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HD **China's uneasy manufacturing sector keeps investors on edge**

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The Australian sharemarket fell for the third consecutive week, following a surprise increase in inflation and an indicator showing China's manufacturing sector contracted for the first time in six months.

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The ASX200 slipped 22.1 points, or 0.4 per cent, to 5240.9 on Friday, taking its losses for the week to 65 points, or 1.2 per cent. The broader All Ordinaries lost 21.2, or 0.4 per cent, to finish Friday's session at 5254.3.

On Thursday, the HSBC-Markit Flash Purchasing Managers' Index, a survey of China's factories, fell to 49.6 for January, slipping under the key reading of 50, which indicates expansion. This came after data on Wednesday showed Australian consumer prices had risen 0.8 per cent in the final quarter of last year, fanning talk of an interest rate rise later this year.

"The China data seems to be playing out with some volatility. That looks set to stay with us for another week or so, going into the Chinese new year. That seems to have been a negative sentiment globally," Equity Trustees chief investment officer George Boubouras said.

However, one month's data was not indicative of an abrupt slowdown in China. "The [International Monetary Fund] is still quite comfortable with robust China growth around 7.5 per cent, and 7.3 per cent next year," he said.

Among the sectors, IT stocks were the worst performers for the week, dropping 3.5 per cent. Material finished 2 per cent lower, while consumer discretionary lost 1.9 per cent.

"Heading into reporting season for February ... it is pretty clear the early signs are that discretionary retailers, right across the board, are not seeing the benefits [of an improving global economy], therefore the domestic economy will not be able to sustain high cash rates in the year ahead," Mr Boubouras said.

Industrials was the only sector to finish higher, rising 0.4 per cent.

Mixed corporate earnings from the United States also weighed on the local bourse. The Dow Jones Industrial Average particularly suffered, with three consecutive days of losses up to Thursday.

"A lot of eyes are on the US reporting season, which although looks ... somewhat better than analysts are going for, I've been a bit underwhelmed by some of the results," BBY private client adviser Henry Jennings said.

Locally, Mr Jennings was expecting weak results for reporting season: "This reporting season, I think we're going to see the word 'challenging' used quite extensively."

One of the biggest movers this week, shares in The Reject Shop plummeted 31.6 per cent after the discount retailer reported comparable sales were flat in the final quarter of last year, despite opening 33 stores in the first half.

The result follows disappointing figures from Super Retail Group last week, which saw its stock fall 14 per cent.

Santos reported better than expected sales revenue, but doubts remain over the **oil** and gas producer's flagship Gladstone LNG project, with investors worried Santos may not have enough onshore gas to fill the processing capacity at the project. For the week, shares dropped 4.6 per cent to $13.85.

Shares in Insurance Australia Group finished the week 2.1 per cent lower at $5.60, after Australia's biggest general insurer warned of lower than expected revenue increases. The **company** had previously advised a 5 per cent to 7 per cent rise in premiums, but lowered that to 3 per cent to 5 per cent, as increased competition forces premiums down.

Despite record production figures, BHP Billiton shares ended the week 2.2 per cent lower at $37.04. **Iron ore** production from the miner's Pilbara **operations** reached a record 98 **million** tonnes in the first half of last year.

Defying the general market trend, Newcrest shares rose for the week, up 3.2 per cent to $9.48. Newcrest reported it had produced more than 1.2 **million** ounces of **gold** this year, and was continuing to reduce its costs of production.

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