

TELEPHONE
01 - 601 4444

BANK OF ENGLAND
LONDON EC2R 8AH

4 October 1982

M C Scholar Esq
Prime Minister's Office
No 10 Downing Street
London SW1

Jean Michel

You telephoned this evening to ask for further information on how the recent fall in the Hang Seng index has been distributed between sectors. I attach a note which the Governor asked to be prepared following his meeting with the Prime Minister last Friday and which I hope will give you sufficient information. Please do let me know if you need more.

*Yours ever
T E*

T E Allen
Private Secretary to
the Governor

4.10.82

THE GOVERNOR'S PRIVATE SECRETARY

Copies to Mr Loehnis
Mr Holland
Mr Hignett o/r
Group V
The Deputy Governor's
Private Secretary

HONG KONG: THE HANG SENG INDEX

The Governor asked whether we had details of how the recent decline in the Hang Seng index had been distributed between sectors. The summary of market activity in Hong Kong which appears weekly in the Financial Times provides the fullest immediate information available to us. It shows movements in share prices of the major companies in Hong Kong and the details for the week just ended are reproduced in the attached table. The classification into groups by activity is our own, and the reservation should be made that many of the companies are widely diversified and their activities are likely to extend into sectors beyond those in which we have classified them.

We do not have figures for the respective weightings in the index of these companies. We know, however, that HSBC and the Hang Seng Bank between them account for some 25% of the index, and it is likely that with the other companies shown in the table a very large proportion of the index is covered. It would appear from the movements shown that the fall has spread widely across different sectors, although it should be noted that no manufacturing companies are included. A further caution which should be made is that the available facts tell us nothing of the fate of the smaller companies who have no part in the index.

*Hong Kong
Shanghai
Bank*

4 October 1982

J E W Kirby

HONG KONG STOCK MARKET

Sectoral movements in period 24.9.82-1.10.82

	<u>Price HK\$</u>		<u>% fall in price</u>
	24.9	1.10	
Property companies			
Cheung Kong	11.0	7.85	29
Cosmos Property	1.33	1.33	-
Hong Kong Land	6.5	5.0	23
New World Developments	3.18	2.45	23
SKH Props	5.85	4.75	19
Average			18.8
Finance			
Hang Seng Bank	64	46	28
HKSB (Hongkong Bankers)	9.85	8.15	17
Overseas Trust Bank	4.6	3.7	20
Average			21.7
Trading companies			
Hutchison Whampoa	13.4	9.2	31
Jardine Matheson	17.2	13.9	19
Wheelock Marden	4.7	3.37	28
Average			26
Transport			
Cross Harbour Ferries	10.6	9.8	7.5
HK Kowloon & Wharf	3.95	2.97	25
Swire Pacific	11.2	8.5	24
Wheelock Maritime	3.8	3.8	-
World International	2.28	1.70	25
Average			16.3
Utilities			
HK Electric	5.75	4.85	16
HK Telephone	32.0	27.1	15
Average			15.5
Hang Seng Index			21.4

Mr. Scholar Done occurred mes 5/10
Could you ask M. Allen
whether the Bank could provide an analysis of the ~~state~~ ^{weight} of the various sectors in the Hang Seng index and of where the fall has been concentrated
1.10.82
Copies to Mr Loehnis
Mr Holland
The Deputy Governor's
Private Secretary
CRB 1/10.
R-RRB

THE GOVERNOR'S PRIVATE SECRETARY

HONG KONG

I have considered whether one can point to any particular level of the Hang Seng index which might, effectively, signal a red light for the property companies but, given their differing degrees of strength, I am doubtful about the usefulness of hazarding any such guess.

There is a more indirect point which has relevance, however, and this is the effect which a falling stock market and weakening confidence might have on property prices themselves. I attach an extract from a record of a conversation between DGH and Colin Martin last November. The figure of 30% which Martin quoted was, very broadly, the order of the fall which had taken place between the peak in mid-1981 and the time when Martin saw DGH. Since that time, the market has been fairly flat and taking Martin's words at their face value, I draw the conclusion that if property prices were now to fall by, say, 20%, they would be at his hypothetical danger point. Last November he thought such a further drop was inconceivable. From the viewpoint of today, I am not sure that it is a totally remote contingency in the worst scenario.

The attached table shows the development of the Hang Seng index quarter by quarter from 1976 to mid-1981, and attempts to isolate particularly significant events and their results in the most recent period. The fall of 1973 shown at the head of the table is, perhaps, not so relevant but came out of all our investigations as a particularly dramatic episode in the earlier period.

1 October 1982

J E W Kirby

JK

HANG SENG INDEX (levels at end-quarter) July 1964=100

1973	early March	1,775	All-time peak All factors not clear, but basically pricking of a speculative boom (including discovery of forged share certificates)
	end-March	1,301	

1976	Q4	447	
1977	Q1	417	
	Q2	440	
	Q3	417	
	Q4	404	
1978	Q1	449	
	Q2	557	
	Q3	633	
	Q4	496	
1979	Q1	538	
	Q2	539	
	Q3	686	
	Q4	879	
1980	Q1	783	
	Q2	1,067	
	Q3	1,214	
	Q4	1,474	
1981	Q1	1,370	
	Q2	1,734	
	17 July	1,810	All-time peak Trough (fall related to economic factors, developments in other international centres etc)
	5 October	1,114	
	Q3	1,280	
	Q4	1,406	
1982	Q1	1,166	
	Q2	1,279	
	29 July	1,233	Fall related to uncertainties about Hong Kong's future. Probably news of statement from Peking source that Hong Kong might become a Special Economic Zone.
	30 July	1,186	
	8 August	1,169	Sale of land to Bank of China announced.
	9 August	1,089	
	16 August	937	Trough
	20 September	1,117	Recent peak
	24 September	1,096	Before news of outcome of Mrs Thatcher's talks
	1 October	862	

NOTE FOR RECORD

Copies to Mr Loehnis
Mr Cooke
Mr Kirby
The Governor's
Private Secretary
The Deputy Governor'
Private Secretary

POINTS ON SUPERVISION IN HONG KONG

1 General

I asked about the potential implications for banks and DTCs of the very sharp fall which had taken place on the Stock Exchange, and the distinct signs of weakness in the property market. I could not find anyone who was seriously concerned. Colin Martin exuded confidence; and it was the generally accepted view that, despite the present softness, the underlying tone of the property market was very firm. Indeed one major American bank, which purported to have made a very detailed examination of all sectors of the property market, told me that it was strongly advising its Head Office that the momentary weakness in prices offered an excellent opportunity to extend its interest in Hong Kong property.

When I pressed the question by asking what order of decline in property prices would cause problems for the banking system, I was assured that a decline of 30% across the board in property values would scarcely cause a ripple on the financial scene; but if property values halved there might be some serious consequences. However, a halving of property prices in general was considered to be a contingency so remote as of the border on the absurd. (A key test of the strength of the property market will be the premium secured for the prime site next to the Connaught Centre. At present, estimates run from HK\$5 bn to 10 bn. It is thought likely that whoever gets the site will pull down the Connaught Centre, which was the tallest building in Hong Kong when it was completed only eight years ago.)