

Japan disaster adds to global woes

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Philip Baker

The severe sell-off in regional sharemarkets yesterday on fears that Japan is facing a nuclear crisis has added to pressure on global markets already spooked by Middle East tensions.

Even before Japan endured its worst earthquake on Friday, investors were struggling to deal with the civil war in Libya, unrest in Saudi Arabia, a rising oil price, renewed debt woes in Europe and mixed economic data in China.

Australia's major S&P ASX 200 Index fell 97.7 points, or 2.1 per cent, yesterday to 4528.7, its largest one-day fall since June 2010. The index is at its lowest in seven months, having lost 9 per cent in the past month.

Regional and European markets were all lower, with Japan's Nikkei 225 Index losing as much as 14.5 per cent before ending down 10.55 per cent in its largest one-day fall since late 2008.

The Hang Seng Index in Hong Kong fell 2.86 per cent and the Shanghai Composite Index 1.4 per cent.

At one stage Japanese stocks were facing their worst drop since the 1987 crash after Prime Minister Naoto Kan told a news conference that radiation levels around the Fukushima nuclear plant north of Tokyo had risen considerably and were likely to rise more. He urged those who live within 30 kilometres of the plant to stay indoors.

European investors dumped shares last night, with major indices down as much as 4.5 per cent in early trading. Wall Street was set to open about 2 per cent lower.

Some fund managers said the local index was moving towards a technical correction – a fall of 10 per cent or more – and could lose another 500 points over the next six months.

"These events remind people that we are in a very fragile environment," said Wilson Asset Management portfolio manager Matthew Kidman.

"The world has got problems and we are in uncharted waters, in that we have not had a secular bear market since 1987 to 1992, but that's what we have now," he said.

Investors are worried that there will be sharp declines in industrial output and the Japanese economy may contract in the second quarter of 2011. But they fear that, depending on the wind direction, the mass of radioactivity may approach Tokyo.

"Winds are expected to turn towards the sea, but it may be that we are simply down to local weather as to what happens next," said Herston Economics chief economist Clifford Bennett.

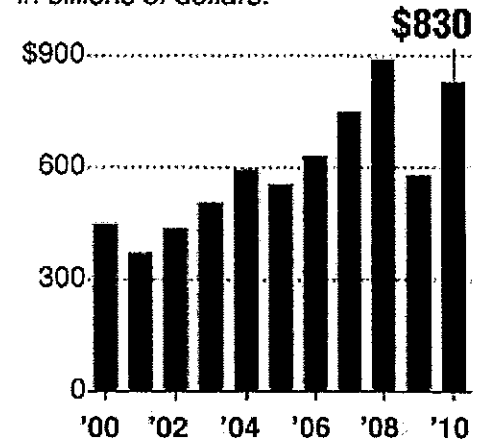
There are added concerns about how markets will perform with such a host of troubles, which include unrest in Saudi Arabia, where troops have moved into Bahrain as part of a regional force from the Gulf Co-operation Council. Security forces were sent to Bahrain in response to calls for military help to quell anti-government protests that have rattled the country.

Commodity prices tumbled yesterday as investors feared the nuclear accident would hurt the global economic recovery.

Gold fell as much as 1 per cent to \$US1411 an ounce while oil slipped as much as 2.4 per cent to \$US98.67 on fears that damage from the earthquake would crimp demand.

Big exporter

Japan is the fourth-biggest exporter in the world. Japan's total exports, in billions of dollars:



Source: CIA World Factbook, Bloomberg
Graphic: Los Angeles Times © 2011 MCT

U.S. creditors

A large-scale selloff of U.S. Treasury bonds could push up interest rates in U.S.

Top foreign holders of U.S. Treasuries, in billions

China	\$1,160
Japan	882
Britain	272
Brazil	186
Taiwan	155
Russia	151
Hong Kong	134
Switzerland	107
Luxembourg	86
Canada	7

Source: U.S. Treasury Department
Graphic: Los Angeles Times © 2011 MCT

Trying to calm financial markets yesterday, the Bank of Japan injected ¥8 trillion (\$121 billion) into the short-term money market, extending record emergency efforts made on Monday when governor Masaaki Shirakawa pledged to keep pumping cash into the economy after unleashing ¥15 trillion in one-day operations.

The central bank also decided to double its asset-purchase program to ¥10 trillion. Its priority is to ensure financial institutions in disaster-hit regions do not run out of funds.

Traders increased their bets the Reserve Bank of Australia will cut rates by a quarter of a percentage point to 4.5 per cent when it meets next month, despite the release of the minutes of this month's board meeting revealing that most economists implied the bank was still on track to raise rates.

The likelihood of a rate cut is now considered to be a 34 per cent chance, up from 5 per cent previously, while a month ago it was not considered at all.

The outlook for rates over the next 12 months has also turned around as traders are betting there is little chance the cash rate will increase during the next year. The previous day it was a 70 per cent chance the bank would raise rates to 5 per cent sometime over the next 12 months.

The minutes, however, don't reflect the impact of the latest round of trouble in the Middle East or Japan.

Global investors are worried that radiation from the Fukushima nuclear power plant might get worse, and foreign investors who have been buyers of Japanese stocks are now selling. Fund managers said offshore investors were also exiting the local sharemarket.

"When you get these sorts of shocks, everyone wants to retreat to their home market and that's what is happening now. The selling started last week when many offshore investors were put off by the carbon tax, and it's just snowballed with the global events that have unfolded since," said Clime Investment Management chief investment officer John Abernethy. He said the selling was an opportunity to buy.

"It's not the end of the world and in fact you could argue that Australia, with its link to commodity and resources, will benefit when the rebuilding process starts," he said.

Maple Brown Abbott's chief investment officer, Garth Rossler, said that in the past markets had showed a tendency to overreact to big events like earthquakes.

"Often you just get some sort of recovery shortly thereafter and that maybe the case here," Mr Rossler said. "Certainly, looking at Japan, will it derail the world? Probably not. Could it mean that we have a tough three or six months? Absolutely."

George Clapham, head of equities at Arnhem Investment Management, said Australian markets could take another leg down and people underestimated some corrections.

Hopes the US economy was showing signs of turning around a little over a week ago when the unemployment rate fell below 9 per cent for the first time in almost two years, have quickly evaporated.

Economists are now concerned US consumers will stop spending again as the oil price hovers around \$US100 a barrel. JPMorgan economist Michael Feroli has cut his forecast for March quarter US growth from 4 per cent to 3.5 per cent.

Westpac chief economist Bill Evans said he expected the US Federal Reserve to announce a third round of quantitative easing.

The Fed was slated to meet overnight and is expected to keep rates unchanged at close to zero.

China last week revealed that it had recorded a surprise \$US7.3 billion surplus in February, with a slowdown in the pace of imports suggesting a slowing in consumer demand.

with John McDuling

The Australian Financial Review

See also

- [Investors seek safety after nuclear crisis](#)