Bloomberg

China Stocks Rise for Third Day on Policy, Property Speculation

By Weiyi Lim - Jul 3, 2012

China's stocks rose for a third day as a pick-up in the property market helped the nation's service industries expand at a faster pace and speculation grew the government will further ease monetary policy.

China Vanke Co. led a gauge of property developers to the biggest gain in three weeks, as the China Securities Journal reported the central bank may make cutting lenders' reserve ratios the top choice for increasing liquidity. Liquor maker Kweichow Moutai Co. (600519) rose 5.4 percent after Citigroup Inc. recommended an overweight allocation on consumer companies. Sany Heavy Industry Co. paced declines for machinery stocks on concern the economic slowdown is hurting construction activity.

The Shanghai Composite Index (SHCOMP) added 0.1 percent to 2,229.19 at the close. The CSI 300 Index (SHSZ300) rose 0.1 percent to 2,468.72. The Bloomberg China-US 55 Index (CH55BN), the measure of the most-traded U.S.-listed Chinese companies, lost 0.7 percent yesterday.

"There's speculation of reserve-ratio cuts again this month and the government is expected to have more policies to boost the market," Zhang Qi, an analyst at Haitong Securities Co., said in Shanghai. "Stocks dropped too much last month so we are seeing a rebound in July."

The Shanghai gauge is rebounding from a 6.2 percent plunge in June that made it Asia's worst performer last month. The gauge trades at 9.8 times estimated profit, compared with the average of 17.5 since Bloomberg began compiling the data in 2006. The Shanghai index has gained 1.4 percent this year on speculation the government will loosen monetary policy to bolster economic growth as inflation slows.

Policy Outlook

Cutting reserve requirements may become the top choice for the People's Bank of China to increase liquidity in the banking system, according to a commentary on the front page of the China Securities Journal today. The time is ripe for a cut and continued reductions would help stabilize the cost of funds and financial market operations, according to the commentary.

The central bank has cut lenders' reserve-requirement ratios three times since November and lowered interest rates last month for the first time since 2008.

China's June non-manufacturing Purchasing Managers' Index rose to 56.7 in June from 55.2 in May, the first gain in three months, according to the National Bureau of Statistics and Federation of Logistics and Purchasing. A reading above 50 indicates expansion.

The result is among signs that growth in the world's second-largest economy may steady after Chinese manufacturing indicators beat forecasts and leaders stepped up stimulus to counter a slowdown and maintained property curbs aimed at lowering home prices.

Developers Rally

China Vanke, the biggest Chinese developer, gained 1.6 percent to 9.12 yuan. Poly Real Estate Group Co., the second largest, increased 3.2 percent to 11.97 yuan. A gauge of developers in the Shanghai Composite rose 1.8 percent, the most among five industry groups and the largest gain since June 12.

The central government may not introduce new measures to curb the property market as it has already placed priority on stabilizing the market, the 21st Century Business Herald reported today, citing Chen Guoqiang, vice chairman of the China Real Estate Society.

New home prices rose for the first time in 10 months in June as the government eased its monetary policies to bolster the economy, SouFun Holdings Ltd., the nation's biggest real estate website owner, said yesterday.

Stocks Oversold

China's stocks appear oversold, as macro and market indicators are near historical lows, Citigroup said in a report today. A rebound is likely once "uncertainties" start to clear, Minggao Shen and Ben Wei, analysts at Citigroup, wrote in the report. Besides consumer companies, they are overweight property stocks, utilities, brokerages, insurers, health-care companies and industrial shares.

Sichuan Swellfun Co., which makes spirits, advanced 2.5 percent to 27.36 yuan. Kweichow Moutai surged 5.4 percent to 254.94 yuan, a record close. Investors should buy shares of companies such as consumer-staples producers, whose earnings may be sheltered from the slowdown, Hao Hong, head of Chinese research at Bank of Communications Co., said June 28.

Chinese machinery stocks fell as slumping land sales and the prospect of slowing loan growth signaled less construction activity. Sany Heavy, China's biggest machinery maker, tumbled 3.3 percent to 13.40 yuan. Zoomlion Heavy Industry Science & Technology Co. (000157), the second-biggest maker of construction equipment, slid 3.2 percent to 9.85 yuan.

Loan Outlook

Residential land sales halved in 300 Chinese cities last month, according to SouFun. Industrial & Commercial Bank of China Ltd., the nation's largest lender, and its three closest rivals cut lending to less than 190 billion yuan ($30 billion) in June, three newspapers reported.

New loans by ICBC, China Construction Bank Corp., Bank of China Ltd. and Agricultural Bank of China Ltd. decreased to about 188 billion yuan last month from 250 billion yuan in May, the Securities Times reported today, without citing anyone. The figure was about 180 billion yuan, the Shanghai Securities News said, without saying where it got the information.

"Though China's economy has been weaker than we have expected so far this year, it strengthens our belief that both central and state governments will take measures to prevent an even sharper slowdown," Simon Flood, Singapore-based chief investment officer at Lion Global Investors Ltd., said in an e- mailed interview.

China's yuan-denominated stocks may have more "short-term catalysts" than Chinese equities listed in Hong Kong because of government measures to limit the oversupply of initial public offerings, relax regulations for foreign investors and push state-owned companies to boost dividend payout ratios, he said.

China may get 200 to 250 initial public offerings this year, raising up to 250 billion yuan, PriceWaterhouseCoopers said at a briefing in Shanghai today. That compares with 282 IPOs in 2011 that raised 286.1 billion yuan.

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