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### **Market Update: Asia stocks spooked by fears of China rate hike**

Stocks across Asia were rattled in anticipation of the release of China's first-quarter data, after the Chinese authorities had delayed the release of the economic figures after market close. The result will serve as an indication of the state of overheating of the world's fourth largest economy. Counters across Asia saw moderate sell-off by worries that the Chinese government will introduce stringent austerity measures in a bid to cool a rapidly expanding economy.

According to China's National Bureau of Statistics, growth accelerated from a 10.4% in the previous quarter to 11.1% in the first-quarter of 2007, powered by booming exports, rising domestic consumption, massive investment inflows and expanding industrial output.

China's benchmark stock index, the Shanghai Composite fell 4.52%, triggering declines in Asian shares on speculation that the speed of China's expansion may prompt higher interest rates. At the close of trading day on 19 April, the Straits Times Index declined by 3.21%, while the Hang Seng and Nikkei shed 2.3% and 1.67% respectively.

In recent months, Chinese leaders have been alerted to imbalances in its rapidly growing economy, as evident from Premier Wen Jiabao's comments that the Chinese economy faces four major problems threatening the stability of growth, after a stellar growth of 10.7% in 2006: excessive investment, rapid loan growth, excessive liquidity and a burgeoning trade surplus. The above-mentioned, coupled with a rush by ordinary Chinese folks to partake in the buoyant stock market, resulted in an overheated economy

From the Q1 2007 blistering growth of China, it would seem that previous macro-control measures undertaken by the Chinese authorities thus far have not had a big impact in cooling the economy, prompting market soothsayers to predict that further interest rate hikes is on the cards.

As investors' sentiment are still bullish on China's long-term growth prospects, Asia's stock markets are expected to bounce back from yesterday's knee-jerk reaction. Short term volatility is expected given the inflationary tendency of the economy. Given the strong economic fundamentals, healthy earnings growth and improved corporate governance, we maintain our attractive view of the Chinese stock market for the medium to long term, with domestic consumption as the key driver of economic growth.

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