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Chinese Stocks May Extend Declines Next Week, Greenwoods Says

By Bernard Lo and Berni Moestafa

Jan. 8 (Bloomberg) -- Chinese stocks may extend declines next week as the nation’s central bank begins to tighten its monetary policy to head off faster inflation, manager of Asia’s top-performing hedge fund said.

“In the short term, we are less bullish,” Joseph Zeng, head of Greenwoods Asset Management Ltd.’s office in Hong Kong, said in a Bloomberg Television interview today. “We won’t be surprised if the market goes down; it could be as early as next week or some time before Chinese New Year.”

The MSCI China Index, which tracks mostly Chinese companies traded in Hong Kong, jumped 59 percent last year after losing 52 percent in 2008. The measure fell 0.4 percent as of 2:13 p.m. in Hong Kong, extending the biggest decline in more than two weeks yesterday, after the People’s Bank of China sold three-month bills at a higher interest rate for the first time in 19 weeks.

China’s stock market “remains complacent” to inflation and tightening risks, BNP Paribas economist Isaac Meng said in a report. During the central bank’s “fine-tuning tightening” in July to August last year, the nation’s stocks fell by more than 20 percent, he said. China’s stocks will be “highly sensitive” to rising consumer prices and policy shifts, Meng said.

China’s benchmark Shanghai Composite Index briefly entered a so-called bear market in August on concern the government would stymie new loans after banking regulators announced plans to tighten capital requirements for banks.

Greenwoods’s China fund rose 136.8 percent in the 10 months ended on Oct. 31, making it the top-performing Asia hedge fund managing more than $100 million, according to data compiled by Bloomberg.

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Withdrawing Stimulus

Deutsche Bank AG and Morgan Stanley expect an end to the rally in 2010 as inflation accelerates and the government withdraws some of its stimulus spending. The central bank has kept its benchmark one-year lending rate at a five-year low of 5.31 percent after five reductions in the last four months of 2008. Bank loans rose to a record 9.21 trillion yuan ($1.4 trillion) in the first 11 months last year.

Templeton Asset Management Ltd.'s Mark Mobius said yesterday the bubble in China's property market isn't about to burst, and said "the Chinese will act rationally and they're not going to kill the market."

Greenwood's Zeng also expects the Chinese stock market to gain in the long term. "The market is going to be in a W-shape," he said, that "means more volatility but it is still going up."

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