

Asia's Economy Remains Uncertain Amid US, Europe's Financial Jitters

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HONG KONG, Aug 10 (Bernama) -- The historic United States credit downgrade and lingering European debt crisis have ignited the Asian stocks rout, casting a shadow over the region's export-dependent economy that is vulnerable to uncertainties in the developed nations, Xinhua news agency quoted market analysts as saying.

Standard and Poor's (S&P) downgraded on Aug 5 the US credit rating from triple A to double A-plus, a move that fueled fears that the global recovery from the 2007-2009 financial crisis could be derailed and the world's economy is headed for a double-dip recession.

STOCK MARKETS TURMOIL

The knock-on effect of the US credit downgrade, coupled with the exacerbating euro-zone sovereign debt crisis, sent global stock markets to dive. The Wall Street plunged Monday, with over 6 percent drop in both the S&P 500 and Nasdaq Index on Monday. The Dow lost 634.76 points, the biggest one-day decline since the fall of 2008.

Most stock markets in Europe also suffered significant losses despite a promising start. Germany's Dax has closed down 5.02 percent, while the CAC in Paris closed 4.7 percent lower. The London stock market slumped with the FTSE 100 index ending down 178.04 points, or 3.39 percent, to 5,068.95 points, its lowest closing since July 7, 2010.

As a knee-jerk results of the US and European market slump, Asian stocks posted broadly losses Monday with the region's benchmark indexes, Tokyo's Nikkei index and Hong Kong's Hang Seng, down 2.18 percent and 2.17 percent, respectively.

South Korean financial markets fell into panic, as the benchmark Korea Composite Stock Price Index (KOSPI) dropped 3.82 percent to close at 1,869.45 Monday after losing as much as 7.4 percent, its worst daily percentage drop since late October 2008. The sharp declines in the KOSPI once prompted the Seoul bourse operator to temporarily suspend program trading on the main exchange Monday.

China's shares fell to one-year low on the same day, with the Shanghai Composite Index down 3.8 percent to end at 2,526.28, the largest one-day shrink since November.

Strategists in Tokyo said that global markets are on growing concerns about the mounting debt in the world's largest economy and ensuing political logjams proving insurmountable in the Congress.

Over the weekend, European leaders rallied to tame the debt crisis to fend off further market sell-off. The Group Seven (G7)'s claim Monday to react in a co-ordinated manner" to maintain financial stability failed to convince investors that they can keep the sovereign debt crisis under control.

However, brokers in Tokyo said that the pledges from the G7 did little to bolster investor confidence.

The three main concerns are S&P's downgrade of the US debt rating, the ongoing European debt problems and inflation worries in China," said Masanaga Kono, chief strategist at Amundi Japan.

Pessimistic mood continued to hover on stock markets in Asia on Tuesday, as most key Asian stock exchanges extended recent losses and investors lost confidence that the United States and Europe can rein in their debt burdens quickly and avert a double-dip

recession.

Hong Kong stocks lost 5.66 percent to end at 19,330.70. Japan's Nikkei index dived more than 4 percent but trimmed losses to close down 1.68 percent Tuesday. South Korean shares ended 3.64 percent lower on Tuesday after diving more than 9 percent earlier. China's Shanghai Composite Index closed down to a 12-month low of 2,526.07 points.

A STABLE ASIAN ECONOMY?

Officials and market watchers in major Asian nations are divergent on the region's economic outlook after the Standard and Poor's downgrade of the US sovereign credit rating shattered investor confidence.

Singapore officials highlighted the uncertainties that might result from sluggish growth in the United States and the sovereign debt crisis in Europe, saying that it may affect Singapore's economy and emerging economies.

Manila's analysts also believed the downgrade would exert negative impact on the nation's exports and overseas investment.

Benjamin Diokno, an economics professor at the University of the Philippines and a former budget secretary, said that the downgrade would result in lower exports, slower remittances from overseas Filipino workers, and reduced foreign direct investments.

"It's still very hard to predict how the US market will do," said Jackson Wong, vice-president of Tanrich Securities in Hong Kong. "When the dust settles, if the situation doesn't get worse in the US or Europe, the situation will rebound. But the US has to stabilise."

Ratings agency Standard and Poor's said Monday that its downgrade of the US credit rating would have no immediate impact on Asia-Pacific sovereign ratings, but could have negative consequences over the long term.

For the moment, it added, the outlook for most Asia-Pacific sovereign borrowers remains stable, underpinned by sound domestic demand, relatively healthy corporate and household sectors, plentiful external liquidity and high savings rates -- though it listed New Zealand, Japan and Vietnam as exceptions to this.

However the ratings agency said a fresh global financial crisis could hurt some Asian sovereigns harder this time around.

The agency said most Asian nations could respond promptly in a crisis to provide financial stability and economic stimulus, but others could be restrained by heavy reliance on offshore funding or by their budget "scars" from the last crisis. It said countries such as Pakistan, Sri Lanka, Fiji, Australia, New Zealand, South Korea and Indonesia were vulnerable to disruptions in offshore capital markets.

However, Australian federal Treasurer Wayne Swan has assured that Australia's own gold-plated AAA credit rating is safe and secure. Swan said that Australia was not immune from events in the rest of the world but the Australian economy's fundamentals remained strong, pointing to low unemployment, strong public finances, with very low debt and a huge pipeline of mining investment.

John Tsang Chun-wah, financial secretary of Hong Kong, said earlier that the downgrade of US sovereign debt will have little impact on US treasury yields, US dollar exchange rate and Hong Kong's economy. Tsang said most Asian economies are stable, which will support Hong Kong.

He emphasised Hong Kong's economic fundamentals are strong against external fluctuations.

The results of the regular stress tests for banks and financial institutions show the industry is capable of responding to market fluctuations.

The South Korean government also said it saw low risk of global economic recession despite growing concerns over a possible double- dip recession in the United States and a potential spread of the European fiscal crisis.

"Risks were eased due to European leaders' promise to implement the Greek bailout package and the announcement of the better-than-expected employment data in the US," the Ministry of Strategy and Finance said in an-e-mailed statement sent after the meeting to review the global economic and financial conditions.

CHINA'S DILEMMA

A higher-than-expected inflation figure released Tuesday may batter hopes on China, the world's second largest economy and Asia's growth engineer, that it would roll out a hefty stimulus package as it did in 2008 to help buffer its own economy and buoy the world. China's inflation unexpectedly soared to a 37-month high of 6.5 percent in July, putting the nation's central bank in a bind as it attempts to rein in prices without triggering a sharp slowdown in economic growth. The Chinese government has made stabilising prices a top priority in the second half.

To soak up liquidity, the central bank has ordered the nation's banks to set aside a record high of 21.5 percent of their cash in reserves and increased benchmark interest rates five times since October.

However, the government will be reluctant to tighten further given that the faltering global economy could impact on growth in China, said Liu Ligang, director of the economic research department of ANZ Greater China.

China has shown signs of cooling down, with GDP decelerating to 9.5 percent in the second quarter from 9.6 percent in the first three months. Manufacturing growth also slowed to a 29-month low in July.

Maintaining relatively fast growth while curbing inflation has always been a problem for the Chinese government. It has repeatedly stressed that striking a balance between maintaining growth, curbing inflation and restructuring the country's economy will be its major concerns for this year.

The growth-inflation conundrum may be exacerbated by the US government printing money to pay back its debts, which may worsen global liquidity and make it more difficult for China to counter domestic inflation.

BOOSTING INVESTOR CONFIDENCE

Given a steep losses in Asia's stock market and an uncertain prospect of Asia's economy, the Asian Development Bank (ADB) urged Tuesday that developing Asian economies need to implement stronger policies to boost investor confidence, cut excessive volatility and remain resilient amid uncertainties in the US and Europe.

In its recent report Asia Capital Markets Monitor, the Manila-based lender noted the recent bloodbath in Asian capital markets revealed that despite its vaunted resiliency, the region' s economies are still tied to the fortunes of European and US markets.

"Emerging Asian markets remain vulnerable to abrupt changes in global investor sentiment," said Iwan Azis, Head of ADB's Office of Regional Economic Integration, which prepared the report.

"The knock-on effects from events in the U.S. and Europe will go far beyond portfolio returns, as a weakening global economy will hurt our exports," Azis said.

The region has to collectively promote its market resilience. Azis said a deep and liquid market will support developing Asia's financial development and integration.

The Asia Capital Markets Monitor is ADB's annual assessment of the performance and outlook for the region's equity, bond and currency markets.

The report said the region's strong fundamentals and interest rate differentials with advanced economies are expected to boost capital inflows to the region later this year.

The capital inflows, however, may hurt domestic monetary policy, destabilize financial systems and ease economic growth.

"While freer capital mobility is welfare-enhancing in theory -- as it promotes better and more efficient allocation of financial resources -- large and volatile capital flows are risks and present challenges to emerging market economies," Azis said.

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