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By Christopher Brown-Humes et al

'Everything is made in China nowadays' seems to sum it up.

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Shares plummet on fears of global slowdown

By Christopher Brown-Humes in London, Geoff Dyer in Shanghai and Michael Mackenzie in New York

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US stocks suffered their steepest drop since markets reopened following the September 11 attacks in 2001, after the biggest fall in Chinese shares for a decade and slides in other global stock markets triggered a sharp rise in risk aversion.

The Dow Jones Industrial Average was down more than 500 points at one stage on Tuesday afternoon as concerns over Iran, worries about the US subprime mortgage market and a warning from Alan Greenspan, former chairman of the Federal Reserve, about a possible US recession punctured recent market optimism. There was a sell-off in higher risk credit markets and a rising yen signalled the beginnings of an unwinding of the global carry trade, where investors borrow in currencies with low interest rates to buy higher-yielding assets elsewhere.

Mainland Chinese shares fell nearly 9 per cent amid fears that the authorities were planning a crackdown to cool the market's exuberance. Traders said it was highly unusual for events in Chinese markets to have a global impact, but saw it as a sign of China's increasing influence on the global economy.

"This goes to show that everything is made in China these days," said Tim Bond at Barclays Capital, the investment bank.

The FTSE Eurofirst 300 index dropped 2.86 per cent – its biggest daily fall for four years – while the FTSE 100 index fell 2.31 per cent, its largest fall since June.

On Wall Street, the Dow Jones Industrial Average was 3.2 per cent, or 400 points, lower in late afternoon trade, after the New York Stock Exchange had introduced trading curbs – the first time computer trading had been limited since July. The S&P 500 index was also down 3.2 per cent.

Leading emerging markets were among the hardest hit, with Turkish shares falling 4.5 per cent, Russia's RTS index down 3.3 per cent and Brazil's Bovespa index off 6.6 per cent.

“Markets that have risen faster than others will face a sharper decline as hedge funds reduce their exposure,” said Mary Ann Bartels, chief US market analyst at Merrill Lynch.

The global sell-off was aggravated by a weaker-than-expected 7.8 per cent fall in US durable goods orders in January, although that was partly offset by more positive news on consumer confidence and housing. There was a flight to safety in bond markets, with yields on 10-year US Treasuries falling 13 basis points to 4.499 per cent. European junk-rated credit saw one of the biggest one-day rises in the cost of protection for such debt that the derivatives markets have seen.

The Japanese yen and the Swiss franc – the main funding currencies for the global carry trade – made strong gains.

Bob Parker, deputy chairman of Credit Suisse Asset Management, said: “This is going to be more than just a one-day event and could go on for a few weeks. But it’s not the start of a one-year bear market trend.”

Simon Hayley, senior international economist at Capital Economics, said: “If today’s global sell-off tells us anything, it is that sentiment in developed markets is fragile.”