

darkened significantly," Chihiro Ota, general manager of investment research at SMBC Nikko Securities, told Kyodo News.

The yen, considered a safe haven by investors in times of market tumult,

strengthened against the dollar, with the US currency trading in the 119-yen

range on Tuesday morning.

Recent surges by the yen have caused alarm in Tokyo, since a stronger yen hits profits made overseas by Japanese manufacturers, the driving force of the world's

third-biggest economy.

On Wednesday, all eyes will be on Japan's Tankan report - an important indicator

of how much confidence companies have in the prospects for economic recovery.

For now, global concern is centered on China, where industrial companies' profits

fell at their fastest rate in four years, official data showed on Monday.

"There is a lot of red in Asian equity markets at the moment," said Martin King, co-managing director at Tyton Capital Advisors. "Disappointing industrial profits in China continue to bolster concerns about growth and many investors are taking profits from the Nikkei and citting in each and alternatives, or reputriating capital



Shipping and steel companies were among the hardest hit on Tuesday, as they are more vulnerable to drops in demand from China, the world's second-biggest economy.

Japan's Topix iron and steel subindex lost 5.2%, with Kobe Steel slumping 11.1% after it cut its earnings outlook.

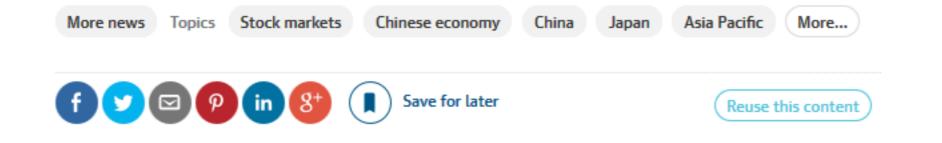
"The steel sector has been heavily impacted by China's slowdown because more than 50% of the demand is there," said Takashi Enomoto, an analyst at the Bank of America Merrill Lynch. "But Japanese steel companies will be hurt a little less than others by the shrinking demand because of the domestic demand from automotive players."

The week had already got off to a rocky start, with all major indices on Wall Street closing sharply down on Monday.

The S&P 500 index hit a one-month low on bullish US consumer spending data in August as it raised concerns the Federal Reserve could hike rates at a time of slackening global growth.

Although the Fed decided not to raise interest rates at its meeting earlier this month - citing concern over China - speculation is building that the central bank could approve a rate hike as early as next month.

In a note to clients on Tuesday, Sean Callow, senior currency strategist at Westpac in Sydney, said: "Markets have heard such talk before and with equities under pressure, it was hard to take rate hike talk seriously."



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