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MARKETS

China’s Stock Response Has No Public Face to Calm Turbulent Markets

There is no Alan Greenspan or Mario Draghi in China

An investor covers her face with playing cards in front of an electronic stock information board at a brokerage house in Nanjing. The absence of a reassuring public face to China’s rescue efforts has been felt by investors.
PHOTO: REUTERS

By **LINGLING WEI**
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BEIJING—Wanted in China: a reassuring face to tell panicking investors that everything will be all right.

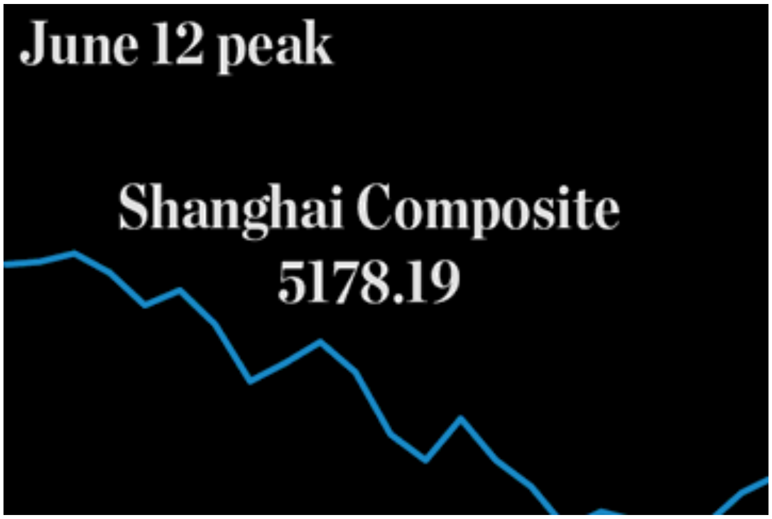
Since China’s stock boom turned bust more than a month ago, the Chinese government has put out measure after measure to stanch the bleeding. But the rescue effort is missing one feature found in markets elsewhere: a senior figure stepping forward to stop the panic.

“There is no Alan Greenspan or Mario Draghi in China,” says Peng Junming, a former official at China’s central bank and now chief investment officer at Empire Capital Management LLP, a Beijing investment firm. He referred to the former U.S. Federal Reserve chairman and the president of the European Central Bank, respectively, both known for their public assurances in times of crisis.

The reason? Senior Chinese officials, who are appointed by the top echelon of the Communist Party, are often "afraid of saying anything that could displease or overshadow their bosses," Mr. Peng said. "This has to do with the long-standing Chinese bureaucracy."

China's Market Plunge

Since peaking on June 12, China's stock market has declined sharply, despite government efforts to reverse the trend.



The absence of an identifiable and reassuring public face has been felt by investors in the past month or so, when panic selling caused two rounds of severe selloffs despite a flurry of unprecedented steps taken by Beijing to arrest the slide. Experts say that points to China's lack of independent and forceful voices among its central bank and top regulators.

"China's government is learning that, at times of severe financial market stress, the lack of an independent and credible central bank with a powerful authority figure at the helm can severely hamper efforts to contain investor panic and manage market volatility," said Eswar Prasad, a Cornell University professor and former China head of the International Monetary Fund.

In the U.S., both Mr. Greenspan and his successor, former Fed Chairman Ben Bernanke, became the public faces of their efforts to reassure markets in times of deep slumps. Mr. Greenspan's public efforts to help the market were often called the Greenspan put.

> *'There is no Alan Greenspan or Mario Draghi in China '*
>
> —Peng Junming, former official at China's central bank, now chief investment officer at Empire Capital Management LLP

In Europe, Mr. Draghi in 2012 promised to do "whatever it takes" to save the euro and later announced a plan to buy bonds of highly indebted Eurozone nations.

China's system leaves it less clear who should step forward. The country's central bank and the top securities regulatory agency, which are leading the intervention efforts, aren't independent. They both report to the State Council, China's cabinet. Higher-level leaders also have stayed out of the limelight.

A press official at the State Council referred questions to "relevant regulatory agencies." Press officials at the People's Bank of China and the China Securities Regulatory Commission didn't respond to requests for comment.

Policy makers in China may come under more pressure to communicate with increasingly demanding investors, both home and abroad, as China's markets become more sophisticated and their influence extends across the globe.

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Indeed, a lack of clear messages from the authorities has often led to confusion among investors. Analysts say Monday's 8.5% plunge in the Shanghai bourse was partly triggered by investors' wavering faith in Beijing's commitment to propping up the market.

The selloff, the worst in China in more than eight years, led China's top securities watchdog to issue a late-night statement saying a company owned by the securities regulator will increase buying of stocks in a bid to "stabilize the market and investor sentiment." On Tuesday the regulator said it formed a group to investigate the slump, without releasing details.

Amid the turmoil, Xiao Gang, the top Chinese securities regulator, hasn't made any public remarks to assuage investors. At his last public appearance on a morning in late June, at a finance forum in Shanghai, Mr. Xiao stuck to his script —which was about the need to further develop multi-tier capital markets in China. Chinese stocks fell 7.9% that day.

Some investors also see an overall lack of experience among senior Chinese officials in tackling complicated financial matters. "The path to becoming a senior financial official has gone through banks not capital markets," said David Loevinger, a managing director at fund manager TCW in Los Angeles and a former U.S. Treasury official focusing on China. "While there is loads of talented Chinese with market experience abroad, it is hard for them to come back into senior regulatory positions."

Zhou Xiaochuan, China's central-bank governor, sought to talk up the market earlier this year as a potential funding source for indebted state-run companies. But the central banker has remained publicly silent since the market turned, even as the People's Bank of China pledged what essentially is unlimited credit support to the company owned by the securities regulator so that the company can keep buying battered shares and lending to securities firms.

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> —Eswar Prasad, Cornell University professor and former China head of the International Monetary Fund

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Part of the reason, according to officials close to the central bank, is that Mr. Zhou objected to using too-aggressive government intervention to try to control the market because it would harm China's credibility and its effort to integrate the country's financial markets more into the global system. But the central banker had to sign up on the rescue plan endorsed by the State Council, the officials said.

Experts say conflicting central bank signals were partly to blame for the recent market rout. In early June, the PBOC drained some funds from the country's financial system to take some heat out of the then-feverish stock rally. That effort led investors to believe the central bank was going to tighten monetary policy. The following selloff forced the PBOC to announce a quarter-point interest-rate cut coupled with the loosening of some banks' reserve requirements on June 27—a rare two-step not seen since the height of the 2008 global financial crisis.

—Tommy Stubbington contributed to this article.

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