

G20 disappointing for Asian markets



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Bottom Line: no concrete steps, mild disappointment

The G20 meetings concluded with a broad consensus that “more needs to be done to stabilize financial markets and support economic growth.” However, no concrete steps were announced, either in the official communiqué or on the sidelines of the meeting.

Here's a list of things markets may have been hoping for:

- China and Japan to use their foreign exchange reserves to top up IMF resources.
- China to expand its swap agreements with Korea.
- The G20 to urge the IMF to provide funds liberally (through the new Short Term Liquidity Facility, or SLF).
- An explicit announcement of a coordinated fiscal package. (The statement blandly urged the use of “fiscal measures to stimulate domestic demand.” Some observers think the major nations should announce a coordinated fiscal stimulus amounting to 2% of GDP.)

We would not permanently rule out any of the above measures. However, the delay in announcing them suggests that (1) it's not easy to reach consensus and (2) the global policy response may be nearing its limits.

So the G20 meetings are likely to mildly disappoint investors, who are already confused about policy—the use of the TARP money in the US, and the size and impact of China's fiscal package.

On the latter point, our view is clear (see Ting Lu's pieces [here](#) and [here](#)). We expect China's policy measures to put a floor under the economy towards mid-2009. However, weakening macro numbers and policy uncertainty will likely cap market sentiment in the near term.

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