moneycontrol

China's market restrictions won't help, may be bad for EMs, no immediate impact on India

Fund managers Moneycontrol spoke to said that investors generally do not like such interference

MONEYCONTROL NEWS | FEBRUARY 06, 2024 / 06:35 AM IST

Even if China pumps money into the markets to inspire investor confidence, it may not help with the liquidity being diverted to foreign markets, said experts.

China's newly placed restrictions on domestic institutional investors and offshore units to arrest their markets fall may be ineffective and is likely to be largely bad for the emerging markets, according to fund managers who spoke to Moneycontrol.

Shanghai Composite index has fallen 9% YTD and the Hang Seng index has fallen by more than 21 percent over the last six months.

The country kicked off efforts after prices dropped to a five-year low on February 3. The country's market regulator promised to act to stop these irregular market movements, including preventing short-selling by bad actors and encouraging long-term investments.

But, these measures may not inspire much confidence.

Ritesh Jain, co-founder of Pinetree Macro, told Moneycontrol that the restrictions placed by the Chinese government isn't a good move for the country because restrictions never work. "Every time they put restrictions they reduce the confidence or investors," he said.

In fact, Jain believes that even if China pumps in more money to stabilise their markets, it won't help, because most of that liquidity will find its way into foreign stocks because confidence among domestic investors stand shattered too.

Samir Arora, founder of Helios Capital, too holds a similar point of view. “Usually, markets do not like restrictions. If there are heavy shorts in the system, immediately, stocks could rise because of a short-squeeze. But over time, investors might sell down and try to get out," he said.

He believes that this could be the reason sentiment towards Chinese stocks in the US markets, where trading is on at 23:40 IST, was positive, with American Depository Notes (ADRs) of Chinese companies trading higher on the Nasdaq. JD.com was trading 3.5 percent higher and Alibaba was trading 4 per cent higher on NYSE.

The restrictions may end up doing more harm for the emerging markets than do good for China, pointed out Devina Mehra. Mehra, co-founder and chairperson of First Global, said that regulators can panic and take such measures but they won't really stem the fall.

While Jain believes that the restrictions will work well for India, with more flows coming into the country, Mehra does not think so. "I don't think we should be looking into money going out of China and coming into India because ultimately, as far as most funds are concerned, this is an emerging market allocation. If China doesn't do well then the EM (emerging markets) index doesn't do well and it becomes difficult to justify more investments into EM as a whole," said Mehra, whose firm has had a bullish view on India for a while. First Global is overweight on the country in their global portfolios.

Anurag Singh, a hedge fund manager at Ansid Capital, held a slightly contrarian view. According to him, the restrictions are a positive for China since they would prevent short sellers and quant funds from creating panic. Things look unpredictable now but China looks "very cheap" now to buy, Singh added.

Global investors are becoming increasingly wary of investing into China, going by what they said at a conference organised by Goldman Sachs in Hong Kong. More than 40 percent of those who were surveyed said that they found the country uninvestable, according to a report in The Financial Times.

They may be put off by the unimpressive economic growth, poor government support for the market and the stand-off between Beijing and Washington, the report added. In January, foreign direct investment (FDI) flows into the country shrank for the first time in over a decade, noted a Reuters report.