

China Stocks Post Longest Win Streak in 5 Weeks as Moutai Rises
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By Weiyi Lim

July 2 (Bloomberg) -- Chinese stocks rose for a third day, the longest winning streak in five weeks, as gains among drug and liquor companies overshadowed declines by financial shares.

Yunnan Baiyao Group Co., which makes traditional Chinese medicine, jumped to a record high on optimism regulators will take steps to support the industry. Kweichow Moutai Co., the nation's largest liquor maker, climbed to a one-month high on speculation product prices have bottomed. Industrial Bank Co.

slid 2.3 percent, leading financial companies to the biggest loss among industry groups.

About three stocks gained for each one that fell in the Shanghai Composite Index, which added 0.6 percent to 2,006.56 at the close. The gauge has slumped 18 percent from this year's high on Feb. 6 as record money market rates fueled concern that higher capital costs will curb economic growth. The one-day repurchase rate fell for an eighth day today to a one-month low on speculation the central bank used targeted injections to ease the cash squeeze.

"Stocks fell too much in June so we will see some technical rebound in the first half of July as panic selling has eased," said Zeng Xianzhao at Everbright Securities Co. in Chongqing. "The upside is limited and short-lived. There's concern about the economy deteriorating. Also investors worry a relief of the credit crunch is only temporary."

The CSI 300 Index gained 0.4 percent to 2,221.98. The Hang Seng China Enterprises Index fell 0.9 percent as Hong Kong's markets resumed after a holiday. Shanghai Composite trading volumes were 15.5 percent lower than the 30-day average today, according to data compiled by Bloomberg.

Slowing Economy

Bank of America Corp. cut today its forecast for China's second-quarter economic growth to 7.6 percent from the previous estimate of 7.7 percent. Industrial output growth may have slowed to 9.1 percent last month as the credit crunch in the interbank market may raise concerns about higher financing costs in the corporate sector, Lu Ting, a Hong Kong-based economist, wrote in a note to clients.

The report comes a day after data showed two gauges of manufacturing fell in June. Data on last month's inflation is scheduled for July 9, while a trade report is set to be released the following day. China's exports may have gained 2 percent in June year-on-year, while inflation may have rebounded to 2.4 percent last month, Lu said.

Yunnan Baiyao gained 6.8 percent to 93.99 yuan. Tasly Pharmaceutical Group surged 4.9 percent to a record 43.30 yuan.

A gauge of drug companies in the CSI 300 surged 3.9 percent, the most among 10 industry groups.

Government Support

Chinese traditional medicine industry has a sound foundation for development, Wang Guoqiang, the head of the State Administration of Traditional Chinese Medicine said in a statement posted on the agency's website yesterday. Conditions are ripe to bolster the industry, Wang was cited as saying.

Goertek Inc., an Apple Inc. supplier, rose 2.6 percent to 38.96 yuan. China's Ministry of Industry and Information Technology will make policies to boost the sale of information products, the China Securities Journal reported, citing an unidentified person from the ministry.

Kweichow advanced 1.9 percent to 197.95 yuan. Wuliangye Yibin Co. increased 2.2 percent to 20.40 yuan. There's speculation in the market that high-end baijiu prices may have reached a bottom, acting as a catalyst for the stocks, said Su Qingqing, an analyst at Hongyuan Securities.

A measure of financial companies in the CSI 300 including banks and developers slid 0.5 percent today, the biggest loss among industry groups. Industrial Bank slid 2.3 percent to 14.28 yuan, while Ping An Bank Co. retreated 1.5 percent to 9.60 yuan.

'Golden Era'

Investors' disenchantment with Chinese banks reflects concern that a crackdown on shadow banking and measures to direct new credit away from repaying old loans and toward boosting economic productivity will undermine earnings and trigger a surge of bad loans. President Xi Jinping also signaled last week that China's new leaders will tolerate slower growth.

"The golden era of banking is over," said Mike Werner, an analyst at Sanford C. Bernstein & Co. in Hong Kong who recommends clients buy shares of ICBC and divest mid-sized Chinese lenders. "Investors have to recognize that more market discipline is going to be imposed upon the banks."

Shandong Gold Mining Co. dragged down a measure of material producers, falling by the 10 percent daily limit for a second day to 25.89 yuan. The company said on June 28 it plans to buy about 13 billion yuan (\$2.1 billion) of assets from its parent and four other parties and will fund the purchase through a share swap and a private share sale.

The Shanghai gauge trades at 8.27 times 12-month projected profit, up from 7.99 on June 24, the cheapest level in at least five years. The index's 14-day relative strength index, measuring how rapidly prices have advanced or dropped during a specified time period, was at 30 today. Readings below 30 indicate it may be poised to rise. Its 30-day volatility was at 22.4, according to data compiled by Bloomberg.

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