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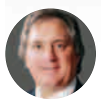

THE VIEW
RICHARD HARRIS

Occupational hazard

Government indecision on how to handle the Occupy Central movement could prove more damaging to market sentiment than the protests

The early days of the Occupy Central movement had little impact on the Hong Kong economy. Twenty-nine per cent of our economy is finance – most of that globally related – and 25 per cent is trading and logistics, a legacy from our centuries old entrepôt status with China.

Just 4 per cent is involved with travel, tourism and hotels. They are a noisy and high profile 4 per cent, but are unlikely to seriously impact our economic growth.

treme elements could look to take on the police.

The government seems to have little idea of how to end the crisis in a way acceptable to Hong Kong or global public opinion, leaving the police with little more to do than wait for instructions.

There have been businesses hurt by the length of time that the tents have been in the streets. Shops near the encampments have shut (though they open when the press and the police are absent). A few posh boutiques in Central have been as quiet as usual and some restaurant sales have been hurt.

The reaction of taxi drivers has been a lesson in behavioural finance. Do they drive in the traffic jams to get half the money and double the stress? Do they stay at home and take a break? Or do they put the "out of service" sign up until they find a punter who is definitely not going to Central, Causeway Bay or Mong Kok?

7%

The Hong Kong stock market has fallen this much since the start of September

Only the stock market is more adaptable than a taxi driver in search of someone with a hundred bucks in his pocket.

In fact, it has been the stock market that has been the window to sentiment in Hong Kong. As we have noted in this column, the Hong Kong market is exhibiting less and less leadership of its own in making prices.

Some 70 per cent of its market capitalisation is related to mainland companies operating on the mainland and earning in yuan. A further 15 per cent comprises the global activities of companies like HSBC, Hutchison and Samsonite. Just 15 per cent of the index is related to the Hong Kong economy itself and how we consume, pay rent or mortgages, invest or trade within the city itself.

So the Hong Kong market should perform like a proxy index of 70 per cent mainland (the Shanghai Composite Index) and 15 per cent the United States (as our traders look to the S&P500 every morning for guidance on how to mark opening prices), with the remaining 15 per cent determined by conditions in Hong Kong.

The Hang Seng Index followed the US market pretty closely up to early February last year. At that point, a big fall in the Shanghai market after a Christmas/New Year rally seemed to hit Hong Kong hard. Since then, the Hang Seng Index has taken its leadership from the mainland, which was bad luck as Shanghai has been one of the worst-performing markets in the world on a five-year view.

Fast forward to mid-July this year when the mainland commenced its bull run, rising 35 per cent since then, with the US up 3.3 per cent. Hong Kong in comparison has not moved at all, even though it rose in tandem with the mainland in August.

> **The reaction of taxi drivers has been a lesson in behavioural finance**

The Hang Seng Index detached from the Shanghai Composite Index around September 3, perhaps forecasting Occupation trouble. From that date, the mainland is up 21 per cent, whereas we are down 7 per cent – a nice trade if you got both sides right. The student occupation began on September 28, since when the mainland is up 18 per cent and Hong Kong is fractionally below 0 per cent.

If we therefore calculate as a proxy a weighted average whereby Hong Kong followed the mainland by 70 per cent of its rally and the US by 30 per cent of its rise, then Hong Kong should be up 25 per cent in the past three months. It is down 7 per cent. That's a whopping 32 per cent behind that proxy index. It follows that in that time, the Hong Kong market has suffered about HK$6.8 trillion of lost value.

Of course these are theoretical numbers, wrong in detail but correct in direction. Clearly the Hang Seng Index has taken a big hit in sentiment, but if confidence is restored, the market cap will soon catch up. The market itself is asking the big question. Will the authorities be able to restore the confidence in our economic future that we had before the occupation?

Richard Harris is chief executive of Port Shelter Investment Management