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According to Mark Lightbown, of Genesis Investment Management Ltd. (London), restrictive foreign investment regulations have helped shelter the Chilean stock market from sharp declines recorded elsewhere in Latin America over the past two months. Lightbown's company manages the Genesis Chile Fund. Lightbown said the relatively "open door" approach of some Latin American nations has increased foreign investor presence, and left markets more vulnerable to swings in foreign, as opposed to domestic investor confidence. He added, "There has been a lot of hot US money going into Latin America, and coming out, especially on the Mexican Bolsa." In June and July, the weekly change in the Chilean market ranged from +1.2% to -2.2%. The real dollar increase since January came to 30%. There is little likelihood, however, of a repeat of last year's record performance when the market virtually doubled in real dollar terms. Lightbown linked the 1991 stock market boom to a decline in the consumer price index from 27.3% to 18.75%, and a reduction of about 3% in real interest rates. He also emphasized an "augmenting of liquidity" that took place when the Central Bank faced with strong foreign investment inflows and a US$1.57 billion trade surplus increased the money supply by issuing substantial amounts of local currency to prevent peso appreciation against the US dollar. According to Lightbown, "Much of this new money found its way into the stock market." The upward stimulus that these three factors gave to the market last year has largely been absent in 1992. Lightbown said, "The consumer price index is continuing to move downwards, but more slowly, with the year-end figure forecast at 13%; real interest rates have not moved very much because the Central Bank does not want to encourage overheating, and there has been no explosion in the money supply." Although the Central Bank continued to print local currency to keep the exchange rate up, it did so "with decreasing success." Consequently, said the analyst, the Central Bank decided in late June to detach the peso from the US dollar in favor of a three-currency basket comprised of the dollar, the German mark and the Japanese yen. Lightbown identified other factors behind the market's somewhat subdued performance this year, including the fact that stocks are not as cheap as they were in early 1991. Moreover, corporate earnings are uneven. Although utility and construction companies are doing nicely, the strengthening of the US dollar has hurt exporters and companies competing with imports...Finally, the government has stopped privatizing and companies have sufficient cash flow to cover their investment needs without resorting to the equities market." Lightbown said, "There is no real reason why the Chilean stock market should go down [over the rest of 1992]. Interest rates are reasonably low, inflation continues to fall and corporate earnings are growing nicely, though not spectacularly." Listed on the international stock exchange in London, the Genesis Chile Fund was the first fund quoted on a European stock exchange which enabled institutions to invest directly in the Chilean stock market. Launched in 1989 with an initial capital of US$60 million, the fund a Guernsey-based, closed-end company established to achieve long-term capital growth through investment in the Chilean equity market currently has US$230 million invested in 55 companies. To build up its investment portfolio, Genesis Management has placed particular emphasis on companies with export products with high value added in industries where Chile has a natural competitive advantage, such as forest products, fruit and fish. Emphasis is also placed on businesses which can easily pass on higher costs...
(e.g., cigarette and soft drink manufacturers), and service sector companies with clientele in both domestic and export market production. (Source: Inter Press Service, 07/30/92)

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