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Scary IPOs Are Price We Will Pay for Zero Rates: William Pesek

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[Prasarn Trairatvorakul](#) struggled for balance as the ferry taking him across a Bangkok river pitched in choppy waters.

“It’s a bit like the world economy these days,” the Bank of Thailand governor deadpanned as he plopped down next to me on a ferry deck chair. “Very hard to control.”

Prasarn would certainly know. Thailand may offer the best example of a curious phenomenon: how the Federal Reserve’s ultralow interest rates are benefiting Asia more than America. Excess central-bank liquidity explains the disconnect. Asia is getting loads of it, U.S. assets are getting little.

This hot money is making [waves](#) in Asia. It’s pumping up growth, real estate and stocks and, according to many economists, breathing new life into the “Asia decoupling” narrative. Asia hasn’t decoupled from the West so much as it has mutated into a giant net catching money emanating from Washington, Frankfurt and Tokyo. The result may be huge bubbles, the next wave of which could be dodgy stock offerings.

Going forward, “the average quality of new offerings is beginning to fray slightly around the edges,” says [Jeff Coggshall](#), a hedge fund manager at Tiburon Partners LLP. Why does it matter? “A number of deals have mysteriously been pulled forward,” he adds. “It will doubtless not be long before some genuinely frightening IPOs begin hitting our desks.”

Bernanke’s Money

If Fed Chairman [Ben S. Bernanke](#) wants to know who is benefiting most from his policies, Bangkok is as good a place as any to look. Thai stocks are up a spectacular 52 percent this year, while the Standard & Poor’s 500 Index is up 5 percent.

Thailand, which is growing 9.1 percent, isn’t alone. Singapore’s 10.3 percent growth is another case in point. So are growth rates in Malaysia (8.9 percent), the Philippines (7.9 percent), South Korea (7.2 percent) and Hong Kong (6.5 percent). Stock markets are booming even as America’s funk is

deepening.

The reason: investors know that any move by the Fed to further ease monetary policy means more liquidity is about to zoom Asia's way. It's ironic, really. The U.S. is desperate to aid its beleaguered export industry and all it's doing is exporting the stimulus needed at home.

It's not as fun as it sounds for Asian policy makers. They are caught by the biggest economies flooding markets with money and warring over currencies.

"I am concerned," says Prasarn. "Thailand is not a large economy, but we are very open. The saying goes that when elephants fight, the grass is trampled."

Thai Challenge

That's quite a challenge for Prasarn, who took over as central bank head on Oct. 1. Asia has too much of a good thing on its hands as money gravitates this way. The trick is to make sure it is used productively and to avoid dangerous bubbles.

The trick for Bernanke, meanwhile, is making sure that the U.S. economy captures more of the Fed's stimulus. How that can be accomplished is easier said than done. Capital controls? A tax on investment outflows?

Over lunch in Bangkok, I posed these questions to well-known economists [Barry Eichengreen](#) of the University of California, Berkeley, [Takatoshi Ito](#) of University of Tokyo and [Eswar Prasad](#) of Cornell University -- all of whom were in town for a Bank of Thailand symposium. They agreed it's unclear how the U.S. can adequately address its monetary-leakage problem.

The answer for Asia may be as simple as tightening fiscal policy. That, Eichengreen says, could take some of the heat out of economies being overwhelmed by hot money. Even so, there's no getting around the fact that loose international monetary conditions are swamping domestic policy steps.

Floodgates Open

Sure, officials in Bangkok or Seoul could raise rates, but it would make little difference with the world's main monetary authorities leaving the floodgates open. Also, higher borrowing costs could backfire, attracting even more capital as yield-hungry investors reach for better [returns](#).

Asia's initial public offering activity is worth eyeing in the months ahead. Recent surveys show the highest levels of investor sentiment in months. Will too much liquidity chasing too few good IPOs create demand for weaker ones?

There's lots of anecdotal evidence, London-based Coggshall says, that "investors' positioning has swung sharply towards 'risk on,' and while we too find it difficult to argue against the notion that unlimited liquidity trumps all else, the level of activity is just frothy enough to make us uncomfortable."

The good news is that Asian policy makers are fully aware that they are on the front lines of a monetary tsunami the likes of which the world have never seen. The bad news is that with the U.S., Japan and the euro zone holding rates at, or close to, zero and China maintaining an undervalued currency, it's all too easy for smaller economies to get overwhelmed.

My chat with Prasarn on a Bangkok ferry was an ideal metaphor for where [Thailand](#) finds itself -- navigating the rough waters of today's global markets. While they are doing a fine job staying afloat, Thai officials never know when and where the next giant wave of capital will crash. Frightening, indeed.

([William Pesek](#) is a Bloomberg News columnist. The opinions expressed are his own.)

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