China stocks, dollar and debt stars of 2014

LONDON: Chinese and US stocks headed the list of 2014 top performers while markets elsewhere ended the year on a wary note as another sharp drop in oil and worries about Greece's future served as an excuse to take profits. The US dollar lost a little of the recent gains that have made it the year's star major currency yesterday, but European bonds yields scored all-time lows following a shockingly sharp fall in Spanish inflation on Tuesday.

European stocks wrapped up the year 3.5 percent higher overall with some striking exceptions, such as near 30 percent losses for debt-strained Greece and Portugal. The standout global equity performer has been China, where the CSI300 index ended 2014 with gains of nearly 50 percent after two final blockbuster months when hopes grew of more policy stimulus and foreigners won wider access to Chinese stocks.

Yesterday featured hefty gains for China's biggest train makers, China CNR and CSR Corp, after they confirmed a $26 billion merger. "China stocks have done really well this year and the dollar move has also been very interesting," said Alvin Tan, an FX strategist at Societe Generale in London. "It barely moved against the other major currencies in the first of the year and all the big gains came in the second half."

Among the scraps of news in Europe, two polls in Greece published late on Tuesday showed the anti-bailout party Syriza's lead over the ruling conservatives had narrowed. Reports that Saudi Arabia's King Abdullah had been admitted to hospital for tests sent stocks there tumbling, with another oil price fall adding to downward pressure. Trade elsewhere was thinned by holidays in Japan, Thailand, South Korea and the Philippines, while many markets in Europe were either shut or finishing early for New Year festivities.

Europe's government bond markets were already closed after another year when a global flood of cheap money has helped take Italian and Spanish borrowing costs to record lows and given ultra-safe German debt its strongest year in six.

Buy Dollars, Wear Diamonds

The dollar was on track to end 2014 up 12 percent against a basket of major currencies, its best performance since 2005, and anticipated US interest rate hikes may strengthen its appeal in the new year. It eased against the safe haven yen as US trading began to stand at 119.64 from Tuesday's peak of 120.69, while stock futures pointed to small gains for a Wall Street which has jumped 13 percent and hit repeated record highs this year.

The euro, undermined by bets that the European Central Bank will have to start buying government bonds to avert deflation, was stuck at $1.2154 having touched a 29-month trough of $1.2123. ECB policymaker Peter Praet told a German newspaper, "If my assessment is that there is a need for further accommodation, and if I were willing to cut rates if that had been possible, then I should not be paralysed by the fact that the only option is to buy sovereign bonds."

Having already halved this year, crude prices slumped another $1.70 to near $56 a barrel as weak Chinese manufacturing data and demand concerns outweighed supply disruptions in Libya. Copper, of which China is the biggest consumer, looked set to post its biggest annual decline in three years at 14 percent, while traditional safe-haven gold hovered at $1,200 an ounce to end the year roughly where it started. Emerging market stocks and bonds were on track for their second straight year in the red, especially Russia. The rouble was down 4 percent on the day as a 43 percent plunge since January left it heading for its weakest year since Russia defaulted in 1998. — Reuters

MUMBAI: An Indian office-goer walks outside the Bombay Stock Exchange (BSE) watching share prices on a digital broadcast on its facade yesterday. — AFP

Oil falls below $56

LONDON: Oil dropped below $56 a barrel yesterday and was heading for its biggest annual decline since 2008, pressured by weakening demand and a supply glut prompted by the US shale boom and OPEC's refusal to cut output. Global benchmark Brent crude has fallen 49.5 percent in 2014 as demand growth slowed, the United States expanded output and OPEC, dropping its strategy of trimming supply to keep oil around $100 a barrel, chose instead to defend market share.

Yesterday, prices came under further pressure from a survey showing China's factory sector shrank for the first time in seven months in December - a bearish indication on the strength of oil demand in the world's second-largest consumer. "Here we are on the very last session of the year and Brent is making new lows, again," said Tony Machacek, an oil broker at Jefferies Bache in London. "There's no reason to see why the downtrend should not continue."

Brent was down $1.91 at $55.99 by 1212 GMT, after dropping as low as $55.93, its lowest since May 2009. US crude was down $1.11 at $53.01. The annual decline for Brent is set to be the biggest since 2008, when demand crumbled in response to the financial crisis. Prices were, eventually, propped up by OPEC's last formal decision to cut production. In contrast, OPEC at a Nov 27 meeting this year decided against a cutback to defend its market share against shale oil and other competing supply sources, despite its own forecasts of a growing surplus in 2015.

Turmoil in Libya has effectively led to a drop in OPEC supply in December to a six-month low, a Reuters survey showed on Tuesday, although forecasts still point to a large excess supply next year. Later on Wednesday, traders will focus on the latest US government report on oil inventories to see if it confirms the unexpected increase in stockpiles reported on Tuesday by industry group the American Petroleum Institute. US crude inventories rose by 760,000 barrels last week, the API said, compared with analysts' expectations for a decrease of around 100,000 barrels. The Obama administration on Tuesday bowed to months of growing pressure over a 40-year-old ban on exports of most domestic crude, taking two steps expected to increase the flow of ultra-light oil, or condensate, onto the global market. "We expect a gradual, but slow increase of stabilized condensate exports over the next year," analysts at JBC Energy said in a report. — Reuters

Gold ends 2014 flat

LONDON: Gold edged down on higher shares yesterday, but was poised to end 2014 steady around $1,200 an ounce as the impact of a strong dollar was offset by demand from investors worried about tensions in Russia and political uncertainty in Greece. Bullion was on track for a 0.5 percent fall this year after a turbulent 2013, when prices fell by a third after 12 years of gains. Spot gold was down 0.3 percent at $1,196.90 an ounce by 1257 GMT. On Tuesday, it climbed to a near two-week high of $1,209.90 as concerns over tension between Russia and the West weakened the dollar and stock markets.

Prices have been relatively less volatile in 2014 compared with last year's 28 percent slide and $500 trading range. Despite falling to a 4-1/2-year-low in November, gold has traded in a $260 range for the year. Gold's main driver in 2014 has been a buoyant dollar, which was poised to post its biggest yearly gain since 2005, and anticipated US interest rate hikes may strengthen its appeal in the coming year. Higher rates weigh on non-interest-bearing bullion.

Yesterday, the dollar was unchanged, while European stocks rose, keeping most regional indexes on track to end a tumultuous year with modest gains after a late rebound. "Considering the strong dollar performance in 2014, gold's downside this year has been a little bit protected by international political events that have attracted some safe-haven buying, especially in the first half," ABN Amro commodity strategist Georgette Boele said. "But a new drop in gold prices driven by a stronger dollar and higher U.S. interest rate expectations is likely in 2015, when we see prices average $1,000 an ounce."

Investors continued to run down gold holdings in 2014, with the world's largest gold-backed exchange-traded fund, the SPDR Gold Trust, falling by 140 tonnes to six-year lows of 710.81 tonnes. Redemptions, however, were much smaller than in 2013, when the fund saw a record outflow of 460 tonnes, or 39 percent, to around 850 tonnes. Physical demand for gold was boosted by the holiday season and upcoming Lunar New Year celebrations in China, when gold is bought for good fortune and to be given as gifts, traders said.

Silver fell 1.7 percent to $15.99 an ounce and was on track for a 17-percent annual decline and platinum, down 0.7 percent at $1,205.10 an ounce, was also headed for a yearly fall. With a 13 percent jump, palladium was the best performer among precious metals this year, mostly on supply concerns from top producer Russia. Prices were unchanged at $800.50 an ounce. — Reuters

Dollar racks up strong year

LONDON: The dollar was set to end 2014 with a gain of more than 12 percent against a basket of major currencies yesterday, its strongest year in almost a decade and, according to most major banks, just a prelude to a further rise next year. Yearend adjustments to market positions helped the yen and the euro in thin trade over the Christmas holidays, but the euro is expected to fall below $1.20 in the first quarter. The dollar index, which measures its value against a basket of six major currencies, last stood unchanged at 89.920. This year, though, the dollar should see its largest gain since it climbed nearly 13 percent in 2005, and only the third year in 30 when it has gained more than 10 percent.

The contrast between the US Federal Reserve's path towards raising interest rates next year and looser monetary policies in the euro zone and Japan was the driving force behind the dollar index's rise to its highest in more than 8 1/2 years on Tuesday. "The US economy has outperformed on a relative basis all the other major economies and that's prompted the market to increase expectations that the Fed will raise rates some times in the middle of next year," said Lee Hardman, a currency economist at Bank of Tokyo-Mitsubishi UFJ in London. "The monetary policy divergence between the Fed and the other major central banks will likely widen, so that makes the stronger dollar case even more compelling next year." However, the dollar has come a long way in a hurry. It is not clear whether further gains in the first half of next year might put the Fed off raising rates. Also, turbulence may grow in developing markets, especially China. Political turmoil could again threaten Greece's presence in the euro, adding to concern over growth and the balance of the global financial system. —Reuters