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Asian Rout Deepens as Markets Tumble

Hong Kong Plunges 8.7%, China 7.2%; 'Crisis of Confidence'

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Can the U.S. Federal Reserve's surprise rate cut restore confidence to Asian markets pummeled this week by fears of a U.S. recession?

The Fed's dramatic decision to lower the federal-funds rate by three-quarters of a percentage point came after Asian shares experienced one of their worst selloffs ever — and one day after the region's markets had already posted huge losses. The rout has put a sudden chill on plans to raise capital by companies across the region.

Hong Kong's Hang Seng Index Tuesday dropped 8.7%, or 2061.23 points, to 21757.63. It was the market's worst percentage loss since the session after Sept. 11, 2001, and its biggest point decline ever.

Selling continued to plague Hong Kong-listed Chinese companies that make up the Hang Seng China Enterprises Index, which also experienced its worst one-day point decline, tumbling 12%, or 1619.54 points, to 11911.91. China's Shanghai Composite, which fell more than 5% Monday, sank 7.2%, or 354.68 points, to 4559.75 Tuesday.

In Japan, the world's second-largest economy, the Nikkei Stock Average of 225 companies plunged 5.6%, or 752.89 points, to 12573.05, while the broader Topix fell 5.7%. The Nikkei's loss of 18% since the beginning of the year wipes out 85 trillion yen, or about $800 billion, in market capitalization from Japanese stocks, the approximate size of South Korea's economy.

Elsewhere in the region, investors watched a similar story unfold as indexes fell: Taiwan was down 6.5%, Korea 4.4%, the Philippines 5.5% and Indonesia 7.7%. In Australia, the main index fell 7.1%, the most in a single day since 1989. Singapore's Straits Times Index — which sank 6% Monday — closed down 1.7% after being off 5.8% early in the day.

Intraday price moves wreaked havoc in India. Within the first minute of the market's opening Tuesday, the Bombay Stock Exchange's benchmark Sensitive Index plummeted 9.8% and index falls triggered a one-hour trading halt as mandated by exchange rules. After whipsawing around later in the day, the Sensex closed down 5%, or 875.41 points, at 16729.94.

Jon Thorn, portfolio manager of the India Capital Fund said late Tuesday night he was unsure whether the Fed action would be enough to push up markets in Asia. He described the Fed move as "another shot in the dark to fix the problem" of ailing U.S. financial institutions by injecting liquidity into the system. "You'd have to be pretty brave to take a big directional view at this point," Mr. Thorn said.

"There's a crisis of confidence at the moment," said Khiem Do, portfolio manager at Baring Asset Management, which manages about $13 billion in Asia. "In fact, good stocks with strong fundamentals are getting routed because people want to lock in profits."

Japanese companies, for example, are historically cheap by a host of measurements and are expected to report a sixth consecutive year of profit growth in the fiscal year ending March 31. Yet Toyota Motor Corp., the world's most profitable car maker, plunged 7.2%.

Indian fund managers argue that for those who have cash and steely nerves, opportunities abound to pick up bargain stocks. "We believe given the strong fundamentals, long-term investors will look at these sharp declines as buying opportunities," said Sukumar Rajah, chief investment officer for equities at the Indian arm of U.S. fund manager Franklin Templeton Investments.

Still, uncertainty about the health of U.S. financial institutions and consumers' appetite has set investors and central bankers on edge. The sharp stock-market declines have fueled speculation that the Bank of Japan might cut its policy rate sometime in the coming months, even though the rate stands at a minuscule 0.5%.

The bank's governor, Toshihiko Fukui, told reporters Tuesday that low-interest rates won't limit the Japanese central bank's response if fallout from the U.S. subprime-credit crisis negatively affects Japan's already-sluggish export-dependent economy. The U.S. is particularly important to Japanese companies, taking in roughly 23% of the country's exports.

Tuesday, however, the bank's policy board voted unanimously to hold its policy rate at 0.5%, and a cut is still viewed as unlikely.

Indian Finance Minister P. Chidambaram tried to inject some composure. "I think investors will take informed and mature decisions to stay invested in this market," he told an Indian news channel. The minister also said India's central bank pledged to provide enough liquidity necessary to calm the local stock market.

In China, a weak market would have serious ramifications for big business, especially companies hoping to raise money. Oil producer PetroChina Co., which represents about a quarter of China's stock-market capitalization, has now dropped 46% since its November listing in Shanghai, including a 4.7% decline Tuesday.

Beijing has numerous tools available to underpin shares, from signaling that it will ease restrictions on bank lending to permitting launches of new mutual funds or making good on an existing pledge to allow foreign investors to put more money in the market. After trading concluded Tuesday, China said banks and insurers — two of the most cash-rich sectors of the market — could invest in each other.

The $3.6 trillion China market may have further to fall. Even as nine out of ten stocks in China lost ground Tuesday, and about half of the market's 1,600 companies fell by the daily limit of 10%, analysts point out that companies that list both Class A shares — those traded mainly by domestic Chinese investors — and shares in Hong Kong available to foreign investors are now on average twice as expensive on the mainland as they are in Hong Kong. That's a historical high, says Jing Ulrich, chairwoman of China equities for J.P. Morgan & Co. in Hong Kong.

Also, professionals try to withdraw money from the market when they sense it is near a peak, and that has investors in China worried about a plan by one of the country's biggest financial firms, Ping An Insurance Co., to sell about $20 billion of additional shares and debt — just one of the fund-raising plans investors say has chilled their buying interest.

Several Asian initial public offerings that were planned to launch this week are struggling to drum up interest from investors. Cebu Air Inc., which operates the Philippines' largest budget carrier by fleet under the brand Cebu Pacific, said Tuesday it was shelving plans for an IPO that would raise around $280 million on the Philippine Stock Exchange.

"It's hard to get people interested in new IPOs when their existing portfolios are hemorrhaging money," one investment banker said. "I wouldn't be surprised if a majority of the deals don't make it" until market conditions improve, he said.

Solargiga Energy Holdings Ltd. of China said it was cutting the amount it planned to raise in Hong Kong by about 10% to US$264.5 million, from US$292 million. Changsheng China Property Co., SFK Construction Holdings Ltd. of Hong Kong and Chinese department-store chain Maoye International Holdings Ltd. are among the companies that have IPOs scheduled this week in Hong Kong.

The price commanded by newly issued shares often depends on how a company's publicly traded rivals are valued in the market. With comparable stocks suffering double-digit percentage drops the past two days, one banker explained, company executives are having a hard time persuading investors to buy their shares at previously determined valuations.

The relentless selling doesn't appear to be causing investors to flee Asia entirely. Brokerage firms say fund managers are reporting modest redemptions so far. Several traders said the selloff felt like a reassessment of risk rather than a grass-roots decision to exit Asian stocks. While some retail investors have unloaded hedge-fund and mutual-fund holdings, money flows from institutions such as pensions and private banks have held steady for the most part.

Hedge-fund managers in Asia have generally been heavily exposed to market turmoil, thanks to difficulties shorting and the spectacular gains in Asian stock indexes the past few years. In recent days, however, they have rushed to scale back their market exposure by converting stock positions into cash.

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