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BN 11/29 05:37 UBS, Citigroup Cut China GDP Estimates on Europe Recession (1) BN 11/29 01:11 *CITIGROUP CUTS CHINA 2012 GROWTH ESTIMATE TO 8.4% FROM 8.7%

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Goldman Sachs Says Exit China Stock Bet as Growth Estimates Fall
2011-11-29 06:54:39.4 GMT

By Richard Frost

Nov. 29 (Bloomberg) -- Goldman Sachs Group Inc. said clients should exit a bet that Hong Kong-listed companies in China will gain as UBS AG and Citigroup Inc. cut growth forecasts for the world's second-biggest economy.

"We are closing our recommended long position in Chinese equities" after the trade lost 5 percent, Goldman analysts including Noah Weisberger wrote in an e-mailed report dated yesterday. In a Nov. 6 report, the analysts favored shares in the Hang Seng China Enterprises Index.

Premier Wen Jiabao's crackdown on property speculation is damping home sales and construction just as Europe's soveriegn- debt crisis threatens exports. The central bank triggered speculation that monetary policy may be further loosened to spur growth by allowing reserve requirements for some rural credit cooperatives to fall this month.

Gross domestic product will increase 8 percent in 2012, less than a previous call of 8.3 percent, Hong Kong-based economist Wang Tao, of UBS, said in a note today. Citigroup cut its forecast to 8.4 percent from 8.7 percent. The banks have also reduced global growth estimates.

"We think the balance of risks is no longer attractive," the Goldman analysts wrote in yesterday's report, referring to their previous stock call.

The Hang Seng China Enterprises Index, a gauge of 40 mainland companies listed in Hong Kong, dropped 9.7 percent from Nov. 5 through yesterday on concern Chinese growth may falter.
It climbed 1.8 percent as of 2:40 p.m. local time today.

Euro Zone Woes

In a Nov. 6 report, the analysts highlighted the shares' underperformance relative to the Standard & Poor's 500 Index.

"Much weaker euro zone growth will affect the rest of the world, including China," UBS economist Wang said today. "We think more obvious and persistent easing will likely occur in the first quarter of 2012, when export, construction and industrial production should have decelerated significantly."

China's economy grew 9.1 percent in the third quarter from a year earlier. Expansion has slowed from 11.9 percent in the first quarter of last year.

The benchmark Shanghai Composite Index rose 1.1 percent as of 1:25 p.m. local time, paring this year's decline to about 14 percent.

Morgan Stanley yesterday lowered its China growth estimate for next year to 8.4 percent from 8.7 percent. The nation is unlikely to be immune from weaker external demand although domestic demand will "hold up well," Hong Kong-based economists led by Helen Qiao and Yuande Zhu said in a note.

Sliding Sales

Poly Real Estate Group Co., China's second-largest developer by market value, said its contracted sales fell 39 percent in October from a year earlier. Barclays Capital estimates home prices may decrease by 10 percent to 30 percent in the next year. Home prices fell in 33 of 70 cities in October, government data shows.

"We think a sharper deceleration in property investment is the biggest risk to China's economy," Johanna Chua, Hong Kong- based chief economist for Asia at Citigroup, said in today's report. "But a hard landing can be averted in the near term with sufficient policy flexibility to provide offsetting support for growth, especially on the fiscal front."

UBS' Wang said the government may relax fiscal policy and bank lending quotas next year. She estimates additional fiscal spending of about 1 percent of gross domestic product over a 12- month period and that the central bank will raise its new lending target for 2012 to 8 trillion yuan ($1.25 trillion) from
7.3 trillion to 7.4 trillion this year.

Reserve Requirements

Citigroup said the central bank may cut banks' reserve requirements before the Chinese New Year in late January if recent capital outflows continue and raise interest rates to stabilize deposits.

UBS predicts the world economy will expand 2.7 percent next year, down from a previous estimate of 3.1 percent. Citigroup is forecasting 2.5 percent after the sixth consecutive monthly downgrade, economists led by Willem Buiter and Michael Saunders said in a report dated yesterday.

The Organization for Economic Cooperation and Development says that growing doubts about the survival of Europe's monetary union has caused global growth to stall and represents the main risk to the world economy.

The Paris-based organization has lowered its estimate for China's 2012 expansion to 8.5 percent from a 9.2 percent forecast in May. A slowdown in property sales could trigger developer collapses and lead to bad loans, it said.

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