

+-----+
ICBC, China Banks Rise By Limit on Government Support (Update2)
2008-09-19 06:32:18.850 GMT

(Adds CIC may increase stake in Morgan Stanley in 10th paragraph.)

By Luo Jun

Sept. 19 (Bloomberg) -- China's banks surged by the most in almost 12 months after the government said it will buy shares of the three largest lenders on the open market to shore up investor confidence in the world's second-worst-performing stock market this year.

China Investment Corp., the nation's \$200 billion sovereign wealth fund, will buy stakes in Industrial & Commercial Bank of China Ltd., Bank of China Ltd. and China Construction Bank Corp., through unit Central Huijin Investment Co. starting today, according to the official Xinhua News Agency. The nation's 14 publicly-traded banks all rose by the 10 percent daily limit in Shanghai and Shenzhen.

The CSI 300 Index has slumped more than 60 percent this year as an equity bubble deflated and the economy slowed, undermining earnings growth and threatening to spark a rebound in bad loans.

Industrial & Commercial Bank of China on Sept. 17 ceded its position as the world's most valuable bank to HSBC Holdings Plc after shrinking by \$241 billion in less than a year.

"This is a shot in the arm to stem the hemorrhage and may lead to a 10 to 20 percent rebound of share prices," said David Liao, a Shanghai-based bank analyst at HSBC Jintrust Fund Management Co., which manages \$975 million. "But it won't be a turning point -- the concern over an economic slowdown and rising corporate defaults is materializing."

Banking stocks across Asia-Pacific are climbing today after the U.S. government said it was considering a plan to shore up the financial system after Lehman Brothers Holdings Inc. collapsed and the government stepped in to rescue the country's biggest insurer, American International Group Inc.

China Stocks Slump

ICBC shares have fallen 54 percent this year in Shanghai, while Construction Bank has slumped 57 percent and Bank of China is down 49 percent. The central bank this week reduced the benchmark one-year lending rate while keeping the deposit rate unchanged, harming loan profitability. China also announced yesterday it will scrap the 0.1 percent transaction duty for stock purchases and levy only on sales, effective today.

China Investment Corp., also known as CIC, is the controlling shareholder in the three banks after spending \$60 billion bailing them out between 2003 and 2005. The agency was left with roughly \$70 billion for investment after setting aside funds for recapitalization of other state lenders.

It holds 67.5 percent in Bank of China, 59.1 percent in China Construction and 35.3 percent in ICBC. The nation's finance ministry also owns 35.3 percent in ICBC, giving the government absolute control of the nation's financial industry. The three banks hold 40 percent of China's 58 trillion yuan of banking assets and operated more than 40,000 outlets nationwide.

CIC is also in talks to buy as much as 49 percent of Morgan Stanley, a person familiar with the matter said today. The Chinese fund bought a 9.9 percent stake in Morgan Stanley in December after the U.S. investment bank reported a quarterly loss.

'Role Model'

The government could increase ownership in other listed state-owned companies that are under sell-off pressure from institutional investors as share lockup periods end.

China's state-owned companies should be "a role model" in promoting "stable" development of the nation's capital markets by buying back shares in the publicly-traded units, the State-owned Assets Supervision and Administration Commission said yesterday.

"This is a significant development given that the overhang of non-tradable shares has been a major factor behind negative sentiment in the domestic stock market," said Jing Ulrich, Hong Kong-based chairwoman of China equities at JPMorgan.

For Related News:

Top Finance News: FTOP <GO>

--Editor: Gareth Nicholson, Philip Lagerkranser

To contact the reporter on this story:

Luo Jun in Shanghai at +86-21-6104-7021 or jluc@bloomberg.net

To contact the editor responsible for this story:

Philip Lagerkranser at +852-2977-6626 or lagerkranser@bloomberg.net