Beijing's Guiding Hand Sets Off a Market Rally
David Barboza

Stock prices in China soared on Thursday, gaining over 9 percent after the government moved to restore confidence in the market by reducing taxes on trades.

The price surge was one of the biggest ever recorded in Shanghai and came after a similar rally on Wednesday, producing a two-day gain of nearly 14 percent.

The huge rally was fueled by Beijing's efforts to stabilize a market that has plummeted in recent months, falling as much as 50 percent from its high in October.

Even though China's economy is booming, worries about soaring inflation at home and a global slowdown tied to the subprime mortgage crisis have largely crushed a more than two-year bull market that peaked late last year.

Fearing widespread anger over the sharp downturn, which has hurt millions of small investors and also major corporations, Beijing announced new trading rules on Sunday. The rules make it more difficult for large blocks of shares to come to market.

And then late Wednesday, the government reduced the stamp duty on trades to 0.1 percent, from 0.3 percent.

Analysts said it was a strong sign that Beijing intended to step in, as it often does, to lift prices.

"The stamp tax cut is a political signal that the government is taking actions to save the stock market," said Qian Qimin, an analyst in Shanghai for Shenyin & Wanguo Securities. "This lowers trading costs and stimulates trading activity. And what is more important is the political meaning, that the government is paying attention to the capital market and won't stand by and let it sink."

The Shanghai Composite Index, which had recorded its worst quarter ever at the end of March, rose 9.3 percent Thursday to close at 3,583.03.

The Shenzhen Composite Index, the country's other major index, also soared, climbing 8.7 percent to close at 1,043.80.

In Hong Kong, the Hang Seng Index also rallied 1.5 percent, though Hong Kong's market is not subject to Beijing's rules.

Few analysts believe share prices will reach a new high this year, but many investors and analysts are hoping the worst is over.

Since October, when the Shanghai Composite Index peaked at 6,092.06, share prices have fallen precipitously and also turned extremely volatile, sometimes rising sharply only to drop sharply.

Many experts had warned of a sharp downturn this year because prices had risen so sharply in 2006 and 2007, breaking records, producing extremely high stock values and resulting in a stock-buying frenzy that swept the country and turned many people into day traders.

For the most part, initial public offerings have dried up this year in Hong Kong and Shanghai, which were home to some of the world's biggest initial offerings in 2006 and 2007.

Also, corporate profits are expected to be hit sharply this year, partly because many companies listed in Shanghai had been booking profits that they earned outside their regular business, often by trading stocks or playing the market.

But China's markets are used to these boom and bust cycles, which seem more closely tied to investor psychology than to corporate profits.

From 2001 to 2005, stock prices fell sharply in China, even though the economy was soaring and profits were relatively strong.

Then, China's market got red hot again, as Beijing pushed the development of the country's financial markets, and big Wall Street firms like Goldman Sachs moved in. A mutual fund bonanza ensued.

Once stock prices began soaring in 2006 and 2007, many investors were betting that Beijing would not allow a calamitous fall until after the 2008 Olympics in Beijing, which open in August, fearing such a downturn could produce social unrest.

Few, however, expected a sharp sell-off to begin in late 2007, when problems began surfacing in the American economy.

In lowering the stamp duty on stock trades this week, Beijing essentially reversed a decision last May to increase the stock duty. That increase had been intended to cool down a sizzling market, which the government feared could produce a bubble.

Disponível em: <http://www.nytimes.com>. Acesso em 25/4/2008.