Market Insight

TAL® Global Asset Management Inc.

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Asian markets remain stable despite devastating human loss

The magnitude of the human loss and devastation resulting from the massive earthquake and tsunami on December 26, 2004 presents a stark contrast to any financial market implications. This natural disaster has had limited operational impact on the listed companies in South East Asia.

Equity markets in Thailand and Indonesia have been flat and calm in the aftermath of the tsunami. While GDP growth in both countries will be pulled back due to a decline in tourism, the spike of investment for reconstruction will push GDP higher. In the face of this, building material stocks in Thailand and Indonesia have risen in absolute terms and have outperformed the market.

The tourism industry accounts for 3 to 4% of Indonesia's GDP and for approximately 6% of Thailand's GDP. In Indonesia’s case, Aceh, the province hit the hardest by the tsunami, has relatively few tourists due to previous social unrest in that area. The psychological impact on other more popular tourist spots, such as Bali, Pattaya and Bangkok, is obviously negative but hard to forecast.

Rating agency Standard & Poor’s stated that the sovereign credit ratings of Asian countries hit by tsunamis would not be changed, as the spike of investment for reconstruction and the return of tourism to most areas would smooth the effect. Inevitably, Thailand’s government cut its 2005 GDP growth forecast to 5.7% from 6%.

Despite the devastating human cost of the tragedy in Indonesia, the impact on the country’s economy and stock market has been and will be limited. Foreign aid pledges are now more than US$1,000 per capita for those affected. The impact of assistance for Aceh and perhaps some debt relief may increase the government’s ability to spend.

From a geographical perspective, Aceh accounts for less than 1% of total banking system loans. If North (4.5%) and West Sumatra (1.3%) are included, the number rises to 7%. Bank Rakyat Indonesia has 170 staff missing, but its Aceh operations were relatively small. It has four branches in the three most severely damaged areas, and the impact on its financial results is expected to be very minimal. The bank, as well as the market, has assumed a very high level of bad debt provisioning in Aceh. Overall, it is unlikely to see a surge of bad debt provision from the Indonesian banking sector in their 4Q04 results.

“Along with the rest of the world, we are watching the situation unfold with concern for the people affected,” says Peter Chau, TAL Hong Kong’s Deputy Managing Director and Head of the Asia-Pacific Equity Team. “However, we expect the financial markets in South East Asia to be stable.”

Peter Chau and the Asia-Pacific Equity team at TAL Hong Kong are responsible for more than $550 million in Asian equity investments for retail, private and institutional investors around the world.