

# The China Stock Market Collapse: Summarizing The “Black Monday” Carnage So Far

By [Zero Hedge](#)

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Region: [Asia](#)

Theme: [Global Economy](#)

*It's officially Black Monday, if only in China for now.*

We [warned on Friday](#), after last week's China rout, that the market is getting ahead of itself with its expectation of a RRR-cut by China as large as 100 bps. “The risk is that there isn't one.” We were spot on, because not only was there no RRR cut, but Chinese stocks plunged, with the composite tumbling as much as 9% at one point, the most since 1996 when it dropped 9.4% in a single session. The session, as profile overnight was brutal, with about 2000 stocks trading by the -10% limit down, and other markets not doing any better: CSI 300 -8.8%, ChiNext -8.1%, Shenzhen Composite -7.7%. This was the biggest Chinese rout since 2007.

The worst news is that the 3,500 level in the SHCOMP which until recently had been seen as a “hard barrier” for the PBOC, has now been breached, and not only is the Shanghai Composite red for the year after being up 60% a little over 2 months earlier (don't worry though: just like on Yahoo Finance Twitter everyone took profits at the highs), but nobody knows why the Politburo let stocks tumble and worst of all, how much further will it allow stocks to drop.

Black Monday! [#ChinaStocks](#) join global panic selloff, dive 8.5%, worst since Asian financial crisis at midday [pic.twitter.com/nLHoFf34bV](http://pic.twitter.com/nLHoFf34bV)

— China Xinhua News (@XHNews) [August 24, 2015](#)

Elsewhere in Asia, equity markets traded with significant losses on what is being referred to as ‘black Monday’ amid increased growth concerns coupled with commodities falling to fresh 6 year lows and US stocks in correction, sparked a further sell-off in the region . The ASX 200 (-4.1%) declined by the most in 4 years, Nikkei 225 (-4.6%) and Hang Seng (-5.2%) also saw considerable losses with energy dragging the index lower. 10yr JGBs saw relatively muted trade and are up by 3 ticks.



Risk averse sentiment has dominated the price action in both Asia and Europe as the week kicks off, with Chinese equities again under heavy selling pressure as market participants were left disappointed by the lack of action by the PBOC to ease monetary conditions further. As a result, equity indices in Europe opened sharply lower (Euro Stoxx: -2.3%) and in spite of coming off the worst levels of the session, remain broadly lower, with materials and energy sectors underperforming amid the continued slump in commodity prices. The

Dax was well below 10,000 at last check.

In FX markets today, JPY benefited from risk averse and interest rate differential flows as market participants scale back Fed rate hike expectations, which in turn saw the pair fall below the 200DMA line and hit its lowest levels since mid-July.

The short-sterling curve has been seen flatter in trade so far in European amid the ongoing risk averse sentiment, which as pointed out by David Smith of The Times is set to put interest rate rise on hold by both the Fed and the BoE. Consequently, EUR outperformed GBP, which in turn saw EUR/USD hit 1.1500 level for the first time since February 2015, while EUR/GBP gradually edged towards the 200DMA line as USD continued its recent trend lower (USD-Index: -0.7%).

Fixed income products reside in positive territory, bolstered by the global risk off sentiment as T-Notes head into the North American open in positive territory, albeit off their best levels. Elsewhere, Eurozone 5y5y inflation forward rate fell to its lowest level in 6 months.

In the US, the 10-year Treasury yields traded below 2 percent for the first time since April, precisely what Goldman said in its Top Trade #2 for 2015 would not happen.



The rout in energy and base metals markets continued today, seeing WTI fall to its lowest level since February 2009 and Brent crude to its lowest level since March 2009 below the USD 40/bbl and USD 45/bbl respectively as Iran continues their recent rhetoric regarding an increase in supply. Elsewhere in base metals, iron ore and steel hit limit down overnight and traded around 9 year lows, with nickel reaching its lowest level for 6 years. Gold has also seen soft price action today, reversing some of last week's gains. Some more key commodity headlines courtesy of RanSquawk

- Iran oil minister has stated that the country will increase oil output at any cost and oil prices would benefit from an emergency OPEC meeting, according to Iranian press . (Shana/BBG/RTRS)
- Oil production in Libya seen at between 350-400KBPD according to the Eastern State oil firm head . (RTRS)
- Kuwait's Shuaiba oil refinery, which has a capacity of 200k, reopened on Saturday according to the head of Kuwait National Petroleum Company after the refinery saw a fire last Monday. (RTRS)
- BP's Whiting Refinery, which has a capacity of 405k bpd, continues to see a fall in operational levels as has been the case since August 8th (Genscape)
- CFTC data shows that hedge funds and money managers switched to a net long position in COMEX gold contracts in the week to Aug 18th, after four consecutive weeks of net short positions . (RTRS)
- World Gold Council forecasts strong demand from India and China in H2, citing stock market weakness and devalued CNY for increased demand in China and festivals boosting demand in India. (BBG)
- Bankers suggest that Indian gold lenders are unwilling to increase interest rates on gold deposits more than 1 %, which could scupper government strategy to reduce imports. (RTRS)
- The world's biggest gold refiner Valcambi states Indian gold demand could reach 950 tons this year amid low prices during peak festival season. (RTRS)

- Rio Tinto's China managing director announces Co. are to increase shipments of iron ore to China by 20% this year for a total of 240m1n ton while Fortescue CFO state they have great confidence in China's long term growth. (BBG/RTRS)

Going forward, market participants will get to digest the release of the latest Chicago Fed Nat Activity Index, as well as look out for comments by Fed's Lockhart. Be very careful for unexpected comments by Bullard because it was just around a -10% correction that the St. Louis Fed president hinted at QE4 last October.

#### Biggest selected cross-asset moves via Bloomberg

- Equities: Shanghai Composite (-8.5%), MSCI Asia Pacific (-4.8%)
- Bonds: Greek 10Yr yield (+2.4%), Portuguese 10Yr yield (+2%)
- Commodities: LME 3m Nickel (-5.7%), WTI Futures (-3.8%)
- FX: Yen spot (+1.6%), Dollar Index (-1%)
- Chicago Fed activity index due later

#### Markets

- 19 out of 19 Stoxx 600 sectors fall; chemicals is the most active -2.8% on 233% 30-day avg. vol., followed by construction -3.1% on 229% avg. vol.; travel & leisure is the least active sector -3.4% on 162% avg. vol.
- FTSE 100 down -2.8%, CAC 40 down -2.9%, DAX down -2.9%, IBEX 35 down -2.8%, FTSE MIB down -3%, S&P 500 futures down -2.4%, Euro Stoxx 50 down -2.9%
- Bonds: German 10yr yield up 1bps to 0.57%, Greek 10yr yield up 23bps to 9.98%, Portugal 10yr yield up 5bps to 2.68%, Italian 10yr yield up 3bps to 1.89%,
- Credit: iTraxx Main up 4 bps to 77.49, iTraxx Crossover up 18.1 bps to 364.81
- FX: Euro spot up 0.93% to 1.1492, Dollar index down -0.96% to 94.093,
- Commodities: Brent crude down 3.7% to \$43.78/bbl, Gold down 0.4% to \$1156.25/oz, Copper down -.3% to \$4936.5/MT, S&P GSCI down 2.4%

#### Equities

- Top Stoxx 600 Outperformers: Abengoa SA +3.6%, Modern Times +2.3%, RSA Insurance +0.3%, AA PLC -0.1%, Pirelli -0.2%, MAN SE -0.2%, Sulzer -0.3%, Kabel Deutschland -0.4%
- Top Stoxx 600 Underperformers: National Bank of Greece SA -10.2%, Seadrill -7.2%, Tullow Oil -7%, BB Biotech AG -7%, ArcelorMittal -6.2%, Glencore -6.1%, Henderson -6.1%, Genmab A/S -5.9%
- About 1% of Stoxx 600 members gain, ~99% decline
- Asian stocks fall with the Kospi outperforming and the Shanghai Composite underperforming
- Nikkei 225 -4.6%, Hang Seng -5.2%, Kospi -2.5%, Shanghai Composite -8.5%, ASX -4.1%, Sensex -5.9%
- 0 out of 10 sectors rise with staples and utilities outperforming and energy and financials underperforming

- Asia equity markets traded with significant losses on what is being referred to as 'black Monday' amid increased growth concerns, with European equities following suit
- The rout in energy and base metals markets continued today, seeing WTI fall to its lowest level since February 2009 and Brent crude to its lowest level since March 2009 below the USD 40/bbl and USD 45/bbl respectively
- Going forward, market participants will get to digest the release of the latest Chicago Fed Nat Activity Index, as well as look out for comments by Fed's Lockhart
- Treasuries gain, 10Y breaks below 2% level as China's stocks plunged the most since 2007, commodities and EM currencies routed amid concern slowdown in world's second-largest economy is deepening.
- Global stocks have lost \$5t since China devalued the yuan on Aug. 11, with the carnage raising doubt about the ability of the global economy to withstand a eventual liftoff in U.S. interest rates this year
- The volatility "will certainly keep the Fed on hold for the rest of 2015. Look for 10yrs to break 2% successful this week and possibly head back towards 1.86%," ED&F Man head of rates ED&F Man Tom DiGaloma writes in note
- PBOC, with ~\$3.9t of bank deposits locked up as reserves and benchmark 1Y interest rate at 4.85%, may be the only central bank around the world with the firepower to arrest the rout
- However, traders say the slowing economy has left the state fighting a losing battle; the government is "trying to defy market forces at overvalued levels," says CMB Intl Securities strategist Daniel So
- RBI Governor Raghuram Rajan said Monday central banks should avoid giving "booster shots" to stock markets; Japan's Abe acknowledged that the central bank's 2% inflation target is getting more difficult to achieve
- Taiwan slapped a ban on short-selling of borrowed stocks at prices lower than the previous day's close, while South Korea's finance ministry said it will act "pre-emptively" after the nation's largest ETF suffered the biggest weekly withdrawal since its inception 15 years ago
- Vice President Joe Biden is gearing up for a packed September schedule in his day job that could showcase him as the politician best poised to carry on Obama's policies -- or open him up to new lines of attack if he stumbles.
- Sovereign 10Y bond yields mixed. Global stocks and U.S. equity-index futures plunge. Crude oil, copper and gold fall

## US Event Calendar

- Chicago Fed Nat Activity Index, July (prior 0.08)
- Fed's Lockhart speaks in Berkeley, California
- 11:30am: U.S. to sell \$24b 3M bills, \$24b 6M bills

## DB's Jim Reid Completes the overnight recap

This morning's rout in Asia comes after hopes that more government support in China could be around the corner, although the lack of any state intervention first thing this morning is seemingly exaggerating the pain in markets. As per the WSJ, the PBoC is set to make another move to cut the RRR, possibly as soon as this week in a bid to flood the Chinese banking system with as much as \$106bn in liquidity. Meanwhile, a second story doing the

rounds is a report that China's State Council has published a plan allowing for pension funds managed by local governments to invest in the stock markets for the first time. According to Reuters, the report suggests that pension funds will be allowed to invest up to 30% of their net assets in stocks, funds and balanced funds having only previously been able to invest in bank deposits and treasuries.

Elsewhere, echoing similar moves by the Chinese regulators, yesterday Taiwan's Financial Supervisory Commission made the move to ban traders from short-selling borrowed stocks and depository receipts at lower prices than the previous day's close in a bid to stabilize the Taiwanese stock market. There's also news out of South Korea where the Financial Services Commission Chairman has urged authorities to make timely actions when deemed necessary in markets and act 'pre-emptively' after the nation's largest ETF saw its biggest weekly withdrawal since inception in 2000 last week.

These reports have clearly done little to help sentiment this morning however and it's looking like the rout is set to extend into DM markets with S&P 500 futures down some 2.5% already.

Back to markets on Friday. With the S&P 500 tumbling to its lowest level now since October last year, the Dow (-3.12%) saw a similar sharp decline on Friday and as a result officially entered correction territory with a now 10% retreat from the May highs. It was a similar story in Europe also. The Stoxx 600 tumbled 3.26%, while the DAX (-2.95%) and CAC (-3.19%) also moved a steep leg lower. Peripheral bourses were not immune to the moves either, with a 2.98% fall for the IBEX in particular taking it into negative territory (-0.08%) for the year. That's after the index was up as much as 15% just four months into the year. Credit also had a poor day. In the US CDX IG finished nearly 2bps wider while in Europe we saw Crossover and Main leak 15bps and 3bps wider respectively. All-told that saw the VIX jump 46.5% to 28 on Friday and in turn marking the highest level since December 2011. Amazingly, last week's 119% surge in the index (albeit from a low base) was the largest in the history with data going back to 1990.

Oil markets once again generated plenty of headlines on Friday as WTI finished down 2.11% on the day at \$40.45/bbl and has in fact tumbled another 2% in trading this morning taking it below \$40 in the process. Brent (-2.49%) also weakened on Friday while the complex wasn't helped by the latest Baker Hughes oil rig count which showed an increase in the number of operating rigs last week. Combined with the sell-off on Friday, we've seen a fresh wave of selling across equity markets in the Middle-East this weekend and a number of fresh cycle lows reached, particularly in the more Oil-sensitive countries. The Saudi-Arabian equity market tumbled into a bear-market yesterday after plummeting nearly 7%, Dubai saw its biggest one-day loss this year, Egypt fell the most in three years and Israel saw its biggest slide in nearly four years. Saudi Arabia in particular - seen as something of a bellwether for the Gulf - has now tumbled 24% from its April peak and in turn entered its second bear market in less than a year.

Much of the rest of the commodity complex also suffered on Friday with the likes of Aluminum (-1.71%), Copper (-1.25%) and Silver (-1.61%) all sliding. Gold (+0.74%) continues to be one of the few beneficiaries from the selloff in risk while Treasuries also benefited from a decent bid on Friday with the 10y (-3.1bps) yield down for the third consecutive day to 2.037%. Fed Funds contracts continue to slide too with the Dec15 contract down another 1.5bps to 0.275% having been as high as 0.340% earlier in the month.

There was a similar move lower for Bunds too with the 10y down another 1.9bps to 0.562% while the peripherals ended 2-4bps higher. Dataflow largely played second fiddle to the sharp moves on Friday. In the US the flash August manufacturing PMI declined 0.9pts from July to 52.9 after expectations for no change. There was better news in Europe however where we saw the Euro area flash composite PMI rise 0.2pts to 54.1 (vs. 53.9 expected), led higher by the services reading in particular (0.3pts to 54.3; 54.0 expected) while the manufacturing print stayed unchanged at 52.4 (vs. 52.2 expected). Regionally, Germany led the gains with the composite rising 0.3pts to 54.0 (vs. 53.6 expected) after a surge higher in the manufacturing print (+1.4pts to 53.2; 51.6 expected) which was more than enough to offset a slightly weaker services print (-0.2pts to 53.6; 53.7 expected). Meanwhile in France we saw the composite drop slightly to 51.3, from 51.5 last month.

Before we turn over to the week ahead, the St Louis Fed President Bullard reiterated his stance on Friday that the outlook for US growth remains relatively good and that the expansion in the second half is likely to be 'above trend'. Bullard also noted 'there has been a lot of cumulative progress in labour markets and I think you can look through the decline in oil' before saying that he is more sanguine about the outlook for global growth relative to markets. Bullard is a non-voter this year but as we noted earlier, with markets seemingly in freefall mode at the moment there will be plenty of attention on the Fedpseak this week for us to gauge how the Fed is viewing the recent volatility.

Turning over to this week's calendar now. It's a very quiet start to the week today with no data due out this morning in Europe and just the Chicago Fed's national activity index this afternoon. Tomorrow is set to be busier though and in particular there will be much focus on the final reading for Q2 GDP in Germany along with the IFO survey and trade data. In the US we get more housing data with the S&P/Case Shiller house price index, July new home sales and FHFA house price index. The flash composite and services PMI's are also due along with the consumer confidence reading and Richmond Fed manufacturing activity index. We start in Asia on Wednesday where we get Japan PPI and China consumer sentiment data. There's nothing of note in Europe on Wednesday while in the US there'll be much focus on the durable and capital goods orders data for July. In Europe on Thursday we'll get UK house price data along with various confidence indicators out of France. The afternoon session is particularly data heavy in the US with the second reading of Q2 GDP and Core PCE likely to be front and centre, while pending home sales and the Kansas City Fed manufacturing activity index are also due. Closing out the Asia session on Friday will be Japan CPI and retail sales, along with China industrial profits and conference board leading indicators. It'll be a particularly busy end to the week in Europe too where we get French PPI, German CPI, UK Q2 GDP and Euro area confidence indicators. It's also a busy end in the US where we get the PCE core and deflator readings for July, personal spending and income prints and finally the University of Michigan consumer sentiment print for August.

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To summarize:



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