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U.S. MARKETS

Global Stocks Drop on Political Tensions, Worries Over Chinese Growth

European shares fell after Italy said it would press ahead with its spending plans

By David Hodari

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Global stocks swung lower Tuesday, amid resurgent fears about the health of China's economy and a slew of geopolitical concerns.

The Stoxx Europe 600 was down 0.9% in early trading, with Italy's FTSE MIB down by 0.8% as the country's populist-led government said it would press ahead with spending plans despite the increasing likelihood of a clash with European Union lawmakers.

The yield on two-year Italian bonds had last risen to 1.252% from 1.155% late Monday. Yields move up when prices move down.

The downbeat mood in Europe followed heavy selling in Asia-Pacific, where investors reversed the rally that came Friday and Monday amid anxieties about Chinese economic growth.



The Lujiazui financial district in Shanghai, China, on Monday. PHOTO: JOHANNES EISELE/AGENCE FRANCE-PRESSE/GETTY IMAGES

In China, the Shanghai Composite Index and the Shenzhen A Share dropped 2.3% and 2.1%, while Hong Kong's Hang Seng was dragged down 2.8% by sinking financial stocks. Indexes across the rest of the region also suffered heavy losses, with the main benchmarks in Japan, South Korea, and Taiwan all slumping more than 2%.

In the U.S., futures trading put the S&P 500, the Dow Jones Industrial Average and the Nasdaq Composite Index on course for falls of about 1%. That would extend Monday's weakness for U.S. stocks, which were pulled lower by energy and financial stocks.

The U-turn in Chinese stocks marked an end to the Shanghai index's sharpest two-day rise since 2015, which came as investors parsed reassuring comments by key government and central bank officials about the health of Chinese economic growth.

The People's Bank of China late Monday moved to support financing for private firms, after the government had attempted in recent months to rein in the country's shadow-banking and credit sectors.

While boosting investor confidence in those private companies “remains critical,” the PBOC’s measures “are far from sufficient to solve [their] broad financing difficulties,” Citi economists said in a note.

The PBOC’s announcement followed the government’s publication over the weekend of proposals to cut personal income tax.

Analysts are uncertain as to whether such moves will prevent Chinese growth from decelerating further.

“We’re asking whether China’s doing stimulus by a thousand cuts but I’m still very skeptical,” said Ian Samson, markets research analyst at Fidelity International. “It’s more of a sentiment thing and the ongoing slowdown is quite natural but it will continue to weigh on global growth.”

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The Chinese yuan edged up 0.1% against the dollar, but remained close to 21-month lows.

Investors in U.S. stocks and oil were keeping a close watch on rising geopolitical tensions between the U.S. and Saudi Arabia following the death of Saudi dissident journalist Jamal Khashoggi.

President Trump said late Monday he wanted more information about the death of Mr. Khashoggi but also voiced a protective view of the U.S.-Saudi alliance.

Saudi Energy Minister Khalid al-Falih told Russia’s TASS news agency Monday that there was no intention to weaponize oil prices, and that production increases would proceed as planned.

The price of Brent crude oil was down 0.7% at \$79.28 a barrel, having slipped 2.6% over the past week to back below the important \$80-a-barrel level.

Elsewhere in commodities, the price of gold was up 0.8% at \$1,231.85 a troy ounce.

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