Bloomberg Businessweek

Tuesday May 18, 2010
Bloomberg

China Stocks Fall to Seven-Month Low on Slowing Economy Concern

April 27, 2010, 2:39 AM EDT

April 27 (Bloomberg) -- China's stocks fell, driving the benchmark index to a seven-month low, on concern government measures to cool the property market will damp consumer spending and curb demand for raw materials.

Air China Ltd. plunged 6.8 percent, leading a decline by carriers, amid speculation institutional investors are taking profit in the shares. China Vanke Co., the largest listed property developer, lost 2.4 percent after profit halved from the previous three months. PetroChina Co. and Jiangxi Copper Co., the nation's biggest oil and copper producers, tumbled at least 3 percent as crude and metal prices declined.

"The property industry is one of the pillars of China's economy and the effects of a downturn would filter throughout the whole economy," said Zhang Xiuqi, a Shanghai-based strategist at China International Fund Management Co., which oversees about $10.2 billion.

The Shanghai Composite Index slumped 99.39, or 3.4 percent, to 2,870.11 as of 2:24 p.m., set for its lowest close since Sept. 30. The measure has plunged 13 percent in 2010, the world's third-worst performer, as the government unwound monetary stimulus and stepped up measures to prevent a housing bubble inflated by record lending last year.

The CSI 300 Index declined 3.5 percent to 3,062.46. Futures on the CSI 300 expiring in May, the most active contract, slid 3.4 percent to 3,114.

'Lack of Confidence'

Air China, the nation's largest international carrier, dropped 6.8 percent to 12.88 yuan. The shares had rallied 42 percent this year before today. China Southern Airlines Co., the biggest carrier by fleet size, retreated 7.1 percent to 8.2 yuan. China Eastern Airlines Corp., the second largest, fell 4.9 percent to 9.21 yuan.

"Some institutional investors are selling for lack of confidence in economy," said Li Lei, an analyst at China Securities Co. in Beijing. "Airlines account for quite a big proportion of institutional investors' portfolios and they have made quite a lot of profit."

Chinese insurers have lowered their equities holdings by 2 to 3 percentage points since April to between 7 percent and 8 percent of their portfolios, Shanghai Securities News reported today, citing responses from unidentified insurance companies. Insurers sold developers, banks and coal miners, the report said.

China has ordered higher mortgage rates and down-payment ratios since property prices jumped 11.7 percent in March, the most since comparable data began in 2005. The government has also barred loans for third-home purchases and reinstated a sales tax on homes.

'Spillover of Euphoria'

The government's measures "will have significant impact on the market," Vanke said in a statement yesterday. "It is believed that the trend of rapid rise in housing prices in the popular cities will end and the spillover of euphoria to other cities will stop."

Vanke dropped 2.4 percent to 7.61 yuan, extending its loss this year to 30 percent. The Shenzhen-based developer yesterday reported first-quarter profit fell 53 percent from the three months ended Dec. 31.

Vanke offers "opportunity" for investors because the largest property stocks will benefit from industry consolidation amid government steps to curb real estate prices, said Martin Lau, director of Greater China equities at First State Investments.

Chanos, Fan

China is "on a treadmill to hell" because it's hooked on property development for driving growth, hedge fund manager James Chanos said in an interview this month. As much as 60 percent of the country's gross domestic product relies on construction, Chanos said.

Chanos is overly pessimistic about China's property market because he underestimates government efforts to avoid a bubble, Fan Gang, a former People's Bank of China adviser, said in a Bloomberg Television interview recorded in Hong Kong yesterday.

PetroChina dropped 3 percent to 11.84 yuan, the lowest in a year, as crude oil fell 0.7 percent to $83.64 in after-hours trading in New York, extending yesterday's 1.1 percent slide.

Copper declined as much as 1.4 percent to 60,600 yuan a ton in Shanghai. Aluminum lost 0.3 percent in London, lead slumped 1.8 percent, zinc retreated 1.1 percent and nickel was down 0.9 percent.

Jiangxi Copper fell 3.8 percent to 33.79 yuan. Aluminum Corp of China Ltd., the nation's biggest producer of the metal, slumped 4.9 percent to 11.58 yuan. Zhuzhou Smelter Group., China's biggest zinc smelter, lost 6.9 percent to 13.20 yuan, the most in a week, after saying first-quarter profit fell 73 percent.

Wuhan Iron & Steel Co., the publicly traded unit of China's third-biggest steelmaker, dropped 3.8 percent to 5.56 yuan, its lowest since Jan. 13, 2009. The company had its 2010 per-share earnings forecast cut 34 percent by analyst Luo Wei at China International Capital Corp., who cited lower-than-estimate first-quarter profit.

“Investors are turning panicky because they have no idea what impact the government’s crackdown on property will have on the economy,” said Zheng Tuo, president of Shanghai Good Hope Equity Investment Management Co. “The sell-off reflects their uncertainty.”

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