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China stocks rise as Beijing's emergency moves brings some relief

SHANGHAI | BY SAMUEL SHEN

Chinese stocks rose on Monday, as an unprecedented series of support measures unleashed by Beijing brought some relief to a market whose headlong slide over the past three weeks had raised fears about the stability of the world's second-biggest economy.

In an extraordinary weekend of policy moves, brokerages and fund managers vowed to buy massive amounts of stocks, helped by China's state-backed margin finance company, which in turn would be aided by a direct line of liquidity from the central bank.

The CSI300 index .CSI300 of the largest listed companies in Shanghai and Shenzhen closed up 2.9 percent, while the Shanghai Composite Index .SSEC gained 2.4 percent.

That represented a significant pullback, however, from an initial burst of euphoria that pushed both indexes up around 8 percent when trading began, raising questions about whether the rebound can be sustained.

Oliver Barron, China policy research analyst at NSBO, said it wasn't just faith in the markets at stake after investors had ignored official measures to prop up equities as indexes slid around 12 percent last week.

"After the market continued to fall despite myriad support measures, the government reached peak panic mode and must have worried that investors would not only lose confidence in the markets, but in the government itself," he said.

The rapid decline of China's previously booming stock market, which by the end of last week had fallen around 30 percent from a mid-June peak, had become a major headache for President Xi Jinping and China's top leaders, who were already struggling to avert a sharper economic slowdown.

In response, China has orchestrated a halt to new share issues, with dozens of firms scrapping their IPO plans in separate but similarly worded statements over the weekend, in a tactic authorities have used before to support markets.

Traders have also complained that some firms may be ducking out of the market turmoil by seeking a trading suspension, as an unusually large number of companies - about a quarter of all those listed in Shanghai and Shenzhen - have filed for a halt.

Recent falls in commodity markets, which are sensitive to expectations of Chinese demand, underline the broader fears among global investors about the strength of the economy.

Shanghai copper SCFcv1 posted its steepest daily drop in 5 months on Monday, Chinese steel prices SRBcv1 are at their lowest level since the depths of the global financial crisis and iron ore .IO62-CNI=SI has fallen 17 percent since mid-June. [COM/WRAP]

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BANKS SURGE, SMALL CAPS SLUMP

Monday's stock market gains were focused on blue chips, the explicit target of the stabilization fund, particularly the big banks, with the likes of Bank of China (601988.SS), Agricultural Bank of China (601288.SS) and ICBC (601398.SS) all surging nearly 10 percent.

In contrast the ChiNext growth board .CHINEXTC, home to some of China's giddiest small-cap valuations, fell 4.5 percent.

"Whether the blue chips will calm the small caps, or the small caps will continue to unsettle the rest of the market remains to be seen," wrote Hong Hao, chief strategist of BOCOM International.

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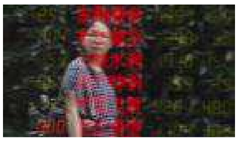

Beijing rushes to the aid of battered markets

Hong Kong shares fell .HSI, widening the valuation gap between the domestic "A" and Hong Kong "H" listings of Chinese firms, with foreigners net sellers through the Connect scheme that connects the Hong Kong and Shanghai exchanges.

China stocks had more than doubled over the past year, despite a cooling economy and weakening corporate earnings, resulting in a market that even China's bullish securities regulators eventually admitted had become too frothy.

But the slide that began in mid-June quickly showed signs of getting out of hand.

A surprise interest-rate cut by the central bank at the end of June, relaxations in margin trading and other "stability measures" did little to calm investors, many of whom have borrowed heavily to play the stock market.

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In a series of announcements on Saturday, China's top brokerages pledged to collectively buy at least 120 billion yuan ($19.3 billion) of shares to help steady the market, and said they would not sell while the Shanghai Composite Index remained below 4,500, a level last seen on June 25.

Underlining scepticism beyond mainland China about the sustainability of the measures, Hong Kong listed shares of Chinese brokerages took a beating on Monday.

In addition, 28 companies that had been approved to launch IPOs announced they had suspended their plans.

The U-turn is consistent with past IPO freezes in China when share markets were falling sharply, though they are usually spun as spontaneous company decisions, not as government directives.

The aim was to signal to China's army of retail investors, who conduct around 85 percent of share transactions, that the government is standing behind the market.

Analysts cautioned, however, that the latest policy moves may only bring short-term respite.

"The government measures are only aimed at stabilizing the market, and providing an exit for those who want to get out," said Liu Li, analyst at Shanxi Securities Co.

"Theoretically, the central bank's money is unlimited, but you cannot expect the government to use public money to buy shares which are still expensive, such as ChiNext shares."

(Additional reporting by Pete Sweeney in Beijing and Donny Kwok in Hong Kong; Writing by Alex Richardson; Editing by Will Waterman)

A woman is reflected on an electronic board showing stock information at a brokerage house in Shanghai, China, July 3, 2015.

Reuters/Aly Song