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THE VIEW
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Holding up nicely

Despite the biggest protests for 47 years, the Hang Seng Index remained robust; that tells us the days of Hong Kong as a domestic market are over

"There are few professionals in the investment business – and the best of us are just gifted amateurs," so taught a wise colleague of mine decades ago. Never has that been truer than in the past week. On the Monday following the clash between Hong Kong police and demonstrators, I opined on RTHK that the market would go down 5 per cent; that's 1,200 points in last week's money.

A learned fellow observer of the market, also now recorded for posterity on the radio, said that he thought the market would fall 500 points on day one, and up to 3,500 by the time the shock was out of the market.

These were reasonable predictions based on the uncertainty of China's reaction to the Umbrella movement – harsh or soft, vindictive or forgiving – and the impact on Hong Kong's confidence long term. Sudden political demonstrations, even one such as our velvety Umbrella Revolution, are really not good for markets.

My esteemed fellow analyst and I have 60 to 70 years of combined experience. Does that experience count for nothing? Are we fighting the last battle? Perhaps it is time to use our experience wisely to change our mental maps of the market we thought we knew.

The Hang Seng Index brushed off the mass protest news. Photo: AP

Few observers were looking for a mild fall of 0.7 per cent in a three-day holiday week, in which Wall Street was down 1.5 per cent, and we had the biggest demonstrations for 47 years. Yet the property sub-index of the Hang Seng, and even retail and jewellery counters, were barely down a few per cent.

The market's robustness is telling us that the days of Hong Kong as a domestic market are over. It is now dominated by Chinese sentiment, mixed with a big dash of US interest rates.

The protests in the city are a non-event on the mainland, with the Shanghai Composite Index closing up 0.8 per cent on Wednesday – the first trading day after the National Day holiday. It had gained 5.7 per cent in September.

Earnings from the Chinese economy now overpower the Hang Seng index, with 70 per cent of listed companies being almost entirely mainland-based. We are no longer the Hong Kong market.

> **The government is the lender of last resort and should be buyer of last resort**

We were entitled to see a 3 to 5 per cent fall last Friday, the first day back, because during our holiday the global markets experienced some sharp falls. But when the day dawned, global economic news was more positive; Chinese authorities had eased mortgage restrictions and global markets were in recovery mood after falls mid-week.

Perhaps the market took the view of this column last week in calculating that the protest would cause negligible impact to the economy. Perhaps, too, by Friday the bad news was all known and the market was in the mood to shrug off the bad and take in the good.

Yet the behaviour of the HVIX index, an index based on the implied volatility of Hang Seng options, was unusual. In simple terms it is a "worry index" on Hong Kong stocks. The HVIX rose sharply at the end of last week and hit highs not seen since the dark days of February. Yet the cash equity markets remained calm. Could the HVIX have been be picking up the market's true worry levels and, if so, why would the Hang Seng be so robust?

One possibility is that there was intervention in the stock markets by the government, or others. Intervention happens all the time and it can be very effective. The best example is our own Hong Kong Tracker Fund, which resulted from the government buying the market during the 1988 Asian financial crisis.

The Chinese banks were good performers last Friday but so, too, were Hong Kong-sensitive stocks. This market rose evenly and this might imply buying across the board by investors not fussy about the prospect of individual sectors.

Such an open market life-support operation is a very good way of bridging the market over a bad patch, rather like putting a patient into intensive care until they get over the worst of the fever.

The government is the lender of last resort and should also be the buyer of last resort. This shows a real role for governments, of all political persuasions, to prevent a confidence-sapping breakdown. Buying your own market at a fulsome discount also helps the budget when you come to sell, as the Tracker Fund proved.

Hong Kong is clearly out of intensive care and there is a real chance of a good last-quarter performance if the Shanghai A-share market also does well. Massive buying to support the markets in secret is the preserve of governments but it would be nice if they told us they were doing it – so that we could get in, too.

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Illustration: Henry Wong