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Australian shares plunge to six-year low as global stock markets are hit by a sinking Chinese economy

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G20 to address market volatility

- ASX ends horror day with markets plunging 4.1 per cent
- Value of the nation’s companies slashed by about $70 billion
- Energy stocks worst impacted, down 6.2 per cent
- China’s shares drop more than eight per cent

AUSTRALIA’S share market has plummeted by 4.1 per cent, putting an end to its most disastrous day of trading in six years.

About $70 billion was stripped from the value of the nation's companies as the market copped a major hammering amid worldwide concerns about China's slackening economy.

At the the official 4.15pm (AEST) close of trading today, the benchmark S&P/ASX200 index was 213.3 points, or 4.09 per cent, lower at 5001.3, while the broader All Ordinaries index was down 210.6 points, or 4.03 per cent, at 5014.2.

These figures represent two-year lows for both indices, and the steepest one-day drop since January 2009. They are now clinging to 5000 points, levels not seen since July 2013. Just four months ago, they were close to breaching 6000 points.

The Australian dollar also hit a fresh six-year low of 72.01 US cents.

The turmoil follows on from Friday's three per cent plunge in US equities and shadowing today's more than eight per cent falls in Chinese shares.

Australian Stock Report head of research Chris Conway warned the market falls could continue if it drops below 5000 points.

"Right now, there is clearly some panic selling occurring and there is little in the way of technical support below the current market price," he said.

IG market analyst Angus Nicholson said the main factor for Australia — as with most global markets — was moves out of China, which today wiped its gains for the year.

"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.

"….[T]oday's action in the Chinese equity market is surely going to prompt some major moves by the government.

"The most sensible way forward would seemingly involve further currency devaluation ... and stepped up fiscal stimulus."

Locally, losses are being felt across the board, from banks to resources giants, as the Australian market trudges through a horror month.

The benchmark S&P/ASX 200 and the All Ordinaries indices worryingly fell more than 2.4 per cent within the first 20 minutes of trade this morning.

Local energy stocks were leading the march south, down more than 6.2 per cent as oil and gas prices take a hit.

Financials shed about 4.6 per cent, retailers dropped 3.5 per cent.

The tumbles came after a torrid session on Wall Street last week when the Dow Jones Industrial Average lost more than 1000 points and the S&P 500 fell below 2,000 points for the first time since January 30.

Renewed fears about China's slowing economy are the main factor, after manufacturing activity in the world's second largest economy slumped to six-and-a-half-year lows this month.

Volatility on Chinese share markets, recent moves by China to devalue its currency and uncertainty about when US interest rates will be lifted are also combining to spark the global share sell-off. Oil prices also fell below $US40 a barrel for the first time since 2009 over the weekend.

Australian shares by numbers

Among the major banks, Commonwealth Bank fell $3.12 to $72.47, ANZ dropped $1.43 to $26.91, National Australia Bank reversed $1.45 to $29.71, and Westpac retreated $1.92 to $29.45.

In the resources sector, global miner BHP Billiton surrendered $1.21 to $22.89, and Rio Tinto gave away $2.55 to $46.97.

Fortescue Metals plunged 28 cents, or 14.62 per cent, to $1.635 after the iron ore miner suffered an 88 per cent slide in its full year profit.

Oil and gas producer Woodside Petroleum dumped $1.56 to $30.00, and Santos was off 63 cents at $4.97.

But steelmaker Bluescope Steel lifted 29 cents, or 8.58 per cent, to $3.67 after it announced an annual profit of $136.3 million, up from a loss of $82.4 million a year ago.

Telstra lost 19 cents at $5.88, and Medibank Private eased two cents to $2.26.

Global share markets begin a tough week

Asian stocks were a sea of red today, with Shanghai slumping 8.8 per cent as deepening concerns about China's stalling economy rattled equity investors around the world.

China's main stock index has tipped into negative territory for the year despite gaining as much as 60 per cent through its June peak.

China-linked shares tumbled in today's trading, with Hong Kong dipping 4.6 per cent while Shanghai plunged 8.8 per cent.

The Shenzhen Composite Index, which tracks stocks on China's second exchange, plunged 6.97 per cent, or 142.21 points, to 1,897.19.

These results are despite Beijing authorising the state pension fund to invest in stocks, the authorities' latest attempt to shore up the markets.

Japan's Nikkei 225 stock dived 4.6 per cent while South Korea's Kospi lost 3 per cent. The Philppine stock market dropped 6.4 per cent.

"Today has all the hallmarks of being one of the worst trading days of the past five years," said Evan Lucas at IG Markets.

"The reaction from Asia today will be symptomatic of the current investor sentiment and belief that a hard landing (in China) is inevitable."

Across the ditch, New Zealand shares have suffered their biggest decline in four years. The S&P/NZX 50 Index fell 2.5 per cent.

Today's losses followed a steep fall in US and European stocks on Friday, while several commodities plunged to multi-year lows and emerging market currencies took a battering.

In its worst single session in nearly four years, the Dow Jones Industrial Average lost more than 500 points, or 3.12 percent, while the broader S&P 500 gave up 3.19 percent and the Nasdaq Composite shed 3.52 percent.

Global equities have lost more than $5 trillion in value since China's shock currency devaluation on August 11 sparked fears the world's number two economy is slowing more than thought.

Joe Hockey warns confidence could be hit

Treasurer Joe Hockey had a more upbeat outlook, saying that while markets would go up and down, the fundamentals were still good for the global economy, particularly for the US.

Mr Hockey said several factors would cause volatility in the markets in the next few months, especially any decision by the US Federal Reserve to move on interest rates in September.

"If they do increase their interest rates, then you will see movement of money from equity markets, probably into bond markets," he said.

But he said this would hit confidence in Australia and that's why the government had to keep reminding people that their economy is one of the fastest-growing in the world right now.

He will be travelling to Turkey next week to attend a G20 meeting of finance ministers and central bankers, where he hopes to get a better indication on the pending decision by the US Federal Reserve.

"The more transparency we can get from the Federal Reserve and (chair) Janet Yellen in particular, the more it will help to address some of the volatility in global stock markets," Mr Hockey told Sky News.

The expert analysis

“China is the word,” CMC Markets chief market analyst Ric Spooner said, explaining the reason behind today’s broad-based sell-off.

Mr Spooner said the manufacturing data from China had been worse than expected but by itself did not warrant the size of Monday’s market drop.

The China data may have exacerbated concerns that some sectors on markets in the US were overvalued, and that the local company earnings season had produced some soft results.

Added to that, the Chinese stock market plunged more than eight per cent on Monday, suggesting that Chinese authorities had decided to let it go or had lost control of it.

“Now we’re in a situation where market dynamics are feeding on themselves, so the very size of the sell-off now is of itself a real concern,” Mr Spooner said.

Mr Spooner said the size of the market drop had set up the bourse for a period of volatility. Potentially, there were investors now waiting to do some bargain hunting.

IG markets analyst Angus Nicholson described the session as one of its worst in the past five years.

But, he said there could be a mid-week bounce.

“I don’t think it will last through the week,” he said.

He based his optimism on two things: the possibility of the Chinese government would again step in to support share markets in the world’s second biggest economy; and inflation data from the world’s third biggest economy, Japan.

Mr Nicholson said investors would take comfort if the Japanese inflation figure was strong and would expect government intervention if it was weak.

Mr Nicholson said only 16 per cent of ASX companies were now above their 50-day moving average, meaning a lot of stocks were seeing their values become increasingly competitive.

“In the past, any level below 20 per cent has been a key indication of over-selling, with the index usually recovering quite rapidly afterwards,” he said.

CommSec chief economist Craig James said that despite the global uncertainty, the US and Australian economies remained in good shape.

He also believed worries about Greece and China were overrated. “At present, we would view the global sharemarket correction as a correction we had to have — a situation that will be beneficial in injecting more value into markets,” Mr James said.

“There are clearly risks, but the data indicates that US and European economies continue to recover; lower oil prices will serve to boost consumer and business spending; and Chinese authorities are trying a range a measures to maintain momentum in their economy.”

Local losses reflect worldwide market turmoil

In its worst single session in nearly four years, the Dow Jones Industrial Average lost more than 500 points, or 3.12 per cent, on Friday while the broader S&P 500 gave up 3.19 per cent and the Nasdaq Composite shed 3.52 per cent.

“Sentiment is shifting in a very negative way and you really are seeing no place to hide today,” said David Levy of Kenjol Capital Management.

[Levy] said the sell-off was “overdone,” but added that, without some sort of positive news, “there is no reason for buyers to step in and get long at this point.”

Asian shares have slumped also, plunging deeper into the red after weak manufacturing data from China fuelled panic among investors over the clouding outlook for the world economy.

“It seems like we’re seeing the makings of the 1997 Asian financial crisis all over, with emerging-market currencies plunging,” Nicholas Teo, a strategist at CMC Markets in Singapore, told Bloomberg News.

“China’s knock-on effect on the rest of the world is huge and China’s deepening economic slowdown will have an impact for the next couple of months or so.”

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