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China's Stocks Rise Most This Year on Earnings, Spending Report
2011-08-25 07:46:20.585 GMT

By Bloomberg News

Aug. 25 (Bloomberg) -- China's stocks rose the most in more than 10 months after Bank of China Ltd. reported record profit and investors speculated the Chinese government is increasing fiscal spending to bolster the world's second-biggest economy.

Bank of China, the nation's third-largest bank, led a gauge of lenders to the second-biggest gain among industry groups after profit surged 28 percent. China Railway Group Ltd. jumped 2.5 percent and Tianjin Capital Environmental Protection Group Co. surged 10 percent after Shanghai Securities News reported China plans to spend over 2.3 trillion yuan for new subway lines and sewage treatment. PetroChina Co. and Jiangxi Copper Co. paced an advance for commodity producers on speculation the Federal Reserve will announce a third round of asset purchases.

"First-half earnings growth has been part of the reason for the market's gains," said Zhang Han, a strategist at Guotai Junan Securities Co. in Shanghai. "The U.S. is likely to use QE3 to pour liquidity into global capital markets."

The Shanghai Composite Index, which tracks the bigger of China's stock exchanges, jumped 74.2 points, or 2.9 percent, to 2,615.26 as of the 3 p.m. close, the most since Oct. 15. The CSI 300 Index gained 3.3 percent to 2,903.84.

The Shanghai gauge is valued at 12 times estimated earnings, compared with a record low of 11.57 times set on Aug. 22, according to data compiled by Bloomberg. It has lost 6.9 percent this year as the central bank raised interest rates five times and ordered lenders to set aside more cash as deposit reserves 12 times since the start of 2010 to contain inflation that quickened to 6.5 percent last month, the fastest pace in three years.

Inflation Outlook

China's inflation rate in August may be equal to or even higher than July levels as pork prices jumped, National Business Daily reported, citing unidentified people.

August pork prices may climb about 50 percent from a year earlier, lifting consumer prices, the newspaper said. Pork prices are unlikely to decline "significantly" in the short term because tight hog supply hasn't eased, the newspaper cited Li Guoxiang, a researcher at the Chinese Academy of Social Sciences, as saying. The central bank kept yields on three-month bills unchanged, while money-market rates rose.

The gauge tracking financial companies in the CSI 300 rose 4.5 percent, the most among 10 industry groups after telecom. Bank of China advanced 2.4 percent to 3.02 yuan. Bank of Nanjing Co. added 4.4 percent to 8.58 yuan. Industrial Bank Co. jumped 5.9 percent to 13.77 yuan.

Banks Advance

Bank of China's first-half profit jumped 28 percent to a record 66.5 billion yuan as loan and fee income climbed. Profit was in line with the 65.8 billion yuan median estimate of nine analysts surveyed by Bloomberg News. Bank of Nanjing, the lender part-owned by BNP Paribas SA, said first-half net income rose 33 percent from a year earlier to 1.59 billion yuan.

"The banks so far have reported very strong profit growth," May Yan, a Hong Kong-based analyst at Barclays Plc, said in a Bloomberg Television interview. "These stocks are probably going to trade in a range. But right now we are probably at the bottom of the range so there should be value."

UBS AG cut its estimate for China's economic growth this year to 9 percent from 9.3 percent and its forecast for 2012 to 8.3 percent from 9 percent, citing weaker prospects for expansion in developed economies. China may boost investment and ease policy as early as the end of the year if the economy falters, Wang Tao, a UBS economist, said in a report.

"Since transport infrastructure investment has already been pushed up substantially in the previous stimulus, we think social housing, water systems and irrigation projects, as well as environmental and other social projects will be more of a focus next time around," the report said.

Infrastructure Spending

China may spend 1.06 trillion yuan (\$166 billion) on household and industrial sewage treatment in the five years through 2015, the Shanghai Securities News reported today, citing a Chinese Academy of Environmental Planning report.

Two plans for building urban sewage and garbage treatment facilities will be submitted to the State Council for approval within the year, according to the newspaper.

Tianjin Capital surged by the 10 percent daily limit to 6.16 yuan. Beijing Originwater Technology Co. added 1.7 percent to 49.38 yuan.

Chinese cities may spend 1.27 trillion yuan building new subway lines in the five years through 2015, the Shanghai Securities News reported, citing information it obtained from a subway development forum. The investments may increase the total length of subway systems to 2,600 kilometers, the newspaper reported. China currently has 50 subway lines with a total length of 1,568 kilometers, according to the report.

China Railway Group, the biggest construction company by total assets, rose 2.5 percent to 3.23 yuan. China Railway Construction Corp., builder of more than half the nation's rail links since 1949, climbed 2.6 percent to 4.80 yuan.

Jackson Hole

U.S. Fed Chairman Ben S. Bernanke will deliver a speech at Jackson Hole, Wyoming, on Aug. 26, fueling speculation whether he would signal a willingness to consider a third round of bond purchases, or quantitative easing.

Jiangxi Copper increased 4.3 percent to 32.95 yuan. Aluminum Corp. of China Ltd. added 3.6 percent to 9.44 yuan.

PetroChina advanced 2.6 percent to 10.10 yuan, the biggest rise since Dec. 13. Three-month copper on the London Metal Exchange rose for a third day, adding as much as 0.4 percent to \$8,908.50 a metric ton.

Bookings for goods meant to last at least three years rose 4 percent in July, the most in four months, the U.S. Commerce Department said. That's double the median projection of 81 economists surveyed by Bloomberg News. Home prices rose 0.9 percent in June from the previous month, another report showed.

China United Network Communications Ltd. led gains for telecom stocks, surging 6.8 percent to 4.87 yuan, the most since Dec. 13. Its unit China Unicom (Hong Kong) Ltd. said net income rose 50 percent from a year earlier to 2.48 billion yuan in the three months ended June 30. The profit exceeded the 969 million yuan average of four analysts' estimates compiled by Bloomberg.

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