

Asia – Bottom-fishing?


Asian stocks this week surged, led by financial and commodity companies, after the US government proposed buying \$700 billion of bank assets, according to Bloomberg. US Treasury Secretary Henry Paulson's rescue plan would allow the government to buy a variety of mortgage-related securities to relieve a freeze in credit markets. Democrats, who control both houses of the US Congress, pledged not to slow down its passage or tie it to an economic stimulus plan. Since 2007, global financial companies have reported more than \$510 billion in credit losses and writedowns linked to the slump in the US housing market. The positive thing about the Treasury plan is that it addresses the entire system, the bad debts and assets, rather than one by one. Lawmakers and lobbyists are debating Paulson's plan, which may be passed as soon as September 26 and has been widened to include more than mortgage assets. This will

introduce a major bidder for distressed assets and help clean banks' balance sheets, contributing to restore their ability to lend overtime, which is the key challenge for the markets. MSCI's Asian index that excludes Japan has plunged 32% this year as the credit crisis collapsed Bear Stearns Cos. and Lehman Brothers Holdings Inc. and forced the US government to take over AIG Inc., Fannie Mae and Freddie Mac. Corporate bond default risk fell in the Asia-Pacific on optimism the US government plan to buy devalued assets from banks will stem writedowns at the world's financial companies and ease turmoil in credit markets. Credit-default swap (CDS) indexes in Japan and the rest of Asia dropped, indicating improved perceptions of credit quality. Australia's index declined as much as 17 basis points to the lowest in two weeks. CDS is a contract

to protect bondholders against default, pay the buyer face value in exchange for underlying assets should a company fail to adhere to its debt agreements. In China, companies can start the share buyback process after two-thirds of shareholders approve it, and disclose details the next working day without seeking approval from the China Securities Regulatory Commission. Last week, China scrapped the tax on stock purchases and said it will buy shares in three of the largest state-owned banks to shore up investor confidence. Nevertheless, companies that are tied to global demand are still risky. Shares of Asian financial companies are seen some value because they're more sheltered from the credit crisis than their US and European peers. 



Microscope

There were several large Monday declines in stock markets world wide during 2008, including one in January, another in August, and another in September. The simultaneous multiple crises in mid-September 2008 caused large falls in markets both in the US and elsewhere. Numerous indicators of risk and of investor fear (the TED spread, that is yield between inter-bank and US Government loans, Treasury yields, the dollar value of gold) set records. In the early months of 2008, many observers believed that a US recession had begun. Financial market turbulence signaled that the crisis will not be mild and brief. Alan Greenspan stated in March 2008 that the 2008 financial crisis in the US is likely to be judged as the harshest since the end of World War II. A chief economist at S&P's, said in March he has a worst-case-scenario in which the country could endure a double-dip recession in which the economy would briefly recover in the summer 2008. Under this scenario, the economy's total output, as measured by the gross domestic product, would drop by 2.2% points, making it the third worst recession in the post World War II period. 

MARKET BRIEFING

YTD % (local curr)


US DJ
11,388 (-14.1%)
Nasdaq
2,273 (-14.3%)
Euro Stoxx 50
3,253 (-26.1%)
HSI
19,327 (-30.5%)
Japan NK225
11,920 (-22.1%)
China Shanghai Composite
2,075 (-60.6%)
Singapore
2,559 (-26.2%)
India BSE30
14,042 (-30.8%)
Brazil BOVESPA
53,055 (-17.0%)
Aus All Ord
4,840 (-24.6%)
US-10yr Bond
Yield 3.81%

As at 19/09/08


Insight: “High Yield Currencies”

There are few popular high yield currencies in the market, including Australia dollar, New Zealand dollar and pound sterling. With its high interest rate, the Australian dollar is viewed as an attractive high-yield currency. Hence, it has been favoured by Japanese investors who borrow cheaply in yen and earn high interest rates in Australian dollar deposits. This practice, known as “carry-trade”, has not been fully abandoned by investors, although returns from such a strategy peaked a year ago. Few months ago, Australian dollars and other high yield currencies slumped against the US dollar because of the concern over

financial woes in credit market. In turn, investors' appetite for risk decreased. Now, investors may accumulate Australia's dollar again as the US government plan to stabilize financial markets, restoring

demand for higher-yielding assets. The US is considering a \$700 billion rescue plan to buy devalued mortgage-related securities from investment firms to keep the financial system from coming to a standstill. Stocks rallied globally September 19, reviving appetite for buying Australian assets through carry trades funded with loans in Japan. Interest rates are 7% in Australia, compared with 0.5% in Japan, making the South Pacific nations' assets favorites with investors seeking higher returns for investments funded with loans in Japan. The risk in such trades is that currency market swings can erase profits. 

A-Z Financial Tools

Balanced Fund is a fund that buys a combination of common stock, preferred stock, bonds, and short-term bonds. Such diversified holdings ensure that these funds will manage downturns in the stock market without too much of a loss; the flip side, of course, is that balanced funds will usually increase less than an all-stock fund during a bull market. 



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