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Shares plunge as KKR fear emerges

Debt deferral and oil price rise have traders feeling seasick

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MARKETS REPORTER

THE Australian sharemarket plunged more than 100 points in the last two hours of trade after an affiliate of one of the world's biggest private equity groups delayed repaying billions in debt.

London's *Financial Times* said KKR Financial Holdings, a listed arm of multinational Kohlberg Kravis Roberts & Co, had put off its February repayments until next month. It is not the first time it has deferred.

Less than six months after needing a $US270 million ($A294 million) rescue, it wants to restructure debt.

The S&P/ASX 200 Index, already under pressure because oil had risen to more than $US100 a barrel, closed 122.6 points lower, at 5496.5 points. The influence of the KKR story was evident, as brokers and equity dealers started circulating it after 2pm.

Yesterday's 2.2% dive took the market back to where it was almost a month ago, soon after the record 7.1% fall of January 22.

Japan's Nikkei also tanked, falling 3.3% while European markets were heading into the red last night.

Opes Prime Group director Julian Smith said the market volatility was making life harder for everyone. Mr Smith said market professionals were weathering rough seas, some leaning overboard, feeling very seasick. But others were feeling fortunate.

The dollar, which has been buoyed by high commodity prices, expectations of further interest rate increases and healthier sharemarkets, fell from a high of US92.37¢ to nearer US91.5¢.

As expected, wages grew 1.1% in October, November and December, and the annual growth rate equalled its previous record of 4.2%. The average annual growth rate since mid-1998 has been 3.6%.

Wages growth puts more pressure on official interest rates, which a majority of economists expect to be raised from 7% to 7.5% by May. On the commodity markets, West Texas intermediate crude for immediate delivery hit a record $US100.01 a barrel, while oil futures climbed as high as $US100.10, before falling under $US100 yesterday.

The weaker US dollar, concerns over supply from Venezuela, Nigeria and Russia and speculation that the Organisation of the Petroleum Exporting Countries (OPEC) will not increase production next month, have all combined to nudge oil to a record.

Gold has gained more than $US20 an ounce in the past two days, and was selling for as much as $US929.99 an ounce.

Copper for three-month delivery jumped $US216, to $US8190 a tonne on the London Metal Exchange.

While there was some good news for listed Australian companies, including CSL, Woodside Petroleum, Newcrest Mining, Macmahon Holdings and Lihir Gold, only 39 of the top 201 companies notched gains yesterday.

Among smaller companies, Karoon Gas jumped 24¢, or 11.4%, to $2.35 and Venture Minerals climbed as much as 16.4% on positive news from its Tasmanian iron ore mine. before slipping back to a 3.6% gain, at 28.5¢ a share. BHP Billiton fell $1.01 to $38.69, Commonwealth Bank tumbled $1.94 to $43.33 and Wesfarmers lost $2.78, or 7.5%, to $34.07.

Market darling Cochlear sank $4.20, or 7.2%, to $54.13 and Virgin Blue, which is looking for "expressions of interest", lost 15.5¢, or 10.5%, to $1.32. The company has lost more than a third of its value since the start of the year.

On the topic of private equity, US-based Pomona Capital chief executive Michael Granoff said the volatile market would throw up opportunities for private equity funds, but while credit markets were contracting there would be less money available to borrow.

"There's not a lot of 'L' in LBOs," he said, referring to the acronym for leveraged buy-outs.

Mr Granoff said private equity funds were still affected by the macro-economic environment but were usually most comfortable when everybody else was uncomfortable. "In some ways, the worse the news gets, the more opportunity is created," he said.

LINK

▶ To learn more about Kohlberg Kravis Roberts, go to www.kkr.com

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