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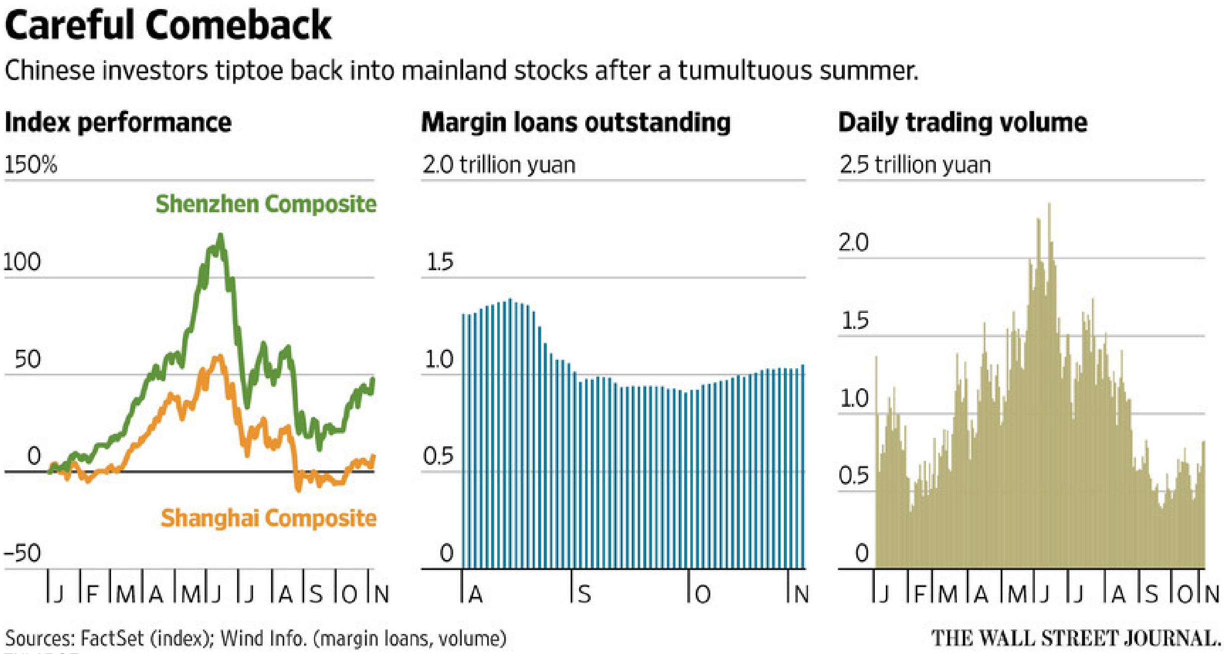
Rebounding Chinese Shares Enter a Bull Market

China shares' two-day spurt adds to market's slow, steady climb since August



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By

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17 COMMENTS

China entered a bull market Thursday, a surprising milestone after a volatile summer wiped out trillions of dollars in value from mainland equities and rattled global markets.

The Shanghai Composite Index has gained 20.3% since Aug. 26, the bottom of the summer selloff. A bull market is defined as a rise of 20% from a recent low.

The benchmark finished up 1.8% at 3522.82 on Thursday, bringing its year-to-date gains to 8.9%, but it is still down 32% from its 2015 high reached on June 12.

China's smaller Shenzhen Composite Index and a gauge of China's volatile startup shares have rallied 32% and 43%, respectively, from their recent lows on Sept. 15. On Thursday, the Shenzhen Composite closed up 0.2% at 2093.47, while the ChiNext Price Index slipped 0.8% to 2564.72. The Shenzhen market has gained 48% this year, while the ChiNext is up 74%.


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A replica of the Wall Street bronze bull on Shanghai's Bund. China shares closed in bull-market territory Nov. 5. *PHOTO: BLOOMBERG NEWS*

Investors have gradually returned to the market after the summer selloff, which Beijing scrambled to stem. Trading volumes have reached their highest level since mid-August and Chinese investors are borrowing from their brokerages again to buy stocks.

Margin loans have climbed to their highest level in roughly two months after dropping sharply in the throes of the rout, but are still down roughly 54% from a June 18 peak of 2.27 trillion yuan ($358 billion), according to Wind Information Co. On Wednesday, margin loans totaled 1.05 trillion yuan.

Global stocks have also been rebounding from a tumble in August, when China devalued its yuan in a surprise move that raised doubts about Beijing's ability to transition the world's second-largest economy to a more market-oriented system. The MSCI World Index has risen almost 11% since late September.

Chinese officials dug deep into their playbook for ways to stabilize domestic markets, including pumping money into state-backed funds that bought blue-chip stocks and cracking down on short sellers and suspending initial public offerings. They

even pledged to keep buying stocks until the Shanghai Composite Index reached 4500—a goal still roughly 1,000 points away.
Stocks rallied last month in anticipation that officials would announce easing measures, after China reported that its growth slowed to 6.9% in the third quarter, clouding its ability to reach a year-end target of about 7%. China has cut interest rates and the amount of reserves banks are required to hold three times since the start of the summer selloff, with the latest round of cuts in late October.
Despite the gains, some investors are skeptical that the wounds from the summer have healed.

"Lots of investors have been deeply hurt by the disastrous fall in summer," said Gu Yuan, an investor from Shanghai, adding that regulators had clamped down on riskier practices such as borrowing to buy stocks and hedging tools, which tend to reap higher rewards.

But for others, confidence that the government won't soon sell its holdings has encouraged more buying.

"There is a feeling that people don't want to miss out on buying at the bottom," said Steven Wang, a research director at brokerage Reorient Group.

Analysts estimate that the Chinese government has spent hundreds of billions of yuan buying stocks to stabilize the market, though officials haven't disclosed the exact amount since they announced their intervention efforts in early July. The consensus is that authorities have held on to stocks since then, if not adding more to their portfolio.

China Securities Finance Corp. and Central Huijin Investment Ltd.—part of the so-called National Team, a group of state-backed companies and stockbrokers charged with propping up the market—have bought shares of 49% of listed firms on the A-share market, according to Wind Information. The value of shares held by China Securities Finance and Central Huijin is roughly 1.3 trillion yuan.

Two days of gains over Wednesday and Thursday pushed the Shanghai index up 6%. Stocks jumped 4% alone on Wednesday, fueled by out-of-date comments by the central bank that Chinese authorities would roll out a new trading link to further open up their market to foreign investors.

Shares of brokerages, which would benefit from higher trading volumes, led gains both days. Industrial Securities Co., Everbright Securities Co. and Huatai Securities Co. all hit their 10% maximum daily limit set by regulators on Thursday.
China's market began to stabilize in September, when the unwinding of margin debt began to taper off. Margin loans hit a recent low of 906.7 billion yuan on Sept. 30.

The market picked up in October as investors tiptoed back in, pushing margin loans up again. Shanghai's 10% gain in October marked the index's best month since April. Still, the month wasn't without its bumpy patches, revealing the fragility of investor confidence: The Shanghai Composite suddenly tumbled 3% on Oct. 22.
Just 23% of existing stock accounts were active in the last week of October, up from 13% two weeks earlier, according to China Securities Depository and Clearing Corp.

Daily trading volume jumped to 1.37 trillion yuan on Thursday, compared with a daily average of 883.4 billion in October. Thursday's volume was up nearly four times from a recent low of 370.6 billion on Sept. 30 but still down about 40% from a record 2.4 trillion yuan on May 28.

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contributed to this article.

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