Asian stocks fall on Bernanke comments, China data eyed

By Chikako MogiTOKYO (Reuters) – Asian shares tracked the overnight drop in U.S. equities after U.S. Federal Reserve Chairman Ben Bernanke confirmed market fears that the Fed would begin reducing its stimulus later this year as the economy improved.MSCI's broadest index of Asia-Pacific shares outside Japan slid 1.2 percent, with Australian shares easing 0.4 percent and South Korean shares opening down 1.3 percent.With barely any time to digest the Fed news, traders said markets could come under even more pressure if an HSBC "flash" report on China's factory activity, due at 0145 GMT, provided fresh evidence of weakness in Asia's economic powerhouse."Given the market's growing fears over a hard landing for the Chinese economy, a particularly weak number could add to the post-FOMC selling pressure on the emerging currencies as well as the commodity bloc currencies," analysts at BNP Paribas wrote in a note.U.S. stocks tumbled more than 1 percent on Wednesday and benchmark 10-year U.S. Treasury yield surged 17 basis points to 2.355 percent, its highest in 15 months, while the dollar advanced broadly on the back of rising yields.Bernanke said on Wednesday the U.S. economy is expanding strongly enough for the Fed to begin slowing the pace of its $85 billion monthly purchases of Treasuries and mortgage-backed securities, with the goal of ending it in mid-2014. But he also noted the central bank would withhold from tapering if economic conditions deteriorated."Bernanke was more explicit than markets had expected. Rising U.S. yields will spur broad dollar buying. The dollar's direction is now set," said Yuji Saito, director of foreign exchange at Credit Agricole in Tokyo."Volatility may stay high until bonds and stocks stabilise, but once the initial round of reaction subsides, markets are left with a clear direction," Saito said.He said the contrast between Fed's shrinking balance sheet and the Bank of Japan's rapidly expanding holdings would spark the dollar to resume its climb against the yen.Bernanke first raised the idea of a sooner-than-expected tapering on May 22, triggering global financial market turmoil especially in emerging markets, as the Fed's massive bond-buying programme has been a driving force behind the rally in risk assets globally.Investors have been unnerved by the prospect of emerging economies or risk assets such as shares being undermined by outflows of money as the Fed curbed its stimulus, but others have noted that a stronger U.S. economy will eventually underpin investor sentiment and global economies."(Reduction of stimulus measures) is something the market has to get over. You cannot ride on four-wheel bicycles forever," said Kim Hyoung-ryoul, a market analyst at Kyobo Securities. "In time, confidence in U.S. economy will be restored … we may see some short-term volatility as money will likely flow to U.S. markets."Japan's benchmark Nikkei stock average opened down 1.1 percent.The dollar was up 0.2 percent against the yen at 96.63 after rising to a high of 97.03 yen on Wednesday, moving away from its 10-week low of 93.75 yen hit last week. It remained well below last month's 4-1/2-year peak of 103.74 yen.The euro was down 0.1 percent at $1.3282 early in Asia, retreating from a four-month high around $1.3418 hit on Wednesday.Bernanke's comments drove the Australian dollar down more than 2 percent to below $0.9300 for the first time since September 2010. The Aussie last traded at $0.9282. The Aussie has been sold not only as a commodity currency but also as a proxy for emerging markets.Emerging market currencies, from Indonesia to Thailand, are also expected to come under heavy pressure.U.S. gold futures for August delivery fell more than 2 percent to $1,342.30 an ounce early in Asia on Thursday. Spot Gold fell 0.4 percent at $1,344.75 an ounce.U.S. crude futures were down 0.6 percent at $97.65 a barrel.(Additional reporting by Ian Chua in Sydney and Jungyoun Park in Seoul; Editing by Eric Meijer)Reuters