Thailand stock market plunge seen as an emerging market wake-up call

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NEW YORK (AP) - Money managers and other institutional investors sold shares in emerging markets around the world Tuesday after Thailand imposed and then rescinded currency controls on stock investments.

Thai officials' aim was to slow the appreciation of the Asian country's currency. But many on Wall Street say it sent a wake-up call to complacent investors about the risks in markets that may have got ahead of themselves.

Emerging markets are known for volatility, and record stock growth in the past few years has artificially stemmed major market swings. More trouble may loom ahead, analysts said.

"I think we're going to get away with it this time around, but it's a sign of things to come," said Axel Merk, manager of the Merk Hard Currency Fund.

"All the asset classes in the world have been rising, volatility shrinking to record lows. Now you get this reminder that the world is risky, things begin to shake a little - and traditionally risky places begin to show it."

Indeed, global markets - from Latin America to Asia - were impacted as investors reduced their emerging-market investments. Although not connected geographically, investors always fear an economic crisis in one developing region could signal a wider shock to global markets.

The Stock Exchange of Thailand's benchmark SET Index plunged as much 19.5 per cent before recovering to close down 14.8 per cent at its lowest level since October 2004. Stock indexes in Hungary, India, Indonesia, Malaysia, Mexico, Poland, Russia and Turkey all lost more than one per cent.

The overall concern was that the event could turn into another Asian financial crisis. In 1997, steps taken by Thailand to rein in its currency triggered the baht to plunge. This spread to other currencies and markets, dragging the entire region into a recession.

Asian stocks and currencies have surged in 2006, reflecting interest in emerging markets from foreign investors. About $1.65 billion flowed into emerging market equity funds in the week to Dec. 13, bringing the total this year to a record $20.8 billion, according to data provided by Emerging Market Portfolio Fund Research.

Anthony Chan, chief economist with JPMorgan's private client services, does not expect Thailand's troubles to linger or spread. He also feels there is still an opportunity for investors to sink cash into emerging markets, but only as part of a diversified portfolio.

"The nature of these emerging markets is that it has somewhat higher volatility," he said.

"This is still a worthwhile investment as part of a broader portfolio, with the understanding there is greater volatility and risk."

Jitters about an Asian crisis come at a sensitive time. Many U.S. and European money managers use the final few weeks of the year to "window dress" their portfolios - locking in profits while jettisoning investments seen as risky or nonproductive.

Some investors could attempt to scale back emerging market investments to wipe the slate clean before 2007, said Andrew Foster, a portfolio manager for Matthews International Capital Management LLC, which runs a number of Asia funds.

"When looking at an event that creates a selloff, one needs to approach it very carefully - whether it be to buy or sell - and not simply do it for window dressing," he said.

"The conditions that led to currency contagion in 1997 are not in place today, but it is not impossible for it to occur again either."

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