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JIUJIANG: A man looks at stock prices at a brokerage house in Jiujiang in central China's Jiangxi province yesterday. China's stock benchmark sank more than 5 percent and other Asian markets fell while Europe rose moderately. — AP

China stocks plunge on economic gloom

Ruble slumps on first day of trading after holiday

SHANGHAI: China's stock market resumed its volatile plunges yesterday, as worries over the slowing economy and the government's ability to manage it sent traders fleeing, dealers said.

Investors have been alarmed by slowing growth in the world's second-largest economy, which is expected to have expanded last year at its slowest pace in a quarter of a century. Official data on fourth-quarter and annual growth is due to be released next week.

But early indicators have stoked pessimism. The government said on Saturday that China's consumer price inflation came in at 1.6 percent in December, well short of the government's target of "around three percent".

Yesterday, the Shanghai Composite Index plunged 5.33 percent, or 169.71 points, to 3,016.70 on turnover of 286.4 billion yuan ($43.6 billion). The Shenzhen Composite Index, which tracks stocks on China's second exchange, dropped even more, tumbling 6.60 percent, or 130.62 points, to 1,848.10 on turnover of 377.8 billion yuan. In Hong Kong, the benchmark Hang Seng Index slipped 2.8 percent, or 565.21 points, to close at 19,888.50.

"The market is already in a downward spiral and it's still exploring the bottom after last week's plunge," Zhang Yanbing, an analyst at Zheshang Securities, said.

"The economy remains weak and there's no driver for a market rebound." The Shanghai index fell nearly 10 percent last week, slammed by concerns over China's flagging economy and weakening currency but also a regulatory blunder. On Friday, authorities reversed course and suspended a new "circuit breaker" mechanism that had fuelled investor panic and a global rout by automatically closing Chinese markets early twice in just four days.

The plunges have brought a rough start to the year for an index which soared 150 percent in the 12 months to mid-June and then plummeted more than 30 percent in three weeks, prompting an unprecedented government rescue package which helped the market end the year up 9.4 percent.

Pessimism dominates

To the dismay of investors, China's central bank recently guided the yuan currency down by setting its daily fix lower for eight sessions, representing a 1.4 percent fall, before a slight reversal on Friday.

Yesterday, the People's Bank of China set the daily reference rate-around which the yuan can move up or down two percent-at a stronger 6.5626 to $1.0, up .02 percent against the US dollar. "Pessimism is the dominant sentiment," William Wong, head of sales trading at Shenwan Hongyuan Group in Hong Kong, told Bloomberg News.

"Market conditions will remain challenging given weak growth, volatility in external markets and the yuan's depreciation pressure."

Yuan weakness, believed by some analysts to be a creeping devaluation, sparked worries China could set off a currency war in a bid to boost exports.

In August last year, China moved the yuan down nearly five percent over a week, saying the drop was a result of reforms aimed at making the unit more flexible. Beijing is seeking to transition the country's growth model away from reliance on exports and fixed-asset investment towards a consumer-driven economy, but the reform is proving bumpy.

Ruble plummets

The Russian ruble fell sharply on its first day of trading after a ten-day holiday period, as a drop in the price of oil cast a shadow across the energy-exporting economy. The national currency dropped by nearly 2 percent half an hour into trading, to 76.1 rubles, as the Moscow exchange resumed trading in foreign exchange for the first time since Dec 31.

The price of oil, the backbone of the Russian economy, has declined over the past week amid fears about a slowdown in China's growth. Russia has also been hit by economic sanctions that Western nations imposed following the 2014 annexation of Ukraine's Crimea. The sharp decline in the price of oil, now trading at 12-year lows at $34 per barrel for Brent crude, will likely cause a drain on Russia's reserves and push the government to cut down on expenses.

Russia has based its budget this year on an average oil price of $50 per barrel and Finance Minister Anton Siluanov indicated last month that the government is prepared for cuts if crude were to fall to $30. The Russian daily Vedomosti last month quoted a ministry draft proposal that would see budget expenses cut by 5 percent across the board. Russia is running a budget deficit of 3 percent of GDP this year and since President Vladimir Putin has ordered it to be kept below that level, the government will have to let the ruble depreciate further to balance the budget.

Analysts at Bank of America Merrill Lynch said in a research note last month that the ruble would need to weaken to a staggering 94 rubles to the dollar if Russia wants to keep its budget deficit below 3 percent. — Agencies

MOSCOW: A woman walks past a board listing foreign currency rates against the Russian ruble in Moscow yesterday. — AFP

Saudi riyal stable: Monetary chief

RIYADH: Saudi Arabia yesterday said its currency was stable despite volatility in the futures market as the kingdom takes unprecedented measures to deal with low oil prices.

The Saudi riyal will remain pegged at 3.75 to one US dollar, said the Governor of the Saudi Arabian Monetary Agency, Fahad bin Abdullah al-Mubarak, according to the Saudi Press Agency.

The currency is "backed by a full range of monetary policy instruments, including foreign exchange reserves," he said. "The agency noticed recent volatility in the futures market of the Saudi riyal against the dollar as a result of wrong perceptions of the general economic situation in Saudi Arabia by some of the market participants," Mubarak added.

Saudi Arabia, the world's biggest oil exporter, reported a record budget deficit of $98 billion for 2015 after a drastic fall in global crude prices.

The finance ministry last month imposed unprecedented cuts, including an immediate reduction in fuel subsidies, with plans to further diversify the economy and possibly increase charges on public services.

Riyadh maintained high spending last year, and launched a costly military intervention against Iran-backed rebels in Yemen, by drawing on huge fiscal reserves it accumulated when oil prices were high.

The kingdom withdrew more than $80 billion from the reserves, which stood at $732 billion at the end of 2014, and issued bonds worth around $20 billion.

All Gulf Cooperation Council states except Kuwait peg their currencies to the US dollar. Earlier in December, Saudi Arabia, Kuwait and Bahrain raised interest rates after the US Federal Reserve increased its rates for the first time in more than nine years.

In an interview published last week, Saudi's Deputy Crown Prince Mohammed bin Salman told The Economist that the country is "far" from an economic crisis, because it still has ample reserves and growing non-oil revenues. Global crude prices have plunged from above $100 a barrel in early 2014 to below $33 yesterday. — AFP

Saudi shares pare losses, banks weigh on Abu Dhabi

MIDEAST STOCK MARKETS

DUBAI: Petrochemical and small-cap stocks turned around Saudi Arabia's index after early declines yesterday while blue-chip companies dragged other Middle Eastern bourses lower. The Saudi benchmark swung in volatile trade, dipping below the critical 6,000 level but then gaining momentum mid-session as petrochemical and speculative stock were heavily bought, lifting the index 1.4 percent to settle at 6,177 points.

"The swing factor in the stock market were the petrochemical shares," said a Riyadh-based trader. "Further dips in the market will make those stocks relatively more attractive from a valuation perspective." Saudi Basic Industries (SABIC), the largest stock by market value, jumped 3.3 percent, helping lift the petrochemical index 3.1 percent.

Upcoming earnings will show how far petrochemical companies' gross margins were squeezed by subdued global demand and the resumed slump in oil prices, coupled with higher operating costs following recent moves by the government to reduce subsidies.

"Petrochemical had a challenging year in 2015 and have lost their cost advantage versus international players and we expect 2016's net income to decline," said a note from Riyadh-based NCB Capital. Traders also bought back speculative stocks which slumped on Sunday, triggered by margin calls. Emaar Economic City and Knowledge Economic City, midtier stocks, each soared more than 7.0 percent.

Yanbu Cement, a pure play on the kingdom's construction sector, jumped 7.1 percent after releasing its fourth quarter earnings on Sunday. Net income rose 8.3 percent from a year earlier, according to a bourse filing.

"We believe the 8.3 percent year-on-year growth in net income is attributed mainly to higher sales volumes coming from a low base because 2014's fourth quarter was hampered by the changes in the labour market and the lower demand due to the Hajj season," said a note by NCB Capital. High inventory levels and continued demand slowdown led larger cement companies to offer sales discounts in 2015. "We believe Yanbu Cement offered an average discount of 7 percent to its product in 2015," the note added. — Reuters