

## **Global Markets Seen Volatile On Emerging Market Worries**

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SINGAPORE, March 15 (Bernama) – With worries around various emerging markets – notably China and Ukraine at present – 2014 is already shaping up as a more volatile year for shares, says Dr Shane Oliver, Head of Investment Strategy and Chief Economist, Amp Capital Investors Ltd.

More broadly, he noted share market investors should allow for the likelihood of a 10 to 15 percent correction at some point along the way this year and somewhat more constrained returns than seen over the last two years.

“However, the broad trend in share markets is likely to remain up reflecting a combination of reasonable valuations, better earnings on the back of improved economic growth and easy monetary conditions helping to entice investors to switch out of cash and bonds and into shares,” he said in his weekly market and economic update.

Oliver said the recent decline in global bond yields should be seen as a correction against the backdrop of a slow rising trend in yields on the back of gradually improving global growth.

This will mean subdued returns from government bonds. Cash and bank deposits also continue to offer pretty poor returns.

Oliver noted the past week saw worries about Chinese economic growth and tensions regarding Ukraine ahead of the referendum in Crimea combine to push shares and industrial commodity prices sharply lower at the same time that bonds benefited from safe haven demand.

Over the week US shares fell 2 per cent, Eurozone shares fell, Japanese shares fell 6.2 per cent, Chinese shares fell 2.6 per cent and Australian shares fell 2.4 per cent.

“My view on Ukraine remains that some form of negotiated solution is ultimately likely with the US and Europe unlikely to want to wade in too heavily.

“That said, the situation looks like it could easily get worse before it gets better. A Crimean vote in favour of joining Russia looks assured, so key will be how Russia responds,” he said.

If it uses it as a bargaining chip in negotiations the crisis could settle down or alternatively it may make it emboldened to do more, bringing into play tit-for-tat trade sanctions.

Trade sanctions will have little impact on the US, but could dampen Eurozone growth a bit.

Tensions with Ukrainian forces in Crimea after the vote and in eastern Ukraine also risk escalating the crisis, so it looks like Ukraine will remain a threat for investment markets for a while yet.

Oliver also said there is no denying that Chinese economic data has been much weaker than expected.

January/February exports, industrial production, retail sales, investment and housing starts were all worse than expected and growth in credit continues to moderate.

He said quite clearly efforts to reduce credit growth are having an impact.

However, while the recent weak Chinese data is concerning, there is too much angst about the Chinese growth slowdown.

“Sure, a halving in Chinese growth this year would have a big negative impact globally, but whether its 7.5 per cent or around 7 per cent is neither here nor there.

“Chinese growth has been trending down for four years now and the world has been getting used to it. As the Chinese economy is almost twice big as big as it was in 2007, 7 per cent growth today implies a similar incremental increase in real economic activity as 13 per cent growth did in 2007,” he said.

By the same token, the slowing in Chinese growth coming at a time when commodity supply has picked up, means there is less chance of a surge in commodity prices that would pose a major problem for the US, Europe and Japan.

Finally, Oliver said, while recent Chinese data has likely been distorted by the timing of the Chinese New Year, the slowdown in Chinese growth has been design to head off imbalances in economy i.e. it’s not out of control.

“And the Chinese authorities have plenty of scope to support growth should it fall much below their 7 per cent floor. Thus could involve a cut to bank’s required reserve ratios and measures to boost consumer spending,” he added.

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