MARKETS

China stocks suffer 'strongest' outflow of foreign investment since 2014

Beijing's efforts fail to stem sell-off as confidence takes another hit from Evergrande

Chinese authorities have taken steps to support the stock market, such as restricting the borrowing of shares by short sellers. © Reuters

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HONG KONG -- Foreign investors sold a net 14.5 billion yuan ($2 billion) worth of mainland Chinese shares in January despite Beijing's efforts to prop up the stock market.

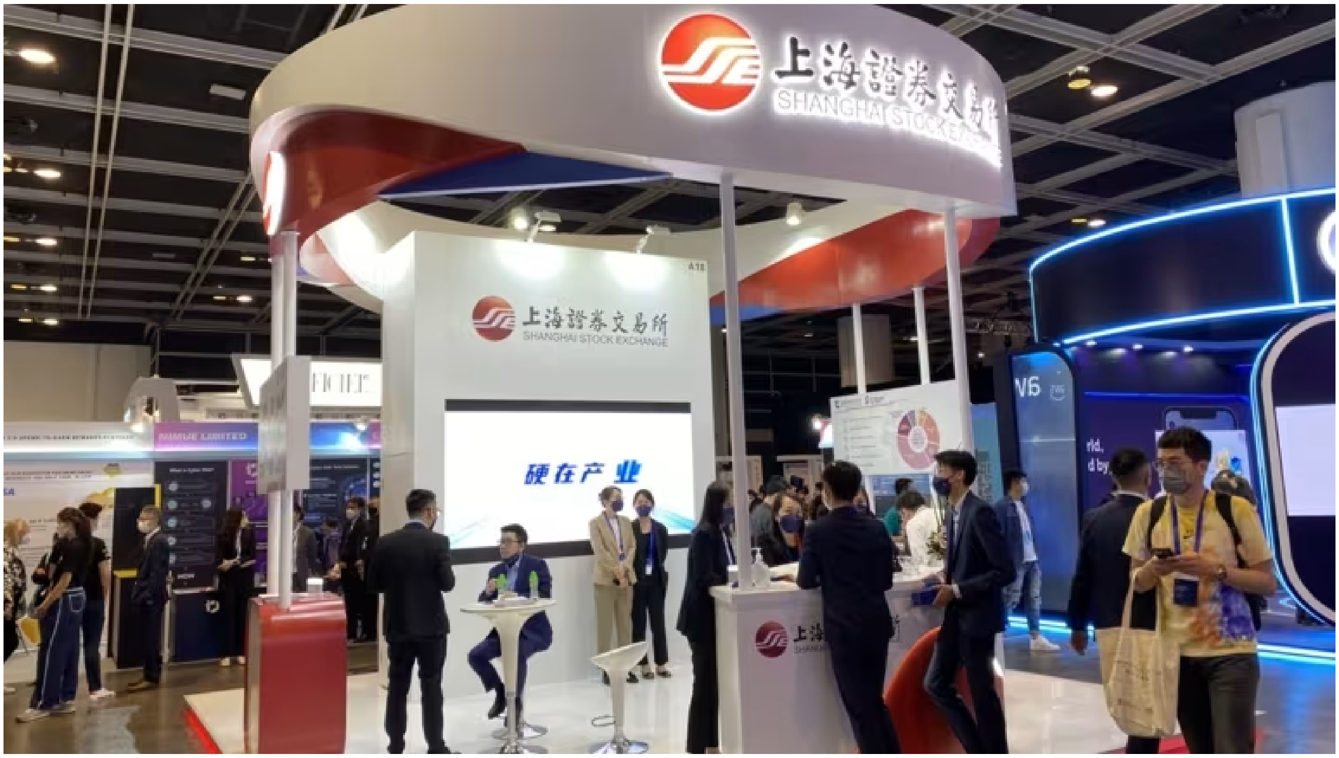
January also produced the sixth consecutive monthly outflow since August 2023, a month that saw 89.7 billion yuan worth of net selling, according to data provider Wind.

The trend marks the "strongest" and "longest" net outflow since the Stock Connect trading link between Hong Kong and the mainland opened in 2014, Ma Wenchang, Hong Kong-based co-portfolio manager for the all-China equity strategy at Ninety One, said in a Wednesday note.

The outflows come despite measures by Beijing in January that some analysts describe as desperate.

Soon after a call by Premier Li Qiang for "forceful" actions to prop up the market, China's central bank cut the bank reserve ratio to boost liquidity. Over the weekend, China's securities regulator said it was suspending stock borrowing via exchanges for short selling, a rare public move as such guidance is usually issued verbally by authorities to securities companies. This week, authorities further loosened conditions for property purchases in Shanghai.

"For the equities market in general, these measures are not considered to be sufficient," Ma said. "People want to see evidence that's translating into stronger corporate earnings."



Foreign investors were net sellers of mainland-listed shares again in January through China's Stock Connect arrangement with Hong Kong. (Photo by Kenji Kawase)

Though Ma sees "abundant" opportunities in sectors such as consumer discretionary and industrials, which are delivering double-digit profit growth and trading below historical valuations, she warned of "very, very weak" foreign sentiment on China. Geopolitical risks could induce market volatility, in addition to the on-the-ground operational momentum of companies that could bring "downside risks" to the market consensus of 15% earnings growth for Chinese companies in 2024, she said.

Year to date, China and Hong Kong are performing the worst and third worst in Asia in dollar terms, with losses of 10.9% and 9.8%, respectively, Goldman Sachs reported Wednesday. The South Korean market ranks second worst.

The most-sold names for the month include Shenzhen-listed shares of electric vehicle maker BYD -- which saw a net sell by foreign investors of 2.4 billion yuan while its share price declined 14.5% -- followed by Shanghai-listed PetroChina and Shenzhen-listed East Money Information, which publishes market intelligence, data from Wind shows.

The stocks bought most by foreign investors in the period include Shenzhen-listed Zhongji Innolight, a communications equipment manufacturer, which saw a net inflow of 1.8 billion yuan. The company was followed by electrical appliance maker Midea and Shanghai-listed COSCO Shipping.

A key concern remains when and how China's property market can recover. With Hong Kong's High Court ordering the **windup of debt-laden China Evergrande** on Monday, foreign investors are paying close attention to how much in assets can be retrieved, which would impact the likelihood of returning to Chinese capital markets.

"This [Evergrande windup] has an implication for fund managers thinking about a tactical China allocation," said Han Shen Lin, China country director at the Asia Group, a U.S. business consultancy. "In the absence of an enforcement mechanism to get to the collateral, China bonds -- supposedly safer -- are the same risk as equity. I think that will dampen foreign investor enthusiasm just as China is diligently looking to attract capital."

The property market will remain a drag on consumer confidence and bank profits, analysts say, with $12.5 billion of offshore high-yield bonds issued by Chinese companies coming to maturity in 2024, research by PineBridge Investments shows.

"There's been some disappointment on the property sector in terms of supportive measures," Andy Suen, co-head of Asia fixed income at PineBridge, said in an outlook on Tuesday. "Up to this juncture, the supportive measures haven't been that convincing. We still feel that it's ineffective in terms of supporting the private sector."