

U.S. stocks plunge after China sell-off

Investors fear economies are cooling

By Julia Werdigier and David Barboza

LONDON: U.S. stocks plummeted Tuesday as concerns that the Chinese and American economies were cooling and fears that shares were overvalued sparked a global market decline.

At one point the Dow industrial average was down more than 546 points, or 4.3 percent, at 12,086, but it recovered some ground in the last 90 minutes of trading to close at 12,216.24, down 416.02 points, or 3.3 percent, the worst drop since Sept. 17, 2001. The Dow rose last week to both a closing and an intra-day record.

The broader Standard & Poor's 500 index lost 50.33 points, or 3.5 percent, to close at 1,399.04, and the Nasdaq composite tumbled 96.65, or 3.9 percent, to finish at 2,407.87.

A 9 percent slide in Chinese stocks — coming one day after investors sent the Shanghai benchmark index to a record close — set the tone for U.S. trading. Major West European indexes were down by between 2 percent and 3 percent.

Investors said negative news on the U.S. economy had exacerbated the stock declines in America and Europe. The Commerce Department said Tuesday that durable goods orders at American factories fell 7.8 percent in January, more than double what analysts had expected, on average. The disappointing numbers also came a day after Alan Greenspan, the former chairman of the Federal Reserve, was quoted as saying there were signs the economy could be heading for a recession.

"It looks more and more like the economy is a slow-growth economy," Michael Strauss, chief economist at Commonfund, told The Associated Press, noting that investors were expecting the government on Wednesday to revise its estimate of fourth-quarter gross domestic product growth down to an annual rate of about 2.3 percent from an initial 3.5 percent. But some analysts said it remained unclear whether the global sell-off constituted a correction or a broader collapse.

"We believe this is just short-term and more of a challenge for those who are not yet in equities," said Thomas Korffgen, head of equities at SEB in Frankfurt. "I do not see a threat yet to the global market, as the fundamentals are positive."

Stephen Green, a senior economist and stock market analyst working in Shanghai for Standard Chartered Bank, agreed. "People are just on the edge," Green said. "It's very possible in two weeks we will be right back up there."

But analysts had cautioned for months that the markets in China, which soared almost nonstop for more than a year, appeared vulnerable.

Some investors say the drop was triggered by concern that the Chinese government would clamp down on illegal share offerings, which were among the type of investments responsible for the market's recent record increases.

The possibility of tighter investment controls in China also scared investors in companies that get a large proportion of their sales from there. With China being the world's biggest user of metals, mining stocks like BHP Billiton and Rio Tinto Group were among those most affected.

"Risk assets have been pushed so far in one direction that there had to be a pullback," said Andrew Laphorne of Dresdner Kleinwort in London.

The benchmark Shanghai composite index, which passed the 3,000-point milestone Monday after the weeklong Chinese New year holiday, lost 268 points, or 8.8 percent, to close at 2,771.79. The Shenzhen composite index fell 66.31 points, or 8.5 percent, to 709.81.

But some analysts said China's market sell-off was not necessarily indicative of the country's economy, where growth continues to be strong.

In Europe, the DAX in Frankfurt and CAC 40 in Paris both fell about 3 percent, while the FTSE in London lost 2.3 percent. Emerging markets, some of which had also risen to records this year, tumbled as investors became skeptical that the good times would continue.

After rising 20 percent in 12 months and reaching a record last week, Morgan Stanley Capital International's emerging markets index fell 1.7 percent to 924.64 points in London. Stocks in Russia and South Africa also fell from record highs, and the Turkish stock market had its biggest decline since June.

David Barboza reported from Shanghai.

Global markets plunge from Shanghai to New York. Page 21



Alex Kraus/Bloomberg

A trader in Frankfurt reacting to stock price movements Tuesday. Shares were off about 3 percent in Germany.

CURRENCIES | New York

| | Tuesday 4 P.M. | Previous |
|-------|----------------|----------|
| €1 = | \$1.3236 | \$1.3184 |
| £1 = | \$1.9615 | \$1.9634 |
| \$1 = | ¥118.000 | ¥120.573 |
| \$1 = | SF1.2181 | SF1.2296 |

Full currency rates | Page 21

OIL | New York

| | Tuesday 4 P.M. | | |
|-------------------|----------------|---|--------|
| Light sweet crude | \$61.46 | ↑ | \$0.07 |

STOCK INDEXES

| | Tuesday | | |
|------------------|-----------|---|-------|
| The Dow 4 P.M. | 12,216.24 | ↓ | 3.29% |
| FTSE 100 close | 6,286.10 | ↓ | 2.31% |
| Nikkei 225 close | 18,119.92 | ↓ | 0.52% |