



World sharemarkets plunge

● Australian stocks tumble

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AUSTRALIA'S embrace of China's boom has had a reality check, with rumours of official efforts by Beijing to deflate a speculative asset boom triggering a tremor across global financial markets.

The benchmark Australian share index shed \$33 billion in its biggest one-day fall since the aftermath of the September 11, 2001, terrorist attacks.

European markets last night were extending their slide for a second session. The rout began on Tuesday when the Chinese sharemarket lost 9 per cent amid speculation the Government was about to introduce a capital gains tax. By day's end, more than half a trillion dollars had been wiped from the value of US shares.

Australian shares, which had rallied to record highs aided by China's huge demand for commodities, joined the slide.

At one point yesterday the benchmark S&P/ASX 200 Index was down 207 points, or 3.5 per cent, just days after it first passed the 6000-point milestone.

But a partial recovery in China's markets and buying support for a few local companies, including Woolworths, helped trim losses, with the index closing at 5832.5, down 161.3 points, or 2.7 per cent.

China's stock shock has compounded concern that the bull run had gone too far. Iran's

nuclear ambitions and comments this week from former Federal Reserve chairman Alan Greenspan about a possible US recession have given sellers a reason to act.

"The market was overdue for a correction, so people were a bit jumpy," said Bell Potter director of research Peter Quinton.

"When there's going to be a correction, the trigger is always the unexpected X factor that comes shooting out of left field ... and the X factor was the Chinese Government clamping down on illegal share activity in China."

ANZ head of international economics Amy Auster said China's stocks had doubled in value in the past six months. Price-earnings ratios are approaching 40, compared with about 17 in Australia.

China's plunge was blamed on investor concerns that the Government might act to cool the market, including enforcing laws that in theory bar people from borrowing to buy shares. Rumours of an impending interest rate rise further fuelled the sell-off, which sent China's main index down more than 9 per cent, the biggest fall in more than a decade.

"Equity markets have been incredibly strong and we were due for a breather," Ms Auster said. "Even with the big moves in

the Asian equity markets over the past 24 hours, they're all up on the year."

Prime Minister John Howard told Australians not to panic. "Importantly the fundamentals of the Australian economy are remarkably strong," he said.

But online trading site CommSec reported 88,185 individual trades for a total value of \$1.05 billion, smashing the previous record of 51,000 trades in a day and suggesting individual investors were moving out of shares.

Metal, oil and gold lost ground, and the dollar was weaker against the US dollar, fetching \$US78.77 at 5pm.

In Australia, mineral companies were the hardest hit, with BHP Billiton losing almost 6 per cent and Rio Tinto down 5 per cent.

But Prime Value Asset Management chief investment officer Han Lee cautioned against panic selling.

"Sometimes things happen not for rational reasons," he said. "People are very nervous."

Only five Australian companies — Tattersall's, Galileo Shopping America Trust, the Duet Group and Pacific Brands gained ground.

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