

## **An Analysis of the Latest External Shock: Japan's Biggest Ever Natural Disaster**

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It has been almost two weeks since Japan was hit by a mind-boggling earthquake that measured 8.9 on the Richter scale. The Tsunami that followed was even more shocking as the waves hit a record 13 meters high. Of course, there is also the nuclear “fallout” which is unlikely to reach “Chernobyl levels” but its radiation effects remain unclear at the moment.

According to a recent report, Japan's government estimated the damage of these natural disasters can reach a record 25 trillion yen or US\$309B—that's almost 5X the size of the Gross International Reserves of the Philippines.

The financial markets naturally reacted initially on the negative especially the Nikkei which tumbled 16% in two days' time immediately after the earthquake. All other markets also tumbled but to a much lesser degree. However, the markets have since recovered from the lows and the Nikkei is currently down about 7.8% since the incident.

So, the big question is if the effect of Japan is still viewed as significant on a global basis as well as to the Philippines... let me try to run it down:

- 1) Japan used to be 20% of total global trade. As of the latest figures, it has fallen down to 8%.
- 2) Japan used to be the 2<sup>nd</sup> biggest country in terms of the economy and stock market. It has since fallen to 3<sup>rd</sup> in both categories as China has assumed the runner-up spot.
- 3) Japan used to be the biggest market for tourists in the Philippines. It has since fallen to second after Korea.
- 4) Japan only accounts for 5% of overseas remittances to the Philippines.
- 5) Japan remains to be a huge player in financial assets around the world. In the Philippines, it has strategic holdings in San Miguel Beer and PLDT among others. (It is too early to tell if these shareholders will sell their stake and move it all back to Japan).

In summary, while the significance of Japan has diminished over the last decade, it is still of significance and should not be ignored. As such, we still feel short-term negative effects are likely to be felt all over the world albeit not to the degree of the recent recession that happened in the United States.

The short-term effects to the real economy of Japan are indeed devastating but the financial markets in Japan as well as abroad seemed to have discounted it and the volatility factor has so far been very short-lived.

However, as Japan boast of one of the most disciplined races in the world, there is no doubt that the road to recovery while difficult would be faster than most countries.

Obviously, the Philippine market seemed to be one of the steadiest markets in light of this disaster and has fallen about 1.6% since the incident. While one must admit that Japan's role as a partner to the Philippines remains fairly significant, it has also diminished over the years but still remains a factor.

Warren Buffet has a lot of cash and itching to buy—we would also do so if opportunities of this nature appears again-however it seemed that the market called it right this time around...but we will be watching...

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