theguardian

China's stock freefall stabilised, but much-needed turnaround not achieved

Shares bounced more than 10% after more than 20 major institutions pledged to spend 120bn yaun, but small investors' panic slashed figure to final gain of 2.4%

Phillip Inman and Jennifer Duggan in Beijing

Monday 6 July 2015 18.51 BST

China's stock market collapse, which has knocked almost a third off share values since June, appeared to have been stemmed on Monday after Beijing authorities orchestrated a massive spending spree by Chinese financial institutions to bolster the market.

The Shanghai Composite Index initially bounced more than 10%, after more than 20 major stockbrokers and fund managers pledged to pump at least 120bn yuan (£12.3bn) into the market and started hoovering up shares in some of the country's largest businesses.

But hopes of a major turnaround in the fortunes of the Shanghai exchange were dashed after much of that initial rise was lost as small investors continued to panic over the safety of their investments. The final gain was 2.4%.

More than £2tn has been wiped off the value of Chinese-listed companies since 12 June, when concerns about a stock market bubble gripped investors and triggered a bout of panic selling.

China's stock markets had previously been among the top performing in the world, and had hit a seven-year peak in the middle of June. The Shanghai stock market had surged more than 150% in 12 months, but it has fallen 30% over the past three weeks - including a plunge of 12% last week.

State media reported over the weekend that the Chinese government, along with the securities regulator and financial institutions, had launched a joint effort to prevent more losses.

Most of the funds were pumped into banks and state companies, which saw their value soar. Shares in PetroChina, Asia's biggest oil producer, rose by up to 10% following the move.

New share offerings were also suspended on orders of the state council. Twenty-eight Chinese companies with permission to float on the Shanghai exchange said that they would postpone further issues of shares.

Meanwhile, the People's Bank of China made a commitment to provide liquidity for China Securities Finance Corp, a state-owned company that provides insurance to cover stock market dealing.

Some analysts seemed confident the actions would have a positive impact on China's stock markets.

Shao Yu, chief economist with Orient Securities said the actions taken were clever. "I think it will stabilise the market. Of course there will be some fluctuation, but more and more money put into the market - I think it will be helpful to keep the market steady," he said.

However, Shao added that he did not expect the market to reach the heights it had previously.

Previous efforts to keep share prices from falling, including interest rate cuts and plans to investigate short sellers, proved unsuccessful.

Oliver Barron, China policy research analyst at broker NSBO, said the selloff posed profound questions for the government. "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.

China's stock market is made up of mostly individual investors, rather than institutional investors. Almost 90 million people hold shares and up to 1.4 million new investors a week have been opening stock accounts. According to media estimates, the average loss of individual stock accounts has been about 420,000 yuan (£43,000).

Meanwhile, a man has been detained by police in Beijing for allegedly spreading a rumour that someone had committed suicide due to the stock market slump.

The 29-year-old man, a project manager with a technology company, posted the information along with video clips and screenshots, according to the state news agency Xinhua. His post quickly spread and provoked a lot of online debate, particularly among those who had invested on the stock market.

More news

Topics

China
Asia Pacific
Stock markets
Chinese economy
Global economy
Economics