WorldViews

In China, hostile foreign forces blamed for bursting stock market bubble

By Simon Denyer and Xu Jing July 2

There are now officially more stock market investors in China than there are Communist Party members, Bloomberg reported this week. But if capitalists now definitively rule China, they have had a very rough few days.

China's stock market slumped again Thursday, despite fresh moves by regulators to arrest a decline that has seen the benchmark index in Shanghai lose 24 percent since June 12 and $2.4 trillion wiped off equity valuations.

Reuters said the decline "raised questions about how much more firepower Beijing can bring to bear before a full-scale panic sets in."

The latest weapon appears to be a good old-fashioned dose of nationalism, as opinion leaders took to social media to urge investors to hold onto shares for the glory of the Chinese nation.

"Believe in my country," Cao Zenghui, deputy general manager of Sina Weibo, whose company runs China's main microblogging service and who personally has more than 100,000 followers, posting a national flag as his profile image. "It is not just a stock market issue any more. I will fight with forces who short China's economy. No eggs can remain unbroken when the nest is upset."

The Shanghai Composite index fell 3.5 percent Thursday, closing below the psychologically important level of 4,000, one that many investors had believed the authorities would defend by buying shares.

The market had surged 150 percent in the year to June 12, most of those gains recorded in the past eight months. Some saw the authorities' hand in that feverish bull market, in an attempt to boost personal wealth and consumer spending at a time when economic growth is slowing and the property market has been weak.

But if so, it is in danger of backfiring.

In the past few days, Chinese authorities have eased monetary policy, suggested more pension funds would invest in stocks, cut trading fees and even relaxed rules on using borrowed money to speculate in the markets. But none of it has provided more than short-lived relief.

Retail investors dominate the market, and many are believed to have borrowed heavily to reap quick profits when the market was rising, Reuters says. Now, some are being forced to withdraw to avoid losing money they don't have.

In the past few days, rumors have circulated on the Wechat messaging service that "international capital" — or simply capitalism itself — was attacking China. Goldman Sachs and the Hong Kong office of China Southern Asset Management were supposed to be profiting from short-selling the market – rumors that were later rubbished by the China Securities Regulatory Commission. On Thursday, Chinese media also implied that George Soros or Morgan Stanley might be to blame.

Fan Shaoxuan, a senior executive at Weibo TV who has more than 12,000 followers on Sina Weibo, posted a photograph showing the slogans: "Hold stocks with confidence. Win glory for the country even if you lose the last penny."

Hostile foreign forces often get blamed for trying to undermine China, and were said by the government to be behind pro-democracy demonstrations in Hong Kong last year.

Columnist Liao Baoping wrote that rumors of an attack by international capital often arise when the market falls sharply, "because people want to combine speculative behavior with national security and hope the Chinese government will introduce more policies to save the market."

People use international conspiracy theories as excuses, he argued, because they don't want to admit to losing money because of their own misjudgment.

Experts say more action by the authorities, like the suspension of Initial Public Offerings (IPOs) or the outright buying of shares by state-owned companies, are possible.

"The government has more tools it could use to support equities, but these moves could be short-lived if investors remain negative," wrote Oliver Barron of NSBO in a research note cited by Reuters.

"Retail investors account for about 85 percent of turnover, and the recent correction has greatly endangered their belief in the capital market opening up and reform, and might even cause social unrest."

In a research note cited by the Financial Times on Monday, Anne Stevenson-Yang of JCap Research said market valuations had nothing to do with financial fundamentals of quoted companies, saying it was “more a game of Russian roulette now than a reasoned calculation of future share values.”

The Chinese equity market now has more than 90 million individual investors, according to China Securities Depository and Clearing Co., compared to the Communist Party's 87.8 million reported members at the end of last year.

"Ultimately, market participants all understand that the A-share bubble has been engineered to distract the average person from sinking values and illiquidity in the property markets," Stevenson-Yang wrote, predicting that efforts to prop up the market would ultimately fail and the bubble would eventually burst, as indeed now seems to be happening.

"The pools of cash owned by Chinese people are regularly redirected to the asset classes that the government needs to rise and that elites are tapped into, and it behooves the political elite to delay recognition for as long as possible of the drastic losses that are in those assets and would be proven beyond doubt if left to market forces," she wrote, according to the FT.

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