Hong Kong needs to learn from 1997 stock debacle

Want China Times, 2015-07-10

The Hang Seng index displayed on the street in Hong Kong, July 8. (Photo/CNS)

Hong Kong has started to take a more cautious approach to protect its stock market from collapse, attempting to learn its lesson from 1997 when its Hang Seng index dropped sharply after short sells largely made by George Soros, founder of Quantum Fund and chair of Soros Fund Management, reports the web portal of Hong Kong-based Ta Kung Pao.

The recent plunge in the Hong Kong stock market was similar to what took place in the region in 1997, when its benchmark Hang Seng Index plunged 60% after peaking at 16,673 points. The steep drop that time was caused by Soros, who made short sells on both the Hong Kong dollar and the Hang Seng Index futures.

In mid August 1998, the Hong Kong Monetary Authority (HKMA), i.e. the region's central bank, started buying component shares of the Hang Seng Index. The HKMA ended up buying approximately HK$120 billion (US$15 billion) worth of shares in various companies and became the largest shareholder of some of those companies at the end of August.

In 1999, the authority began selling those shares by launching the Tracker Fund of Hong Kong, making a profit of about HK$30 billion (US$4 billion). It was reportedly that Soros lost US$1 billion in the financial war.

Global financial situations have been volatile as the Chinese stock market has shrunk over 30% and lost nearly US$3.5 trillion in market value over the past three weeks in addition to Greek's bailout negotiations with the European Union. Both of these are likely to have a strong impact on the open financial market in Hong Kong, the report said.