

Asian shares extend losses as Fed plan changes course

By Chikako Mogi TOKYO (Reuters) – Asian stocks extended losses on Friday as the U.S. Federal Reserve's plan to scale back stimulus drove MSCI's broadest index of Asia-Pacific shares outside Japan down another 0.6 percent after it hit a nine-month low on Thursday. It closed down 3.87 percent on Thursday, its biggest daily percentage fall since November 2011, taking the index down 9.1 percent in the year to date. Australian shares fell 0.8 percent while South Korean shares opened down 2.4 percent, their lowest in nearly 11 months. Japan's benchmark Nikkei stock average opened down 1.7 percent. Global equity markets, bond prices and commodities plunged in a deep sell-off on Thursday, a day after the Fed Chairman Ben Bernanke said the U.S. economy was growing strongly enough for the U.S. central bank to begin slowing its massive bond-buying stimulus scheme. Bernanke suggested the Fed could end its quantitative easing programme by the middle of next year. Wall Street fell about 2.5 percent on Thursday, European shares saw their steepest one-day decline in 19 months, and investment-grade bonds were crushed: The benchmark 10-year U.S. Treasury yield hit 2.471 percent – its highest since August 2011. In Asia, the spread on the iTraxx Asia ex-Japan investment-grade credit index widened by 23 basis points on Thursday, reflecting the rising cost of hedging against debt default. Kit Juckes, a strategist at Societe Generale, said the Fed's huge stimulus funding had created a perfect recipe for carry trades in riskier assets, but under the Fed's tapering plan that trade was no longer assured. "The adjustment is brutal," he said in a note to clients. The CBOE Volatility Index, which gauges expected volatility in Wall Street, spiked 23.1 percent to 20.49 on Thursday, its highest close so far this year. Spot gold fell to a low of \$1,273.46 an ounce early on Friday to its lowest since September 2010, after falling more than 5 percent overnight for one of bullion's biggest routs since the 2008 economic crisis. U.S. crude futures eased 0.3 percent to \$94.88 a barrel. The Australian dollar, often seen as a gauge for risk appetite, took a harsh beating overnight to touch its lowest in nearly three years of \$0.9163. The resource-reliant Aussie was also weighed by a weak Chinese manufacturing activity. The Aussie was trading at \$0.9204 early in Asia on Friday. The dollar was likely to remain supported by the prospect of the Fed tapering based on an improving economy, with data on Thursday showing U.S. home resales hit a 3-1/2-year high in May and factory activity in the Mid-Atlantic region rebounded this month. The dollar was down 0.2 percent against the yen at 97.05, moving away from its 10-week low of 93.75 yen hit last week. The euro was up 0.1 percent at \$1.3224. Emerging market currencies were expected to remain pressured by the changing emphasis of the Fed's stimulus plan. "The combination of rising asset volatility and a steepening U.S. yield curve will likely weigh on currencies reliant on capital imports," Morgan Stanley said in a research note. "Commodity and emerging markets countries with current account deficits and large foreign funding liabilities should see significant pressure, as global rebalancing slows demand for raw materials." The Indian rupee slumped to a record low of 59.9850 on Thursday as the country's record high current account deficit deepened its vulnerability, with the Fed's signalling a looming end to the cheap

money that has funded India's current account deficit.Unrelated to the Fed, money market volatility in China also kept investors nervous.China's two shortest-term rates hit record highs on Thursday, as the central bank again ignored market pressure to inject funds into the market, a move traders and analysts see as an attempt to force banks and other financial institutions to trim non-essential businesses.The benchmark weighted-average seven-day bond repurchase rate jumped to a record high of 12.06 percent, while the overnight repo rate surged to 13.85 percent.(Additional reporting by Jungyoun Park in Seoul; Editing by Eric Meijer)