ASIAN STOCKS SET FOR WORST MONTHLY DROP IN THREE YEARS ON GLOBAL ROUT

News / Finance

Asian shares fell on Monday and looked set for their worst monthly performance in three years after top Federal Reserve officials kept the door open for an interest rate hike in September and Chinese stock markets took a fresh tumble.

Global markets are bracing for Chinese data on Tuesday which is expected to show the world's second-largest economy is continuing to lose momentum.

A Reuters poll showed China's official factory sector activity likely fell to a 3-year low.

U.S. business surveys, factory orders, trade data and non farm payrolls will also be released this week, keeping investors on edge after one of the wildest trading weeks of the year.

MSCI's broadest index of Asia-Pacific shares outside Japan shed 0.8 percent and is set to fall 10 percent this month, its worst monthly drop since May 2012.

Japan's Nikkei .N225 was down more than 1 percent and South Korea's Kospi shed 0.6 percent.

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Australian shares lost 1.2 percent.

Selling intensified as China markets extended declines. By midmorning, Shanghai stocks.SSEC, the epicenter of this month's whip-saw action, were down 3 percent. They have plunged more than 40 percent since mid-June.

U.S. stock futures ESc1 shed 1 percent, pointing to weakness on Wall Street later in the day.

"Overall sentiment towards emerging markets continue to be quite cautious," said Frances Cheung, Asia strategist at Societe Generale in Hong Kong.

"Unless we see a decisive trend forward in the trajectory of U.S. interest rates, investors will continue to be wary of emerging market assets."

U.S. Federal Reserve Vice Chairman Stanley Fischer, speaking at the central bank' conference in Wyoming, said recent volatility in global markets could ease and possibly pave the way for a rate hike.

"The release of U.S. ADP employment on Wednesday and non-farm payrolls on Friday will be key in analyzing the quantum of a September rate hike," Angus Nicholson, market analyst at trading services provider IG in Melbourne, wrote in a note to clients.

Prospects of higher interest rates and returns in the United States combined with China's slowdown have diminished the appeal of emerging markets as investors have dumped riskier assets.

Investors sold $5.9 billion of emerging market assets between Aug 20-26, a sharp increase from $1.5 billion the week earlier, according to Nomura fund flows data.

Credit markets, often a harbinger of things to come for equities, spelt further pain in store for emerging markets.

An index for Asian high-yield credit has fallen sharply compared to a relatively steady performance in the investment grade index, according to Thomson Reuters data.

The dollar eased 0.4 percent to 121.15 yen JPY= after rising to the week's high of 121.76 on Friday following the Fed officials' comments that kept prospects of a September hike alive.

The euro was up 0.5 percent at $1.12405 EUR= after touching an eight-day low of $1.1156 on Friday.

The market will watch Thursday's policy meeting to see if the European Central Bank will be inclined to ease monetary policy further in the wake of the recent global markets turmoil, though no imminent change is expected.

U.S. crude oil prices dipped early on Monday as their biggest two-day surge in quarter of a century ran its course.

U.S. crude CLc1 was down 0.8 percent at $44.86 a barrel after jumping more than 6 percent on Friday on frenetic short-covering fueled by violence in Yemen, a storm in the Gulf of Mexico and refinery outages.

The contract was still down nearly 5 percent on the month, when it hit a 6-1/2-year low last week in

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the wake of China-led global growth fears.

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