China stock market goes from bear to bull

QINGDAO, China: Stock investors talk to each other as they check share prices at a security firm yesterday in eastern China's Shandong province. — AFP

SHANGHAI: China's stock market is set to finish 2014 as the second-best performer in the world after soaring almost 50 percent in a borrowing-fuelled, government-backed rally following four years in the doldrums. The benchmark Shanghai Composite Index had surged 49.61 percent by the close on Tuesday, the penultimate trading day of the year, putting it behind only Argentina among global markets, according to figures from the Wall Street Journal's Market Data Center. By contrast, in recent years it has slumped even as other bourses around the world gained, losing more than 35 percent between 2010 and 2013.

This year's transformation came despite weakening momentum in the world's second largest economy, where growth hit a five-year low of 7.3 percent in the third quarter and the slowdown is seen persisting in 2015. "This rally runs contrary to macro-economic fundamentals," said BOC International analyst Shen Jun. "It's driven by financial leverage and encouraged by government policies." The leap was triggered by an interest rate cut in November and powered by liquidity, with a boom in margin trading - investors using borrowed funds to trade stocks with only a small portion of money put down as deposit - after authorities loosened controls on the practice.

A long-awaited move to link trading on the Shanghai and Hong Kong exchanges in November also raised expectations for a flood of incoming capital. In December the market broke above the key 3,000-point level - and also recorded its biggest single-day decline in more than five years, of 5.43 percent. It closed Tuesday at 3,165.82. A survey of five major domestic brokerages showed most expect the Shanghai index to carry on rising in 2015 and peak between 3,500 and 3,600 points, although they expect it to fall back to 3,200 to 3,300 by year-end.

Earlier this year the government sought to talk up the market, with China's official Xinhua news agency publishing nine articles in four days in August highlighting low stock valuations and the need to reinvigorate the market to "revitalise" the domestic economy and deepen economic reforms.

'Heat has Built Up'

Authorities are looking to use the stock market to funnel funds to cash-hungry companies, especially private firms that often have difficulties securing loans as state banks prefer to lend to state-owned enterprises, according to analysts. The government wants to turn the exchange "into a financing platform to breathe life into China's economy", said Central China Securities strategist Zhang Gang.

Officials also realise that rising stock markets are popular, with most investors being individuals rather than big institutional players, while a downturn in the domestic property market has heightened stocks' appeal. "The heat has built up in the market and that's what the policymakers want to see," said Shen of BOC International. But the abrupt turnaround in market sentiment now has regulators warning of risk, and some analysts question how long the rally can be sustained, while Xinhua has reversed its previous stance. "Beware of the mad bull stopping on the way for a rest and weigh the risks lurking behind the rapid rise of A-shares," it said in a commentary this month, referring to stocks denominated in Chinese yuan and traded on the mainland.

December's one-day correction came after authorities tightened the use of corporate bonds as collateral for short-term financing - a move that could curb investors' ability to trade on margin - and moved to inspect brokerages' fast-expanding margin trading business for irregularities. But retail investors could stay for the ride for fear they will miss out on further gains, analysts said. For 2015, Haitong Securities forecasts the Shanghai index will peak at around 3,500 before easing gradually to end the year at the 3,200 level, and its analyst Zhang Qi told AFP: "It may be that an advancing market will bring in more funds." Experts say they expect greater volatility in the coming year. UBS Securities strategist Chen Li wrote in a research report: "Fasten your seat belts for a bumpy road ahead." — AFP

ZOUPING, China: A worker puts a LED light on a showcase at a factory in eastern China's Shandong province yesterday. — AFP

China to maintain monetary policy, steady credit growth

BEIJING: China's central bank said yesterday it will keep implementing prudent monetary policy next year and use various monetary tools to maintain adequate liquidity and reasonable growth in credit and social financing. "(The central bank) will continue to implement prudent monetary policy and keep policy continuous and steady," Central Bank Governor Zhou Xiaochuan said in his New Year's address on the central bank's website. The People's Bank of China will pay more attention to fine tune policies when necessary, Zhou said.

In a separate statement summarising its fourth-quarter monetary policy committee meeting, the central bank said it would push ahead with interest rate and yuan exchange rate reforms. It also noted that China's economic growth remained within a reasonable range. The central bank unexpectedly cut interest rates for the first time in two years on Nov 21, while the economic planning agency has been approving more infrastructure projects to help spur growth.

The government is expected to announce more stimulus, such as cutting bank reserve ratios or interest rates, to ward off a sharper growth slowdown that could fuel job losses and debt defaults. Activity in China's factory sector shrank for the first time in seven months in December, a private business survey showed on Wednesday, highlighting the urgency behind a series of surprise easing moves by Beijing in the past two months.

The final HSBC/Markit Purchasing Managers' Index (PMI) for December came in at 49.6, just below the 50.0 level that separates growth from contraction. The number was slightly higher than a preliminary "flash" reading of 49.5 but down from the final 50.0 in November. — Reuters

China rail firms look abroad with merger

SHANGHAI: The merger of China's top two train makers will create a "world-leading" rail supplier to compete with foreign players, they said, as enthusiastic investors sent their share prices surging yesterday. State-owned firms China CNR Corp and CSR Corp will unite into a single huge conglomerate, preventing in-fighting between the two as China vies for lucrative rail contracts overseas against industry giants such as Germany's Siemens and Bombardier of Canada, analysts said.

In Hong Kong, CNR shares soared 45.17 percent to HK$11.12 while CSR surged 32.32 percent to HK$10.44 in a half-day of trading before the New Year holiday. In Shanghai both firms rose by the market's daily 10 percent limit by midday, with CNR reaching 7.10 yuan and CSR 6.38 yuan. Shares of the companies had been suspended for two months pending formal announcement of the merger, which was flagged by Chinese media in October.

"Through the merger, CSR and CNR propose to build jointly a brand-new, multinational world-leading supplier of high-end equipment and systems solutions with rolling stock at its core," the companies said in a joint statement. "The merger is expected to improve efficiency in the use of resources, effectively reduce operating costs and realise the internationalisation strategy, thereby promoting competition globally," it said.

CNR gained recognition in October by securing a deal to supply metro trains to the US city of Boston. Separately, CSR was part of a consortium that won a $3.75 billion high-speed railway contract from Mexico in early November, but the deal was cancelled shortly afterwards amid questions over the legality of the bidding process. CSR is also known for a 2011 scandal in which one of its high-speed trains crashed near the Chinese city of Wenzhou, killing 40 people and sparking an investigation that found evidence of bribery in railway construction.

Fast Track

The merger still requires approval by shareholders and government agencies, the statement said. In the all-share deal, CSR will issue new stock to existing CNR shareholders to absorb the other company. The newly-merged entity will be called CRRC Corp., it said. The firms actually share the same origin, a rail vehicle manufacturer spun off from the former railway ministry in 2000 and split into two. Analysts said the new company could potentially undercut rivals on prices by becoming more efficient, while avoiding the original firms being rivals for the same deals as in the past.

"The merger will now give China an edge for overseas contracts without them competing against each other," BOC International analyst Shen Jun said. But he added merging the two firms' operations could take some time. "They won't necessarily have an edge over others in terms of technology or production in the short term because it will still take a long time for the two companies to combine their technology and personnel," Shen said.

The two firms control the market for high-speed rail in China, each producing trains capable of travelling up to 380 km per hour, the official Xinhua news agency said. Together they also account for 80 percent of goods trains and the majority of subway trains. China's high-speed rail network is the largest in the world with more than 11,000 km of track in service during 2013, with the total expected to reach 16,000 km by 2020, according to official media. — AFP

Mainland's colonization of Hong Kong economy

Chinese companies consume big chunks of key sectors

HONG KONG: When Xi Jinping wanted to deliver a political message to Hong Kong as protesters demanding free elections were threatening to take to the streets, he summoned the tycoons who dominate the city's economy. The words from the Chinese leader at the Sept 22 meeting in Beijing were uncompromising but not surprising. He would not entertain any demand for full universal suffrage in Hong Kong, according to two people who attended.

Just six days later, pro-democracy activists made good on their threat, unleashing more than two months of street demonstrations. But while Xi's message that day in the Great Hall of the People failed to deter the protesters, in speaking directly to the city's business and professional elite he was showing where Beijing believes real power in Hong Kong resides.

And it is here, in the city's business sector, that China is inexorably tightening its grip on the former British colony. Even as Beijing struggles to tame Hong Kong politically, Chinese companies are consuming ever bigger chunks of the city's key sectors including real estate, finance, power, construction and the stock market. Many of these industries have for decades been dominated by the business titans who attended the meeting with Xi. Men like Li Ka-shing, Asia's richest man, casino and hospitality billionaire Lui Che-woo and palm oil magnate Robert Kuok. Now they are witnessing a mainland business invasion of the city.

One of the most telling signs of change is the space mainland Chinese companies lease in Central district, the heart of Hong Kong's financial centre. These firms now account for over 50 percent of new leases signed for offices there, according to a September report from Hong Kong-based brokerage CLSA. That's up from 20 percent in 2012, the report said. The trend is the same in all major business districts. Mainland occupancy of 25 key Grade A office buildings, or prime office space, in the districts of Central, Admiralty, Sheung Wan and Wan Chai increased from 13 percent in 2008 to 21 percent earlier this year, according to commercial real estate services firm CBRE.

"We do expect more mainland financial firms moving into Hong Kong," said Simon Smith, senior director of research and consultancy at real estate services provider Savills Plc in Hong Kong. "They like landmark properties, high-profile buildings. They often like naming rights if it's available."

'Price is Not an Issue'

The office directory at Hong Kong's 88-floor International Finance Centre has a growing number of mainland companies on the list. Among them is China Development Bank International Holdings Ltd, which held its opening ceremony in 2011 and serves as the offshore investment firm of China Development Bank, the country's biggest policy lender. "If you go to the International Finance Centre now and compare it to five years ago, it's very easy to see that there are many more Chinese enterprises represented," property analyst Nicole Wong, an author of the CLSA report, told Reuters.

In a market accustomed to stratospheric land prices, state-owned Chinese developers this year stunned long-established local property giants with winning bids exceeding auction forecasts by up to 20 percent. Of the six available plots sold since the middle of last year in Kai Tak district, one of Hong Kong's largest developments of residential and commercial complexes, two went to China Overseas Land & Investment (COLI) and one to Poly Property Group.

"Price is not an issue for them," said a former senior executive of a Hong Kong-listed developer who was responsible for bidding at land auctions before he left the company in June. "That's why they offered prices that surprised everyone." A spokesperson for Poly said the company had no comment. COLI did not respond to questions sent by email.

While it was predictable business ties would expand after the 1997 handover, Beijing has made it clear that economic integration is central to reinforcing its sovereignty over Hong Kong, which is ruled under the one country, two systems model that affords the city's 7.2 million residents broad personal freedoms. Part of Beijing's vision is to draw Hong Kong into a Pearl River Delta mega-economy that would also include the giant southern Chinese cities of Shenzhen and Guangzhou just across the border.

In 2011, a chapter was dedicated to Hong Kong for the first time in China's five-year blueprint for national economic development. The 12th Five-Year plan, covering the years from 2011 to 2015, lays out how Beijing wants to connect Hong Kong with the Pearl River Delta's increasingly prosperous middle class consumers.

'It Will be Like New York'

Under the plan, Hong Kong would be a leader for the region in shipping, trade, services and distribution. In finance, Hong Kong would serve as an offshore market for the mainland currency, the renminbi. New transport links from Hong Kong now under construction, including a high speed rail to Guangzhou and a bridge across the Pearl River Delta to the mainland city of Zhuhai near Macau, would allow the rapid movement of commuters and visitors.

"It will be like New York where you have people working in Manhattan and living on Long Island or in New Jersey and commuting in to work every day," said Hong Kong entrepreneur Allan Zeman, who developed the Lan Kwai Fong pub and restaurant area popular with expatriates. "People who can't have a home here (in Hong Kong) will live in Shenzhen and be able to come here in 10 minutes."

The mainland's construction behemoths, including state-owned China State Construction International Holdings Ltd, are also grabbing market share. Hong Kong's permanent secretary for Development (Works), Wai Chi-sing, said in an interview that while mainland firms accounted for less than 15 percent of public works contracts by value in the mid 1990s, they now accounted for more than a third. While mainland Chinese companies are rapidly expanding into Hong Kong, Western banking and financial institutions still have a strong presence in the city. Global bank HSBC Holdings Plc, for instance, employed more than 28,000 people in Hong Kong at the end of 2013.

For Beijing, growing economic clout has not been mirrored by increased popular support. Frustrated by Hong Kong residents' lack of identification with the mainland 17 years after the handover, China has at times resorted to covert means to bolster its control. Earlier this month, for instance, Reuters reported that retired Hong Kong policemen were part of a mainland-led surveillance operation to tail leading pro-democracy figures in the city.

Although the street protests ultimately petered out, at their height they drew tens of thousands, presenting Xi Jinping with his most serious popular challenge since he took power two years ago. While the protesters have demanded full universal suffrage, the mainland authorities insist that only a handful of Beijing-vetted candidates can stand in the next elections for the city's political leader in 2017. Hong Kong's current chief executive, Leung Chun-ying, got the backing of Xi and Premier Li Keqiang during a visit to Beijing last Friday, according to reports in China's state-run media.

A Hong Kong government spokesman said in an email response that economic integration with the mainland has been mutually beneficial, citing the growing number of mainland companies listed on the Hong Kong stock exchange and the city's role as the largest offshore renminbi centre. The Hong Kong and Macau Affairs Office in Beijing did not respond to questions from Reuters.

Not Always Amicable

Rather than foster understanding, growing economic integration has at times raised tensions. One source of friction is the real estate market where wealthy mainland Chinese have bought up property in Hong Kong, helping to push up home prices that are already out of reach for many of the city's residents. "One might have assumed that the inflow of mainland money and companies and people here, and the favorable economic policies of the mainland should have increased emotional integration rather than just economic integration but it hasn't," said David Zweig, chair professor of social science at Hong Kong University of Science and Technology. "For the rich people here, the heart has followed the dollar but for the middle class and for students it hasn't."

That's been evident, at times, on the streets of Hong Kong. While the growing influx of mainland tourists has been good news for the city's retailers - the number of Chinese visitors catapulted from 28 million in 2011 to 40.7 million last year - interactions between mainlanders and Hong Kong residents are not always amicable. In one incident that made headlines earlier this year, locals got into a scuffle with a mainland couple who had allowed their toddler to urinate in the street.

"Hong Kong without the mainlanders would be a very small city," says Allan Zeman, explaining the business elite's attitude to the growth in tourism. "Ocean Park and Disney without the mainlanders would be nowhere. They'd be losing money." Zeman developed Ocean Park, one of the city's main amusement parks. When Xi met the delegation of tycoons and professionals on the eve of the demonstrations, he gave no indication he was worried, according to one delegation member who gave Reuters an account of the Chinese leader's remarks. Instead, Xi appeared to signal that the city's troubles were relatively minor compared to other problems in his in-tray.

Before commenting on Hong Kong, Xi gave some of the richest men on earth a tour of China's foreign policy challenges. He told the tycoons that China was now a major force in the world and most of his attention would be focused on ties with bigger nations including the U.S. and Russia, the delegate said. When he eventually turned to Hong Kong, Xi said Beijing had no intention of altering any of its policies and urged the tycoons to support the city's chief executive. He also said the Hong Kong economy was falling behind those of Singapore, Taiwan and South Korea. Li Ka-shing, Lui Che-woo and Robert Kuok, three of the tycoons who were part of the delegation that met Xi, did not respond to questions from Reuters.—Reuters

HONG KONG: Workers sweep after police cleared barricades and tents on a main road in the occupied areas in the Causeway Bay district in this Dec 15, 2014 photo. — AP