China tech shares fall as US export controls raise chip sector hurdles

SHANGHAI — Shares in Chinese tech giants Alibaba Group and Tencent as well as in chipmakers slumped on Monday, as investors were spooked by new US export control measures aimed at slowing Beijing's technological and military advances.

The Biden administration published a sweeping set of export controls on Friday, including a measure to cut China off from certain semiconductor chips made anywhere in the world with US equipment.

The raft of measures, some of which take immediate effect, could amount to the biggest shift in US policy toward shipping technology to China since the 1990s.

Experts expect the new rules will have a broad impact, slowing China's efforts to develop its own chip industry and advance commercial and state research involving military weapons, artificial intelligence, data centers and many other areas that are powered by supercomputers and high-end chips.

The new controls also come at a time when the global chip industry is already facing major headwinds from tumbling demand post-COVID-19 in computers, smartphones and other electronic devices and has warned of weak revenue.

The most immediate impact is likely to be felt by Chinese chipmakers, they said.

Under the new regulations, US companies must cease supplying Chinese chipmakers with equipment that can produce relatively advanced chips — logic chips under 16 nanometers (nm), DRAM chips below 18 nm, and NAND chips with 28 layers or more — unless they first obtain a license.

That's set to affect China's top contract chipmakers — Semiconductor Manufacturing International Corp. (SMIC) and Hua Hong Semiconductor Ltd. — as well as state-backed leading memory chipmakers Yangtze Memory Technologies Co. Ltd (YMTC) and Changxin Memory Technologies (CXMT).

"The S restrictions could make development of China's advanced chip technologies even more challenging," Citi analysts said in a note.

Industry watchers have pegged YMTC and CXMT as China's best hopes for breaking into the global memory chip market, going neck and neck with memory chip giants such as Samsung Electronics and Micron Technology.

The new regulations will now pose very large hurdles for the two Chinese memory chipmakers, analysts said.

"The advancement of memory will be limited as there is no opportunity to upgrade process equipment, no opportunity to expand production, and the market will be lost," Gu Wenjun, who leads research at Shanghai-based consultancy ICWise, wrote in a research note.

SUPERCOMPUTERS, DATA CENTERS

Citi analysts said in another report that contract chipmaker SMIC would find it challenging to penetrate into more advanced applications due to limited access to chip equipment and technology support from the US and international suppliers.

The rules also include blocking shipments of a broad array of chips for use in Chinese supercomputing systems which can be used to develop nuclear weapons and other military technologies.

Some industry experts say the ban could also hit commercial data centers at Chinese tech giants. Shares in e-commerce company Alibaba and social media and gaming company Tencent, both of which rely on data centers extensively, dropped 3.3% and 1.7%, respectively, at 0258 GMT.

A steep decline in tech shares led China's market down on its first post-Golden Week holiday trading on Monday.

An index measuring China's semiconductor firms tumbled nearly 6%, and Shanghai's tech-focused board STAR Market declined 3.6%.

SMIC dropped 3.8%, chip equipment maker NAURA Technology Group Co. sank 10% by the daily limit, and Hua Hong Semiconductor plunged 9.5%.

Shares in AI research firm Sensetime and surveillance equipment maker Dahua Technology, which will be cut off from chips made using US technologies, tumbled 4.4% and 10%, respectively.

The impact on tech shares outside of China was limited on Monday as financial markets in South Korea, Japan and Taiwan were closed for separate holidays. — ***Reuters***

Tesla's China-made EV sales hit record following Shanghai factory upgrade

TESLA, Inc. delivered 83,135 China-made electric vehicles (EVs) in September, smashing its monthly record, according to a report released on Sunday by the China Passenger Car Association (CPCA).

The number marks an 8% increase from August and set a record for Tesla's Shanghai factory since production began in December 2019, topping the prior deliveries high of 78,906 in June, as the US car maker continues to invest in production in China.

"The record high sales of China-made Tesla cars showed electric vehicles have been leading the mobility trend," Tesla said in a brief statement.

Globally, Tesla last week said it delivered 343,830 EVs in the third quarter, a record for the world's most valuable automaker, but less than the 359,162 analysts on average had expected, according to Refinitiv.

Tesla quickened its China deliveries after suspending most production at the Shanghai plant in July for an upgrade, which has brought the factory's weekly output capacity to around 22,000 units compared with levels of around 17,000 in June, Reuters previously reported.

Since the plant opened in its second largest market in late 2019, Tesla has sought to run the facility in China's commercial hub at full capacity.

It, however, plans to hold production at its Shanghai plant at about 93% of capacity through the end of year, in a rare move for the US automaker, Reuters reported last month, quoting sources, who did not say why it was doing it.

The plant, which manufactures Model 3s and Model Ys to both sell in China and export to other markets including Europe and Australia, had reopened on April 19 after a COVID-19 lockdown, but only resumed full production in mid-June.

Production accelerated despite heatwaves and COVID curbs that hit its suppliers in the southwest region of the country.

Tesla, which has been offering insurance incentives to consumers in China since September, is facing growing competition from domestic EV makers in a sharply weakening economy, while consumption falls amid the strict COVID curbs.

China's BYD continued to lead the domestic EV market with 200,973 wholesale sales in September, a nearly 15% jump from August. CPCA said higher oil prices and government subsidies continue to encourage more consumers to choose electric vehicles. — ***Reuters***

TotalEnergies accelerates refinery wage talks as fuel output down by more than 60%

PARIS — TotalEnergies on Sunday offered to bring forward wage talks, in response to union demands, as it sought to end a strike that has disrupted supplies to almost a third of French petrol stations and led the government to tap strategic reserves.

"Provided the blockades will end and all labor representatives agree, the company proposes to advance to October the start of mandatory annual wage talks," it said in a statement.

Union representatives earlier told Reuters the strikes staged by the CGT, historically one of France's more militant unions, would continue. They have disrupted operations at two ExxonMobil sites as well as at two TotalEnergies sites.

Over roughly two weeks of industrial action, France's domestic fuel output has fallen by more than 60%, straining nerves across the country, as waiting lines grow and supplies have run dry.

Almost a third of France's petrol stations had problems getting deliveries of at least one fuel product on Sunday, up from 21% the day before, the office of the energy minister said.

France has released strategic reserves and raised imports, Energy Minister Agnes Pannier-Runacher said in a statement, adding these should mean the supply situation improves on Monday.

Speaking to BFM TV, she welcomed TotalEnergie's offer and said she expected a move from ExxonMobil's Esso France unit "so that the French people are not taken hostage by this social dispute and can go to work with confidence".

Esso France, ExxonMobil's local unit, said it would hold a new round of wage talks with unions on Monday "with the aim of enabling the group's refineries to resume operations as soon as possible."

Wage talks have been underway for weeks at ExxonMobil, while the CGT at TotalEnergies said it has been trying to get the management to the negotiation table earlier than formal talks scheduled next month.

Workers at TotalEnergies are seeking a 10% pay rise starting this year after a surge in energy prices led to huge profits that allowed the company to pay out an estimated €8 billion ($7.8 billion) in dividends and an additional special dividend to investors.

The company's CEO last week said "the time has come to reward" workers, but the company had refused to start negotiations.

A CGT representative said the union would not make any official comment on TotalEnergie's offer before internal discussions and informing workers. — ***Reuters***

SPOT PRICES

FRIDAY, OCTOBER 7, 2022

METAL	
PALLADIUM free $/troy oz	2,263.94
PALLADIUM JMI base, $/troy oz	2,273.00
PLATINUM free $/troy oz	933.32
PLATINUM JMI base $/troy oz	938.00
KRUGGERAND, fob $/troy oz	1,702.00
IRIDIUM, whs rot, $/troy oz	4,040.00
RHODIUM, whs rot, $/troy oz	13,990.00
GRAINS (October 6, 2022)	
(FOB Bangkok basis at every Thursday)	
FRAGRANT (100%) 1st Class, $/ton	922.00
FRAGRANT (100%) 2nd Class, $/ton	895.00
RICE (5%) White Thai- $/ton	439.00
RICE (10%) White Thai- $/ton	438.00
RICE (15%) White Thai- $/ton	434.00
RICE (25%) White Thai- $/ton (Super)	434.00
BROKER RICE A-1 Super $/ton	391.00
FOOD	
COCOA ICCO Dly (SDR/mt)	1,747.30
COCOA ICCO $/mt	2,249.21
COFFEE ICA comp '2001 cts/lb	190.43
SUGAR ISA FOB Daily Price, Carib. port cts/lb	17.73
SUGAR ISA 15-day ave.	17.56

LIFFE COFFEE

New Robusta 10 MT - $/ton

	High	Low	Sett	Psett
Nov.	2,161	2,135	2,155	2,140
Jan.	2,159	2,135	2,154	2,139
Mar.	2,136	2,114	2,133	2,118
May	2,121	2,106	2,118	2,105

LIFFE COCOA

(Ldn)-10 MT-£/ton

	High	Low	Sett	Psett
Dec.	2,011	1,966	2,008	1,965
Mar.	1,943	1,911	1,939	1,911
May	1,906	1,877	1,899	1,876
July	1,889	1,861	1,882	1,859

COCONUT

MANILA COPRA (based on 6% moisture)

Peso/100kg	Buyer/Seller
Lag/Qzn/Luc 22	3,350.00/3,400.00
Philippine Coconut Oil - Crude	
CIF NY/NOLA	60.00
PALM OIL RAIL/NOLA	63.00
COCONUT OIL (PHIL/IDN),$ per ton, CIF Europe	
Oct./Nov.'22	0.00/1,120.00
Nov./Dec.'22	0.00/1,110.00
Dec./Jan.'23	1,080.00/1,120.00
Jan./Feb.'23	1,080.00/1,135.00

LONDON METAL EXCHANGE

LME FINAL CLOSING PRICES, US$/MT

	3 MOS
ALUMINUM H.G.	2,347.00
ALUMINUM Alloy	1,760.00
COPPER	7,607.50
LEAD	2,058.50
NICKEL	22,782.00
TIN	20,161.00
ZINC	3,120.50

Crude oil prices slide as investors book profits

SINGAPORE — Crude oil prices fell on Monday, snapping five days of gains, as investors took profits after a report on slowing economic activity in China, the world's biggest crude importer, reignited concerns about falling global fuel demand.

Brent crude futures for December settlement fell by as much as 1.1%, and was last down 85 cents or 0.9% at $97.07 a barrel by 0500 GMT. West Texas Intermediate (WTI) crude for November delivery declined by as much as 1.1% and was at $91.84 a barrel, down 80 cents or 0.9%.

Services activity in China during September contracted for the first time in four months as coronavirus restrictions hit demand and business confidence, data showed on Saturday.

The slowdown in the economy of China, the world's second-largest oil consumer after the US, adds to growing concerns about a possible global recession triggered by numerous central banks raising interest rates to combat high inflation rates.

"Oil ... is getting hit with the triple whammy of China's economic weakness, US monetary policy tightening and Biden administration SPR intervention," Stephen Innes, managing director at SPI Asset Management, said in a note.

Innes was referring to the possibility of additional releases from the US Strategic Petroleum Reserve (SPR) next month in response to the decision last week by the Organization of the Petroleum Exporting Countries (OPEC) and allies including Russia, known as OPEC+, to lower their output target by two million barrels per day.

Brent and WTI posted their biggest percentage gains since March after the reduction was announced.

The OPEC+ cuts, which come ahead of a European Union (EU) embargo on Russian oil, will squeeze supply in an already tight market. EU sanctions on Russian crude and oil products will take effect in December and February, respectively.

"The cut is clearly bullish," ING analysts said in a note.

"However, there is obviously still plenty of other uncertainty in the market, including how Russian oil supply evolves due to the EU oil ban and the Group of Seven price cap, as well as the demand outlook given the deteriorating macro picture."

Analysts at banks and brokerages have raised their crude price forecasts and expect Brent to rise above $100 a barrel in the coming months.

Despite the promised cuts in output, Saudi Arabian state oil company Saudi Aramco has told at least five North Asian customers they will receive full contract volumes of crude oil in November, according to sources with knowledge of the matter.

That would indicate little change in the physical supply of oil at least to Asian buyers of crude from Saudi Arabia, who as OPEC's biggest producer will assume a large portion of the announced reductions. — ***Reuters***

Asian stocks slip, on edge for CPI and earnings tests

SYDNEY — Stocks slipped in Asia on Monday after a surprise drop in US unemployment quashed any thought of a pivot on policy tightening ahead of a reading on inflation which is expected to see core prices move higher again.

Geopolitical tensions added to the uncertainty as markets waited to see how the Kremlin might respond to the blast that hit Russia's only bridge to Crimea.

Holidays in Japan and South Korea made for thin trading in Asia, while the Treasury market is also shut on Monday.

S&P 500 futures led the early action with a drop of 0.4%, while Nasdaq futures fell 0.5% ahead of the start of Q3 earnings later this week.

EUROSTOXX 50 futures lost 0.8%, while FTSE futures dipped 0.4%.

MSCI's broadest index of Asia-Pacific shares outside Japan shed 1.4%. Nikkei futures traded at 26,575 compared with Friday's cash close of 27,116.

Chinese blue chips fell 0.9% after a survey showed the first contraction in services activity in four months.

China's semiconductor index fell more than 5% after Washington published a sweeping set of export controls, including a measure to cut China off from certain semiconductor chips made anywhere in the world with US equipment.

Wall Street sank on Friday after an upbeat payrolls report seemed to seal the deal on another outsized rate hike from the US Federal Reserve.

Futures imply a more than 80% chance of rates rising by 75 basis points (bps) next month, while the European Central Bank (ECB) is expected to match that and the Bank of England to hike by at least 100 basis points.

"We are in the midst of the largest and most synchronized tightening of global monetary policy in more than three decades," said Bruce Kasman head of economic research at JPMorgan, who expects hikes of 75 bps from all three of the central banks.

"The September CPI (consumer price index) report should show a moderation in goods prices that is a likely harbinger of a broader slowing in core inflation," he said. "But the Fed will not be responsive to a whisper of inflation moderation as long as labor markets shout tightness."

Headline consumer price inflation is seen slowing a touch to an annual 8.1%, but the core measure is forecast to accelerate to 6.5% from 6.3%. The US CPI data will be released on Thursday at 8:30 am ET (1230 GMT).

Minutes of the Fed's last policy meeting are also out this week and are likely to sound hawkish given how many policy makers lifted their dot plot forecasts for rates.

EARNINGS TEST

Wall Street also faces a testing time on corporate earnings with the major banks kicking off the season on Friday, including JPMorgan, Citi, Wells Fargo and Morgan Stanley.

"Consensus expects 3% year/year EPS growth, 13% sales growth, and 75-bp margin contraction to 11.8%," analysts at Goldman Sachs said in a note."

One likely bone of contention will be the strength of the dollar which will pressure offshore earnings. The dollar index was firm at 112.760 having risen the for the past three sessions. It stood at ¥145.34 but had so far shied away from the recent 24-year top of 145.90 for fear of Japanese intervention.

The euro looked vulnerable at $0.9738, having retreated from a high of $0.9999 last week.

Sterling fared little better at $1.1079, with traders on edge as the Bank of England is due to end its emergency bond buying campaign on Friday.

Yields on 10-year bonds are still up at 4.237% and a long way from the 3.31% level held before the British mini-budget sent the market into a tailspin. — ***Reuters***

Gold bullion hits one-week low on solid US jobs data

GOLD PRICES fell to a one-week low on Monday, as solid US jobs data added to worries that the US Federal Reserve would charge ahead with aggressive interest rate hikes to tame inflation.

Spot gold was down 0.4% at $1,687.79 per ounce, as of 0348 GMT, after hitting its lowest since Oct. 3 at $1,686.45. US gold futures were down 0.8% at $1,695.60.

The dollar index was steady after touching a one-week high on Friday. A stronger greenback makes gold costlier for buyers holding other currencies.

"Gold prices are taking their cue from the buildup in rate-hike expectations from last week, brought on by the hotter-than-expected US job report," said IG market strategist Yeap Jun Rong.

Data showed on Friday US job growth slowed moderately in September while the unemployment rate dropped, signaling a resilient economy and dousing hopes of a Fed pivot anytime soon.

Investors will now focus on the US inflation data due later this week. Headline consumer price inflation is seen slowing a touch to an annual 8.1%, but the core measure is forecast to accelerate to 6.5% from 6.3%.

Gold prices have declined more than $350 since surging past the $2,000-mark in March, amid aggressive US monetary policy tightening.

Holdings of SPDR Gold Trust, the world's largest gold-backed exchange-traded fund, fell by 2.03 tons on Friday, marking its biggest outflow since late September.

Spot silver was down 2% at $19.71 per ounce after hitting a one-week low. Platinum fell 0.7% to $905.51, while palladium inched 0.1% higher to $2,183.99. — ***Reuters***