

Asian Stocks Fall, Yen Jumps After Korea Bomb Test: Markets Wrap

By **Andreea Papuc** and **Heejin Kim**

4 settembre 2017, 00:41 CEST

Updated on 4 settembre 2017, 07:18 CEST

- Swiss franc, gold advance as risk-off stance is back on
- S&P 500 futures slide; U.S. closed on Monday for Labor Day

Asian stocks fell as investors turned to haven assets after North Korea's dictatorship tested a nuclear bomb on Sunday, sending the yen, gold and Treasury futures higher.

The MSCI Asia Pacific Index was on track for the biggest drop since the international tension flared up following Donald Trump's "fire and fury" comment in early August. The largest declines were in Tokyo and Seoul, with more moderate reactions elsewhere in the region. The yen and the Swiss franc posted the sharpest gains among major currencies in early Asian trading. Futures on 10-year Treasuries advanced, with the cash market closed Monday for the Labor day holiday. Contracts on the S&P 500 Index fell, while gold rose.

U.S. President Trump threatened to increase economic sanctions and halt trade with any nation doing business with Kim Jong Un's regime, and his defense chief said the U.S. has "many military options." North Korea said Sunday it successfully tested a hydrogen bomb with "unprecedentedly big power." The test, the first since Trump took office, is a new hurdle for markets that have proven resilient to recent bouts of tension on the Korean peninsula. An early selloff in U.S. equity-index futures last Tuesday after North Korea's firing of a missile over Japan was erased by the close of cash trading.



"If North Korea ratchets up provocations again to protest sanctions and pressure from the international community, tensions on the Korean Peninsula could escalate further to a different level from previous cases," said Chang Jaechul, chief economist at KB Securities Co. "Still, a possibility of a military clash is low on the peninsula."

Templeton's Mobius Sees Need to Put Pressure on China

Mark Mobius discusses the impact of North Korea's nuclear test on trade and the markets.
Source: Bloomberg)

Investors are choosing to hold more cash in the face of increasing geopolitical instability. Nader Naeimi, who heads a dynamic investment fund at AMP Capital and helps manage about \$110 billion, [has](https://www.bloomberg.com/news/articles/2017-09-04/top-investor-with-30-in-cash-says-north-korea-selloff-will-come) about 30 percent of his holdings in cash, while Chicago-based Ariel Investments is [holding](https://www.bloomberg.com/news/articles/2017-09-03/ariel-s-hobson-hanging-onto-cash-in-case-of-market-correction) more cash versus its target in the event a pullback creates buying opportunities.

“We’ve not seen the futures sell off in any sharp way. It seems to suggest that there is a belief, maybe that’s hope, that rational heads will prevail,” Melody Hobson, president of Ariel, which oversees more than \$11 billion, told Bloomberg Television on Monday. “The long-term story is very positive. My belief is that this will work itself out and I am never a believer in overreacting to any news.”

The nuclear test overshadows an average U.S. August employment report on Friday. Nonfarm payrolls rose by 156,000, below the median estimate of 180,000 in a Bloomberg survey of economists, and revisions for the prior two months subtracted 41,000 jobs. U.S. stocks rose and Treasuries declined as investors chose to focus instead on separate reports that showed American factories ramped up in August to the fastest pace of expansion in six years, while consumer sentiment climbed to a three-month high amid an improving outlook for household finances and the economy.

Terminal subscribers can read more on our Markets Live blog.

Among other key events this week:

- A plethora of China data is scheduled for this week. Trade figures are anticipated to show another month of solid export growth, while FX reserves probably continued to rise on stricter capital controls, robust growth and a stronger yuan, Bloomberg Intelligence said. Caixin’s China services PMI and consumer and producer price data are also out.

- In Japan, second-quarter GDP, may be revised downward.
- Indonesia CPI is due Monday.
- The European Central Bank meets on Thursday. President Mario Draghi will express concern over the euro's strength when the ECB meets this week, but won't say much about his asset-purchase program's future, according to a survey. He's now expected to wait until at least October before announcing big changes to QE, most economists predicted. Officials may not have a full plan until December, people familiar told Bloomberg on Friday.
- Several Federal Reserve officials speak this week, including member of the Board of Governors Lael Brainard, Minneapolis Fed President Neel Kashkari, Dallas Fed President Robert Kaplan and New York Fed President Bill Dudley, who all have expressed doubt about the need for another rate hike this year. Cleveland Fed President Loretta Mester, who has argued for a gradual pace of tightening despite tepid inflation, will also talk.
- U.S. markets are closed Monday.

And here are the main moves in markets:

Stocks

- Japan's Topix index lost as much as 1.2 percent and was 1.1 percent lower as of 2:13 p.m. in Tokyo, while South Korea's Kospi index lost 0.8 percent and the S&P/ASX 200 Index in Sydney declined 0.3 percent.
- The Hang Seng Index in Hong Kong fell 0.5 percent.
- Gauges rose in China and the Philippines.
- Contracts on the S&P 500 slipped 0.3 percent to 2,465.75. The underlying index rose 0.2 percent on Friday, while the Dow Jones Industrial Average climbed 0.2 percent.
- The MSCI Asia Pacific Index fell 0.5 percent, poised for its worst decline since Aug. 11.

Currencies

- The yen climbed 0.4 percent to 109.79 per dollar, while the Swiss franc was up 0.4 percent.
- The euro climbed 0.2 percent to \$1.1882.
- The Korean won dropped 0.8 percent to 1,131.46 per dollar.
- The Australian dollar fell 0.2 percent to 79.62 U.S. cents.
- The Bloomberg Dollar Spot Index slipped 0.1 percent.

Bonds

- Treasury 10-year futures contract for December delivery rose as much as 11/32 to 126 30/32.
- Yields on Australian 10-year bonds declined about two basis points to 2.64 percent.

Commodities

- West Texas Intermediate crude added 0.2 percent to \$47.39 a barrel.
- Gold rose 0.8 percent to \$1,335.03 an ounce.

— *With assistance by Mark Cranfield*