

Financial Standard

China's investor confidence crisis

Wednesday, 23 Jan 2008 12:03PM

Following a decade-long bear market that led to a huge sell-off in the 1990s, China's investors have experienced spectacular stock gains since the wave of partial privatisations two years ago.

But a dramatic sell-down that shaved 10 per cent off share prices over the past two days is igniting fears that China's spectacular stock market boom is fast waning.

Analysts fear that Tuesday's 7.2 per cent drop on The Shanghai composite index in response to global fears over a recession in the US could unleash an even greater wave of selling in ensuing weeks. The Shenzhen composite also fell 7.7 per cent while Hong Kong's bellwether index, the Hang Seng plunged 8.7 per cent to close a third down on its 31,600 high.

Economists aren't calling an end to China's bull market just yet. But Jing Ulrich, analyst with JP Morgan said most now believe the prospect of stock gains within a weakening global economy could significantly dampen growth prospects in China.

Last year officials in Beijing repeatedly warned investors that prices could fall sharply. But they have refrained from issuing similar statements following the most recent stock price plunge.

However, some analysts suspect the Chinese government will be forced to intervene and restore confidence, especially in the lead-up to the country's global economic showcase — the Olympic games.

Despite rising food and energy prices and a credit tightening, China's underlying growth prospects appear to remain robust. In fact, China's exports exceeded America's for the first time last year.

However, the more immediate challenge, according to Qian Qimin, Shanghai-based analyst at Shenyin & Wanguo Securities is investor sentiment. He says after two years of unprecedented stock gains, many of China's investors may start locking-in their profits in fear that the party is ending.

One big future risk is the rumor that some big investors might pull all their money out before the Olympics actually starts in August.

What's fuelling these worries, said Shanghai-based economist at Standard Chartered Bank Stephen Green is growing consensus among investors and analysts alike that Chinese stock prices have risen too sharply, belying stock-price valuations seen in global markets.

Mark Story