MONEY & INVESTING

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As of Friday 4 p.m. ET | **EUR/GBP** 0.7683 ▲ 1.90% | **YEN/DLR** ¥116.70 ▼ 1.14% | **GOLD** 1091.50 ▲ 1.64% | **OIL** 29.42 ▼ 5.71% | **3-MONTH LIBOR** 0.61960% | **10-YR TREAS** ▲ 19/32 yield 2.035%

Need Loan? Beans Will Do

South Pacific nations try new forms of collateral to boost lending, economies

By Vera Sprothen

Credit Spread

New lending rules aim to reinvigorate numerous tiny island economies that dot the South Pacific ocean.

SYDNEY—In the islands that dot the South Pacific ocean, risk-shy banks are weighing unusual forms of collateral to help rev up local economies: vanilla beans, cows and fishing canoes.

The region, prone to cyclones and spanning an area equivalent to around 15% of the world's surface, is a blank spot in global finance. The biggest economy, Papua New Guinea, is estimated at $16.8 billion, roughly equivalent to that of Montgomery, Ala.

The land in the several thousand islands in the area is largely tribally owned, cutting small businesses off from a common source of security, and bank funding.

Private-sector credit is below 50% of gross domestic product in much of Oceania, compared with an average of 107% in low- and middle-income countries globally, World Bank Group data show.

This credit squeeze has hampered economic growth and pushed aid-dependent island nations from Papua New Guinea to Samoa into a strategic rivalry between Western powers like the U.S. and Australia, and China.

In Tonga, an archipelago highly indebted to the Chinese government, the situation is acute. "All the land belongs to the king, so it's very hard for small businesses to get money from the bank unless they have a mortgage," said Simon Thompson, a New-Zealand-based finance consultant who recently went on a mission to change things.

On a recent visit, wild pigs crossed the dirt track leading to some 300 farms in the once-thriving heart of Tonga's vanilla industry. Falling prices and a lack of credit have made production unviable for many growers. Lately, however, workers with machetes have begun to clean up the tangle of vines and coconut palms, as Mr. Thompson helps implement new lending rules in Tonga on behalf of the Asian Development Bank and the Australian and New Zealand governments.

Known as secured transactions reforms, the overhaul is modeled on U.S. laws and is an attempt to overcome land constraints by allowing farmers to use movable goods from canoes to crops as collateral. Similar legislation is being rolled out across nearly a dozen South Pacific nations in a sweeping effort to unlock millions of dollars of business funding.

"It's higher risk, of course," said Leta Kami, chief executive of the Tonga Development Bank. "But vanilla vines are a good security because you can replant them even if the business defaults."

While a few bigger companies are already able to list heavy vehicles or machinery as collateral for high-risk loans, officials hope the changes will make lending against movable goods much more popular, and cheaper, for anyone hoping to open an island business—from taxi drivers to roadside chicken roasters.

Ms. Kami has already agreed to lend more than two dozen Tongan farmers the equivalent of US$45,000 against their crops. The loan, part of a pilot project starting later this month, comes at an interest rate of 10%, less than half what local pawnshops or microfinance firms typically charge.

Not everyone is as enthusiastic. Skepticism is still high following the collapse of state-owned National Bank of Fiji in the mid-1990s under a pile of bad debts. Central-bank investigators found all sorts of movable securities in its loan books, including musical instruments. When they tried to seize these assets, they had vanished.

"That's the problem with movable collateral: It moves," said Parmendra Sharma, a finance lecturer at Brisbane's Griffith University who was part of the investigative team. He said the call for bigger loan volumes must be offset against the need for stable banks in an economically vulnerable region.

Others are doubtful that the reforms can be a game changer in remote islands, where villag-

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Vanilla beans can be used as loan collateral by Tongan farmers under new rules.

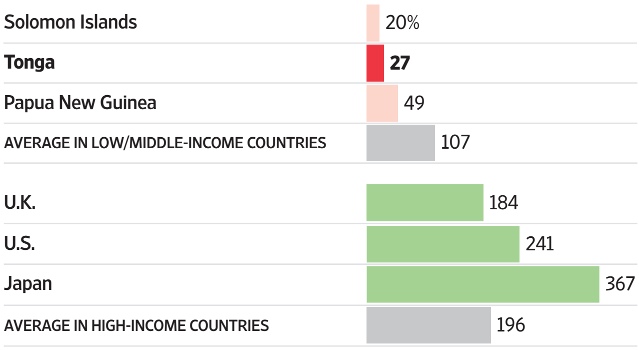
QUEEN FINE FOODS

Lending Laggards

Banks in South Pacific nations are wary of providing credit to small businesses, causing loan volumes to lag the developed world.

Domestic credit provided by the financial sector in 2013

As a percentage of GDP



Source: World Bank

THE WALL STREET JOURNAL.

U.S. Shares Slide In Global Rout As Fears Deepen

By Corrie Driebusch

Investor anxiety deepened Friday as a familiar medley of fresh lows in oil prices, stumbling Chinese stocks and weak U.S. economic data sent the Dow Jones Industrial Average to its biggest one-day percentage drop since early September.

The Dow industrials lost almost 400 points in Friday's selloff, and investors snatched up bonds anew, sending 10-year Treasury yields briefly below 2% for the first time since October. Among the economic reports Friday, U.S. retail sales showed their weakest year for growth since the end of the recession in 2009, while a regional manufacturing survey disappointed.

Further complicating Friday's action, investors were concerned about holding stocks heading into a three-day holiday weekend in the U.S.

The U.S. stock market is closed on Monday. Others around the world, including Chinese markets, are open and could fall even further.

Financial adviser Michael Fein said he received the most phone calls from nervous clients ever on Friday morning. One client even dropped into Mr. Fein's office to gauge whether she should be panicking.

"Being down 500 points on the Dow is depressing and scary, but I remind them [you should not be] making your investment decision based on an overreaction of China fears," said Mr. Fein, 44 years old, president at CIC Wealth, based in Gaithersburg, Md.. "You become a psychologist in this environment," he said.

On Friday, the Dow Jones Industrial Average fell 390.97 points, or 2.4%, to end at 15988.08.

The decline put the Dow in correction territory, falling more than 10% from its recent high in November. Friday was the first time since Aug. 25 that the index ended below 16000. The blue-chip index fell as much as 537 points in early afternoon trading Friday.

The S&P 500 declined 2.2%, and the Nasdaq Composite fell 2.7%.

The Dow industrials and the S&P 500 are down about 8% so far this year, while the Nasdaq is down more than 10%.

Worries about slowing global growth have plagued stocks for months, but many analysts have maintained that the U.S. economy is relatively healthy and that recent declines in the stock market should stabilize.

U.S. economic data released on Friday, however, raised doubts about the economy's strength. U.S. retail sales fell last month, showing consumers are dialing back spending. A gauge of manufacturing in New York state fell sharply.

Worries about the health of the global economy have led all types of investors, from hedge funds to individuals, to sell stocks this year, traders and analysts say.

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Blaming Many for China Stock Woes

What's wrong with China's stock market?

Just about everything, according to a statement from Xiao Gang, the country's chief securities regulator, delivered at a national meeting of Chinese securities officials and posted on his agency's website on Saturday.

In the statement, Mr. Xiao defended his handling of successive market meltdowns, blaming the "abnormal volatility" on "an immature market, inexperienced investors, imperfect trading system, flawed market mechanisms and inappropriate supervision systems."

The turmoil in China's stock market—which on Friday entered "bear market" territory of 20% below its recent peak—has cast a harsh light on the performance of Mr. Xiao, 57 years old, a former central banker and chairman of the Bank of China before he was appointed chairman of the **China Securities Regulatory Commission** in 2013.

During the summer, when Chinese stocks tumbled more than 40%, Mr. Xiao oversaw a slew of measures to prop up the market that many investors criticized as heavy-handed. Those ranged from banning certain kinds of short selling and share sales to approving the purchase of hundreds of billions of yuan in equities by government-affiliated funds.

Two weeks ago, Mr. Xiao was forced to abandon a circuit-breaker mechanism he had championed as a way to halt big trading swings, when it instead ended up fanning panic selling.

In his Saturday statement, Mr. Xiao defended his efforts, saying they were a successful attempt to stave off a bigger crisis.

"The response to the abnormal volatility in the stock market was essentially crisis management," Mr. Xiao said. Various departments "addressed market dysfunctions and prevented a potential systemic risk through joint efforts."

Mr. Xiao did acknowledge there had been "supervision and regulatory loopholes" and he promised to crack down on illegal activities, increase market transparency and better educate investors, although he didn't outline specific proposals.

He briefly touched on the detention of some top-ranking officials in the securities industry in relation to a police investigation on alleged violation of rules, but without naming his own agency.

Mr. Xiao chastised listed companies for "exaggerated storytelling" to drive up stock prices, and urged market par-

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BRENT LEWIN/BLOOMBERG NEWS

CSRC Chairman Xiao Gang

Copper Price Confounds Forecasts

By Ese Erheriene And Biman Mukherji

The copper outlook is growing more unpredictable, particularly for those analysts tasked with predicting it.

Copper is at a 6½-year low and falling, leaving most analysts asking why, given what they see as relatively robust Chinese demand and the potential for supply cuts.

The answer is still China. Some investors say analysts are overestimating the amount of copper the country will buy. Current concerns over the world's No. 2 economy are also so dominant on global markets that any assets linked to it are being sold off, whether shares, bonds or industrial metals.

The decoupling of analysts' views and the copper price is starker than for other metals, but underscores how analysts, from oil to potash, have been caught out by the depth of the commodity rout.

Few metals have moved so out of step with analysts' predictions.

The London Metal Exchange's three-month copper contract was down 1.7% at $4,343 a metric ton on Friday, having slipped to its lowest level since April 2009 earlier in the session.

"Copper below $4,500 a ton is ridiculous," said Daniel Briesemann, a commodities analyst at Commerzbank AG. "We have seen the announcement of the most pronounced production cuts among the base metals and prices still dropped sharply. It's completely nuts."

Eight out of 10 analysts surveyed by The Wall Street Journal said the price of copper was far below levels at which the supply and demand picture would reasonably suggest it should be trading.

The price of copper has more than halved since hitting a high of $10,190 a ton in February 2011, hurt by mine expansions that came out of the boom and concern over demand from China, which buys around 45% of total production.

The price is seen as a key benchmark in global markets, given its size and its so-called role as Doctor Copper, an indicator of global economic health.

The metal's recent decline has hit revenues in countries from Chile to Zambia, and has been a big factor in the rout of the mining sector. The combined market value of the world's five largest miners—BHP, Rio Tinto PLC, Glencore, Brazil's Vale SA, and Anglo American—has fallen 52%, or $269 billion, since January 2015.

But analysts say that recent Chinese data show consumption remains robust for copper, which is used in everything from kitchenware to construction. On Wednesday, the Chinese customs authority said that 530,000 metric tons of un-

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China Logistics Firms Lure Cash

Alibaba-backed company seeks $700 million as e-commerce infrastructure grows

By Kane Wu
And Rick Carew

A Chinese logistics company partly owned by **Alibaba Group Holding** Ltd. is raising $700 million in a new fundraising round as investors pour money into China's rapidly growing e-commerce infrastructure.

Best Logistics Technologies Ltd., based in Alibaba's hometown of Hangzhou, is raising the funds ahead of a planned initial public offering, according to a disclosure statement by the World Bank's private-sector investment arm, the International Finance Corp. The IFC said it is considering investing as much as $30 million in the company.

Investors have poured money into logistics companies and warehousing in China as online retailers such as Alibaba and JD.com Inc. experience rapid growth. In the U.S., retailers such as Wal-Mart Stores Inc. and Costco Wholesale Corp. operate efficient logistics systems, while United Parcel Service Inc. and FedEx Corp. ensure speedy deliveries. But in China, such services are still underdeveloped and online shopping companies are working with logistics providers to build warehouses and delivery networks to keep up with the e-commerce market's rapid growth.

The latest fundraising round will help Best Logistics expand and pursue acquisitions ahead of an initial public offering, according to the IFC disclosure statement. The timing and venue for Best Logistics' IPO is unclear.

Founded in 2007 by Google China's former co-president, Johnny Chou, the Chinese logistics company has grown quickly to build a warehousing and distribution network across China. It operates 400 distribution centers within China as well as three warehouses in the U.S. and one warehouse in Germany.

Private-equity funds and other investors have been eager to put money into China's logistics sector because it gives them a way to make money from the growth of e-commerce without the risk associated with technology startup bets.

In addition to Alibaba, the company's other shareholders include Mr. Chou and electronics manufacturer Foxconn—known officially as Hon Hai Precision Industry Co.—among others. Goldman Sachs Group Inc.'s private-equity investment arm, which invests money on behalf of the firm itself, is also a shareholder.

China is projected to remain one of the world's fastest-growing consumer markets with annual private consumption reaching $6.5 trillion in 2020, an estimated $1.6 trillion of that coming from e-commerce, according to a report in December by the Boston Consulting Group and Alibaba's own research arm.

At least two other logistics companies are considering Hong Kong IPOs as early as this year. Shanghai-based e-Shang Warehousing Services Co., which was co-founded by private-equity firm Warburg Pincus, is aiming to list shares in Hong Kong with an expected $1 billion deal.

ZTO Express, another company that provides logistics services for Alibaba, is planning a Hong Kong IPO as early as the end of 2016, people with knowledge of the matter said.


HUANG ZONGZHI/XINHUA/ZUMA PRESS

Workers sort goods bought by online customers at a delivery center in Hangzhou last year.

LEND

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ers sometimes trek for days over rugged terrain to reach the nearest bank.

Fiji is one of the next countries in line to adopt the new laws, which for the first time will allow the use of more-sophisticated movable goods, such as sales contracts, as security.

In the Solomon Islands, a nation of 570,000 people, Credit Corporation PNG Ltd. accepts cars and office equipment as security, but refuses anything borrowers can dispose of easily. It remains wary of lending in remote areas. Tony Langston, Credit Corp.'s local chief executive, recalls how he once tried to sell an excavator that an insolvent construction company had used as collateral. It took a yearlong legal battle to recover the money because crucial paperwork was missing.

Tackling such hurdles, the overhaul includes new online registries of borrowers' collateral data.

"The move to a centralized registry is a positive one," said Westpac Banking Corp., an Australian company with branches in the Pacific including Papua New Guinea. "We anticipate, once the registry has been established and is operational, there will be an increase in lending, especially in the small business sector."

Private-sector credit is below 50% of GDP in much of Oceania.

Bank South Pacific, Papua New Guinea's biggest lender, already expanded its loan volume by nearly 42% in the two years after 2012, when the country's legislation changed. It plans to lower the interest rate for secured small-business loans from around 28% once the official collateral registry goes live next week.

Standard & Poor's said the overhaul was positive and wouldn't threaten Bank South Pacific's creditworthiness, despite an increase in higher-risk loans.

Back in Tonga, major Australian importer Queen Fine Foods has promised to buy virtually every vanilla bean on the island, guaranteeing a market for Tonga Development Bank in case it needs to sell the produce it accepted as collateral. After joining villagers for weeklong New Year celebrations, the bank's Ms. Kami thinks she has all imponderables covered.

Together they prayed that cyclones would spare the island this year.

CHINA

Continued from page B5

ticipants to cultivate a stronger sense of social responsibility and to "huddle together for warmth"—or cooperate in the greater interest—when times are bad.

In an example of such huddling, scores of Chinese-listed companies have issued statements during the past few weeks saying their controlling stakeholders won't unload shares.

Some of those companies say privately they released the statements at the request of exchange officials.

Mr. Xiao also warned of "increasing regulatory challenges" ahead from rising uncertainty in external markets, including the global equity-market slump, plummeting commodities prices and currency devaluations in emerging markets.

Many users on Chinese microblog site Weibo were unimpressed.

"How can you call investors immature? Stock investors are all profit-driven," wrote one user. "Are foreign investors more mature? Are investors who don't sell when the prices fall and who don't buy when the prices rise called mature investors?"

"The speech didn't mention one word of reflection or investigation into who should be held responsible" for wild swings in the market, went another widely circulated remark. Other commenters criticized Mr. Xiao for not warning investors of the dangers of borrowing heavily to buy stocks—a practice some have blamed for the severity of last year's equities crash—and for failing to provide effective regulation.

The public has questioned Mr. Xiao's professional abilities before.

In a candid interview with Hong Kong's Phoenix TV in 2012, he admitted to terrible math skills and said "the only thing I did right in my entire life is to marry my wife"—leading to some snarky comments that it was time for Mr. Xiao to resign and attend to domestic affairs.

—*Yifan Xie*

COPPER

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wrought copper and products were imported in December—a rise of 26% year-over-year and the second-highest monthly figure on record.

Meanwhile, supply is falling amid production disruption and cuts. More than 600,000 metric tons of copper supply has been taken out of the market over the past 12 months, according to Morgan Stanley. That is equivalent of around 3% of production.

Last month, Chinese copper producers said they would consider a further 350,000 tons of cuts. "Investors have become a bit too myopic about a China growth slowdown [being] bad for commodities," said Clive Burstow, a fund manager at Baring Asset Management.

Copper analysts aren't the only ones to have been caught out by the dramatic downdraft in commodity prices. Oil analysts have had to make steep cuts to their forecasts every month since last summer as crude continues to plummet.

Last summer, banks predicted oil prices would rise to more than $70 a barrel in 2016. Now the average prediction is for $50 oil.

But few metals have moved so out of step with analysts' predictions as copper.

For some time, gold analysts have mainly predicted this metal will drift lower, which it has done. Meanwhile, aluminum forecasts are as bearish as current prices.

There are some analysts and investors who believe that copper is falling because it should. The Chinese economy is still not strong enough for them to start buying copper. "There are some pockets of improvement, [but] I think overall the demand outlook remains poor," said Koen Straetmans, a strategist at NN Investment Partners, which has $206 billion in assets under management.

China's falling currency is also undermining copper, as imports into China become more expensive. The yuan has fallen 5.7% against the dollar in the last six months. Positive sentiment from Wednesday's December import data faded quickly because the numbers don't reflect the recent yuan devaluation, said Helen Lau, a Hong Kong-based analyst at Argonaut Securities.

Some analysts also say that it isn't only China with a weaker demand picture.

"The copper price is currently in line with the fundamentals of slowing demand outside of China and weak demand growth in the emerging markets," said Dane Davis, a commodities research analyst at Barclays Ltd.

STOCKS

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Public pension plans and mutual funds are safeguarding their portfolios by holding more cash than they have in years.

"While we expected to have more volatility in 2016, I certainly did not expect the year to start with this big of a downdraft," said Kate Warne, investment strategist at retail brokerage Edward Jones.

"It's very frustrating and painful day to day," Ms. Warne said. "When stocks start dropping, investor fears increase, which leads to more drops in the short term."

The frustration has led to more trading—and more swings in stocks.

Through Friday's market close, an average of nine billion shares changed hands each day in 2016, up from 6.8 billion in 2015.

The CBOE Volatility Index, often referred to as the investor fear gauge, has surged over the past two weeks and is currently well above its 10-year average.

Reflecting the extent of investor worries, financial stocks posted steep losses despite several upbeat earnings reports in recent days from the nation's biggest banks. Shares of Citigroup Inc., the fourth-largest bank by assets, fell 6.4% Friday even though it reported its biggest annual profit in nearly a decade.

Concerns about China, the world's second-largest economy, its weakening currency and turmoil in Chinese stock markets have kept investors away from risky assets in what has been a highly volatile start to the year.

Further steep declines in China's stock market contributed to Friday's global selloff.

The Shanghai Composite Index tumbled into bear-market territory, having lost 20% from a high in late December, following a state-run media report that some Chinese banks were no longer accepting stocks as collateral for loans. At the same time, official data showed weak demand for bank loans.

A renewed drop in oil prices also hit stocks around the world.

U.S. crude oil fell 5.7% to $29.42 a barrel on Friday. That was the lowest price in 12 years. Oil prices have lost about 20% this year amid concerns that the onset of Iranian exports after sanctions are lifted could add to the glut of supply. Fears about Chinese demand have also increased the pressure on oil and base-metals prices.

Investors sought safe-haven assets, including government bonds, pushing the yield on the 10-year Treasury note down to 2.035% after it briefly dipped below 2%, compared with 2.100% on Thursday. Yields fall as prices rise.

Gold climbed 1.6% to $1,091.50 an ounce.

Some investors say the past two weeks of stock-market declines are overblown.

"When you have these macro selloffs, you tend to overshoot," said Richard Nackenson, a portfolio manager at Neuberger Berman.

Mr. Nackenson said he believes U.S. economic growth will continue at a slow to moderate pace and that there are opportunities in stocks.

Other investors said they are still not ready to step back into the stock market despite widespread lower prices as a result of the selloff.

"There's nothing that makes an equity investor feel very secure at this point in time," said Wayne Lin, portfolio manager at QS Investors.

—*Saumya Vaishampayan contributed to this article.*

Finance Watch

CHINA

Central Bank Injects $15 Billion of Funds

China's central bank said it injected 100 billion yuan ($15.18 billion) of funds into the market via a medium-term lending facility Friday in a bid to keep ample liquidity in the banking system.

The People's Bank of China said it offered the funds to nine financial institutions at an interest rate of 3.25%.

The lending will have a six-month maturity and it aims to guide banks to step up lending to the nation's small businesses and agricultural sector.

—*Pei Li*

NATIONAL AUSTRALIA BANK

U.K. Business Shows Growth in Mortgages

National Australia Bank Ltd. reported solid growth in mortgages and low impairment charges for the U.K. business it intends to spin off this quarter.

"Momentum in the loan book has been maintained, with 6.6% annualized growth in mortgages during the period with good growth in owner occupied," the bank said in a regulatory filing on Friday, referring to the three months through December.

NAB outlined plans last year to hand 75% of the U.K. business to shareholders and sell the remainder to institutional investors via an initial public offering, so it could focus on more-profitable operations in Australia and New Zealand.

NAB bought Glasgow-based Clydesdale Bank in 1987 for £420 million (US$598 million) before picking up Yorkshire Bank in 1990 for about £900 million.

—*Rhiannon Hoyle*

JD.COM

Firm's Finance Unit Raises $1 Billion

BEIJING—Chinese e-commerce company **JD.com** Inc. said its financial subsidiary has raised 6.65 billion yuan ($1 billion) in financing, as competition intensifies among the country's Internet giants to ramp up popular offerings of online financial services.

The financing round, which includes as its lead investors venture-capital firm Sequoia Capital China and China Taiping Insurance, values JD.com's JD Finance subsidiary at 46.65 billion yuan on a fully-diluted, post-investment basis, JD.com said in a news release. It said it would maintain majority ownership in JD Finance. The transaction is expected to be completed in the first half of this year.

—*Gillian Wong*