

China Stocks ETF Short Sales Rise to 2-Year High (Update)  
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By Bloomberg News

May 5 (Bloomberg) -- Foreign investors are short selling China's stocks through a yuan-denominated exchange-traded fund at the highest rate in more than two years, underscoring concern that property curbs will slow the economy.

The ratio of short selling to total turnover on the iShares FTSE/Xinhua A50 China Index ETF reached 39 percent yesterday, the highest level since Feb. 19, 2008, according to data compiled by Bloomberg.

Investors are "overwhelmingly" concerned about China tightening its monetary policy and measures to curb property speculation, Jing Ulrich, JPMorgan Chase & Co.'s chairwoman for China equities and commodities, said in a Bloomberg Television interview. Europe's debt crisis and concern about contagion are also hurting investor sentiment towards stocks, she said.

China's equities have plunged this year as the government unwound monetary stimulus and stepped up measures to prevent a housing bubble inflated by record lending last year. The Shanghai Composite Index, down 1.9 percent at 11:07 a.m. local time, has slumped 15 percent in 2010, making it Asia's worst performer. The FTSE/Xinhua China A50 Index, which tracks the 50 largest Shanghai and Shenzhen-traded companies by total market value, has declined 21 percent.

BlackRock Inc., which owns iShares, is among money managers reducing their holdings on Chinese stocks on expectations that economic growth has peaked. State Street Global Advisors has an "underweight" position on China amid concern shares are expensive relative to smaller developing nations.

#### Tightening

China's central bank ordered lenders over the weekend to set aside more deposits as reserves for a third time in 2010. Vice Housing Minister Qiu Baoxing said the nation must act to curb the formation of asset bubbles, according to a statement posted to the Web site of the Ministry of Housing and Urban-Rural Development.

The government last month imposed a ban on loans for third-home purchases and raised mortgage rates and down-payment requirements for second-home purchases to curb housing prices, which rose at a record 11.7 percent in March.

James Chanos, hedge fund manager and founder of Kynikos Associates Ltd., said yesterday speculation in Chinese real estate has propped up the market.

China will need "gumption" to stick to lending curbs imposed over the past several weeks, he said at the Bloomberg Markets Hedge Fund Summit. Last month, Chanos said China is on a "treadmill to hell" because it's hooked on property development for driving growth.

#### 'Bearish'

Industrial & Commercial Bank of China Ltd., the nation's largest lender, and China Vanke Co., the biggest developer, are among the 10 biggest stocks on the index by weighting.

In a short sale, investors bet on declines in securities by

borrowing stock to sell on the expectation it can be purchased at a lower price before handing it back.

"Market sentiment is bearish due to the property crackdown by the government," said Zhang Kun, Shanghai-based strategist at Guotai Junan Securities Co. "Investors are concerned about more severe measures down the road."

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