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How to Manipulate Stocks: Chinese Authorities Step in to Stop the Rout

by Wolf Richter • Feb 12, 2018

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The Shanghai Composite Index plunged 10.2% last week, the largest weekly drop in two years, and was down 11.4% since

things became unglued. The Shenzhen Composite Index had plunged 14% since

The Spring Festival holiday is coming up this week, and there were fears that traders want to unload additional positions ahead of it. There are other factors lined up against the stock market, including China's off-and-on-again crackdown on leverage. So it was time for authorities to step in and set things right.

Over the weekend the China Securities Regulatory Commission (CSRC) and other regulators have sent directives to:

- Major stockholders, telling them to acquire more shares of companies listed in mainland China in which they already own large stakes.
- Mutual fund firms, telling them to curtail share sales to avoid becoming net sellers.
- Brokerages, telling them to provide to the CSRC trading summaries from last week along with trading plans and previews for the current week.

For proper effect, so that all players in the market would know that the Chinese authorities are going to stop the selloff and turn it around, and thus to encourage more buying by other players, these directives were purposefully leaked to the media, including Bloomberg, which reported it this morning. This served as confirmation what everyone had been hoping for: That the authorities would not let the market fall prey to market forces.

The directives went out this weekend, but late last week there was already some heavy lifting going on behind the scenes that wasn't properly leaked. Bloomberg counted over 110 companies listed in Shanghai and Shenzhen that had announced that their major shareholders had increased their stakes in them starting on Friday.

Bloomberg also reported that the Shanghai Stock Exchange had announced on Friday that it had issued warnings and limited intraday trading to prevent large sales that might affect market stability.

After all this had gotten out by Monday morning, it was now time to keep small investors from selling and to encourage them to buy more. The Shanghai Securities News reported on Monday, according to Bloomberg, that the China Securities Investment Services Center, which serves smaller investors, said that major shareholders can boost investor confidence by purchasing stocks.

Authorities are once again yanking on the levers to keep the market from backsliding into some sort of price discovery. And it worked. The markets in China were up on Monday, with the Shanghai Composite rising 0.8% and the Shenzhen Composite surging 2.6%, which set the tone in Asia. All major Asian markets showed gains, except in Japan where markets were closed due to the National Founding Day, one of the 16 market holidays of the year. So they missed out.

And it is calming the waters in the US. Well done. But then, why even have markets? Why can't Chinese authorities just set the price of each stock and make it go up at regular intervals, at a rate deemed to be appropriate by authorities? It would offer true risk-free investing in stocks. It could become a national wealth builder. The entire world would invest in such a scheme. Think of the possibilities! And it would be a lot more efficient than this haphazard guessing-and-manipulation game.