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MARKETS

Mining Shares Sink Deep

Stocks of major miners take a hammering as concern grows over the health of top market China

By RHIANNON HOYLE
Aug. 24, 2015 5:58 a.m. ET

SYDNEY—Shares in major mining companies took a hammering Monday as concern grew over the health of China, the biggest buyer of commodities from copper to iron ore.

The rout began in Australia after disappointing results from two big mining companies there. South32 Ltd. , which mines commodities from coal to manganese, fell 7.6%, taking its overall slide since it was spun out of BHP Billiton PLC 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. A broader measure of mining stocks listed in Sydney was down 5% on Monday, to its lowest level in more than a decade.

Investors' bearishness spread to London, with shares in major miners BHP, Anglo American PLC and Glencore PLC all down more than 5% in early trading.

The sector is being hit hard by fears of a deepening slowdown in China, which this month has offered lackluster economic numbers and an unexpected currency devaluation. China's main stock market closed 8.5% lower Monday.

For miners, a weakening Chinese economy may impair their best customer's appetite for resources. China buys two thirds of all iron ore traded by sea, and about 40% of the world's copper.

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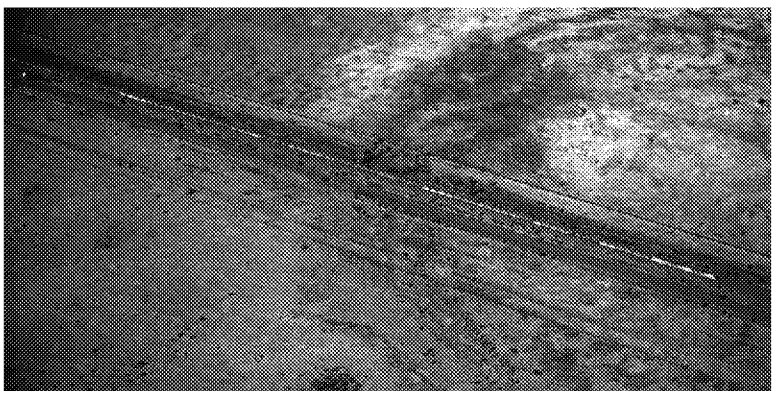
"It is a key moment for China—the equity market in free fall, the banking system increasingly starved of liquidity, rising capital outflows and a rapidly slowing economy," said Angus Nicholson, a Melbourne-based analyst for broker IG.

CMC Markets U.K. chief market analyst Michael Hewson said miners and technology businesses are at the sharp end of the souring outlook for the world's No. 2 economy.

"While it appears this month's selloff catalyst was a fairly innocuous and not unreasonable readjustment in the trading band for the Chinese yuan, this particular Chinese butterfly also appears to have triggered a complete turnaround in sentiment and reassessment of stock-market valuations across the globe," he wrote in a note.

The share prices of resources companies on Monday tracked the 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 US$45 a barrel for the first time since March 2009. Iron-ore futures on China's Dalian Commodity Exchange were recently down 4%.



A train carrying iron ore near the Fortescue Solomon mine in Australia's Pilbara region in 2013, when the commodities boom was still on. *PHOTO: DAVID GRAY/REUTERS*

The carnage was visible across the Australian stock market, heavy in resources producers. The benchmark index dropped to its lowest level in two years as BHP Billiton Ltd. , the world's biggest miner, fell 5% and Rio Tinto Ltd. 5.2%.

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While metals prices are the key reason for miners' woes, there are growing concerns about their balance sheets as well. Fortescue, for example, is struggling to pay down a $10 billion debt pile run up during the commodities boom years. Its market value is now down to roughly $4 billion—though it said Monday it would continue to pay an annual dividend, albeit sharply less than last year's.

South32 said it planned to slash operating costs as it reported a lower-than-anticipated net profit in its maiden annual fiscal result.

Chief Executive Graham Kerr said South32's shares had largely been caught up in the selloff. "If you look at the share market today, it is just swamped with other information," Mr. Kerr said in an interview.

IG's Mr. Nicholson said some companies might bounce back if investors deem they've been dragged indiscriminately lower by the broad-based rout.

"There are not any strong macro reasons for a rally yet; however, it is important to keep an eye on this as a lot of stocks are seeing their values become increasingly competitive," he said.

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