Asian shares capped as upcoming Fed meeting jangles nerves

By Chikako MogiTOKYO (Reuters) – Asian shares were pressured on Tuesday despite an overnight rise in global markets, with investors on tenterhooks for news of the Fed's plans for its stimulus programme from the two-day monetary meeting starting later in the session.Turbulence in global financial markets over the past month was triggered by Fed Chairman Ben Bernanke saying the Fed may decide on slowing its $85 billion monthly purchases of Treasuries and mortgage-backed securities in its next few meetings if the economy showed signs of improving.The mere suggestion of fine-tuning the stimulus programme – far from an imminent end to the Fed's third round of quantitative easing – was sufficient to unnerve investors accustomed to abundant funds they could put to work in higher-yielding "risk" assets, such as shares.The Fed's stance, along with very accommodative monetary policies by other central banks to promote growth, such as the Bank of Japan, have underpinned market sentiment broadly."The sensitivity of asset prices to headlines and seemingly inconsistent moves among them – U.S. Treasury yields moving higher but the U.S. dollar coming under pressure … shows the degree of nervousness and confusion among investors regarding the most likely path of the Fed's monetary policy," Barclays Capital said in a research note.Barclays added that this nervousness will continue to dominate trading, keeping market volatility elevated, until the outcome of the Fed meeting and Bernanke's news conference on Wednesday.MSCI's broadest index of Asia-Pacific shares outside Japan was down 0.1 percent. The index was up about 3 percent from its lowest since September plumbed on Thursday.Australian shares were down 0.1 percent while South Korean shares opened up 0.3 percent after hitting a fresh seven-month low on Monday.Japan's benchmark Nikkei stock average opened down 0.1 percent after climbing 2.7 percent on Monday.The dollar was steady against the yen at 94.56, off its 10-week low of 93.75 yen hit on Thursday, but well below last month's 4-1/2-year peak of 103.74 yen. The dollar index, measured against a basket of six key currencies, was down 0.2 percent.The dollar strengthened against the yen on Monday on expectations the Fed will reinforce its commitment to supporting U.S. economic recovery.Data published on Monday showed unexpected growth in New York state's manufacturing in June, and home-builder sentiment improved to a seven-year high this month, its biggest gain since 2002.Uncertainty over the Fed's thinking has weighed on the dollar recently, but its fall against the yen has also been linked to speculators and investors cutting back their yen short positions after the Bank of Japan took no action last week to quell a highly volatile domestic bond market.The sell-off in the Nikkei, sparking yen buying, erased gains made since the central bank's big-bang stimulus unveiled on April 4, which had helped propel the index up to a 5-1/2-year high last month.At a meeting of leaders of the Group of Eight developed countries on Monday, the euro zone came under pressure to press on with a banking union and Japan was urged to follow up on massive central bank stimulus with structural reforms and measures to tackle its budget deficit.The G8 said in a statement world economic prospects remained weak even though downside risks have lessened due partly to policy action taken in the United States, the euro zone and Japan.U.S. crude futures inched up 0.1 percent at $97.84 a barrel.(Editing by Eric Meijer)Reuters