Asian Stocks, Commodities Drop on JPMorgan Loss

By Glenys Sim and Adam Haigh - May 11, 2012

European equity futures fell, Asian stocks headed for the biggest weekly decline since November and oil dropped after JPMorgan (JPM) Chase & Co.’s $2 billion surprise loss on synthetic credit securities underscored risks to global financial markets. Treasuries rallied for an eighth week, the longest winning streak since 1998.

Euro Stoxx 50 Index futures retreated 1.1 percent as of 7:14 a.m. in London. The MSCI Asia Pacific Index (MXAP) declined 1 percent and Standard & Poor’s 500 Index futures lost 0.8 percent. The S&P GSCI Index of 24 raw materials slid for an eighth day, wiping out gains for the year, and oil fell 1 percent in New York. Ten-year Treasury yields decreased 2 basis points to 1.85 percent. The U.S. dollar rose against most of its 16 major counterparts.

JPMorgan’s Chief Executive Officer Jamie Dimon said the bank lost about $2 billion after an “egregious” failure in its chief investment office. Stocks extended losses after industrial production in China unexpectedly slowed in April, while data showed India’s production at factories, utilities and mines declined in March.

“Clearly JPMorgan got it wrong,” said Shane Oliver, Sydney-based head of investment strategy at AMP Capital Investors Ltd., which has almost $100 billion under management. “I suspect it’s probably a one off, but it comes during a week where we’ve seen risk off in a big way.”

Financial Shares

JPMorgan, the biggest U.S. bank by assets, tumbled 6.7 percent after the close of regular trading in the U.S., leading a slump in financial shares. Bank of America Corp., Citigroup Inc., Goldman Sachs Group Inc. and Morgan Stanley lost at least 2.5 percent.

The firm’s chief investment office, run by Ina Drew, took flawed positions on synthetic credit securities that remain volatile and may cost an additional $1 billion this quarter or next, Dimon said yesterday. Losses mounted as JPMorgan tried to mitigate transactions designed to hedge credit exposure.

The cost of insuring debt of JPMorgan from default rose to the highest level in four months. Credit-default swaps on the bank climbed to 132.5 basis points as of 8:32 a.m. in Hong Kong, according to data provider CMA, which is owned by CME Group Inc. The contracts were at about 111 basis points before the announcement yesterday.

Credit Agricole SA shares may move after France’s third-largest bank by market value said first-quarter profit dropped 75 percent, hurt by Greek losses.

The MSCI Asia Pacific Index has fallen 4.6 percent this week. The MSCI Emerging Markets Index slumped 4.3 percent, for an eighth straight week of declines, the longest losing streak since 2008.

Sony Plunges

Sony Corp. (6785) slid 6.4 percent in Tokyo to the lowest level in more than 31 years after its profit forecast was less than half of the average analyst estimate, according a Bloomberg survey. Yamada Denki Co. sank 8 percent
in Japanese trading after the electronics retailer forecast lower first-half earnings.

Hong Kong’s Hang Seng Index retreated for a seventh day, the longest stretch since June 2011. The Hang Seng China Enterprises Index retreated 1.9 percent.

The euro slid to a three-month low of $1.2905 before Italy, Spain and France sell bonds next week amid concern the region’s debt crisis is deepening. The common currency headed for a second weekly decline as Greek political leaders go into a fifth day of talks to form a government.

“Regardless of whether Greece exits the euro, it will take a lot of time to resolve the region’s debt crisis,” said Daisaku Ueno, a senior foreign-exchange and fixed-income strategist at Mitsubishi UFJ Morgan Stanley Securities Co.

**Commodities Erase Gains**

The Standard & Poor’s GSCI Spot Index of 24 commodities fell 0.9 percent in the worst run of losses since December 2008. Copper dropped 0.7 percent in London, heading for a second weekly decline. Silver retreated for a fifth day in its longest period of declines in a year.

The S&P GSCI declined in March, April and this month, overturning gains for the year of as much as 11 percent, as growth in China, the largest user of energy and metals, expanded in the first quarter at thelowest pace in almost three years. Over the past decade, the index had its sole annual loss in 2008, tumbling 43 percent, as the world economy sank in recession.

The cost of insuring Asia-Pacific corporate and sovereign bonds from default increased, according to traders of credit-default swaps. The Markit iTraxx Asia index of 40 investment-grade borrowers outside Japan rose 2 basis points to 181 basis points, Credit Agricole SA prices show. The gauge is set for its highest close since Jan. 31, according to data provider CMA.

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