

## Chinese stocks hit by capital concerns

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Chinese stocks fell their furthest in almost three months on Tuesday as investors took profits amid fears that banks would be forced to sell shares to raise capital.

The rumour preceded reports China's 11 largest listed banks will have to raise at least Rmb300bn (\$43bn) to meet more stringent capital adequacy requirements and maintain loan growth and business expansion, according to estimates from BNP Paribas.

China's banking regulator has asked big banks to formulate plans to replenish capital ratios, a move that has sparked concern that banks will liquidate some of their stock holdings.

The Shanghai Composite dropped 3.5 per cent to 3,223.526, having gained more than 11 per cent this month.

Although details of capital raising plans remained unclear, the news triggered rampant market speculation and triggered a bout of profit taking as investors moved to lock in recent sharp gains, said market participants.

"Some people want to sell their shares simply because they've gained a lot and they want to lock in profits," said Peng Yunliang of Shanghai Securities.

The Shanghai Composite, which hit a three-month high on Monday, is up 77 per cent this year.

"People are also worried that [loose] monetary policy will turn round", he added, although his own view was that these fears were overblown.

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Bank lending in China has surged this year and analysts believe that some of the credit expansion has found its way into mainland stock markets, driving them higher.

Bank of China, which is listed in Hong Kong, was the biggest faller on the territory's stock exchange, losing 4 per cent, while China Construction Bank was the second -biggest faller, slipping 3.4 per cent.

The biggest share slides on Tuesday were found in Shanghai's volatile dollar-denominated B-share index, which slid 7.3 per cent to 242.025.

The index had gained 25.6 per cent since the start of the month, partly fuelled by rumours that B shares will soon be merged with the A share index or the upcoming international board in Shanghai. Such rumours have been around for years and periodically resurface.