Blackrock investors slice China exposure

Bianca Hartge-Hazelman

Australian investors are reducing their exposure to Chinese companies in favour of those in the United States, in another sign that markets expect China's growth to slow as strong economic fundamentals drive the US economy forward.

In the year to date, investors have pulled $US300 million ($329 million) from Blackrock's iShares China A50 exchange-traded fund (ETF) , an index that tracks the top 50 shares by market capitalisation on the Shanghai or Shenzhen Stock Exchange, amid fears over the state of the Chinese financial system and worries about economic growth remaining above 7 per cent. iShares is Blackrock's ETF business.

In a visit to Sydney, Blackrock's iShares head of Asia Pacific Jane Leung said Australian institutional investors, particularly banks and insurers, are among those exiting emerging markets since the start of this year.

"We are seeing less interest in China globally. Many people feel that China maybe overvalued. So they have been taking money off the table," she said.

Institutional investors have been shifting their funds to chase growth opportunities in the developed countries, chiefly the United States.

"Anecdotally, our Australian clients are more interested in seeing how the Chinese economy does and how it will impact Australian mining companies," Ms Leung said.

"There is certainly a feeling that some of the growth in China may be slowing in the near term – but I believe in the long term, many investors believe it is a place to invest."

In the past month, more than $225 million has flowed into the iShares US fixed-income ETFs, $300 million into the S&P500 equity ETF and about $300 million has found its way into Blackrock's European ETF products.

"In many ways, the US market has been weaker in past years and there is the belief that they will recover and have been recovering.

"Emerging markets had meanwhile been stronger over the past 12 months, but the sentiment has turned and investors are moving into the US-exposed products," Ms Leung said.

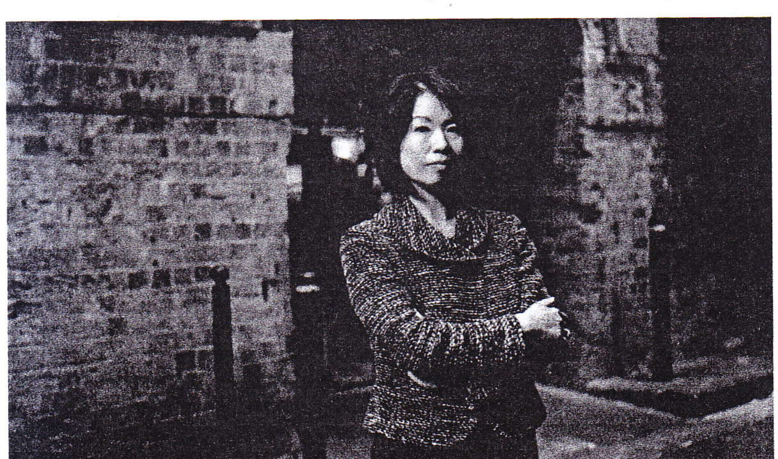
The inflows into US ETFs are in stark contrast to what happened last year, when inflows into iShares' China-linked ETFs rose to over $1 billion, as developed economies like the US and Europe continued to show signs of stress.

The appeal of US products this year has been driven by a solid run of positive economic news, as well as talk by the Federal Reserve of a possible end to the massive stimulus program which has helped to prop up the nation's financial system, which reflects strong underlying fundamentals.

Only recently has the economic data out of China started to improve which suggests that the economy is stabilising.

Indeed, just last week, data showed that China's industrial output and exports improved, raising hopes that this could be a good thing for Australian companies. ETFs are a less popular investment vehicle for Australian retail and institutional investors compared to investors in the US. In Australia, direct equity, cash and property are still the preferred asset classes.

The Hong Kong-based Leung said iShares has $5 billion in assets under management in Australia, and hopes to grow that figure to $30 billion in the next five years. "There are a lot of areas we need to work on with exchanges and regulators to be able to grow," she said.



Blackrock's Jane Leung says investor focus is now on the US. PHOTO: SASHA WOOLLEY

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