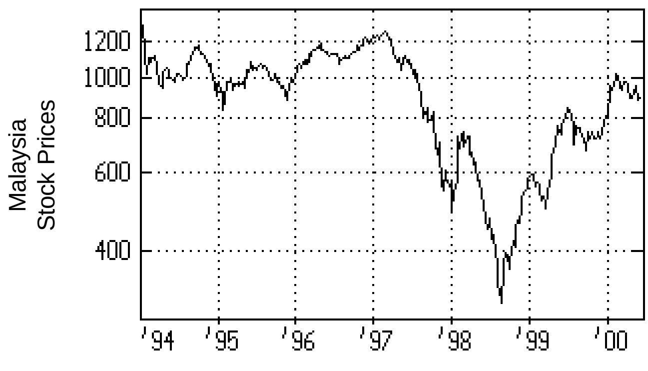
Aberdeen Emerging Markets has reduced its investment in Latin American equities (down to 24% from 28%) and in Africa to build up a 7% cash holding. **Templeton Emerging Markets** also made significant reductions in Latin America (down to 23% from 37%), smaller cuts in Asia and Africa - building up a large 18% cash reserve - but also increasing its holdings in Europe & the Middle East (up to 18% from 13%).

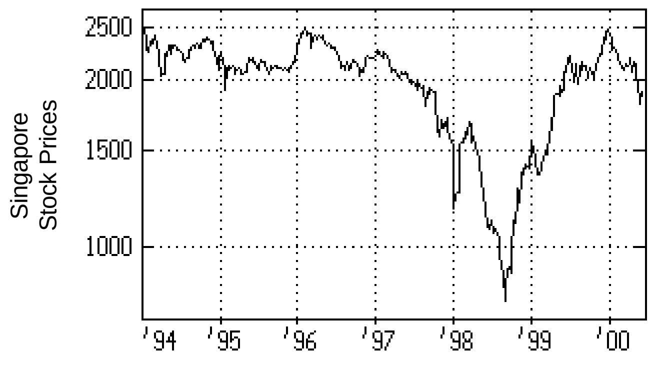
Fund Name	Size (Mil)	Leverage (% debt)	Top 10 Hldgs (%)	Portfolio invested in (%):- Cash	Germ	France	Switz.	Nethld	Italy	Spain	Sweden	Norway	Finland	Ireland	Greece	Denmark
TR European Growth Trust	£826	15	42.3	0.7	17.3	12.1	18.5	15.9		10.9	2.5	8.3	2.7			
				Cash	HK	Australia	Malay	Japan	Taiwan	Korea	Sing.	Thail'd	Phil.	China		
AIB Govett Greater China	£7	Nil	49.3	0.0	50.0				33.0	14.0				3.0		
Fidelity Asian Values plc	£120	19	35.1	1.0	30.1		7.4		18.9	23.1	11.8	4.3			Other 3.4%	
Fleming Asian IT plc	£205	12	44.0	9.0	32.0		2.0		14.0	17.0	10.0	3.0			India 12%, Indonesia 1%	
Gartmore Pacific Gth Fund	£125	Nil	42.3	1.7	34.1	3.6	2.7		14.5	21.7	16.5	3.7	0.9		India 0.6%.	
HSBC Asian Fund	£37	Nil	41.2	9.0	34.4		5.5		19.6	14.8	10.6	3.2	0.5	1.2	Indonesia 1.1%	
HSBC Hong Kong Gth Fund	£33	Nil	58.0	9.1	88.7									2.2		
Schroder Asia Pacific plc	£136	6	42.0	0.2	28.9		7.0		22.8	24.2	12.0	1.8	0.9	0.1	Indonesia 2.1%	
Baring Korea	£65	Nil	41.3	4.8						95.2						
Old Mutual Thailand	£9	Nil	56.5	3.7								96.3				
				Cash	USA	UK	Europe	Japan								
Baillie Gifford Shin Nippon plc	£94	15	37.9	2.7				97.3								
I & S UK Smaller Coys IT plc	£60	11	42.6	0.5		99.5										
Invesco Japan Discovery Trt	£54	7	44.6	9.3				90.7								
				Cash		Asia		Latin Amer		Africa		Europe & Middle East				
Aberdeen Prolific Emerging	£16	Nil	18.4	6.9		39.5		24.1		8.5		21.0				
Templeton E/Markets plc	£817	Nil	23.3	18.3		30.7		23.1		10.0		17.9				

(Brazil 9.5%, South Africa 10.0%, Turkey 8.1%, Mexico 7.3%, Thailand 6.8%, HK 5.8%, South Korea 5.4%)









Japan and China Assume Regional (and Global?) Leadership Role

Japan and the rest of Asia control a large share of the world's economy and financial wealth. Yet this region makes little contribution to global economic or political leadership or decision making. Asian stockmarkets also account for only a small percentage of the world's stockmarket wealth.

Asian Economic Statistics

Asia accounts for 34% of the world economy (Japan 8%, Non-Japan Asia - or NJA - 26%) and holds 52% of the world's Foreign Exchange Reserves (Japan 17%, NJA 35%). This gives Japan and NJA a much bigger share of the world economy that either the United States (25%) or the UK and Europe (23%) yet it is these Western countries that dominate global economic and political decision making.

Asian stockmarkets also appear to be under-weighted, accounting for only 17% of the world's listed equities. Furthermore, Japanese equities account for 14% of the global total, so NJA equities make up only 3% of the world's total stockmarket capitalisation - significantly behind NJA's 26% share of Gross Domestic Product or 35% share of Foreign Exchange Reserves.

Why Japan and NJA lag behind in Global Leadership

There are many reasons why Japan and NJA currently have only a small impact on global economic policy. Firstly, in the mid-20th century when the **International Monetary Fund** and the **World Bank** were established, Japan and NJA accounted for a very much smaller share of the world's economy. Secondly, European countries have overcome centuries of fighting (including two World Wars in the 20th century) and united to become a major economic bloc. Asian countries have remained divided. Both China and Korea - having been invaded and occupied by Japan - have remained wary of economic domination by Japanese companies. Asia has also been divided politically. Twenty years ago, Asia consisted of a number of small, semi-democratic countries clinging to the coast of a communist land mass. A one-party state still persists in China - but this country long ago became capitalist.

Japan and the rest of NJA - including China - have recently worked together on an economic project which is a major step forward in regional co-operation and regional leadership.

The Asian Regional Financial Arrangement

Japan, China, Korea and the ten ASEAN countries (i.e. Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam) have agreed on an "Asian Regional Financial Arrangement" (ARFA) to prevent future speculative attacks upon currencies in the region.

Details of the ARFA have not been finalised, but these countries have US$750 *billion* in Foreign Exchange Reserves so their influence will be considerable. The ARFA will initially involve a series of bilateral currency swaps and repurchase agreements - which effectively give each country access to a large pool of Foreign Exchange Reserves with which to protect their currencies from speculative attacks.

The ARFA does not currently include the two Asian countries with the largest Foreign Exchange Reserves, Hong Kong (with US$94 billion) and Taiwan (with US$104 billion).

In 1997-98, Japan proposed the establishment of an *Asian Monetary Fund* with US$100 billion - but that was blocked by the United States and the International Monetary Fund. The latest proposal, the ARFA, could eventually evolve into an Asian-IMF.

Summary

This is the first time that Japan and China have worked together on a major project - and an important step in the economic development of the region. This could also signal a willingness to take a growing leadership role in regional (and global?) development.

The size of Foreign Exchange Reserves in Japan and NJA is massive, so the impact of ARFA could be significant. If this develops into an Asian IMF, then it could rival the original IMF in importance.

The swap arrangements mean that countries need to hold less of their massive Foreign Exchange Reserves in US dollars and can hold a more balanced portfolio. This should significantly increase the role of the Japanese Yen and the Euro as reserve currencies - and diminish the dominance of the US dollar. A move to more balanced portfolios of Foreign Exchange Reserves would increase the value of the Yen and Euro, and decrease the value of the US dollar. It would also put upwards pressure on US interest rates.

The only downside to this development is that the financial arrangement to protect currencies *may* lead Asian countries to adopt poor economic management that could lead to currency problems. Having "insurance" sometimes allows people/countries to engage in unsafe activities.

Investment Summary

If Non-Japan Asia accounts for 26% of the world's economy, holds 35% of the world's Foreign Exchange Reserves but makes up only 3% of the world's stockmarket capitalisation, then Asian equities are *under-represented* and this is an area where we want to be *over-weighted*.

Over the very long term, NJA's share of the world's stockmarket capitalisation should approach its share of the world's economy - while its share of the world economy will actually increase (i.e. as under-developed economies like China will grow at a faster rate than mature economies like the US, UK and Europe). So Asian stockmarkets should grow about *ten-times* faster than stockmarkets in the US, UK or Europe over the next 25 years. Some of that growth will, of course, come from more listed companies on the stockmarket, but global investment funds will need to allocate increasingly large amounts of their *(Continued on Page 7)*

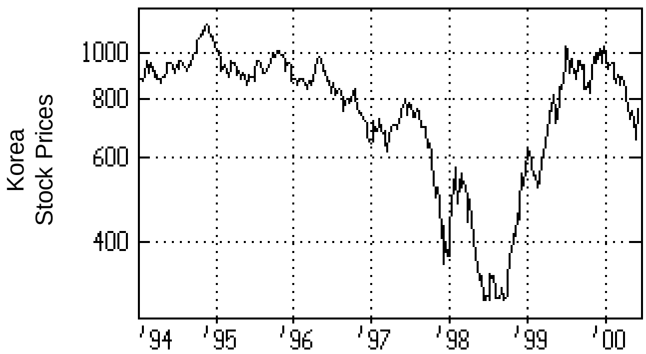
Japan and China Assume Leadership

(Continued From Page 6)

portfolio to Asia - at the expense of Western stockmarkets. Investment flows to Asian equities will grow considerably faster than the flows to Western stockmarkets, while Asian economies also grow faster. That is where investors need to be investing their money to maximise their long term investment returns.

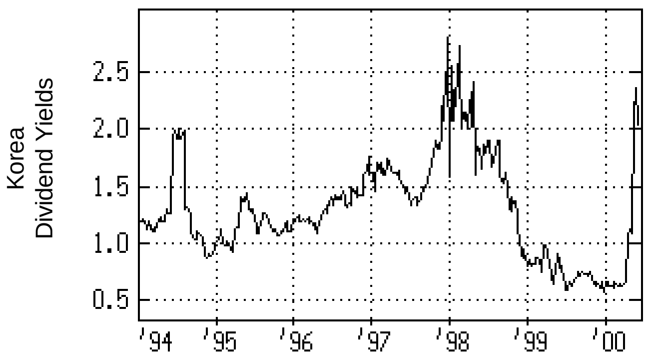
Country Review: Korea

Our Forecast for the **Korea** stockmarket has improved sharply over the last month. While the stockmarket has dropped sharply this year . . .



. . . this has co-incided with an upturn in corporate profitability and dividends. The average Korean Price/ Earnings ratio has fallen to near historical lows . . .

. . . while Dividend Yields have soared to historical highs . . .



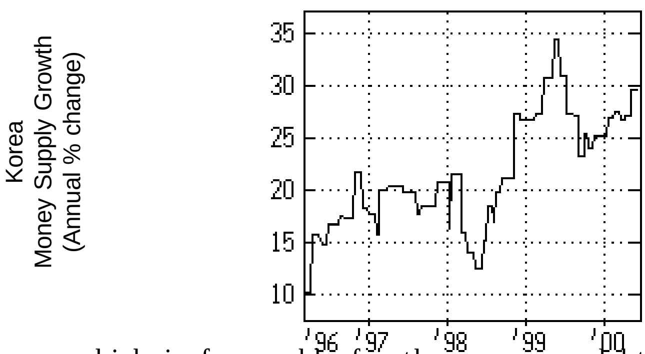
The net result of *lower share prices* <u>and</u> *higher earnings and dividends* has seen a significant improvement in the stockmarket's Fundamental valuation over recent months. <u>Fundamental indicators now suggest that Korean equities are *near* their lows and offer good value</u> - although technical trends will probably result in prices falling a little further and remaining depressed over the next several months.

Korean corporate debt levels fell about 15% over the last year - with companies using export earnings and new equity issues to repay debt. Significant asset sales and debt restructuring has not yet happened.

<u>Bond Fund Restructuring Deferred</u>

Bond Funds (which were discussed in *International Investor* in December 1999) were supposed to adopt *mark to market* accounting (i.e. re-value their bonds from cost to market value) by June 2000. This would make their risks clear to investors as the value of their investment in the Bond Funds would fluctuate with the market value of its bond investments. Under current accounting standards Bond Funds appear to be fixed value interest bearing deposits, but they are actually unable to repay their deposits at full value. That *mark to market* has now been moved back to December 2000 - deferring the inevitable painful corporate restructuring as investors withdraw their money and these funds are liquidated. The government has recently been forced to re-capitalise two of the biggest Bond Funds. On the positive side, total Bond Funds assets have been reduced from W200 trillion (US$175 billion) to W140 trillion - which accounts for about 75% of the debt reduction in the corporate sector - so the Bond Fund problem has probably diminished! *Mark to market* and the liquidation of Bond Funds will be a major factor forcing serious assets sales and debt restructuring in the corporate sector. As we wrote in December this "will probably involve some crisis situations" and "lead to some wild fluctuations in share prices" but overall "restructuring is favourable for the economy and stockmarket".

Money Supply continues to grow rapidly . . .



. . . which is favourable for the economy, debt restructuring and the stockmarket.

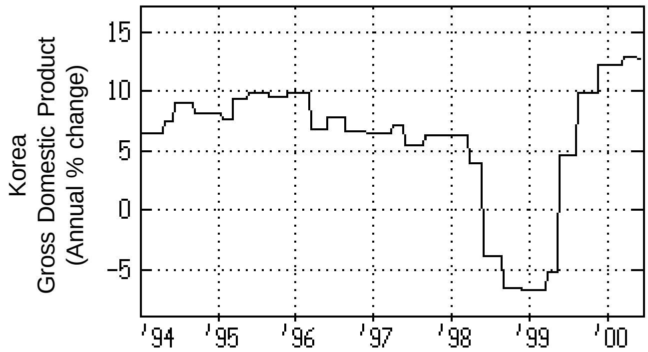
(Continued on Page 8)

Country Review: Korea (Continued from Page 7)

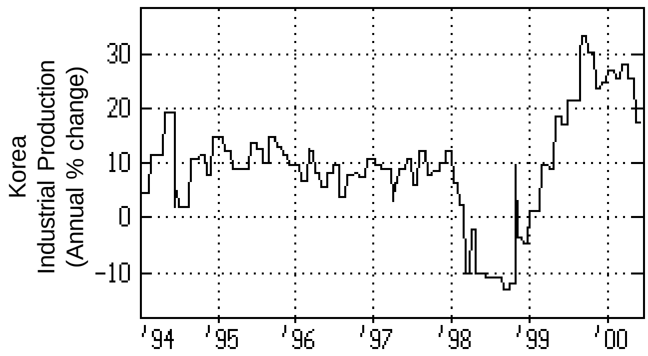
The inflation rate remains low . . .

. . . as do Interest rates which helps the corporate sector manage its debt burden . . .

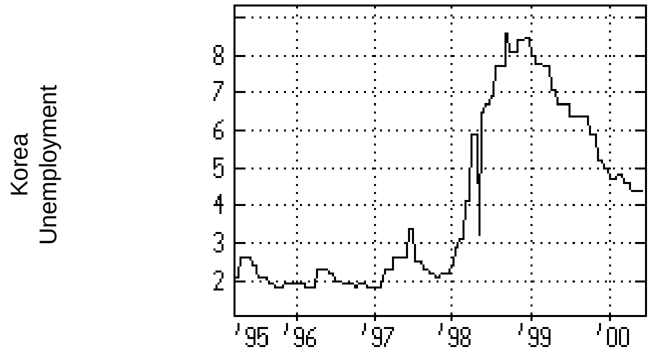
Economic growth remains strong, with Gross Domestic Product . . .



. . . and Industrial Production . . .



. . . bouncing back strongly from the Asian crisis downturn. Unemployment levels are an indication that there is still *excess capacity* in both manufacturing and the labour market . . .



Summary and Recommendation

The Korean corporate sector has used buoyant economic conditions to reduce debt level by 15% - but, unfortunately, serious de-leveraging via the inevitable asset sales and debt restructuring has not yet begun. Tougher economic conditions - a lower trade surplus and lower equity valuations - may force this restructuring to begin.

The Korean stockmarket recovered strongly from mid-1998 to late 1999 (i.e. more than *tripled* in value), but has since suffered a correction, retracing half of that advance. Fundamental indicators now show that the Korean stockmarket is under-valued - although prices will likely weaken a little further and remain depressed in the immediate future. Given the volatility in this market, prices could spike back up 25-35%, perhaps falling back to current levels, with a new uptrend beginning around the end of 2000.

Fundamentally, the Korean stockmarket has become significantly more attractive - although more conservative investors should probably wait until later in the year for a new uptrend in the market before adding aggressively to existing investments in Korean equity funds.

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