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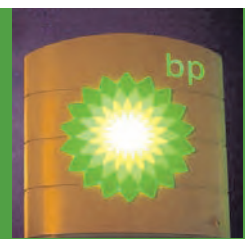
MONEY & INVESTING

Junk-Bond Slump

Shift threatens merger boom **BONDS | B8**



New Rules for Commodities

MARKETS | B9

THE WALL STREET JOURNAL. Tuesday, September 29, 2015 | B7

As of 12 p.m. ET **EUR/GBP** 0.7390 ▲ 0.18% **YEN** ¥119.81 ▼ 0.65% **GOLD** 1133.20 ▼ 1.12% **OIL** 44.65 ▼ 2.30% **3 MONTH LIBOR** 0.32660 **10-YR TREAS** ▲ 19/32 yield 2.102%

Australians Look Overseas

With local economy and currency flagging, investors are starting to buy stocks abroad

By Vera Sprothen

SYDNEY—Australia has one of the largest pools of retirement savings globally, along with some of the world's most stubbornly parochial investors.

But as the resource-dependent economy faces a possible recession after 24 years of avoiding one, overseas shares suddenly look more attractive. And if the Australian dollar keeps falling as it has over the past year, that would add an exchange-rate windfall to overseas returns.

Australia's economy expanded just 0.2% in the second quarter from the first, the weakest in four years. China's slowing economy has translated into less construction of skyscrapers, bridges and railways there, hurting demand for raw materials, such as iron ore, that Australia exports.

"We'd look silly if we didn't move into international equities with the current uncertainty about the Australian economy," said Tim Mackay, a financial planner at Quantum Financial Services in Sydney. "You don't just get better returns internationally, you also benefit from the exchange rate."

In Australia, almost all employees are covered by the country's compulsory contribution system, which, at two trillion Australian dollars (US$1.4 trillion), has become the world's fourth-largest pool of retirement savings. Most people put their money into managed pension plans, which typically promise diversification. MySuper funds—the default pension option for many Australians—allocate just under a third of their portfolio to international shares.

A growing number of people, though, are choosing to manage their own retirement savings, partly out of disillusionment with traditional fund managers and the relatively high costs of mutual funds. These self-managed investors—known locally as "selfies"—control roughly A$600 billion, or 30%, of the

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ADAM YIP/THE AUSTRALIAN

Paul and Marlene Denton increased their holding of global stocks.

ERALDO PERES/ASSOCIATED PRESS

The problems of Brazil's sugar-cane industry illustrate the woes afflicting commodities-reliant emerging markets. Above, a worker collects sugar cane at a farm in Brazil.

Brazil's Sugar Cane: An Emerging Debacle

By Julie Wernau

COMMODITIES

Virgolino de Oliveira SA is trodding what has become a well-worn path for emerging-market companies that built up capacity to meet China's demand for commodities only to watch it crumble.

The Brazilian sugar producer missed a bond payment in February and hasn't been able to renegotiate the terms of its debt, according to Fitch Ratings. The company couldn't be reached for comment, but Fitch analyst Claudio Miori said it is likely to seek bankruptcy protection, joining the roughly one-fifth of Brazil's sugar-cane mills that already are requesting relief from unpaid bills and debt payments.

"They stopped paying sugar-cane farmers," Mr. Miori said, referring to Virgolino de Oliveira. "They stopped paying banks. They are only one notch from default."

The woes of Brazil's sugar-cane industry offer a stark illustration of the problems confronting emerging markets. The combination of slower growth in China and excess production capacity of many commodities sent raw-materials prices spiraling lower over the past several years.

That led to declines in the currencies of countries reliant on commodity exports. Now companies are struggling to pay back the debt they issued to build up capacity when times were good.

Virgolino de Oliveira sold $300 million in dollar-denominated bonds in 2012 to expand its operations, anticipating that the price of raw sugar at the time—25 cents a pound—would remain at that level. Other sugar executives in Brazil, the world's largest producer of the sweetener, were making the same bet: that a rising global middle class would keep prices of food, especially sugar, aloft.

They were wrong: Sugar prices hit a seven-year low in August and now hover around 12 cents a pound.

"It wasn't just the sugar rush in Brazil," said Rashique Rahman, head of emerging-market debt at Invesco Ltd., which has $776.4 billion under management. "It was a broad-based bull run for emerging markets. You had low interest rates, China was buying everything in sight. It was happy days.

"That cycle is now, we believe, turning."

Since the start of 2010, investors plowed more than $1 trillion into emerging-market bonds, according to the Institute of International Finance. Ten percent of that went to Brazil.

But inflows into emerging-market bonds slowed sharply this year, to a net $53.8 billion in the first eight months of the year, according to IIF. That is down 49% from the same period a year earlier.

Please see SUGAR page B8

Swiss Probe Metals Trading

By John Letzing And Alistair MacDonald

ZURICH—A Swiss regulator has opened an investigation into precious-metals trading at a group of large banks, marking the latest in a line of probes into the rigging of key financial markets that have increasingly spread into the multibillion-dollar trade in metals.

Switzerland's competition commission, known by its German-language acronym WEKO, on Monday said it is investigating potential manipulation of prices in the trading of gold, silver and other precious metals at **UBS Group** AG, **Julius Baer Group** AG, **Deutsche Bank** AG, **HSBC Holdings** PLC, **Barclays** PLC, **Morgan Stanley** and Japanese trading house **Mitsui** & Co.

WEKO said it suspects that the banks have manipulated the so-called spread on precious metals, or the difference between bids and asking prices.

The probe isn't the first into commodity markets, which up until several years ago were a key revenue generator for banks. Last month, the European Union's competition watchdog said it is investigating alleged "anticompetitive behavior" in precious-metals spot trading. In February, The Wall Street Journal reported that the U.S. Justice Department's antitrust division is scrutinizing the price-setting

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Watching for the Death Cross

By Kevin Kingsbury

MONEYBEAT

Technical indicators in the market keep stacking up against investors. But when the Nasdaq Composite's 50-day moving average falls below its 200-day average, creating a so-called death cross pattern on the charts, it might not be such a bad omen for U.S. stocks.

The Nasdaq looks likely to fall into a death cross within the next few days, becoming the last major U.S. index to have this pattern occur. The 50-day moving averages of the Dow Jones Industrial Average and the S&P 500 fell below their 200-day averages this summer and have remained there since.

A death cross is considered a bearish sign for the markets, suggesting more pain ahead. But if 2011 is any guidepost, U.S. stocks may not be in for too much downside.

Four years ago, the death crosses for the three major indexes didn't happen until after they each had fallen into correction territory—a decline of 10% or more from a peak—that August, in the wake of Standard & Poor's downgrading of U.S. government debt. While it took until the new year for the 50-day moving averages of all three indexes to get back above their 200-day averages, U.S. stocks fell only slightly after the death crosses happened.

5%

The amount the Dow dropped from its record high to fall into a death cross in August

The same may happen this go-round for at least two of the three. The S&P 500's death cross last month didn't happen until after markets tumbled on Aug. 24, when the low point, at least for now, was reached in the current downturn.

The outlier in all of this is the Dow. Because it traded in a narrow range for much of this year, the blue-chip index didn't have to fall far for a death cross to happen. It occurred on Aug. 11, and after the Dow had dropped a mere 5% from its record high. For the Dow, the death cross proved to be a bad omen; the index tumbled into correction territory 10 days later.

For the S&P last month and for all three indexes in 2011, death crosses happened after the measures had fallen by double-digit percentages.

What investors need to discern is whether for the S&P—and, especially, for the Nasdaq—death crosses are backward-looking and highlight weakness that has already happened, or are a sign of the pain that is still to come. If the indexes end up more than edging marginally below last month's lows, it is liable to be the bears who win the argument.

MONEYBEAT

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Legendary Investor Dies at 71

By Miguel Bustillo And Gregory Zuckerman

OBITUARY
RICHARD RAINWATER

Long before Wall Street was littered with swaggering hedge-fund billionaires, Richard Rainwater earned a Texas-size reputation as an investor with an eye on the big score.

He helped install Michael Eisner as **Walt Disney** Co. chief executive, steered George W. Bush to buy a stake in Major League Baseball's Texas Rangers and helped multiply the Bass family fortune one-hundred-fold before building a billion-dollar one of his own.

"My brother said, 'Don't be mediocre at anything; be remarkable at something,'" Mr. Rainwater recalled in 2010 in a speech at Stanford University.

Mr. Rainwater died on Sunday morning at his home in Fort Worth, Texas, according to the Rainwater Charitable Foundation and his family. He had been suffering from complications of a rare brain disease. He was 71 years old.

Born to a middle-class family, Mr. Rainwater parlayed a gift for mathematics and a gregarious personality into a more than $2 billion fortune as a financial adviser and wheeler-dealer whose underlings went on to become chief executives, governors and hedge-fund tycoons.

"He was a laid back guy who liked to invest but he was not a fan of fancy dinners or some of the other things that went with it," his son, Todd, said on Sunday. "What he was best at is being a talent scout. He would find a troubled business, find the best person to run it, the Michael Jordan of that industry, and inevitably that person would turn the business around".

A native of Fort Worth, Mr. Rainwater attended the Stanford Graduate School of Business on scholarship, where he met Sid Bass, who hired him to serve as chief investment adviser for the Bass brothers, who were also from Fort Worth.

He began working in 1970 for the Bass family, which had inherited an oil fortune from Texas wildcatter Sid Williams Richardson, and helped them to dramatically increase their wealth over the next decade and a half through a dizzying succession of deals.

Perhaps the most famous deal was the Bass family's rescue of then-struggling Disney in 1984 with a nearly $500 million investment to ward off a potential hostile takeover bid by financier Saul Steinberg. Mr. Rainwater helped handpick a new management team for Disney led by Mr. Eisner that brought the studio back to prominence—and made the Bass brothers billions.

"Richard was one of the best deal guys who ever lived," said David Bonderman, who met Mr. Rainwater while working for Robert Bass and later founded private-equity giant TPG. "He was always confident and idiosyncratic, and generally was right."

Mr. Rainwater struck out on his own in the late 1980s, con-

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China Data Pressure Stocks

Singapore shares hit bear territory; Japan falls amid speculation over additional easing

By Henry Hoenig And Jake Maxwell Watts

Most Asian stock markets fell Monday, as more downbeat data from China weighed on sentiment ahead of the release of key economic indicators later in the week.

Singapore's FTSE Straits Times Index fell 1.4%, marking bear territory—defined as a 20% fall from a recent peak.

ASIA-PACIFIC STOCKS

The Nikkei 225 Stock Average fell 1.3%, and while the Shanghai Composite closed up 0.3%, it had hovered in negative territory in earlier trading.

Australia's S&P/ASX 200 gained 1.4%, recovering some losses from last week.

NICKY LOH/BLOOMBERG NEWS

Export-driven firms that focus on commodities, such as Noble, were under fire in Singapore trading.

Stocks in Singapore, a commodities-trading hub, have come under fire as signs that China's economy is slowing more quickly than expected have sent commodities prices tumbling.

Earlier Monday, Chinese officials reported industrial profits fell 8.8% in August from a year earlier, the biggest drop since October 2011, compared with July's 2.9% decline from a year earlier.

On Friday, Singapore reported weaker-than-expected industrial production, as export sectors such as electronics continued to contract.

Export-driven companies that focus on offshore marine engineering and commodities were among Monday's worst performers, with **SembCorp Marine** down 3.9% and **Noble Group** down 2.2%.

In Tokyo, the Nikkei extended losses into the close after comments by Bank of Japan Gov. Haruhiko Kuroda, who said inflation wouldn't reach the BOJ's 2% target without a further strengthening in the link between employment, wages and prices.

Mr. Kuroda reiterated that he expected the price target to be reached in the middle of next year but said the central bank wouldn't hesitate to act if it judged the overall price trend to be changing.

Mr. Kuroda had met with Prime Minister Shinzo Abe at the prime minister's official residence early Friday afternoon to discuss Japan's sputtering economy, prompting speculation that the central bank might implement additional easing and helping send share prices 1.8% higher.

Selling early Monday was partly driven by a reassessment of the prospects for further easing, said Soichiro Monji, general manager of economic research at Daiwa SB Investments.

"The buying [Friday] probably wasn't based on the serious assumption that they will act," Mr. Monji said. "Some are just saying they should act because stocks are down."

Some see buying opportunities in Tokyo, where corporate earnings are at records. The Nikkei is near a bottom and a drop in commodity prices will provide a significant boost to the economy in the longer term, said Masayuki Kubota, chief strategist at Rakuten Securities.

While Chinese shares eked out gains, low volumes signal that investors remain uncertain, analysts say. Trading volume fell to 404 billion yuan ($63.4 billion), the lowest since February, according to data provider Wind Information Co.

"Large institutional investors are neither buying nor selling at this point as the risk appetite remains low due to a continued crackdown on illegal margin loans," said Shen Zhengyang, an analyst at Northeast Securities.

Outstanding margin loans totaled 581 billion yuan as of Sept. 25, compared with the peak of 2.26 trillion yuan in June, according to Wind Information. China's stock regulator previously demanded that brokers clean up all illegal margin-loan accounts by the end of September.

In Australia, meanwhile, investors picked up energy and banking stocks that were battered last week.

Leading gains, however, were shares in **M2 Group**, which rose 13% after it agreed to a merger with rival **Vocus Communications** in a deal that would build Australia's fourth-largest telecom company, with a market value of more than three billion Australian dollars (US$2.1 billion). The deal marks the latest shake-up of the industry as smaller companies strive to break the dominance of Telstra over phone and Internet services, and as Australia continues to roll out a national broadband network.

Global investors this week will likely focus on key U.S. and Chinese economic indicators, including U.S. nonfarm-payroll figures and official manufacturing data from China, after U.S. Federal Reserve Chairwoman Janet Yellen said she expected an interest-rate increase by year-end. Ms. Yellen's comments, delivered late Thursday, were taken as a sign of confidence in the U.S. economy.

Markets in Hong Kong, Taiwan and South Korea were closed.

—Robb M. Stewart, Kosaku Narioka and Yifan Xie contributed to this article.

Commodities Shares Dented

By Chiara Albanese And Leslie Josephs

Fresh evidence of the slowing economy in China added to investors' fears about the outlook for global growth Monday, roiling many markets.

Energy and raw-materials producers were among the biggest decliners as commodity prices fell following a report showing China's industrial profits dropped 8.8% in August from a year earlier.

ABREAST OF THE MARKET

The Stoxx Europe 600 declined 2.2%, dragged down by losses in the auto and mining sectors. Shares in commodities giant Glencore PLC sank more than 29% to an all-time low as the mining company continued to suffer from a slump in commodity prices and concerns over its burgeoning debt.

In the U.S., the Dow Jones Industrial Average fell 218 points, or 1.3%, to 16096 at midday. The S&P 500 fell 1.7%, while the Nasdaq Composite dropped 2%.

The Nikkei 225 Stock Average closed down 1.3%, while the Shanghai Composite rose 0.3%. The Hong Kong market was closed Monday.

"Sentiment has been very negative" after the disappointing China data, said Antonio Garcia Pascual, an economist at Barclays in London.

Citigroup lowered on Monday its forecast for global growth in 2016, reducing it to 2.9% from 3.1%. It was 3.5% as recently as May. In a note, economists at the bank said a global recession is a "rapidly rising and significant risk."

A slowdown in China's economy was the main driver for the change in forecasts. "Advanced economies are not immune to this," they said.

Concern over a slowdown in the world's second-largest economy and its potential impact on the U.S. Federal Reserve's plans to normalize monetary policy after years of rock-bottom rates, has fueled market volatility in recent weeks.

In the U.S., shares of Williams Cos. fell 8.7% to $37.99 after Energy Transfer Equity LP said it would buy the rival pipeline operator for about $32.6 billion. Freeport McMoRan Inc. dropped 9% to $8.91, as base metals prices continued to slip.

Alcoa Inc. shares rose 4.8% to $9.50 after the aluminum maker said it would split into two public companies, one focusing on mining and refining and the other on more finished industrial products.

Sectors that had performed well earlier this year continued to slip. The Nasdaq Biotechnology index fell 4%. The iShares Nasdaq Biotechnology ETF dropped 4.2% to $297.20, while the SPDR S&P Biotech ETF was 4.5% lower at $64.39.

China's industrial profits fell 8.8% in August compared with a year ago.

Investors focused on Federal Reserve Bank of New York President William Dudley, who said Monday the central bank will likely raise interest rates later this year. Mr. Dudley also emphasized that a rate increase could come at any Fed meeting, including in October.

The yield on the benchmark 10-year Treasury note was 2.112%, compared with 2.167% on Friday as demand for haven assets rose. Yields fall as prices rise.

"Until there's a catalyst to push the market definitively higher, we're going to go through this back and forth," said Quincy Krosby, strategist at Prudential Financial.

In currencies, the euro rose 0.4% against the dollar, trading at $1.1235. The dollar fell 0.8% against the yen.

In commodity markets, Brent crude oil was 2.3% lower at $48.15 a barrel. Gold fell 1% to $1,133.00 a troy ounce.

Australian Mining's Future Still Bright, Minister Says

By Rob Taylor

CANBERRA, Australia—Australia's new resources minister says he is upbeat about the future of the country's mining sector, despite slumping resource prices and accelerating efforts among major nations, including China, to combat climate change by curbing fossil-fuel emissions.

Josh Frydenberg, appointed resources and energy minister by Prime Minister Malcolm Turnbull in a cabinet shake-up last week, said he was confident there would be strong appetite for high-quality Australian thermal coal and liquified-natural-gas exports for decades, despite competition from cleaner wind and solar technologies.

"I'm very positive about the renewable energy space; I'm very positive about the opportunities for further investment. I'm very positive about the increasing demand for Australia's natural-resources and energy sector," Mr. Frydenberg said in an interview on Monday.

The U.S. and China last week announced major steps to fight climate change, including a pledge by China to launch emissions trading by 2017, while India this week is expected to set an ambitious target for as much as 40% renewable power by 2030 and emissions cuts of 35% on 2005 levels by 2030.

The commitments by three of the world's largest emitters add to momentum ahead of global climate talks in Paris later this year in which nations will try to agree on a climate accord to help limit global temperature rises to 2 degrees Celsius.

Australia, which is among the world's largest per capita emitters of greenhouse gases due to its reliance on coal for much of its electricity, has also set a Paris target to cut emissions by 26% to 28% by 2030, based on 2005 levels.

But Australia's government last year dumped a price on carbon emissions and reined back a renewable energy generation target to 33,000 gigawatt hours from 41,000 gigawatt hours, arguing they were imposing too high a burden on a 1.6 trillion Australian dollar (US$1.1 trillion) economy struggling to adjust to the end of a mining boom.

The country's powerhouse miners are under pressure because of China's economic slowdown and a downturn in prices for many major resource exports, including coal and iron ore. Plans to turn the country into an LNG giant have been set back by oil-price declines, making some projects seem less compelling.

BRENDON THORNE/BLOOMBERG NEWS

Coal prices have declined.

Exploration expenditure on minerals and petroleum exploration fell 6.7% last year to A$6.6 billion, according to an April report on Resources and Energy Major Projects issued by the government. The number of resource projects at the feasibility stage in Australia has fallen to 180 in April this year from 305 in April 2011, at which time commodity prices were at their peak.

Mr. Frydenberg said the government—roiled by a leadership struggle this month that saw Mr. Turnbull replace Tony Abbott, a long-standing skeptic of man-made climate change—was looking at reforms to aid mining competitiveness against foreign rivals, including simplifying taxation and less rigid labor laws.

"Foreign investment is absolutely critical to the development of our resources. We want to encourage as much investment as possible, and that's why we've already made some significant changes in deregulation about simplifying the environmental approval stages," he said.

"The fundamentals of our resource sector are very strong. We've got a lower Australian dollar, which makes our resource exports more competitive, but we need to focus on innovation technology and boosting productivity. That may be in areas of labor-market flexibility and tax reform."

Any ambitions to reform tax and workplace laws may face a long wait until after elections expected next year, when Mr. Turnbull's government will seek a mandate from voters. Labor law changes would be risky, having proved electorally toxic for the previous conservative government, which was ousted in 2007.

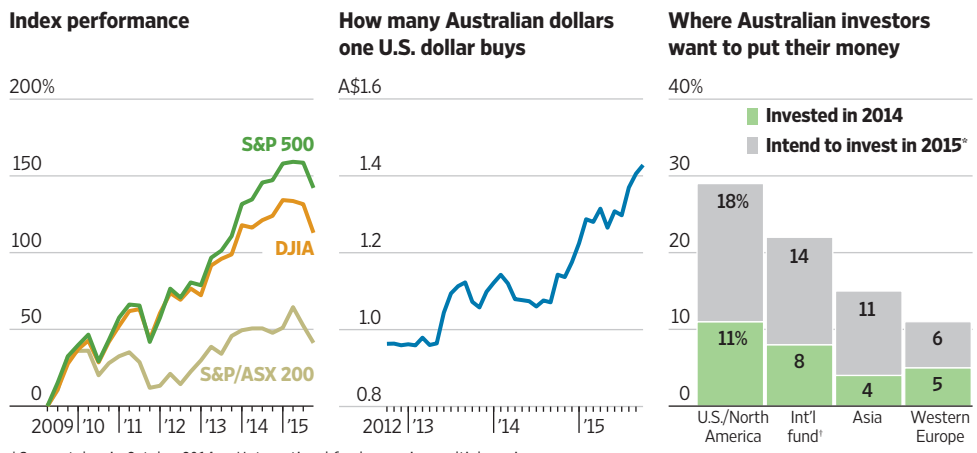
Mr. Frydenberg, 44 years old, a former assistant treasurer under Mr. Abbott, said there was a "strong moral case" for Australia's resource exports, as the country's coal and gas were relatively clean burning and bring power to millions of poorer people in developing nations like India.

To help lure in fresh investment in Australia's sparsely populated northern tropics—facing export markets in Asia—the government was also willing to look at helping fund ports, rail and roads, using its recently established A$5 billion Northern Infrastructure Fund, he said.

—Rhiannon Hoyle in Sydney contributed to this article.

All Abroad

Australians are including more overseas shares in their portfolios as the end of a resources boom crimps returns at home and as the U.S. dollar rises against the local currency.



*Survey taken in October 2014 †International funds covering multiple regions
Sources: Iress (index, currency); Investment Trends (investment)

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GLOBAL

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country's total pension savings, but allocate less than 1% of their total assets to international shares.

During the boom years, they benefited from their bias toward home-grown stocks because Australian companies offered some of the world's richest dividends, providing pensioners with a steady income in addition to any capital gains. Recently, though, a slew of earnings downgrades have left investors scrambling for value in a market heavily concentrated on resources and banking stocks but with nothing to rival tech companies like **Google** Inc. and **Apple** Inc.

In the wealthy Sydney harborside neighborhood of Point Piper, 77-year-old Paul Denton recently decided his retirement portfolio needed a radical overhaul. On the advice of his financial planner, he sold nearly all of his direct Australian share holdings and instead plowed into index-based funds, including one tracking the S&P 500, as well as holdings in **Boeing** Co., Apple and **Nestlé** SA, boosting his overall exposure to international shares to about 40%.

"I was looking for alternatives," Mr. Denton said. "There used to be a lot more share offerings in the manufacturing sector—for example, pharmaceuticals and foods. But the [Australian] market has changed. Now, it's concentrated."

Index funds, such as those Mr. Denton recently switched to, have been an investment staple elsewhere for decades, but they gained popularity in Australia more recently. The number of Australians investing in exchange-traded funds—which track market indexes and aren't run by stock pickers—has risen nearly 60% in the past year alone, according to research firm Investment Trends.

Investors are looking at overseas markets, including funds focused on the U.S. S&P 500 index. Factoring in exchange-rate shifts, Australian investors would have had a 32.5% gain in the 12 months through Aug. 31 on index-based products like **BlackRock** Inc.'s iShares Core S&P 500 fund.

International products now make up more than 40% of the exchange-traded-fund market here, with almost as many new listings announced in the past two years as in the two decades prior, including multiple products from global asset managers such as BlackRock and Vanguard Group.

"We're excited by the growth," said Jeffrey Johnson, head of Asia-Pacific investment strategy at Vanguard Australia in Melbourne. The local division of the Malvern, Pa.-based firm, which manages $3 trillion globally, this month announced plans to list four new international exchange-traded funds here, adding to the 12 products it already offers.

State Street Global Advisors, the asset-management arm of **State Street** Corp., this month launched a new Australian exchange-traded fund comprising a mix of overseas stocks ranging from U.S. blue chips to emerging-market shares.

"There is a hunger for international shares in Australia," said Jenny Brown, who runs financial-strategy firm JBS Financial in Melbourne and helps manage mom-and-pop investors' pension portfolios. She said the weaker Australian dollar has spurred interest in unhedged exchange-traded funds in particular in recent months.

Australians are also putting more money into actively managed international products. Some use new online brokerage platforms to buy overseas shares directly.

However, most Australians have little idea which stocks to buy overseas, said Recep III Peker, head of research at Investment Trends in Sydney. "This has created a huge opportunity for fund managers," Mr. Peker said.