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SE Market Wrap

HD **ASX drops on talk of China steel de-stock**

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Local shares had their worst session in a month as investors rushed to offload mining stocks after disappointing Chinese export data released over the weekend sparked renewed fears about ongoing demand growth from Australia's largest trading partner.

Australia's biggest export, iron ore, is fetching the lowest price in eight months amid fears that tighter credit conditions in China will dampen demand for the steel-making ingredient.

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The benchmark S&P/ASX 200 Index dropped 50.8 points, or 0.9 per cent, on Monday to 5411.5. It was the biggest daily fall on the local bourse since February 4.

Equity markets in the United States edged higher on Friday after official non-farm payrolls data showed employment is improving more than expected in the world's biggest economy. But the positive lead from the US was overshadowed after China reported the biggest drop in exports since the global financial crisis, and inflation slowed to a 13-month low.

The spot price for iron ore, landed in China, lost 2.3 per cent to an eight-month low of $US114.20 a tonne, while Shanghai copper futures plunged to the lowest level since September 2009.

In China on Monday afternoon, the currency lost 0.5 per cent. The People's Bank of China lowered the daily reference rate for the renminbi by 0.18 per cent, the most since July 2012. In Chinese equities, the Shanghai Composite Index was trading more than 2.5 per cent lower.

On Friday in China, Chaori Solar became the first company allowed to default on a publicly traded bond since the market was regulated in 1997.'These are temporary pressures'

"Chinese steel inventories are relatively high at the moment and rumours have been flying around the market that tighter credit conditions will force some of the mills to start de-stocking to allow them to pay back loans," Alphinity Asset Management portfolio manager Stephane Andre said.

If China's steel industry decides to run down supply, it will put further pressure on the price of steel-making commodities iron ore and coal.

"These are temporary pressures due to the PoBC's liquidity squeeze that I expect will ease in a month, but the prospect of China's steel mills de-stocking at the same time as Australia's biggest miners are increasing supply is unnerving," Mr Andre said.

Mining was the worst-performing sector, down 4 per cent as resources giant BHP Billiton shed 4.1 per cent to $36.16. Rio Tinto, Australia's biggest iron ore miner, lost 5.8 per cent to $61.20, while Fortescue Metals Group fell 9.4 per cent to $4.92. Junior iron ore miners, notably Arrium, Atlas Iron and BC Iron, were among the hardest hit.

UBSChina analyst Tao Wang wrote that he still expects China's exports to strengthen through 2014 on the back of reviving US and European demand.

"However, given the renminbi's persistent appreciation against the currencies of China's key trading partners and major competitors, the export recovery may be weaker than the 10 per cent year-on-year annual growth UBS is currently forecasting," Mr Wang said.Leighton tops bourse

Energy stocks were mostly lower as Brent crude oil fell to $US108.43 a barrel, but Australia's biggest oil producer, Woodside Petroleum, added 0.1 per cent to $38.71. Oil and gas developer Santos lost 1.8 per cent to $14.07 as it suffered a setback in its efforts to gain public acceptance for coal seam gas after revelations of a lingering problem with uranium contamination in groundwater in the Pilliga forest.

Telstra Corporation shed 0.8 per cent at $5.03, and the big four banks were also lower. Commonwealth Bank of Australia fell 0.3 per cent to $75.75, while Westpac Banking Corporation lost 0.4 per cent to $33.77. National Australia Bank shed 0.3 per cent to $34.65, and ANZ Banking Group dropped 0.8 per cent to $32.31.

Construction and engineering contractor Leighton Holdings was the best-performing stock in the ASX 200, climbing 11.4 per cent to $23.09, on the news controlling shareholder Hochtief has made a $1.15 billion conditional cash takeover at $22.15 per share.

Clothing and footwear group Pacific Brands surged 8.7 per cent to 56¢ following a block trade of 10 million shares at 53¢ a piece.

Healthcare was the best-performing sector, up 0.8 per cent, as plasma and vaccine maker CSL added 0.8 per cent to $72.48.

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