



UNPRECEDENTED

TIMES

IT'S BEEN A BUMPY RIDE ALRIGHT, BUT THIS FINANCIAL ROLLERCOASTER WE'RE ON STILL HAS A WAY TO GO, SAYS ROWENA EVERSON.

ARE the latest financial bankruptcies and mergers the final death throes of a monster or just a painful and prolonged metamorphosis? Will exotic derivatives finally be consigned to the top of the wardrobe with the erotic magazines or like the package holiday will they simply end up being repackaged? Do you care? Admittedly the image of a redundant stockbroker doesn't tug at the heartstrings quite like a starving Ethiopian child but, as stock markets tumble, currencies plummet and living costs continue to rise, we must ask has the Grim Reaper finally come to call or is this merely a reality check?

Arguments are stacking up on both sides. So before we break out the Frank Sinatra LP and climb into the bathtub with a bottle of Brandy and a razor blade, it's worth looking at the bright spots on the horizon as well as the clouds overhead.

Baths are good place to begin, particularly given the amount of column inches that have been devoted to bubbles, froth and assorted scum recently. The global property bubble has undoubtedly popped, although in Singapore the deflation is more like a long, drawn-out case of wind than a dramatically bursting balloon. Credit Suisse's latest report on the property market here predicts office and commercial prices will fall back to 2005 levels by 2009. UBS agrees, suggesting that the recent retirement of Mr Pua Seck Guan (CEO of leading developer CapitaMall Trust) couldn't have been more timely.

On the residential side, all of the predicted pieces have come into play – strong up-coming supply, a slower expatriate influx, potential job losses and global asset deflation

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– meaning that prices will continue to weaken, which is not necessarily a bad thing. Excessive rent rises have forced many businesses to look outside of Singapore for their regional hub. Given that attracting foreign talent is key to the government's growth plan (and essential if we are to find enough staff for the casinos) a price correction will be beneficial.

The cloud on the horizon of this silver lining is that the longer the asset depression lasts (and the further it deepens) the more pressure will rest on that unique breed of the recent boom – property flippers. Like the brokers who kept shorting Lehman's until the last minute and were left holding the baby, a glut of property flippers have been left with investments that are no longer making money. Some can afford to hold on until the markets improve, whereas others have opted to take the pain early and are already out. Of the remainder higher interest costs on large mortgages are causing a negative rental yield, so defaults will rise. Those defaults are precisely what the domestic banking sector is betting against.

BANK RUNS AND RUN RATES

How many times have you heard the phrase 'past performance is no prediction of future earnings'? Financial institutions

chant it like a mantra, which is a worry since much reliance is being placed on the current financial crisis playing out in the same way as 1997. During the last crisis, the worst hit sector of the loans market was in regional corporates and SMEs; domestic and consumer markets in Singapore remained resilient. Confidence that this will remain the case is continuing to prop up the share price of the three major players here. So far the evidence is backing up this theory, but rising interest rates will quickly lead to rising defaults. For OCBC, which is as well known for its reliance on insurance and property development businesses for its core banking market, it could be a concern.

Are we likely to see a local bank run, with depositors clamouring for their cash in a similar way to AIA? Analysts think not. But evidence elsewhere has shown that a drop in confidence can quickly need to a bank looking for friends.

Taking the longer view, economic cycles tend to follow an 'M' pattern and, whilst it's impossible to say we're over the worst, nobody believes we're still in the middle. The long term run rates on the major global exchanges are beginning to normalise even if recent history resembles more of a rout than a recovery. ■