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An active China stock market with a decelerating economy

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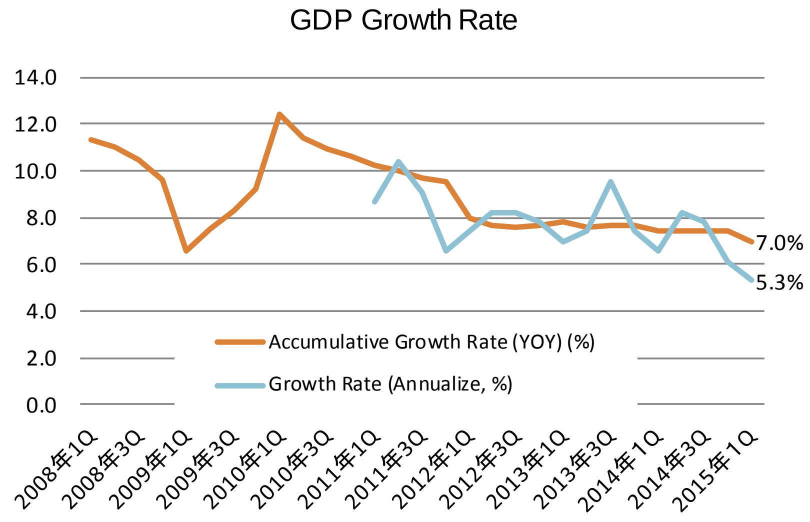
China's economic growth continues to decelerate. The first quarter GDP growth rate announced in April was 7.0% (YoY), a 0.3 point decrease compared to the previous quarter, re-calculated to an annual basis it was 5.3%, the transitions of these two figures can be seen on Chart 1 and the latter number is said to be reflecting better the reality of the current Chinese economy. During this situation, in April 30th Politburo's Standing Committee it was confirmed that there was need to pay attention to the pressures to hold down the economy and actions were taken against the fund raising problems that were making difficult in investments of the local governments. From now on when looking at China's economy one needs to carefully watch the measures taken to hold down the economy.

On the opposite what is doing well is the stock market (Chart 2). Although there are voices of concern about the unsound rise in prices due to the fast growth of credit transactions, it is not unusual to say that the rise in stock prices of a rising country, that is targeting a high growth of around 7%, is too high. Investors participating in the market must be very aware of the risk. Except, probably amongst the investors of the current rise in stock prices, are investors up till recently have been investing in funds related to property developments in the rural areas. One must take note on how this money shifting of funds to the stock market effects the fixed asset investments of the rural areas.

The stock markets of China have long been stagnate since 2008 (Chart 2) and recently the regulators pursed to improving the environment of the market by centering on the setting up of rules on IPO and delisting. In May 2014 the State Council announced the "Opinion on the further promotion of a sound development of the equity market". But development is only half done. There is still need to set up rules on disclosures and insider trading and to strengthen management of the market. The success or failure of this will be seen in the clearness and fairness of trading in the market. There is needed to look carefully from this point of view to see the trend of the stock market.

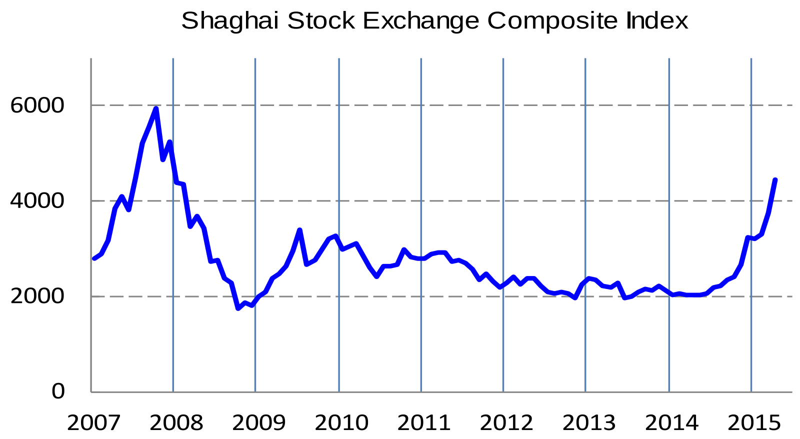
But, the linking of China's domestic stock market with the international equity market is gradually increasing. Like the increase in the quota of QFII[1] and others, last year's linking of the Hong Kong Stock Exchange and the mainland's, followed by Shanghai and Shenzhen, which will be linked this year. But the opening of the equity market is still in its experimental stage and has only just begun. Although there is anticipation that, following the deregulation of floating interest rates, next will be deregulation of the currency rate and equity trading, there is probably little hope in a "Big Bang" type rapid opening of the equity market in China.

Chart 1



Source: National Bureau of Statistics of China

Chart 2



Source: Datastream, Shanghai SE Composite Index

[1] QFII stands for Qualified Foreign Institutional Investor. In China a regulation was implemented to allow, up till to a certain quota, qualified foreign institutional investors to invest directly in China. Similar regulations are the RQFII and QDII.