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China's biggest banks lend 1.3tn yuan in attempt to halt stock market meltdown

Reports suggest more than dozen banks have lent cash to state-backed Chinese Securities Finances, which provides so-called margin lending to investors

Staff and agencies

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China's biggest banks have lent 1.3tn yuan (£134bn) in an attempt to halt a meltdown in Chinese shares, local media have said.

Financial magazine Caijing cited unnamed sources as saying that 17 commercial banks had provided the cash for the state-backed China Securities Finance (CSF), which loans money to investors for buying shares in a practice known as margin lending. The move points to the extent to which the recent rebound in the country's stock market has been reliant on state intervention.

The loan came after China's central bank said it wanted to extend funding to the CSF, which was set up in 2011.

The Shanghai composite index began to plunge mid-June, wiping 24.8tn yuan off stock values in a few weeks - much of it belonging the country's 90 million private investors.

At its low point the index had lost nearly a third of its value, but concerted measures by Beijing, including a selling moratorium on major shareholders, the suspension of trading on many stocks and cancellation of numerous flotations have helped it recover about 15%. On Friday it rose 3.5%.

Caijing said on Friday that China Merchants Bank was the biggest financier in the latest move to shore up the market, lending 186bn yuan to the CSF.

The CSF is the only institution that provides margin financing loans to Chinese brokers, and is seen as an important conduit for the government to counter volatility in the stock market.

"It doesn't have to use up all the money, as long as it can make the rest of the market believe that it has enough ammunition," Hao Hong, a China strategist at Bocom International in Hong Kong, told Bloomberg. "It is a game of chicken. For now, it seems to be working."

The stock market plunge followed a 150% rise between June 2014 and last month that at its height attracted up to 1.4 million new investors a week eager to bet on soaring prices.

But investors were spooked by speculation that China's central bank was about to end its monetary policy easing, as well as moves in Beijing to crack down on the margin financing system. That system was thought to be exacerbating the swings on the market as the broker can demand more cash or other collateral if the price of the stock has fallen - known as a margin call.

Bloomberg reported separately on Friday that the CSF had 2.5tn yuan to 3tn yuan of funding available as of this week to shore up the stock market if needed, citing people familiar with the matter.

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