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Hong Kong property: storm clouds

Conspiracy theorists suggest that Beijing rainmakers were behind downpours and thunder in Hong Kong yesterday. The umbrella revolution may have been armed for it, but the weather still damped the democracy protests.

The longer-term issues will not easily be washed away. Hong Kong's economy has benefited from its ties to the mainland since the Closer Economic Partnership Agreement was announced in 2003, as a post-Sars boost to the territory. But intransigence in the financial centre gives China an incentive to build a mainland alternative.

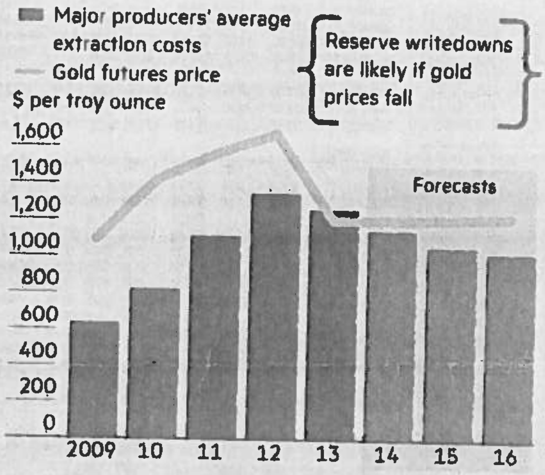
The increasingly tense relationship with the mainland is already hurting Hong Kong. Retail sales for the eight months to August have slowed to 1 per cent year on year, after growing at double digits each year this decade. High-value purchases, including watches and electronic goods, led the fall, dropping 16 per cent and 14 per cent, respectively.

If mainland Chinese remain reluctant to spend on jewellery or flats in Hong Kong, a slowdown is likely. Aspiring property owners might welcome it. Average prices for a Hong Kong island flat between 40 square metres and 70 sq m more than tripled between 2004 and July of this year, according to government estimates. A 70 sq m flat now costs nearly $1.2m (before taxes).

The Hong Kong government has made it clear that it wishes to keep a lid on prices. Early last year it raised stamp duty. Add in the likelihood of US rate rises, and the outlook for Hong Kong property is gloomy. Real estate expert Jones Lang LaSalle expects prices to weaken next year.

Some of this is already reflected in prices well below book value for Hong Kong developers including Henderson, Sino Land and Hang Lung Properties.

In the pot



Company	Gold price used to value reserves ($ per troy ounce)
Yamana	950
Randgold	1,000
AngloGold Ashanti, Barrick	1,100
Agnico Eagle, Kinross	1,200
Eldorado, Newcrest	1,250
African Barrick, Gold Fields, Goldcorp, Newmont	1,300
Harmony, Iamgold	1,400

Sources: Credit Suisse; Bloomberg; BMO capital markets

Gold producers: mine, all mine

If gold rusts, what shall iron do, asked Geoffrey Chaucer in the prologue of his *Canterbury Tales*. Traders have answered the second question. This year the lesser metal has collapsed to five-year lows. Gold could follow soon. For the third time in 15 months, its price nears a significant level: $1,180 an ounce. If gold goes lower, mining company executives will start to fidget about pricing impairments on reserves for the year end accounts.

Gold mining stocks have struggled. MSCI's Gold Miners index has lost 70 per cent since peaking in September 2011. According to Credit Suisse, producer costs sit near $1,150; too close for comfort.

Accounting rules require miners to calculate the value of their reserves based on recent prices. If prices fall too much, the miners need to charge impairments through the income statement. A drop in the gold price below $1,180 could bring more of these charges. For example, Newmont, a top three producer, has used $1,300 to price its reserves. Others, such as Randgold, employ a more conservative price.

But few of the majors have assumed prices falling to $1,000. It would mean some of their reserves become uneconomic to produce. Expect a psychological shift soon.

Gold never tarnishes but its value does. Costs are too close to current prices. As the stronger dollar depresses gold's price, that will dig into the profits of the miners.

when it will happen. The Fed has expressed concern about the housing market, which is not rising in step with the rest of the economy. So for the time being, net interest margins will remain squeezed. A stronger dollar also makes US banks' services abroad more expensive (although it supports asset

new internet users in the developing world, are expected to help fibre optic component sales reach $80bn annually in 2018 from $47bn this year, according to Global Industry Analysts. JDSU has captured only a small part of this. Its sales of optical components and lasers are $800m annually, and growing