Quick fixes urged to prevent bubble

Brokers see clear signs in stock, property trade

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Leading stock brokers called for authorities to take action to avert damage to the stock and property markets caused by massive inflows, but the finance minister insists the current market situation is no cause for concern.

Kongkiat Opaswongkarn, CEO of Asia Plus Securities, yesterday said the SET index rose past 1,500 points driven mainly by small stocks, while large stocks did not see large gains.

This indicated speculation in small stocks, some of which are trading at a price-to-earnings ratio of more than 100 times.

The speculation could harm the markets in the long term, said Mr Kongkiat.

"Some measures should be taken quickly to screen these speculative stocks out of fundamental stocks so we can treat them differently when considering margin loans for their trading. For these hot stocks, we should reduce margin loans or demand more assets as collateral," he said.

Pakhawat Kovithvathanapong, the chief executive of Trinity Watthana, a major shareholder of Trinity Securities, said he agreed with regulators' plan to double the period of cash advance trading for some stocks to six weeks as well as plans to demand more collateral for margin loans and to lower overall margin loans.

Margin loans are currently set at 40 billion baht, up from 30 billion early last year.

"The SET index has increased sharply so far, and investors should be very cautious," warned Mr Pakhawat.

"I think the market will see a correction followed by a gradual rebound."

However, Finance Minister Kittiratt Na-Ranong said the index was driven largely by strong growth economic projections.

"I don't think the stock market is a concern. I see it as natural, given the domestic economic growth," he said.

"As a former SET president, I think I know the capital market quite well. Regulators have effective tools to control fraud and manipulation in the market, and stock manipulators should be very afraid," said Mr Kittiratt.

Meanwhile, Mr Kongkiat said a bubble in the property market is clearly forming due to a sharp rise in land prices in Bangkok and major provinces.

"Speculation in land prices is booming on the Asean Economic Community theme," he said.

Mr Kongkiat said the Bank of Thailand, the Finance Ministry and commercial banks should lay down measures to control inflated prices without real demand.

There have been indicators of the bubble as some projects cannot close sales.

"It's not my place to say whether the current low policy interest rate is right or wrong, but there's high speculation in some areas. Shouldn't we find measures to stop the bubble?" questioned Mr Kongkiat.

He suggested soft measures including demanding higher collateral for second-hand housing or reducing loans.

"If speculation is rife in the property sector, then the income gap between rich and poor will be wider. The poor will not be able to buy houses, and that will become a burden for the government in the long term," said Mr Kongkiat.

He added that in light of the vastly foreign capital inflows, most of it has gone to government bonds, while a smaller portion has entered the stock market.