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NEW YORK: Traders work during the opening bell at the New York Stock Exchange (NYSE) yesterday at Wall Street in New York City. —AFP

Global sell-off accelerates on weak US data

Wall Street drops more than 1% on domestic growth worries

NEW YORK/LONDON: Global stock markets dropped sharply yesterday after worse-than-expected US data revived worries about the impact of the trade war on the global economy. US stocks fell more than 1 percent for the second straight session yesterday, hitting a fresh one-month low, as September's weak private payrolls report added to concerns of a slowdown in the world's largest economy.

US private employers hired fewer-than-expected workers in September, the ADP National Employment Report showed, pointing to weakness in the labor market. The report, a precursor to the Labor Department's more comprehensive jobs report due tomorrow, followed a contraction in US manufacturing activity to its lowest level in more than a decade.

That hit investor faith in the strength of the domestic economy, a key reason for a rally in the benchmark index this year, wiping off the third-quarter gains on the S&P 500 and Dow. Both indexes slipped below their 100-day moving averages for the first time in about a month yesterday, seen as a strong technical support level that could presage further losses.

The dollar dropped against the euro and yen yesterday, in line with falls in equities and Treasury yields, amid worries about global growth following data a day earlier that showed a sharp decline in US manufacturing activity.

"With the ADP report, the initial reaction was mild relief that the numbers weren't worse because yesterday the horrible ISM (manufacturing) data had a pretty weak employment component," said Erik Bregar, director and head of FX strategy at Exchange Bank of Canada in Toronto.

"But that initial move is fading now. Arguably, something is not right here. The US. ISM report proved that and I really wonder when the Fed's going to stop pretending that everything is okay," he added. US manufacturing contracted at the fastest pace in more than a decade in September, making the United States the latest country to suffer a manufacturing downturn amid a trade war between Washington and Beijing. Many analysts, however, say the dollar's higher yield and the relative strength of the US economy should make its setback temporary. Non-farm payrolls data due on Friday should give more insight into the health of the US economy. In morning trading, the dollar fell 0.3 percent against the yen to 107.39 yen, reflecting investor demand for safer assets after the manufacturing data heightened concerns about the health of the global economy. The benchmark index is now about 4 percent below its all-time high hit in July, after coming within striking distance of it two weeks ago. "The weakening conditions in Europe and the slowdown in China, it's all adding up to the same thing essentially: worries that the global economy is slowing and giving investors reason to pause and take profits," said Robert Pavlik, chief investment strategist manager at SlateStone Wealth LLC in New York. The industrial and materials sectors dropped about 1.5 percent each, posting the biggest declines among the 11 major S&P sectors.

The Federal Reserve, which cut interest rates for the second time this year in September, has indicated it would rely on economic data to determine future rate cuts. The Fed's next policy meeting will be held at the end of the month.

At 10 am ET, the Dow Jones Industrial Average was down 333.54 points, or 1.26 percent, at 26,239.50, the S&P 500 was down 37.60 points, or 1.28 percent, at 2,902.65. The Nasdaq Composite was down 106.61 points, or 1.35 percent, at 7,802.07. The FTSE 100 opened lower yesterday, on track for its biggest one-day decline since mid-August, amid growing concerns over Prime Minister Boris Johnson's "final Brexit offer", while weak US economic data added to global growth worries. The only bright spots on the blue-chip index were Flutter Entertainment and Tesco. The FTSE 100 was down 1.2 percent by 0752 GMT. The index is headed for its worst day since Aug. 14, when the US Treasury bond yield curve inverted for the first time since 2007, and raised fears of a recession. The more-domestically focused FTSE 250 fell 0.8 percent.

The main index, falling for a third consecutive day, is looking at its sharpest weekly drop since May as the UK market faces not only worries over growth due to the U.S.-China trade dispute, but also mounting uncertainties at home over Brexit. Johnson will present on Wednesday his final Brexit offer to the European bloc and said that, if Brussels does not engage, Britain will stop talking and leave on Oct. 31. Analysts largely expect Brussels to reject the offer, leaving open options ranging from a no-deal departure to another delay.

Ford Motor Co shares fell 3.6 percent after the carmaker reported an about 5 percent fall in US auto sales for the third quarter. Shares of General Motors Co dipped 3.5 percent ahead of its quarterly auto sales report. In a bright spot, homebuilder Lennar Corp gained 1.6 percent after the company reported a better-than-expected profit as cheaper mortgage rates led to higher demand for its homes.

Asian markets were weaker overnight and Europe tumbled, with London shedding more than 2.4 percent as investors took flight on news that US manufacturing activity fell to its lowest level since June 2009.

US oil drilling slowdown hits wider economy

LONDON: A downturn in oil and gas drilling is making a small but significant contribution to the overall slowdown in US business investment and economic growth, intensifying the much bigger problems caused by the trade war with China.

As domestic oil and gas production grows and becomes increasingly important to the US economy, the fortunes of the industry increasingly have macroeconomic as well as microeconomic implications. The last slump in oil and gas drilling contributed to the mid-cycle economic slowdown in 2015/16, which helped fuel the political discontent that resulted in the election of populist President Donald Trump to the White House.

Now the pattern risks being repeated as oil and gas companies cut back on new well drilling and completions in response to lower oil prices, with ripples felt throughout the entire supply chain.

Total business fixed investment was up by 2.6 percent in the second quarter of 2019 compared with a year earlier, but sharply down from the recent peak of 6.9 percent seen between the second quarters of 2017 and 2018. Fixed investment in industries other than mining, oil and gas had grown by 3.0 percent in the second quarter, down from 6.0 percent a year earlier, according to preliminary estimates from the U.S. Bureau of Economic Analysis.

But investment in mining, oil and gas fell by 7.7 percent compared with growth of almost 28 percent in the second quarter of 2018 ("National income and product accounts", BEA, Sept. 26).

Mining and oil and gas investment had slowed to a seasonally adjusted annualized rate of $114 billion in the second quarter of 2019, down from $124 billion in the second quarter of 2018.

Given the continued slide in oil and gas prices as well as the number of active rigs drilling, investment is set to fall even further in the third and fourth quarters of this year. During the last downturn, investment slumped from a peak of $173 billion in the fourth quarter of 2014 to just $63 billion in the second quarter of 2016. The current downturn is much milder, so far, so the hit to the economy is unlikely to be as severe. But it is interacting with and compounding the slowdown caused by tariffs and uncertainty associated with the trade war with China. —Reuters

Kenya finds $71m in suspect cash as it retires old notes: CB head

NAIROBI: A Kenyan anti-corruption drive uncovered the equivalent of tens of millions of dollars in unexplained wealth when it retired old banknotes, the central bank said yesterday, adding much of the cash appeared to have been gained in "the criminal area".

The East African nation has a diverse, fast-growing economy, but foreign investors have long complained of widespread graft and weak application of anti-money laundering laws.

On June 1, the central bank set a Sept 30 deadline for everyone to convert their old 1,000 shillings note, worth about $10, into new ones after it became the banknote of choice for criminals of all types in the East Africa region. Those exchanging large amounts were required to explain how they acquired the cash. The move was designed to stop the flow of proceeds of crime, like corruption and counterfeiting of bank notes, through the financial sector.

Bank governor Patrick Njoroge said notes worth 7.4 billion shillings ($71.29 million) were not exchanged, rendering the cash invalid and hitting the suspected corrupt owners hard. "These are people for the most part that maybe had some concerns in terms of going through the checks," he told a news conference.

The money is equivalent to a quarter of the annual budget of the government's top hospitals in the country, Njoroge said. It also marks the first time in the country that the corrupt have been made to lose a huge chunk of their wealth, with the biggest ever corruption fine handed out by the courts standing at 52 million shillings, he added. Commercial banks, who processed amounts up to five million shillings, flagged some 3,172 transactions as suspicious and reported them to the authorities during the conversion exercise over the four months. Njoroge said that information will be used by other investigative agencies, including the tax authority, to uncover more cases of handling of proceeds of crime.

"You have those that didn't want to pay taxes and were working in the sort of criminal area. Those to begin with have just been taxed the full value of their wealth," he said. Very large amounts above five million had to be converted at the central bank.

The process of invalidating the old notes, known as demonetization, had not resulted in inflationary pressure or weakening of the foreign exchange rate, Njoroge said. In 2016, India abruptly scrapped high-value currency notes, throwing its cash-based economy into a crisis. Njoroge said Kenya had learned lessons from the chaos in India and that's why there was a four-month window. The effort to stamp out corruption will be sustained, Njoroge said. "It cannot be that we glorify people who are involved in crime. It cannot be," he said. —Reuters

NAIROBI: Central Bank of Kenya (CBK) Governor Patrick Njoroge displays a roll of shredded old generation Sh1,000 banknotes at a press conference in Nairobi yesterday. —AFP