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Mining, Oil Stocks Feel Market Heat

Shares of BP, Shell, Glencore fall on fears of China slowdown

By JUSTIN SCHECK, RHIANNON HOYLE and SARAH KENT
Aug. 24, 2015 1:49 p.m. ET

Shares of some of the world's biggest natural-resources companies slouched to multiyear lows Monday, outpacing a broader market rout sparked by concerns over a slowing economy in China.

Mining giants BHP Billiton PLC, Anglo American PLC and Glencore PLC each lost more than 7% Monday. Royal Dutch Shell PLC and BP PLC—Europe's largest oil companies—each slid more than 6%, compared with a drop of 4.7% for the FTSE 100 index.

Monday's drops compound a year of disappointments for resource companies, which have struggled with persistent oversupply and increasingly questionable demand from China. BP has fallen more than 30% over the past year; Glencore has more than halved.

Resource companies' shares on Monday largely tracked tumbling prices for the commodities they produce, including copper—which sank to its lowest point in more than six years—and oil, with Brent crude falling below $45 a barrel for the first time since March 2009.

China for years has been a major market for many commodities, buying more than 45% of the world's base metals, which include copper, aluminum and nickel. It is also the world's largest iron-ore consumer and the second-largest oil consumer, after the U.S.

But growth in Chinese industrial production, retail sales and other economic measures has slowed in recent months, dragging down forecasts for big mining companies already suffering from a long slump in commodities prices.

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For oil producers, China's demand concerns are converging with a world-wide glut that is unlikely to ease soon. Production from countries including Saudi Arabia and Iraq remains robust, defying many analysts' predictions of an oil-price recovery in the latter part of this year. Crude in the U.S. is trading at less than $40 a barrel, down from more than $100 a barrel last year, dragging investor sentiment down with it.

Investing in oil companies these days is "a matter of looking for the least ugly," said Pascal Menges, an energy-fund manager at Lombard Odier. Earlier this year, Mr. Menges said, he anticipated that the oil price would start to recover by the end of 2015. Now, he expects low prices to continue at least through mid-2016.

Mr. Menges said he is focusing on small producers in pockets of the U.S. that have managed to keep their debt down. He said he is staying away from big producers like Shell and BP, whose size makes it harder to cut costs.

"The oil-and-gas sector is going be friendless when the oil price is as it is at the moment," said Paul Mumford, a fund manager at Cavendish Asset Management who owns shares of Shell and BP.

David Kotok, chairman of Cumberland Advisors, which oversees $2.5 billion in assets, said his firm pulled out of energy investments when the oil price still stood above $100 a barrel. He said prices could potentially fall to $30 a barrel as Saudi Arabia continues to pump crude full-throttle.

Monday's selloff in natural-resources companies began in Australia, where two big mining companies reported disappointing financial results that raised questions about miners' balance sheets as well as weak commodity prices. South32 Ltd. fell 7.6%, taking its overall slide since BHP Billiton PLC spun it off in May to 34%. Fortescue Metals Group Ltd. , the world's fourth-largest producer of iron ore, tumbled 15% after reporting an 88% dive in annual earnings.

It continued as the London and New York markets opened. Shell, which is down more than 35% over the past year, tumbled along with BP. Exxon Mobil Corp. and Chevron Corp. were each down about 3% in early trading.

But none have been hit as hard as mining-and-trading giant Glencore, which is exposed to both metals and oil prices. Its shares have more than halved since the beginning of the year, tumbling to their lowest level since the company's 2011 initial public offering. That has made it the worst-performing stock in the FTSE 100 so far this year.

There could be worse to come. Oil producers increasingly are bracing themselves for a period in which prices stay lower for longer, while the outlook for industrial metals remains bleak so long as the meltdown in China persists.

"I would not rule out another leg down in the sector," said Alon Olsha, metals and mining equity analyst at Macquarie Group. "It's not pricing in the worst-case scenario."

—Alex MacDonald and Scott Patterson contributed to this article.

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