Asian markets continue to fall

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Asian shares have fallen heavily this week, along with American and European stock markets, despite last week's approval of the Bush administration's $US700 billion bailout plan for Wall Street. While the Asian markets are reacting to the global financial crisis, there are also fears throughout the region that export markets in the US and Europe will be badly affected by an international economic slowdown.

An element of sheer panic is adding to the volatility of the markets. After huge falls across the Asia on Monday, stock markets plunged sharply after opening on Tuesday only to recover somewhat on news that the Australian Reserve Bank had chopped interest rates by a larger than expected amount—1 percent—the largest cut since 1992.

The Australian announcement raised hopes of coordinated action by the world's main central banks to restore confidence in the global financial system. Later on Tuesday, however, Bank of Japan governor Masaaki Shirakawa ruled out any cut to its key interest rate of just 0.5 percent and declared that it was "not desirable to undertake policy coordination that would involve measures inappropriate for each country's economic and price situation".

Japan's share markets have been among the most affected. After falling by 4.3 percent on Monday, the Nikkei 225 index shed another 317.90 points on Tuesday, or 3.03 percent, to close at 10,155.90—its lowest finish since December 2003. "Sentiment was really pessimistic as investors were worried over the course of the financial crisis. No one knows how and when this crisis will end," Masatoshi Sato, a strategist at Mizuho Investors Securities, told the Associated Press.

Among the biggest losers yesterday were the major auto makers. Mitsubishi Motors Corp fell 10.3 percent, Nissan Motor Co 4.79 percent and Toyota Motor Corp 4.87 percent. All the Japanese car manufacturers recorded huge declines in sales to the US for September—monthly sales for Toyota slumped by 32 percent, Nissan by 37 percent and Honda by 24 percent.

There are strong indications that Japan is already in recession. Official statistics released last month showed that the economy contracted 3 percent in the second quarter on an annualised basis. The Cabinet Office yesterday announced that the country's leading coincident index of economic activity fell by 2.8 points to 100.7 in August and that the economy was "deteriorating". The Tanken index of business confidence fell for large manufacturers to minus 3 in September from 5 in June—the first negative outlook since 2003. Factory output fell by 3.5 percent and the jobless rate hit a two-year high of 4.2 percent in August.

Share values in **China** fell sharply after being closed all last week for national holidays. The benchmark Shanghai Composite Index dropped 5.2 percent on Monday and by 4.6 percent in early trading on Tuesday before closing down by 0.7 percent. China's stock markets have declined by more than 60 percent this year. Hong Kong's Hang Seng Index plunged by 5 percent on Monday and was closed yesterday.

Like leaders in other countries, Chinese Premier Wen Jiabao declared on Monday that the country's financial system was safe and that he had full confidence in China's economic development and stability. According to *Bloomberg.com*, Asian financial institutions have a low exposure to losses from securities tied to US subprime home loans—just $24.5 billion of an estimated $590 billion globally. But the full extent of the losses and the wider implications of the international drying up of credit are not known.

Time magazine pointed out that China has been hit. "Its banks have an estimated $12 billion in exposure to subprime debt in the US, a figure some analysts believed is understated. Its sovereign wealth funds have lost tens of millions of dollars on poorly timed investments in Blackstone, a private equity group, and Morgan Stanley. And Ping An Insurance, China's second largest insurer, lost 70 percent of its $2.7 billion investment in Fortis, the Dutch-Belgium financial services company that collapsed last week."

Time pointed out that more significant risks came from "the global macroeconomic fallout from the crisis". In particular, the article highlighted the danger of a falling US dollar and rising Chinese renminbi "at a time when the country's exporters are already hurting from slowing global growth. That in turn could slow growth further domestically." China's growth predictions are being revised. UBS AG estimated that the Chinese economy will grow by 9.6 percent this year, the slowest pace since 2002. Other estimates put growth at just 8 percent next year. Any slowdown in the Chinese economy has serious political implications for Beijing, which is desperate to prevent unemployment, and thus social tensions, from rising.

In **South Korea**, the Seoul stock market fell by 4.3 percent on Monday and closed marginally higher yesterday. Overall, the Kospi stock index is down 29 percent this year. The South Korean won plunged by 5 percent against the US dollar on Monday and declined further on Tuesday to hit a seven-year low, prompting emergency measures to shore up the currency.

Finance Minister Kang Man-soo promised to use the country's currency reserves of nearly $240 billion—the world's sixth largest—to shield South Korea's banking system from the financial crisis. The government has spent nearly $25 billion since March to prop up the won, which has lost 26 percent of its value since December. Kang also called on South Korean banks to sell foreign assets to raise dollars that could not be raised through overseas loans.

"The currency difficulties are a result of the global liquidity squeeze rather than risk issues at individual banks," You Jung-youn, a spokesman for major lender Kookmin, told Reuters. "It is more about country risk." South Korea has been hard hit by rising prices for oil and other imports, contributing to current account deficits for every month from December to August, except for June. The economy is slowing, with the government revising its growth forecast this year from 6 to 4 percent.

According to the ruling Grand National Party, South Korea's President Lee Myung-bak is planning to propose a summit with China and Japan later this month to discuss how to cope with the global economic crisis. He called last week for the three countries to speed up plans to create an $80 billion pool of currency swaps to act as a buffer against financial turmoil. China and Japan have yet to respond.

In **India**, which like China has been hailed as an economic miracle, the benchmark Sensex index fell 5.8 percent on Monday and a further 0.9 percent on Tuesday. Shares in Reliance Industries, the country's largest private sector firm by market capitalisation, plunged by 7 percent on Monday, metals giant Tata Steel lost 11 percent and the huge real estate firm DLF dropped 10.3 percent.

The Reserve Bank of India stepped in yesterday to reduce the mandatory proportion of deposits that banks have to place with it from 9 percent to 8.5 percent. The move injected around 200 billion rupees ($US4.2 billion) into the money markets, but failed to prevent a slide on the Bombay share market.

There are fears that Indian exports will be hit by the global slowdown. While Finance Minister Palaniappan Chidambaram optimistically declared on Monday that India's growth rate would rebound to 9 percent in the 2009-10 fiscal year, the Reserve Bank of India estimates that growth for the current financial year will be only 8 percent, its slowest in four years.

Stock markets across South East Asia have also fallen amid fears of a global recession. All the Association of South East Asian (ASEAN) countries are heavily dependent on exports to the US, Japan and Europe and, since the 1997-98 Asian financial crisis, have become more heavily integrated into globalised production processes, particularly in supplying parts and raw materials to China.

In **Indonesia,** shares plunged by a massive 10 percent on Monday—the largest ever one-day percentage fall—and fell by another 2 percent yesterday. Rather than cut interest rates, Bank Indonesia raised them by 0.25 percent in a bid to rein in inflation, which hit more than 12 percent last month. While the country's growth rate was 6.4 percent last year, it relies on the export of commodities, including natural gas and palm oil, that will be among the first affected by any global downturn.

In **Singapore** and **Malaysia**, shares fell by 5.6 percent and 1.95 percent respectively on Monday before rising marginally yesterday. In **Thailand**, an economic slowdown is helping to fuel the country's protracted political crisis, which in turn is further undermining the economy. The Bangkok share market plunged 6.4 percent on Monday and another 4.2 percent yesterday to close on a five-year low, down 30 percent since January.

Forecasts of global growth are all being revised down. The IMF is due to release its latest economic estimates today, but a staff report obtained by *Bloomberg.com* forecast a global growth rate of 3 percent next year, down from the IMF's April estimate of 3.7 percent. Growth will be "particularly weak" in the G-7 countries—the US, Japan, Germany, France, Britain, Canada and Italy—with Canada topping the list with a forecast growth of 1.2 percent. UBS AG predicted global growth of just 2.2 percent next year. JPMorgan Chase & Co declared in a report yesterday that world growth would hover around zero through the fourth quarter of 2008 and the first three quarters of next year.

The ongoing financial crisis combined with these bleak prospects for export markets is generating continuing volatility of Asian share values. Following the plunge on Wall Street last night, all the region's stock markets opened sharply down on Wednesday. The MSCI Asia Pacific Index, which is a measure of share values across the region, had fallen by 2.7 percent by 10 a.m. in Tokyo. The Nikkei 225 index had lost another 2.6 percent, putting it below the 10,000-point mark.