World markets fall after Fed sees deeper slowdown

World stock markets track Wall Street lower as Federal Reserve sees deeper recession

- Jeremiah Marquez, AP Business Writer
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HONG KONG (AP) -- Global stock markets fell Thursday after the U.S. central bank predicted an even deeper recession in the world's largest economy.

Major Asian markets like Tokyo and Hong Kong lost about 1 percent or more, oil prices retreated from six-month highs and a weaker dollar weighed on the region's exporters. Technology shares, meanwhile, were bruised by Hewlett-Packard's dispiriting outlook for the year.

Investors in Asia to Europe were scaling back risky bets on stocks after the Federal Reserve cut its forecast for 2009, saying America's economy could shrink between 1.3 and 2 percent compared to the prior estimate of 0.5 and 1.3 percent. In an ominous sign for Asian companies that rely on U.S. consumer spending, the Fed's policymakers also said the unemployment rate could approach 10 percent.

As on Wall Street, where stocks sank overnight, the news further muddied the economic picture after weeks of better-than-expected readings inspired talk of a stabilization and sent markets worldwide soaring.

With major indexes from Asian to the U.S. up 30 percent or more over the last couple of months, some investors increasingly urge caution.

"A lot of the economic evidence is a bit better but still very bad," said Peter Lai, investment manager at DBS Vickers in Hong Kong. He said the Fed's unemployment projections were especially unsettling.

"I'm just not comfortable buying at these levels to be honest, and think a correction is imminent," he said.

As trading opened in Europe, benchmarks in Britain, Germany and Francy dropped between 1.5 percent and 2 percent. U.S. futures pointed to more gloom on Wall Street Thursday. Dow futures fell 42, or 0.5 percent, to 8,353 and S&P futures dropped 4.8, or 0.5 percent, to 895.10.

Japan's Nikkei 225 stock average lost fell 80.49 points, or 0.9 percent, to 9,264.15, and Hong Kong's Hang Seng shed 276.35 points, or 1.6 percent, to 17,199.49.

Elsewhere, South Korea's Kospi dropped 1 percent to 1,421.65. Shanghai's index fell 1.5 percent, Australia's was off 0.3 percent and India's Sensex, not yet closed, lost 1.4 percent to 13,865.83.

Still, Wednesday's lull was relatively tame, just like many of the market's recent daily losses -- a sign there are investors still flush with cash and willing to buy. Investors, for example, plied global hedge funds with some $15 billion in April alone, the largest monthly inflow since before the dramatic selling in September last year, according to Singapore-based Eurekahedge.

Analysts say many investors dread losing out on the recent rally. That's especially true in white-hot emerging markets like China, whose Shanghai index has surged more than 40 percent this year to become world's best performing market.

The situation has given rise to a new saying in the market: "fear of missing out," said Jing Ulrich, chairwoman of China equities for JPMorgan.

"We've had 10 weeks of consecutive gains. No one wants to be missing out on this buoyancy," she said in Hong Kong.

The Fed's outlook, contained in minutes of its April policy meeting released Wednesday, reined in optimism on Wall Street, with banks taking the brunt of the selling.

The Dow Jones industrials fell 52.81, or 0.6 percent, to 8,422.04. The blue chip gauge had been up as much as 117 points in early trading. The Standard & Poor's 500 index slipped 4.66, or 0.5 percent, to 903.47.

Oil prices eased off six-month highs in Asia, with benchmark crude for July delivery down 73 cents to $61.31 a barrel. On Wednesday, the July contract rose $1.94 to settle at $62.04 after the government said U.S. crude inventories fell for a second week, suggesting demand may be improving.

The dollar weakened to 94.51 from 94.58. The euro was higher at $1.3790 from $1.3783.

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