THE WALL STREET JOURNAL.
ASIA EDITION

HD **Heard on the Street / Financial Analysis and Commentary**

WC 1,287 words

PD 17 December 2014

SN The Wall Street Journal Asia

SC AWSJ

PG 30

LA English

LP

Russia's Ruble Crisis Gives

A Red Alert for Investors

TD

Too much, too late? Russia's central bank finally responded to the steep decline in the ruble late Monday, raising rates to a sky-high 17% from 10.5%. But the ruble plummeted to new record lows Tuesday. Confidence in Russia's ability to manage its economic plight is evaporating.

The ruble has now lost more than half its value so far this year against the dollar; in December alone it has fallen more than 30%. The move accelerated dramatically after the central bank last week lifted rates by one percentage point, a move that was seen as inadequate. That a 6.5-percentage-point increase caused a rebound that lasted only a few hours, with the ruble falling to 75 against the dollar by midday in London, is of deep concern. But without any sign of a bottom in **oil** prices -- Brent crude fell below $60 a barrel Tuesday -- it is difficult to see the ruble stabilizing.

Risks to financial stability are increasing sharply as a result. Russia's companies and banks are locked out of international markets due to sanctions imposed over the Ukraine crisis. Now they face extraordinary interest rates domestically, raising the chance of a deep recession and rising defaults.

The economic outlook is awful given Russia's dependence on **oil** and there is no sign of detente with the West over Ukraine. The central bank warned this week that with **oil** at $60 a barrel, the economy could contract by 4.5% to 4.7% in 2015. The drought of Western investment in Russia threatens the longer-term picture.

In response to a continued decline in the ruble, the central bank could increase rates further -- crushing the outlook for growth -- or it could intervene in the market. But the danger in doing so is that it would simply deplete its reserves without obtaining more than temporary relief.

More broadly, Russia's woes pose a bigger threat than this year's other bouts of emerging-market turbulence. Russia carries a hefty weight in emerging-market bond indexes and it has important economic links with Europe. Already, investors have reported so-called "portfolio contagion" -- selling assets that are performing well because liquidity for securities that are falling in price is limited. That will create opportunities, in time. But initially it threatens to spread the damage.

Russia is waving a big red flag for investors.

-- Richard Barley

Woodside Gas Deal Has Cost

While others are wary of dipping their toes into liquefied-natural-gas projects, top Australian **energy** producer Woodside Petroleum is wading in. It is going to find the experience chilling.

Woodside is buying New York-listed Apache's stakes in two LNG facilities in Australia and Canada plus some **oil** and gas fields for $3.7 **billion**, after reimbursing Apache for sunk costs. Woodside needs to invest in projects with long lives to ensure that its **oil** and gas output, which was threatening to weaken starting 2016, keeps up.

Yet Woodside shares slumped Tuesday because investors don't like the timing and location on offer. LNG prices are plunging along with **oil**, whose prices are typically linked. So are project returns.

LNG spot cargo prices delivered to Japan or South Korea next month have fallen 46% this year to $10 per **million** British thermal units, according to Platts. That is partly why midsize producers such as Apache are shedding or shelving LNG ventures.

Woodside's new LNG assets bear some of the highest costs in the world. The first one, Wheatstone in Australia where Woodside is acquiring a 13% **stake** from Apache, needs gas prices at $14 per **million** BTU to generate sufficient returns, according to Goldman Sachs. It should start producing LNG by late 2016, but its owners still need to plow in half of the project's $29 **billion** budget, assuming costs stay under control. Woodside says it will spend $1.8 **billion** over the next three years to develop the new assets, most of it in Wheatstone.

The West Canadian Kitimat project, set to be operated by Chevron and in which Woodside owns 50%, needs $13 gas to stay economical. Construction hasn't started, meaning its owners could still abandon it. Malaysia's Petronas this month delayed an initial investment into a similar Canadian facility. It is also risky for Woodside to operate the shale gas sources that feed Kitimat when it isn't experienced with shale.

Woodside also postponed a decision to invest in the Browse offshore LNG project in Australia, which is something of a consolation given how lower **energy** prices and new spending commitments could threaten cash flows. Still, the **company**'s target of paying out 80% of profits in dividends -- and the current 6.7% dividend yield -- may turn out to be too generous.

Producers such as Woodside are no doubt hoping for **oil** to rebound next year. Even then, they will still be competing with inexpensive U.S. shale. A cheap gas world calls for low-cost gas resources. Woodside's new assets aren't it.

-- Abheek Bhattacharya

China Economy Looks for Jobs

A healthy labor market has kept **Chinese** leaders confident even as growth has slowed. But there are signs jobs may not be as plentiful as before.

The country's official unemployment rate tells investors little, since it captures only a narrow slice of workers and hardly ever moves. But other data points provide clues.

December's HSBC preliminary manufacturing purchasing managers index out Tuesday moved into contraction category for the first time since May. The employment component of the index has been in contraction for over a year.

A Manpower survey of 4,200 employers shows a new level of uncertainty about the future. While the overall hiring expectations ticked up in the survey out this month, more than half the respondents didn't know what their hiring plans would be early next year, a substantial jump from previous quarters.

Meanwhile, the ratio of job postings to job applicants, a figure released by the government, edged down in the third quarter for the first time since early 2013. At 10.9 openings per 10 job seekers, **China** continues to have more jobs than workers, but by less than before.

Probably the best estimate of the job situation remains a mostly secret 31-city survey conducted by the government. It is only sporadically released to the public. At last measure in August the unemployment rate was a healthy 5%, according to data provider CEIC.

The surprise interest-rate cut last month could indicate that this figure, which is closely tracked by policy makers, has ticked up since then, and that **China**'s leaders are becoming less confident about the jobs picture.

Construction and real-estate jobs have been among the biggest winners in recent years, growing to 17.4% of the labor force by the end of 2013, compared with 16.3% five years earlier. That is a net increase of 17 **million** jobs, according to a once-every-five-years economic census released Tuesday.

So it is especially worrying that property investment has been so weak. To keep those folks employed, more stimulus likely will be necessary.

China also announced Tuesday it adopted revisions to its gross domestic product calculations to bring them more in line with international standards. **China**'s economy is now thought to be 3% larger last year than previously figured.

While the optics of a bigger economy may be pleasing, that won't make **China**'s leaders any more confident about the future. Only healthy job growth can reassure Beijing.

-- Alex Frangos

IN i1 : Energy | i13 : Crude Oil/Natural Gas | i81401 : Central Banking | i814 : Banking | ibnk : Banking/Credit | ifinal : Financial Services

NS c1521 : Analysts' Comments/Recommendations | c181 : Acquisitions/Mergers/Takeovers | ccat : Corporate/Industrial News | m11 : Equity Markets | mnatgs : Natural Gas 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 | c152 : Earnings Projections | c18 : Ownership Changes | cactio : Corporate Actions | m14 : Commodity Markets | m143 : Energy Markets | mcat : Commodity/Financial Market News | ncat : Content Types | nfact : Factiva Filters | nfce : C&E Exclusion Filter | nfcpex : C&E Executive News Filter | nfcpin : C&E Industry News Filter | niwe : IWE Filter | redit : Selection of Top Stories/Trends/Analysis

RE russ : Russia | austr : Australia | eurz : Europe | usa : United States | apacz : Asia Pacific | asiaz : Asia | ausnz : Australia/Oceania | bric : BRICS Countries | devgcoz : Emerging Market Countries | eeurz : Central/Eastern Europe | namz : North America | ussrz : CIS Countries

IPC ABO

PUB Dow Jones & Company, Inc.

AN Document AWSJ000020141216each0000z

