Publication: The Sunday Times, p 2
Date: 29 November 2009
Headline: S'pore stocks 'will avoid bloodbath'

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Experts expect STI to fall by up to 3% tomorrow when it plays catch-up

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There will be losses when the Singapore stock market opens tomorrow after the long weekend, but it will not be a bloodbath as global markets regroup after the Dubai sucker punch last week, say financial experts.

They reckon that the benchmark Straits Times Index (STI) will probably suffer a 2 per cent to 3 per cent drop once investors, whose hands were tied during the Hari Raya Haji holiday, hit the market.

But none foresees a repeat of the last financial meltdown.

"Yes, there may be ripple effects but I doubt it is going to bring any financial institution to its knees like in the last crisis," said CIMB-GK regional economist Song Seng Wun.

OCBC vice-president for wealth management Vasu Menon predicts that "the market will weaken" when it opens tomorrow as Singapore plays "catch-up".

He added: "Hong Kong was down by 4 per cent (on Friday), while most other Asian markets were down between 2.5 and 4 per cent, so I wouldn't discount the possibility of the Singapore market falling by 2 per cent or so."

Dubai, one of seven wealthy states that make up the United Arab Emirates, shocked the world last Thursday when its investment firm Dubai World said it needed a six-month delay in repaying a US$59 billion (S$81 billion) tranche of a US$80 billion loan.

The announcement triggered a global frenzy in financial markets. Last Friday, the Hang Seng Index in Hong Kong dropped 4.8 per cent while Japan's Nikkei 225 Stock Average dipped 3.2 per cent to a four-month low.

Major markets in Europe also fell last Thursday, with the FTSE 100 index in London closing down 3.2 per cent, its worst one-day fall since March. But they recovered to close slightly higher last Friday.

DBS economist Irvin Seah said the knee-jerk selldown was "more sentiment-driven".

"There will certainly be some damage to the balance sheets of banks which are exposed to Dubai but economic fundamentals will eventually persist and that could help us avert the risk of a double-dip recession," he said.

Professor Jeremy Goh from the Singapore Management University's Sim Kee Boon Institute for Financial Economics agreed.

"The uncertainty made investors think, 'Better sell, better not take the risks because it may go down some more', so I would expect the market to react," he said.

"But the Dubai market is not like the United States real estate market in terms of size and quantum, so it will not have the same mass effect."

Last year's financial crisis was partly triggered by defaults in sub-prime mortgage loans in the US and other developed markets.

OCBC's Mr Menon said the painful lessons learnt by governments during the last crisis – where the US government stood by while Lehman Brothers tanked – would come into play in the case of Dubai.

"We're coming off a sub-prime crisis that almost sent the world into another great depression, but somehow policymakers and governments banded together to ensure it didn't happen," he said.

"And this is not as big as the last crisis, and having come through a difficult period, I think somehow policymakers and governments are ready to tackle this if they need to."

CIMB's Mr Song said signs are already pointing to other cash-rich Arab states such as Abu Dhabi, Oman and Qatar coming to the rescue of Dubai.

But he said the breakdown seen in the emirate state is a warning to others in Asia.

"The excesses in the Dubai property sector are probably a useful reminder to us in Asia... that they have to be mindful of asset inflation."

Mr Menon noted, however, that there are opportunities in every crisis.

He said: "In the past, whenever the markets weakened, many used the opportunity to buy, but that is probably only for those who have the holding power and risk appetite."

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