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Market Update: Asian markets see red on China's stamp duty hike

Asian markets opened lower in the morning trading session in response to a plunge in the Shanghai Composite Index after China hiked the trading stamp duty in a bid to cool a market that has risen by more than 50% since the start of the year.

The Chinese authorities made the midnight announcement of its decision to raise trading stamp duty from 0.1% to 0.3% via the official Xinhua news agency.

As at 3pm, the bellwether Shanghai Composite Index was down by 6.10%. Responding in kind to Shanghai's plunge, the Straits Times Index declined 1.36% while the Hang Seng and Nikkei dropped by 1.12% and 0.48% respectively. Since beginning of 2007, the Shanghai Composite Index has passed the 3,000 and the 4,000 mark and this meteoric rise of the Chinese share market is causing jitters globally, with inevitable concerns of a correction.

This latest move came shortly after May 18's slew of cooling measures, whereby China's central bank announced an interest rate hike, an increase in banks' reserve requirement ratio and a widening of the yuan's trading band. Judging by the market record highs seen in recent weeks, it would seem that the May 18 measures failed to curb speculation and dampen the bullish sentiment. This move further signals the Chinese authorities' determination to take some of the speculative excess out of the country's frenzied stock market.

While this hike in share trading tax could prompt a short-term pull back in the market, it is unlikely to cause a severe correction that will mark the end of China's bull run. Investors have been anticipating further of such austerity measures for several weeks and this particular one is not likely to change the upward-trending direction of the Chinese market.

As investors' sentiment are still bullish on Asia's and China's long-term growth prospects, Asia's stock markets are expected to bounce back from today's knee-jerk reaction. Short term volatility is expected given the inflationary tendency of the economy. Given the strong economic fundamentals, healthy earnings growth and improved corporate governance of Asia Pacific ex-Japan region, we maintain our attractive view of Asia and China for the medium to long term, with domestic consumption as the key driver of economic growth.

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