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China’s Stocks Drop for Second Day, Led by Developers, Railways

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By Weiyi Lim

Nov. 8 (Bloomberg) -- China’s stocks fell for a second day, led by developers and railway companies, on concern the government won’t lift property curbs even as sales drop and investment in rail will decline.

Poly Real Estate Group Ltd. sank 2 percent after sales tumbled and the Shanghai Securities News said authorities have prepared measures to limit price gains. China CNR Corp. slid 3.4 percent after the China Securities Journal reported the country may reduce spending on railways. Datang International Power Generation Co. paced gains by power producers after Deutsche Bank AG turned positive on the industry.

The Shanghai Composite Index dropped 5.96 points, or 0.2 percent, to 2,503.836 at the close after changing direction more than 10 times. The CSI 300 Index lost 0.3 percent to 2,727.71.

Inflation rate eased to 5.5 percent in October, from 6.1 percent in September, according to the median forecast of economists surveyed by Bloomberg before the data release tomorrow.

“There’s consensus that inflation will ease, but it’s not going to impact the government’s tightening policy in the near term,” said Hao Kang, a Beijing-based fund manager at ICBC Credit Suisse Asset Management Co. which oversees about $8.7 billion. “Stocks will consolidate in the next two days but we are still optimistic about China shares. The trend to rebound is not over in the near term.”

The CSI 500 Index, which tracks small-cap stocks, dropped 1.4 percent to 4,057.554.

Fiscal Policies

The Shanghai Composite rallied 8.3 percent from this year’s low on Oct. 21 through yesterday, after the government announced measures to help small businesses through easier access to bank loans and said it will lower the threshold for payment on value- added and business taxes for small companies.

China’s October food prices may have fallen 0.4 percent from September, the first drop since June, the Shanghai Securities News said today, citing Guotai Junan Securities Co.

A gauge of property stocks in the Shanghai Composite dropped 1.1 percent, the most among the five industry groups.

Poly Real Estate slipped 2 percent to 9.85 yuan. China’s second-largest developer by market value said October contracted sales fell 39 percent from a year earlier. Gemdale Corp. lost 1 percent to 4.78 yuan after saying its October sales slumped 38 percent from a year ago.

Authorities have prepared several measures to prevent home prices from rebounding, the Shanghai Securities News reported today, citing unidentified sources. Possible curbs include a property tax, according to the report.

Price Declines

China’s home prices will fall as much as 30 percent in the next year, driven by the government’s housing curbs, according to Barclays Capital Research. The correction in the property market will have an impact on the country’s economic growth, though is unlikely to lead to a financial meltdown, Hong Kong- based economists led by Huang Yiping said in the report today, citing the low leverage ratio of Chinese households.

Trainmaker China CNR dropped 3.4 percent to 5.15 yuan, the biggest decline since July 26. Rival CSR Corp. lost 4.3 percent to 5.39 yuan.

The China Securities Journal reported that the country may reduce spending on railways to 500 billion yuan a year through 2015 from an expected 800 billion yuan.

Indexes tracking energy producers and utilities climbed at least 0.9 percent, the biggest advance among the 10 industry groups on the CSI 300. Datang gained 1.7 percent to 4.89 yuan.
Huaneng Power jumped 3.7 percent to 5 yuan. Huadian Power International Corp. rose 2.6 percent to 3.18 yuan.

Positive Catalysts

Deutsche Bank turned positive on Chinese independent power producers from a “negative/neutral” stance held since late 2009, analysts led by Michael Tong wrote in a report dated today. The brokerage cited five likely re-rating events, including a tariff increase, cheaper coal prices, monetary loosening and progress on reforms.

The Shanghai Composite has fallen 11 percent this year after the central bank raised interest rates three times and lifted the reserve-requirement ratio to curb inflation that’s near a three-year high. The index is valued at 11.87 times estimated earnings, compared with a record low of 10.8 times on Oct. 21, according to weekly data compiled by Bloomberg.

The Bloomberg China-US 55 Index of the most-traded Chinese stocks in the U.S. rose 0.6 percent to 102.77.

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