China’s stock market value hits record high of more than $10tn

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The total value of China’s stock market has climbed to a record high of more than $10tn, as the country’s accelerating economic recovery propelled it past the previous peak hit during an equities bubble five years ago.

The market capitalisation of all shares listed in Shanghai and Shenzhen hit $10.08tn according to Bloomberg data compiled on Wednesday based on the previous day’s close. The benchmark CSI 300 closed 0.7 per cent lower on Wednesday.

That is above the $10.05tn pinnacle hit in June 2015 immediately prior to a historic rout sparked by a crackdown on leveraged trading, which resulted in the Chinese market plunging by half. But analysts said despite this year’s rally, stocks are less frothy than during the bubble of 2015, when retail traders drove valuations to eye-watering heights.

“Investors are looking for growth and finding it very scarce elsewhere — so they see an enormous amount of opportunity in China,” said Craig Coben, co-head of Asia Pacific global capital markets at Bank of America.

The CSI 300 has rallied about 17 per cent this year, compared with 9 per cent for Wall Street’s S&P 500. The Shanghai and Shenzhen markets have sucked in about $26.5bn in global funds through stock connect programmes with Hong Kong, partly due to optimism over the Chinese economy’s recovery from coronavirus, which has outpaced that of the US.

On Tuesday, official data showed China’s imports for September hit a record dollar amount on the back of appetite for commodities and semiconductors. The renminbi has also strengthened against the dollar in recent weeks on expectations of a Joe Biden win in November’s US presidential election and optimism over a reset in relations between the two superpowers.

“Compared to five years ago there have been some major changes,” said Bruce Pang, head of macro and strategy research at investment bank China Renaissance. Mr Pang said the use of margin lending to buy equities was far less prevalent now than in 2015, when Chinese markets rallied by more than 100 per cent before collapsing share prices triggered waves of forced selling.

“Obviously the question that comes to mind is whether valuation is as bubbly as it used to be [in 2015] and the answer is no,” said Frank Benzimra, head of Asia equity strategy at Société Générale.

Broadly, valuations for the Chinese stock market appear more reasonable currently. The CSI 300 trades at less than 19 times its past 12 months’ earnings, compared with more than 40 at the index’s 2015 peak.

Mr Benzimra said stock valuations in China were now at a “significant discount” to their levels five years go, while margin financing was equivalent to about 5 per cent of market capitalisation, compared with about 10 per cent during 2015’s bubble.

While retail investors remain a powerful force in China’s onshore stock market, Mr Pang added that the greater presence of institutional and foreign investors had helped reduce volatility. “Risk factors are actually controllable and manageable for the authorities,” he said.

Institutional investors held more than 70 per cent of the free float of all Chinese stocks as of the end of June, China Renaissance estimated, while foreign investors owned roughly 5 per cent. Retail investors held less than a quarter, down from about half five years ago.

China’s stock market is the second largest in the world, although it remains far smaller than the US’s nearly $39tn.