New financial crisis looming, says Mobius

He expects it to be triggered by derivatives and stimulus

BEIJING: A new financial crisis will develop from a failure to effectively regulate derivatives and the extra global liquidity from stimulus spending, says Mark Mobius of Templeton Asset Management Ltd.

"Political pressure from investment banks and all the people who make money in derivatives" would prevent adequate regulation, said Mobius, who oversees US$25bil as executive chairman of Templeton in Singapore. "Definitely we're going to have another crisis coming down," he said in a phone interview from Istanbul on Monday.

The Bank for International Settlements estimates that outstanding derivatives total US$592 trillion, about 10 times the global gross domestic product. Opaque financial products contributed to almost US$1.5 trillion in writedowns and losses at the world's biggest banks, brokers and insurers since the start of 2007, according to Bloomberg data.

Mark Mobius ... 'Political pressure would prevent adequate regulation.' — Bloomberg

Mobius didn't explain what he thought was needed for effective regulation of derivatives, which are contracts used to hedge against changes in stocks, bonds, currencies, commodities, interest rates and weather.

"Banks make so much money with these things that they don't want transparency because the spreads are so generous when there's no transparency," he said.

A "very bad" crisis may emerge within five to seven years as stimulus money added to financial volatility, Mobius said. Governments have pledged about US$2 trillion in stimulus spending.

Treasury Secretary Timothy Geithner last week urged Congress to rein in the derivatives market with new US laws that are "difficult to evade". He said strong capital requirements were the key.

Geithner repeated President Barack Obama's call to force "standardised" contracts onto exchanges or regulated trading platforms, and regulate all dealers.

In the Senate, Agriculture Committee chairman Tom Harkin, an Iowa Democrat, is pushing for legislation that would require all over-the-counter derivatives trades be traded on regulated exchanges, not just standardised ones as the Obama administration is seeking.

Mobius also predicted a number of short, "dramatic" corrections in stock markets in the short term, saying "a 15% to 20% correction is nothing when people are nervous." Emerging-market stocks "aren't expensive" and would continue to climb, he said.

Mobius said he favoured commodities and companies such as London-based Anglo American Plc, which has interests in platinum, gold, diamonds, coal and base metals.

In China and India, Mobius sees value in consumer-oriented stocks and banks. — Bloomberg