ASIA MARKETS

Asia's Relief Rally Masks Lasting Worry Over a U.S. Pullback

By LAURA SANTINI in Hong Kong, JAMES T. AREDDY in Shanghai, China and YUKA HAYASHI in Tokyo
January 23, 2008 2:57 p.m.

Asian stocks rallied Wednesday, following the U.S. Federal Reserve's unexpected rate cut. But the effervescent trading session didn't give much joy to large institutional investors, which worry the U.S. consumer is going to stay spooked by a possible recession and cut back purchases of Asian exports.

Hong Kong's benchmark Hang Seng Index was the day's biggest winner, finishing nearly 11% higher at 24090.17 and recouping all its losses from Tuesday's 8.7% selloff. Japan's Nikkei Stock Average of 225 companies rose 2%, or 256.01 points, to 12829.06.

In China, India, Australia, Singapore and Indonesia, indexes rose between 3% and 7.9%.

Wednesday's buying spree followed two days of declines, when major markets like those in Mumbai and Hong Kong saw record drops. Looking ahead, investors in Asia had concerns about the markets that the Fed's rate cut of 0.75 percentage point -- its first emergency move since the terror attacks of Sept. 11, 2001 -- doesn't eliminate.

The Fed's move might loosen credit when it comes to banks lending to blue-chip companies, said Henry Seggerman, president of International Investment Advisers, a money manager specializing in Korean stocks. "But consumer spending, the stuff that drives demand for Asian imports, is a different story," he

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	PRICE	CHG	%
Australia *	5445.60	223.60	4
Hong Kong *	24090.17	2332.54	10
India *	17594.07	864.10	5
Indonesia *	2476.28	181.75	7
Japan *	12829.06	256.01	2
Pakistan *	13787.07	27.57	0
Philippines *	3058.26	79.85	2
S.Korea *	1628.42	19.40	1
Sri Lanka *	2452.39	64.46	2
Taiwan *	7408.40	-173.56	-2
Thailand *	740.65	-0.89	-0

* at market close Sources: Dow Jones, Re

said.

In China, Wednesday's big swings on heavy trading volume made the recovery appear fragile to some investors, underscoring a view that the country's spectacular bull market is over for now. The Shanghai Composite Index rose 3.1% -- while in Hong Kong, the Hang Seng China Enterprises Index, which tracks Chinese companies listed there, gained 12%.

While the Shanghai market's rout this week captured headlines in state-run securities newspapers, the reports offered few thoughts about what China's government might do, if anything, to remedy the situation.

Small investors urging Beijing to take action put the government in a tough spot. Analysts say Chinese officials are keen to have investors understand that stock fluctuations are market-oriented rather than policy-driven. For that reason, official commentary in the past few years has been mostly limited to warnings about potential volatility in prices or scams that might victimize investors.

For Japan, the U.S. rate cut poses a difficult policy question: Should it follow suit and lower its own rates? Until recently, economists have been expecting the Japanese central bank to raise interest rates.

Japan's policy rate stands at 0.5%, by far the lowest among major economies. Central bank Gov. Toshihiko Fukui has repeatedly expressed a desire to boost the rate into more-normal territory, giving the central bank room to maneuver if necessary to support the economy. Before the Fed announced its surprise cut, the Bank of Japan on Tuesday said it would keep its policy rate unchanged, as expected. But all future bets are off, economists say.

"If there is a meltdown in the stock market and politicians start calling loudly for monetary easing, a quarter-percentage-point rate cut is one available option," wrote Ryutaro Kono, chief economist at BNP Paribas Securities in Tokyo, in a report released Wednesday.

A manager of a large hedge fund based in Hong Kong described Wednesday's trading session in Asia as "very worrisome." Big intraday swings in some markets, in particular, reveal an abiding uncertainty about the health of the global financial system. "There is wild volatility, which means no one knows what to do, and there is no single direction of the market," the manager said.

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Cataloging a litany of concerns for the markets, investors cited credit tightening and fickleness by individual investors as palpable risks to future stock performance. Some investors worried about the possibility the battered dollar would continue to significantly weaken over time. Further dollar weakness would hamper Asian exports to the U.S. because American consumers would be forced to pay higher prices for goods.

The Fed's decision to push rates lower this quickly could exert further downward pressure on the dollar. Wednesday in Asia trading, the dollar appreciated slightly against the yen but later, in early New York trading, the trend reversed and the dollar slipped to a fresh 2½-year low against the Japanese currency, at 104.95 yen. Some analysts expect the U.S. central bank will drop rates by an additional 0.25 or 0.50 percentage point as soon as next Thursday, at its next policy meeting.

Some institutional investors maintain that Asian corporations are in good shape -- flush with cash and unburdened by debt.

"Valuations might have gotten a little rich," said Andrew Foster, portfolio manager of the Matthews India Fund in San Francisco, referring to spectacular performance in some markets, especially India, where shares soared more than 40% in both 2006 and 2007. Still, Mr. Foster says, "there is no reason for these markets to be trading down 15% to 20% this month, as they have been in some cases."

--Jonathan Cheng in Hong Kong and Bai Lin in Shanghai contributed to this ar

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