Five Ways China's Slowdown Will Ripple Across Globe

The reaction was slow in coming, but financial markets and corporate bosses have been jolted awake to China's relentless growth decline and are scrambling to cope with wrenching changes in global business.

For the past decade, China poured money into building new factories, highways and apartment blocks. That propelled explosive growth at home and a flood of money to exporters of iron ore and other commodities such as Australia and Peru.But now, Beijing has put the brakes on that boom. Like a captain turning a heavy ship in choppy seas, its leaders are trying to steer the world's second-largest economy away from reliance on investment and toward being a consumer society.

Commodities:

China's voracious appetite for commodities propelled a boom in Australia and emerging economies in Africa and Latin America. With revenues down, exporters are cutting jobs and governments are tightening their spending. Hardest-hit might be poor countries in Africa or Latin America that might have to cut ambitious plans for spending on education and other social programs.

Foreign companies:

Global companies have long seen China as one of their most promising markets, and most frustrating. China is the biggest market for Volkswagen AG and some other automakers. Yum Brands, the US-based operator of Pizza Hut, KFC and Taco Bell, already gets half its revenue from China. But US and European companies are being squeezed by tougher competition and by Beijing's efforts to limit access to promising industries such as clean energy.

Autos:

China buoyed the global auto industry after the 2008 crisis. It passed the United States as the world's biggest car market in 2009 and annual sales still are rising by double-digit rates. But growth is decelerating sharply. That steps up pressure on China's fledgling automakers while global rivals add to their market share. Sales by independents grew by 11.4 per cent last year, slower than the overall market at 15.7 per cent. Their market share slipped by 1.6 per centage points to 40.3 per cent. This year's market growth is due to slow to about 10 per cent. Independents will face increased pressure to merge or close.

Chinese Acquisitions Abroad:

Squeezed at home, Chinese companies might try to sharpen their competitive edge by acquiring foreign brands and technology. Past acquisitions include Volvo Cars, Club Med and American meat packer Smithfield.Last month, Beijing-based Lenovo Group bought part of IBM Corp's server business and the Motorola mobile phone business from Google Inc.

Possible_Winners:

One bright spot is Beijing's effort to encourage consumer spending. China's market for consumer-oriented goods such as wheat from Brazil, soybeans from Minnesota and French wine is growing.Such sales could accelerate if Beijing can persuade households to spend more. Also, suppliers to fields the Communist Party is promoting such as health care, energy efficiency and pollution control could see more opportunities.nd-largest economy.

DOMESTIC Happenings

P. Chidambaram continues 10 per cent surcharge on super-rich

Putting an end to speculation, Finance Minister P Chidambaram today retained the 10 per cent surcharge on those earning over Rs 1 crore annually.The government also decided to continue a 5 per cent surcharge on domestic companies with total annual income of more than Rs 1 crore but less than Rs 10 crore. Those with income exceeding Rs 10 crore will pay a surcharge of 10 per cent. As per the Finance Bill 2014, the surcharge on rich individuals has been continued for one more year, until March 2015. The surcharge will apply to individuals, Hindu undivided families, firms and entities with similar tax status.

RBI net buyer of US dollars in December, purchases over USD 5 bn

Reserve Bank of India became net purchaser of dollars for the third month in a row in December, 2013, when it bought USD 5.057 billion and sold USD 1.574 billion in markets. According to the RBI data, the apex bank bought USD 17.787 billion, in November, the highest so far this fiscal, and sold USD 7.7 billion, thereby becoming a net buyer of USD 10.087 billion. The RBI became the net buyer of dollars billion in October after a gap of five months. It had bought USD 9.510 billion and sold USD 5.58 billion in the month. In the current fiscal, the central bank had first became net purchaser of dollars in April, buying USD 518 million from markets.

Indian rupee aids top line, but India Inc not yet on the mend

20% year-on-year jump in aggregate net profits in the three months to December 2013 would suggest India Inc may be out of the woods. But read that with BHEL's results — a 41% y-o-y fall in net profit and the order book at Rs 1 lakh crore, the smallest in 22 quarters — and it would be hard to argue that corporate India is anywhere close to a recovery. If indeed Inc Inc was coming out of the trough, construction revenues at Reliance Infrastructure wouldn't have collapsed 56% y-o-y and Adani Power wouldn't have reported a loss of Rs 510 crore. Clearly, the core of the economy remains in trouble.

INTERNATIONAL Happenings

Pinning down the January effect on U.S. jobs figures

With Wall Street grappling to hold on to its record highs, a lot is riding on good news from the U.S. economy, no matter how high the Federal Reserve has set the bar for backing off its clear plan to end its monetary stimulus program this year. After two huge upsets in a row on the important U.S. economic data releases since Christmas — December non-farm payrolls and the January ISM manufacturing report, forecasters are lining up again for an improvement in hiring. The latest consensus from Reuters Polls is for a rebound to 185,000 after net hiring collapsed to just 74,000 the month before.

ECB ready to take 'decisive action' if needed: Coeure

The European Central Bank is ready to take "decisive action if required" should inflation risk becoming entrenched below the ECB's target of just under 2 percent, Executive Board member Benoit Coeure told a Slovenian newspaper.The ECB left interest rates unchanged at record lows earlier this month despite inflation slowing to 0.7 percent in January - far below the bank's target of just below 2 percent. The ECB opted to wait until its March meeting to assess more information on the economic picture before deciding whether to take fresh policy action.

Eurozone regulators gather for detail on bank review plans

The eurozone's banks are about to get greater insight into the European Central Bank's landmark review of their books, as national experts and their advisers meet in Frankfurt on Monday to hammer down details of the next phase of the tests. The ECB is carrying out a wide-ranging review of 128 of the region's largest banks in an effort to address lingering doubts about their health before it becomes their supervisor in November. Banks have already been asked for extensive amounts of data on their loan books and trading assets for the 'Asset Quality Review' (AQR), but know relatively little about how the ECB will interpret the data and what the methodology of the tests will be.

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