China Stocks Tumble Most Since 2008; Yen, JGBs Advance

Chinese shares headed for the biggest drop since 2008 after three of the nation’s biggest brokerages were stopped from adding margin-trading accounts. Japanese bonds surged and the yen rallied, while copper climbed in London.

The Shanghai Composite Index tumbled 7.7 percent, wiping out the year’s advance as Bank of China Ltd., was among 60 companies that fell by the 10 percent daily limit. Futures on the Euro Stoxx 50 Index rose 0.4 percent by 7:18 a.m. in London, and Standard & Poor’s 500 Index (SPX) contracts dropped 0.3 percent. Yields on 10-year Japanese bonds dropped 3 1/2 basis points to a record and the yen strengthened 0.4 percent. The Swiss franc fell as much as 1.2 percent against the dollar. Copper in London extended its biggest two-day gain since September 2013 and oil fluctuated.

Chinese regulators are tightening control of margin investing amid concern that a six-month, 63 percent stock surge is unsustainable and may lead to instability. Stocks in the U.S., where markets are closed for Martin Luther King Day, jumped Jan. 16 as a rebound in oil tempered fallout from the Swiss National Bank’s decision to abandon its cap on the franc and a drop in earnings at Goldman Sachs (GS) Group Inc. The European Central Bank and the Bank of Japan meet on policy this week while Greece holds an election Jan. 25 that may see an anti-austerity party take power.

China’s regulators don’t “want to crush the rally as such, but they just want to make sure the financial system is sound and not too much leverage has been abused,” said Khiem Do, who helps oversee about $60 billion as Hong Kong-based head of Asian multi-asset strategy at Baring Asset Management Ltd. “Investor sentiment has been fairly fragile, partly in the U.S., but especially in Europe. Asia year-to-date has been doing quite well and it felt like an oasis as a storm went through Europe and oil caused some concern.”

Hong Kong

More than nine companies fell for each that rose as Shanghai’s benchmark gauge recorded its fourth-biggest single-day retreat of the last 15 years. The measure capped a 10th week of gains last week for the longest winning streak since May 2007, after credit growth expanded and speculation grew the central bank will cut reserve-demand ratios.
Hong Kong’s Hang Seng Index fell 1.7 percent and a gauge of Chinese firms listed in the city dropped 6.5 percent, the most since November 2011. China’s big four banks fell at least 4.3 percent in Hong Kong.

Haitong Securities Co. (6837) tumbled 16 percent in Hong Kong after it was suspended from adding margin-finance and securities lending accounts along with Citic Securities Co. and Guotai Junan Securities Co.

Citic Securities plunged 15 percent and Guotai Junan dropped 11 percent. The three firms let customers delay repaying financing for longer than they were supposed to, the China Securities Regulatory Commission said on its microblog Friday.

Relative Value

The MSCI Asia Pacific Index, which rose 0.3 percent today, traded at 13.4 times estimated earnings on Jan. 16, compared with a five-year average of 13.5. The Stoxx Europe 600 Index trades at 14.5 time projected earnings while the Standard & Poor’s 500 Index fetches 16.6.

Japan’s Topix index pared gains as the yen rose 0.4 percent to 117.06 per dollar. The country’s 10-year notes paid 0.205 percent after the yield dropped the most since November. Twenty-six of 33 of economists in a Bloomberg News survey forecast the Bank of Japan will expand monetary stimulus by the end of October, one less than in a survey last month.

The Swiss franc pared a decline of as much as 1.2 percent to buy $1.1522, after surging 18 percent last week, and fluctuated near parity with the euro. The Swiss National Bank decided to drop its currency cap of 1.2 francs to the euro, set in September 2011 to shield the economy from the euro area’s debt crisis, because it was no longer “sustainable,” central bank President Thomas Jordan said.

Everest Fund

Everest Capital is closing its largest hedge fund after losing virtually all its money after the SNB move, according to a person familiar with the firm. FXCM Inc., the largest U.S. retail foreign-exchange broker, arranged a $300 million cash infusion from Leucadia National Corp. after client losses threatened FXCM’s compliance with capital rules.

Copper for three month delivery on the London Metal Exchange added 0.8 percent to $5,758 a ton after the industrial metal capped its first back-to-back gains since Dec. 12.

West Texas Intermediate crude for February delivery traded at $48.60 per barrel in New York after surging 5.3 percent on Jan. 16. The rally gave the U.S. benchmark crude grade its first weekly gain since November, after the price dropped to the lowest level since April 2009 on Jan. 13.

Iraq Record
Average Iraqi output is at 4 million barrels a day, Oil Minister Adel Abdul Mahdi said at a news conference. Record production coincides with plans by the second-biggest producer in the Organization of Petroleum Exporting Countries to boost exports this year. Brent crude, the benchmark contract for more than half of global oil, was little changed at $50.19 a barrel in London.

Natural gas futures for February delivery fell 2.9 percent to $3.038 per million British thermal units in electronic trading on the New York Mercantile Exchange. The contract jumped 6.1 percent last week, paring its gain amid forecasts for warmer weather.

The S&P 500 rose to 2,019.42 on Jan. 16, climbing above its average price for the past 100 days. Eight of the 10 best performers in the S&P 500 were energy companies, as the group rebounded with oil. The Dow Jones Industrial Average added 190.86 points, or 1.1 percent, to 17,511.57. The Russell 2000 Index of smaller companies gained 1.9 percent, the most in a month.

The University of Michigan preliminary consumer sentiment index rose to 98.2, the highest since January 2004, from a final reading of 93.6 in December.

**Clothing, Travel**

At the same time in the U.S., the biggest drop clothing costs since 1998 combined with falling air fares and cheaper new and used cars signal the deceleration in inflation is spreading beyond energy as Japan and Europe are in or near a recession and some emerging markets cool.

Goldman Sachs fell 0.7 percent in New York, capping a six-day retreat, after reporting a 7.1 percent drop in profit as revenue from fixed-income trading declined for the fifth time in six quarters.

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