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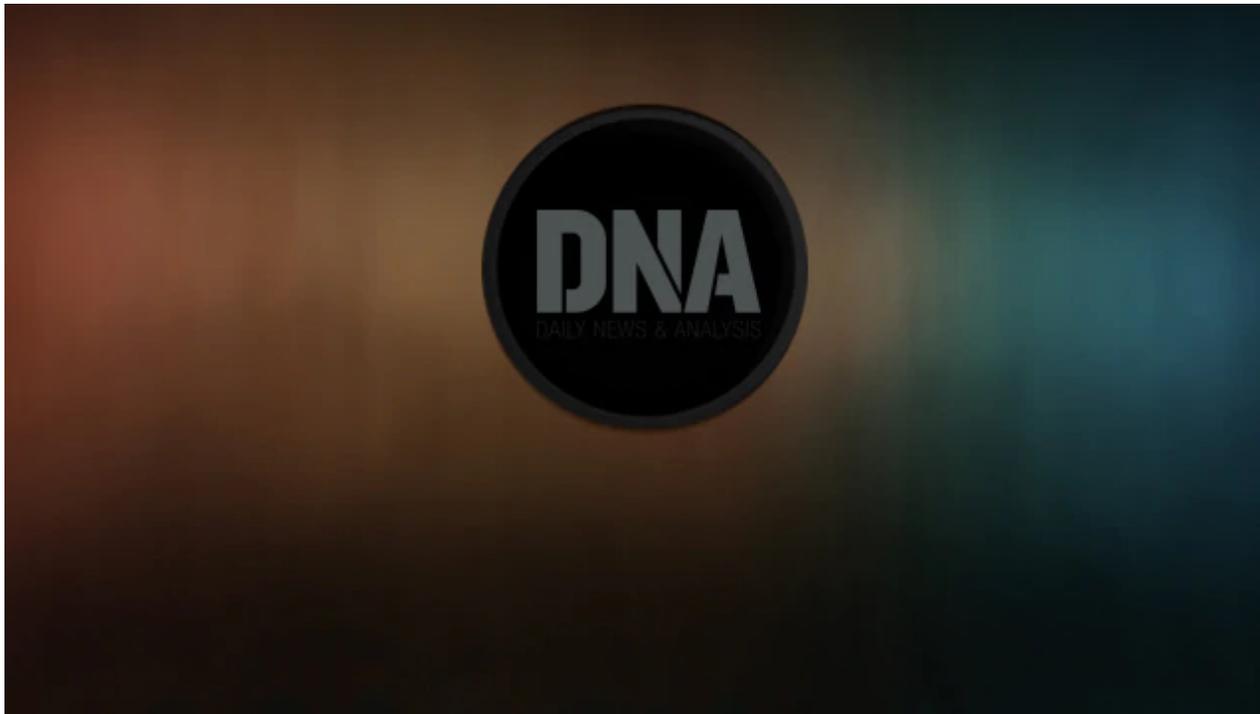


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China's hot money turned on by local Viagra

Curbs on property have driven speculators to traditional Chinese medicines; prices have risen 700% in a year.



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SOURCE

DNA

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China's hot money speculators, bearing barrel-loads of hard cash, are being turned on by the seductive appeal of investments in traditional Chinese medicines, including a fungus whose aphrodisiac qualities make it a local 'Viagra'.

The gush of speculative money, looking to sexy new avenues for release following recently introduced curbs on the piping-hot property market, has seen prices of nearly 500 traditional Chinese medicines spurt by as much as 700% over the past year, according to the China Association of Traditional Chinese Medicines.

In particular, the caterpillar fungus (scientific name cordyceps sinensis), an exotic Tibetan medicine that is believed to have potent aphrodisiac qualities, has seen its price surge over the past year to nearly the price of gold following the arousal of speculative interest.

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The fungus, which grows on the remains of a caterpillar, is also known to combat fatigue; in some cases, it is prescribed for cancer patients.

Top-grade caterpillar fungus now sells for as much as 200 yuan for a gram, just marginally lower than the price of gold.

Another traditional medicine known as prince ginseng (scientific name: *Pseudostellaria heterophylla*), used to cure spleen-related illnesses and to re-hydrate the body, has seen its prices shoot up 660% in less than a year.



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“With the government still curbing the real estate sector, hot money is turning up in other sectors like traditional Chinese medicine,” local Chinese media quoted analyst Guo Fanli as saying.

But supply-side constraints may also have fed the price surge. For instance, the caterpillar fungus is grown in Qinghai province, in western China, which was affected by an earthquake in April.

To some analysts, this frothiness is reminiscent of the Dutch Tulipmania of the 17th century, when single tulip bulbs sold for astronomical sums before prices crashed. “In mainland China, after nearly 400 years after the Tulipmania, speculation is... rampant in caterpillar fungus, of all things,” notes Societe Generale global strategist Dylan Grice, who recently travelled through Asia and saw bubbles everywhere.

The fact is, Grice adds, “All bubbles end in tears... The innocent bystanders who go to work not realising that their jobs derive from unsustainable demand suddenly find they’re out of work, through no fault of their own.” And investors “who believe the hype” get “completely wiped out – or worse, find themselves in debt after leveraging into the story”.

Those who are sceptical, but play along thinking they will exit before everyone else are “rarely successful”, in his opinion. And even investors who refuse to participate as the bubble inflates face business risk and career risk.

In fact, notes Grice, “Perhaps the most worrying feature” of his Asia trip was the “almost universal conviction” that China will not have a hard landing.

Pointing out that a hard landing “shouldn’t be beyond the realms of imagination”, he adds that such a scenario perhaps represents the “largest deflationary risk to the world economy.”

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