# Intervention amplified losses for ETFs tracking China mainland

**BOSTON/NEW YORK:** Just as China shows that its domestic stock market can be something of a one-way street-investors can put money in, but not take money out - the biggest mutual fund company, Vanguard Group, is moving ahead with plans to expose more mom-and-pop investors to the country's heavily restricted exchanges.

With the Shanghai stock exchange down by 37 percent and the Shenzhen exchange off by 43 percent during the past three months, compared with just an 18 percent drop on Hong Kong's Hang Seng Index, Vanguard is adding China mainland stocks to its $60 billion emerging markets fund in the coming year. Vanguard says adding A-shares - stocks that trade on the Shanghai and Shenzhen exchanges, as opposed to those that trade on the Hong Kong exchange-will diversify the fund, but acknowledges they pose unique risks related to tracking a benchmark. Steps taken by the Chinese government to restrict trading on domestic exchanges make it difficult for index funds to buy the stocks they need to replicate the performance of Chinese benchmarks, fund executives said.

When China halted most trading on the Shanghai and Shenzhen exchanges in July, for example, a Deutsche Bank exchange traded fund, the Deutsche X-Trackers Harvest CSI China A-Shares ETF , was thrown so far off track that its losses for the year have now more than doubled the index's. As of Sept. 14th, the year-to-date market price of the fund was down 14.86 percent compared to the 7.15 percent drop on the index, according to Lipper Inc data.

"Certain days had more than 50 percent of the portfolio not trading," said Dodd Kittsley, head of ETF strategy in the Americas at Deutsche Bank AG's Deutsche Asset & Wealth Management unit.

The Deutsche ETF tracks the CSI300 Index of the largest listed companies in Shanghai and Shenzhen. The fund closely tracked the index earlier in the year, according to Lipper data. In early July, the fund was no longer able to track the index as well as before after more than 1,000 mainland Chinese companies suspended trading to break the market's free fall, and in doing so took $2.4 trillion worth of stock out of play.

To combat the effects of any future trading halts, the $11 million KraneShares Bosera MSCI China A ETF has amended its registration so it can buy similar stocks outside its benchmark, if needed.

"Since we invest in the big liquid names, we didn't think it would be an issue," said Brendan Ahern, chief investment officer of New York-based KraneShares.

Vanguard says it makes sense to invest in China because it has the second largest stock market in the world by market cap and the world's second-largest gross domestic product, accounting for 20 percent of global trade and 7 percent of global consumption. The company said it plans to have an update to the fund's prospectus detailing the risks associated with A-shares, in particular, said John Woerth, a Vanguard spokesman.

For one, Vanguard funds will have to obtain from Chinese regulators enough quota of investment money to buy the shares they need to track their benchmarks. Mainland Chinese shares eventually would make up about 6 percent of the fund's assets.

"Vanguard has been very clear about the risks of the fund on our website and prospectus," Woerth said. "And we will continue to educate investors about market volatility and the additional risks that accompany investing in any emerging market." Leading index provider FTSE Russell also said it plans to include China A shares in its widely followed emerging markets benchmark. — Reuters


**NEW YORK: The Cablevision pre-market price appears on a screen above the floor of the New York Stock Exchange yesterday. European telecommunications and cable company Altice has agreed to buy New York cable operator Cablevision for $17.7 billion, including debt. — AP**

# Futures extend losses ahead of Fed decision

**LONDON:** US stock index futures extended their losses ahead of the Federal Reserve's interest rate decision later yesterday. The Fed will announce the outcome of its policy meeting and release its latest economic projections at 2 p.m. ET (1800 GMT), followed by a news conference by Chair Janet Yellen at 2:30 pm. An increase in the Fed's benchmark rate, which has been near zero since the depths of the financial crisis in December 2008, would be the first since 2006.

The low rates have helped nurse the economy back to health since the crisis and underpinned a spectacular bull run for stocks.

Fed fund futures indicate a 30 percent chance the central bank will raise rates on Thursday, while 35 of 80 economists polled by Reuters expect a move. "Investors are in wait-and-see mode," said Art Hogan, chief market strategist at Wunderlich Securities in New York.

Any reaction to whatever the Fed does yesterday is likely to be short-lived, he said.

"The real reaction is going to be felt in the coming weeks as we look at corporate earnings, economic activity and other factors." Whether or not the Fed raises rates yesterday, investors will be hanging on every word during Yellen's news conference. If the Fed does not move, the focus will shift to its next meeting on Oct. 27-28.

Uncertainty about when the Fed will switch gears has dogged Wall Street for months - a situation that has been complicated in recent weeks by market turbulence linked to slowing growth in China and worries about the health of the global economy. However, many analysts say a rate hike now would at least remove a lot of the uncertainty that has troubled investors.—Reuters

# New Greek government will toe bailout line

## Banks need recapitalizing before year-end

**ATHENS:** European unease that Greece may falter on its bailout promises after elections yesterday looks misplaced, at least initially, as its pressing need for money means that whoever wins is likely to toe the line. Both leftist Syriza leader Alexis Tsipras and conservative New Democracy rival Vangelis Meimarakis, who are running neck-and-neck in opinion polls, have said that if elected they will push on with the fiscal reforms demanded by Greece's creditors.

But euro zone creditor governments remain wary. Germany stressed on Wednesday that the new government would be bound by all the terms and timeframes in the bailout agreement. "We have formulated clear conditions that must be fulfilled and they apply to any future government," finance ministry spokesman Martin Jaeger told a news conference in Berlin.

Both party leaders know that if they fall short, Greece will face problems this autumn when the creditors are due to make their first review of progress under the 86-billion-euro ($96.5 billion) program which Tsipras, as prime minister, accepted in July. Tsipras forced the election by resigning last month, hoping to quell a rebellion in Syriza over the program's demands for profound economic reform and yet more of the austerity policies which have hurt Greeks so badly in the past five years.

A successful review would release a further $3 billion euros from the bailout fund, expected to cover debt repayment commitments and arrears to suppliers run up by the Greek state. On the other hand, the creditors could halt the flow if they decide Athens has failed to keep its side of the bargain.

Greece is also likely to cooperate with a European Central Bank health check of its banks, which came close to collapse before the bailout deal was struck. Panicking Greeks pulled billions from their accounts before the Syriza government closed the banks for three weeks and imposed controls on withdrawals which largely remain in force.

The capital controls are hurting economic activity butcannot be lifted until the banks are recapitalized, a process expected to take effect before the end of the year. The ECB-led review will determine how much they need, and the sum could reach $25 billion.

"Our top priority, right after the elections, is the recapitalisation of the banks," Olga Gerovasili, spokeswoman for the previous Syriza government, told Reuters.

**DELAYS POSSIBLE**

But the bailout review, due in October, may be delayed if horse-trading holds up the formation of a new government, meaning the next installment would need to cover a longer period. Tsipras and Meimarakis ruled out working with each other in a TV debate on Monday, turning the grand coalition that the creditors were hoping for into a long shot. With the state due to repay about 1.3 billion euros of International Monetary Fund loans in December and about 6 billion euros more to the IMF and ECB in 2016, delays might also put back discussions on relieving Greece's heavy debt burden, widely flagged to start after the first review. Other parts of the program might be diluted as both Tsipras and Meimarakis are likely to seek agreement from the creditors to budget measures cushioning the blow for Greeks from the bailout stipulations. Greece narrowly avoided an exit from the euro zone earlier this year, and both leaders may try to use a renewed "Grexit" risk as a weapon in future negotiations with their EU partners.

Asked last week in an interview with Reuters whether he would renegotiate parts of the bailout, Meimarakis said Greece had to make significant progress and meet its fiscal targets to regain its foreign lenders' trust. But it also had to push for measures to cushion the impact of austerity, he said, adding: "Our partners do not want to strangle us." Tsipras said Syriza would implement the agreement "as fast as possible, (but) fighting on the issues that lie ahead". He also promised to negotiate what he calls a "grey area" of labour and pension reforms and privatizations. — Reuters