

Japanese Crisis

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First, we are hesitant to comment on the crisis and do so with a degree of sadness, in view of the tragic loss of lives and the threat of nuclear radiation on the survivors in the affected regions.

The full extent of the catastrophe is as yet unclear. We will continue to monitor the situation.

In the short term, volatility will increase with the expected sell-offs and bargain hunting. The Nikkei 225 has fallen about 16% over the first two trading days after the earthquake. This will continue as long as uncertainty prevails, especially over the state of the nuclear reactors.

Over the long term, things are more optimistic.

The Japanese people have shown themselves to be resilient in the face of tremendous odds. One only has to think back to World War II when the country was devastated. Unimaginable hardships followed. But the Japanese nation rose literally from the ashes to become an advanced economy. More recently, after the Kobe earthquake, many predicted it would take as many as 10 years for Kobe to rebuild and for its economy to recover. In fact, in less than 15 months, manufacturing in greater Kobe was 98% of its pre-earthquake trend. After 18 months, all the department stores had reopened. The city's major expressway was restored in 21 months. Reconstruction of the port took 26 months.

However, in the interim period before we get there, things may be more rocky.

The Japanese economy which has been tethering for years, contracted in the last quarter of 2010. It is now forecasted to recover only in the third or fourth quarter instead of the second.

From the viewpoint of currency flows, the repatriation of the Yen back to Japan has caused an unwelcome appreciation in the Yen. This would have adverse effects on Japanese exporters.

The cost of rebuilding will dampen growth prospects. Current public debt to GDP is already more than 220%, a ratio that is worse than the US. Would the government be able to borrow more money? The Japanese government may also sell off their holdings in US Treasuries which will create difficulties for the US. Perhaps, even here, there is a spark of optimism as one is reminded of other Asian nations when the people gave their gold and jewellery to the government coffers during times of national crisis.

On a positive note, factions in government do rally together to find solutions in a national emergency. It is hoped that there will be an impetus to leverage on the rebuilding process as a catalyst for Japan to find its feet again.

Overall, while the impact of the earthquake is enormous, it is not a game-changer in the scheme of things. Global recovery has taken a knock from the world's third largest economy but is expected to remain on track. Conflicts in the Middle East and the price of oil in particular, sovereign debt problems in Europe and elsewhere will continue to weigh heavily on global markets.

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