THE WALL STREET JOURNAL.
ASIA EDITION

HD Heard on the Street / Financial Analysis and Commentary

WC 1,137 words

PD 5 March 2014

SN The Wall Street Journal Asia

SC AWSJ

PG 32

LA English

LP

Taking Aim at Chinese Jobs

The world may be obsessed with China's growth rate, but the country's top leaders meeting in Beijing this week are probably more worried about something else: jobs.

TD

The National People's Congress launches Wednesday, with the government's official economic targets an early highlight. Most expect last year's 7.5% gross domestic product growth goal to remain in place, possibly with language that softens the target and gives leaders more flexibility to accomplish economic reforms and let the economy slow in the process.

The trick will be to allow such a slowdown without damaging the labor market. For the Communist Party, jobs mean legitimacy, and the country needs 10 million new ones a year, a number cited by Premier Li Keqiang.

Near-term indicators paint a decidedly mixed picture on the overall jobs front. China's main unemployment rate, which rarely fluctuates, isn't considered a reliable measure. A quarterly ratio of applicants-to-job openings ended 2013 at a record, with 11 positions for every 10 applicants, according the government.

In the China boom years from 2002 to 2008, it was nine jobs for every 10 applicants. Staffing companyManpower Inc.'s survey of Chinese employers found hiring expectations would be steady in the first quarter, with 13% expecting to increase payrolls.

Worryingly, the employment subindex of February's HSBC's manufacturing Purchasing Managers' Index fell for the fourth month in a row to its lowest level since the dark days of March 2009. The calendar-shifting Lunar New Year holiday might have subdued the number. But it also could be a sign that workers aren't being invited back to factories.

The overall labor force shrank by six million in the past two years as the one-child policy made its way through the population.

That means more work to go around, and more pressure on wages to rise -- a good thing for China's economy to shift more toward consumption rather than investment. Much of that demand seems to be taking place in construction and factories.

Meanwhile, there is a shortage of white-collar jobs for college grads who come from wealthier urban communities vital to the Communist Party's support base.

There will be much talk -- though possibly few concrete announcements -- at the National People's Congress on items such as exchange- and interest-rate liberalization, property-tax overhaul and restructuring China's debt load. Leaders will want the comfort of making such big changes while people are on the job.

-- Alex Frangos

GlencoreXstrata Slips From Top of Mining's Pack

Glencore was known as a trading powerhouse. Now it is a cost-cutting engine. But can it also be an ATM?

GlencoreXstrata on Tuesday raised its estimate for cost savings from the 2013 deal that created the trader-cum-miner. The **company** believes it can find $2.4 **billion** in annual savings this year, up from a target of $2 **billion** announced last September. That, allied with strong production last year, suggests the **company** has quickly come to grips with Xstrata's mines.

Glencore, led by Chief Executive Ivan Glasenberg, also can take considerable credit for what has become the industry's new mantra. Aping the trader's returns-focused mentality, miners are chopping capital-spending budgets, paying down debt and promising to return funds to shareholders. That has helped the sector rally nearly 25% since last July's nadir.

But now the teacher looks in danger of falling behind the students.

Glencore's operating cash flow of $10.4 **billion** in 2013 didn't cover capital investment of $12.8 **billion**, let alone dividends of about $2.2 **billion**. At rivals such as BHP Billiton and Rio Tinto, debt is falling to levels that should allow shareholder payouts within the next 12 months. Glencore's net debt, meanwhile, rose 22% last year and at year-end stood at 2.75 times earnings before interest, taxes, depreciation and amortization, much higher than its peers.

True, capital spending is forecast to fall to $6.6 **billion** by 2015. But much of Glencore's appeal this year rests on the **sale** of its Las Bambas **copper** project in Peru. That could fetch more than $5 **billion**, enabling share buybacks or a big increase in dividends. The longer the **sale** takes, and the closer the project gets to completion, the greater the temptation to hold on to the mine -- especially for a **company** forecasting a shortage of **copper** from 2015, just as Las Bambas would start producing.

Glencore's attitude toward deal making is another question mark. **Mining** peers, burned by expensive and unsuccessful purchases, have largely sworn off deals. But still a trader at heart, Glencore is on the lookout for opportunistic buys. Mr. Glasenberg even suggested Tuesday the **company** could lower its returns hurdle for acquisitions as its balance sheet improves. That seemingly flies in the face of the spending discipline for which he has become known.

The **company**'s lack of presence in **iron ore**, where prices are widely expected to fall, has earned it a premium valuation, at about 12 times forecast earnings compared with the sector at 10 times. But Glencore has substantial commodity price risk elsewhere. For example, a 10% fall in the **copper** price, which UBS predicts for 2015, would knock $1.2 **billion** off operating earnings, equivalent to nearly a quarter of the **mining** division's profits last year.

The risk is that Glencore's ability to return funds to shareholders is delayed, as rivals press ahead. Cutting can only provide so much comfort.

-- Helen Thomas

Overheard

The weather is usually one of the lamer excuses for weak sales. But given the snowstorm that hit the eastern U.S. last month, it is surprising that February's car sales figures weren't even worse.

Based on numbers released Monday, auto makers' light-vehicle sales ran at an annualized, seasonally adjusted rate of 15.3 **million**, says WardsAuto. That marked the third month of lackluster sales -- last year's number overall was 15.5 **million**.

But then the car market had a lot to contend with. Any big February snowstorm would be a problem, but this one hit just before Presidents Day weekend. These three-day weekends matter a lot because they give car buyers time for test drives and haggling. There is a reason car dealers pump out ads ahead of them. With the Northeast and Southeast digging out, many would-be buyers likely put off car shopping.

The proof will be in March sales figures. If they are strong, investors can blame February's figures on the snow. If they aren't, then growth expectations really will be on ice.

CO rtz : Rio Tinto PLC | craaus : Rio Tinto Ltd

IN i211 : Metal Ore Mining | i35101 : Passenger Cars | i8395405 : Employment Agencies | ibcs : Business/Consumer Services | iindstrls : Industrial Goods | imet : Mining/Quarrying | i351 : Motor Vehicles | iaut : Automotive | ibasicm : Basic Materials/Resources

NS c1513 : Sales Figures | c1521 : Analyst Comments/Recommendations | c42 : Labor/Personnel Issues | ccat : Corporate/Industrial News | m11 : Equity Markets | ndj : Dow Jones Top Stories | nedc : Commentaries/Opinions | neqac : Equities Asset Class News | nhrd : Heard on the Street | nsum : News Digests | ntesi : Essential Stock Market Information | ntop : Top Wire News | c15 : Performance | c151 : Earnings | c152 : Earnings Projections | mcat : Commodity/Financial Market News | ncat : Content Types | nfact : Factiva Filters | nfce : FC&E Exclusion Filter | nfcpex : FC&E Executive News Filter | nfcpin : FC&E Industry News Filter | niwe : IWE Filter | redit : Selection of Top Stories/Trends/Analysis

RE china : China | austr : Australia | eurz : Europe | uk : United Kingdom | usa : United States | uswi : Wisconsin | apacz : Asia Pacific | asiaz : Asia | ausnz : Australia/Oceania | bric : BRIC Countries | chinaz : Greater China | devgcoz : Emerging Market Countries | dvpcoz : Developing Economies | easiaz : Eastern Asia | eecz : European Union Countries | namz : North America | usc : Midwest U.S. | weurz : Western Europe

IPC AEQI

PUB Dow Jones & Company, Inc.

AN Document AWSJ000020140304ea3500013

