

Nikkei's 7.7% surge biggest one-day gain in 7 years

Peter Wells in Hong Kong

Pedestrians are reflected in a stock market indicator board in Tokyo©EPA

Japan's Nikkei 225 notched up its biggest one-day percentage gain since the depths of the financial crisis, surging 7.7 per cent and leading an Asia-wide rally as investors pinned their hopes on prolonged monetary and fiscal stimuli.

Markets leapt higher on the possibility that the Federal Reserve might delay raising interest rates this month. The prospect of proactive fiscal policy in China to counter the slowing economy, while vague, and the covering of short positions in Tokyo also served to propel markets higher.

The Nikkei closed at 18,770.51, its biggest one-day rise in percentage terms since October 20 2008 and its eighth-biggest gain since at least 1970. The market was in catch-up mode after a 7 per cent drop last week — its worst weekly performance since late October 2008 — wiped out much of the gains for the year.

The broader Topix index rose 6.4 per cent for its best session since a 6.6 per cent gain on March 16 2011, after the Tohoku earthquake and tsunami.

Late on Tuesday evening, following weak trade data, China's Ministry of Finance posted an article on its website stating it would carry out "stronger proactive fiscal policy" to counter slowing economic growth.

The statement was short on detail and dismissed by China economists — policy is already "quite proactive", noted Commerzbank economist Zhou Hao. Masaki Motomura, equity strategist at Nomura in Tokyo, said the statement helped swing sentiment but was not itself a big factor in the Japanese market's rise.

Hopes also grew that the Fed might delay a potential rate rise this month after Kaushik Basu, the World Bank's chief economist, warned that the US central bank risked triggering "panic and turmoil" in emerging markets if it tightened monetary policy at its September 17 meeting.

"The market's implied odds of a [Fed rate] move have fallen below 30 per cent. Add to that some expectation of fiscal easing in China and the result is all-round risk-on behaviour," Société Générale analyst Kit Juckes noted.

Analysts in Tokyo said the sharp rise in Japanese markets reflected the low closing level on Tuesday and a large amount of short covering.

Short View

Blame short-sellers for Japan's sharp equity rally

epaselect epa04921244 Pedestrians are reflected in a stock market indicator board in Tokyo, Japan, 09 September 2015. Tokyo stocks jumped sharply in morning trading following overnight gains in US stocks and hope in China's economy. The 225-issue Nikkei Stock Average gained more than 800 points in early trading after losing more 400 points a day earlier. EPA/Franck Robichon

Covering of trading positions might have spurred gains

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"The background is a rise in Chinese shares yesterday, which spread to Europe and the US, then back to Japan," said Mr Motomura, who noted that Nikkei 225 futures had already rallied above 18,000 in Chicago before the Japanese market opened.

Tomohiro Okawa, Japan equities strategist at UBS in Tokyo, said the market had been behaving strangely since the previous day. "I don't think there's a big change in trend," he said.

The Shanghai Composite closed 2.3 per cent higher, while the tech-heavy Shenzhen Composite added 3.3 per cent. Hong Kong's Hang Seng rose 4.1 per cent for its biggest one-day gain since December 1 2011.

Elsewhere around the region, Australia's S&P/ASX 200 added 2.1 per cent for its third-best day of the year, Korea's Kospi gained 3 per cent for its best day since December 21 2011 and Taiwan's Taiex jumped 3.6 per cent for its second-best day of 2015.

With additional reporting by Robin Harding in Tokyo