

# BACK TO BUSINESS



**THE VIEW**  
**RICHARD HARRIS**

## Hoping for stability

**The Hang Seng Index** expects a period of calm after discounting news of Hong Kong's rejected demands for an open Chief Executive election

Hong Kong makes the business press on a daily basis but rarely does it make the front pages of the global media. The news that the National People's Congress had refused demands from Hong Kong people for an open vote for the next Chief Executive made headline news worldwide.

But Hong Kong is not a "front page place" and we returned to the second section within a day. We are a docile, work-oriented society, buoyed by our business focus, low taxes, and fair and clean society that led to our growth in the first place.

So how did the stock market react to all these politics? The Hong Kong market, like every other, is highly dependent on news flow. The importance of news is fundamental and last Sunday's NPC announcement was a key piece of the jigsaw of events that make up our future.

However, the timing of the news is important too. Making an announcement on a Sunday is always a good way – in the words of a former British spin doctor – to "bury the bad news".

Fortunately, the markets are not in distress so this bad news was not piled on to a negative

environment, where one more piece of bad news comes as the last straw for a market collapse.

The news might be partially known in the market already. Last week, this column predicted that there would be no change to the election process – not a piece of insightful analysis because the answer had been flagged through Communist Party media sources for weeks.

The degree of shock that a piece of news causes will similarly impact the market. The announcement was certainly big news, but it was not unexpected.

In some cases, a known piece of news can take so long to confirm that it becomes a shock when the event actually happens.

Compounding these ele-

**Our market has become increasingly linked to the Chinese economy**

ments of news flow is what makes the art of investment so deliciously unpredictable.

We can isolate the recent debate over Hong Kong's future governance and how it has affected the stock market by looking at the price behaviour of the Hang Seng Index, compared to the Shanghai Composite and the Dow Jones indices.

This is relevant as our market has become increasingly linked to the Chinese economy, and less linked to the outside world, mainly the US.

The HSI now comprises about 60 per cent Chinese companies and 40 per cent Hong Kong companies by market capitalisation, which falls to below 30 per cent if you take out HSBC as a rough proxy for non-HK assets in the index.

Assuming the remaining Hong Kong companies have half their activities in China, then perhaps any news that affects Hong Kong alone will represent only about 15 per cent of the Hang Seng Index. This mainly includes the local property sector and puts influences on our market into perspective.

The impact the latest governance debate had on the Hong

Kong market began around June 10 when the Chinese government's white paper was published. Its contents were a shock and it took a couple of weeks to be digested by the markets.

Prices did not go down much but the Hong Kong market had a hard time following the more buoyant Shanghai and New York.

The significant market rally in Shanghai in late July was followed in an understated fashion by the Hang Seng, which failed to follow through in August.

The Chinese market began its next rising phase last week, on August 28, and has since climbed around 1 per cent each day.

By then, the Hang Seng was frozen pending the governance announcement and remained so for two days after. The pent up demand finally broke through on Wednesday with a jump of 2.3 per cent as the Hang Seng finally discounted the Chief Executive election and decided to move on.

Hong Kong is still worried about its future – but having discounted the "known knowns" in the news, it seems that the Hang Seng now expects a period of stability.

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