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Analysis of the Relationships between Fluctuation of Chinese Stock Market and Global Markets

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Abstract:
As a matter of fact, China's stock market is moving towards globalization, with China's A-shares formally included in the MSCI index on 1 June 2018, a move closely watched by global investors and one that will affect the flow of trillions of dollars in making index asset allocations. With this in mind, in the question of whether China's stock market does not exist on its own, and its movements are closely linked to events in the world at different times, this study conducts a comparative study China's stock market versus other economies. To be specific, from the intuitive stock market trend, volatility in China's stock market and the world's stock markets are inevitably correlated. According to the analysis, at certain points in time, some important financial activities will have an impact on the stock markets of China and other economies. Overall, these results shed light on guiding further exploration of investigation the connections between various markets.

Keywords: Stock market correlation; Chinese stock market; Global Stock Markets.

1. Introduction

The global stock market originated in the Netherlands in the 17th century and is now at the centre of the global financial system.Today, the stock market is one of the main buffers for the formation and utilization of investment resources by all economic entities. Therefore, the main prerequisites for its sustainable development and efficient functioning are a favorable economic situation in the country, a wide network of stock exchanges and a high level of trust in the instruments of the stock market [1]. Major markets include the New York Stock Exchange, NASDAQ, London Stock Exchange and others. The global stock market establishes channels for trading and financing between suppliers and demanders of capital who lack investment opportunities, thereby increasing the efficiency and effectiveness of the economy [2].

Global stock markets are correlated with many social phenomena [3, 4]. Macroeconomic factors such as economic growth rates, inflation levels, interest rate levels and other macroeconomic indicators have a direct impact on the stock market. International financial markets and political factors are also closely related, and political events such as political stability, policy changes, and international relations,can cause huge swings in stock market trends. Monetary policies and natural disasters may also trigger market shocks. For COVID-19, human beings were unable to determine whether financial, economic, and political risk played a significant role in the relationship between the number of diagnosed cases/deaths and market quality [5].

The current state of the global stock market is affected by multiple and complex influences that cannot be evaluated singularly [6, 7]. The world‘s macroeconomic conditions, the volatility of international political forms, global trade relations, technological innovations and many other factors have an impact on the current stock market. Over the last few decades, the global economy has been characterized by a steady increase in the external debt of almost every country in the world (the only exceptions being countries that are not trusted by investors and creditors), exacerbating the global debt problem and the interdependence of creditor and debtor countries [8-10].

In addition to its strengths, China‘s market also has weaknesses. The economic impact of trade frictions and global epidemics in recent years has made China‘s market less favourable than before. The need for economic restructuring and upgrading has also led China to shift to a more sustainable and innovation-driven growth model. This has led a large number of traditional Chinese companies to move to other countries for better policy support and economic returns. Increased competition in the market is also a big problem, with overcapacity and price wars in some sectors, and such unhealthy competition is also affecting the development of China's securities market. In this paper, the authors would like to explore the relationship between China's A-shares and the global stock markets, followed by specific analyses of the specific relationships between China's stock markets and those of Europe, the United States and Asia.

2. Descriptions of Chinese Stock Market

China's stock market has experienced many booms and busts, and recent years are no exception. In the past few years, from 2015 to 2017, the stock market experienced a big bull market, and there was even a crazy "speculation of new shares". After 2018, the stock market began to experience adjustments and shocks. However, in general, the Chinese stock market has shown an upward trend in recent years. Specifically, since 2015, the CSI 300 index has risen from about 2,500 to about 3,500, an increase of about 40%. The Shanghai Composite index rose from around 3,500 to around 3,000, a gain of about 20 per cent. However, it should be noted that this does not represent the overall outperformance of the stock market, as the index can easily be pushed up by a few weighted stocks, such as Ping An. In addition to looking at stock market performance from an index perspective, it is also possible to look at market size. In recent years, the financing scale of the stock market has increased year by year, which occupies an important position in China's capital market. However, it should also be noted that although the market size has increased, the structural problems within the market are still very prominent. For example, the large amount of capital in the stock market is concentrated in a few weight stocks, and the stock prices of small and medium-sized GEM markets are generally low.

China's stock market has been facing many development problems for a long time, the most important of which is the structural problem. This is manifested in the following aspects. The proportion of institutional investors is too low. Compared with developed countries such as the United States and Europe, the proportion of institutional investors in China's stock market is too low. Only 10 per cent came from institutional investors such as corporate annuities, banks, insurance and securities, with most coming from retail investors. This has led to excessive market concentration, with most of the money going into a small number of selected weight stocks. Besides, institutional investors, due to their significant asset advantages, are more likely to study good companies and make wise choices. It also has small and medium-sized GEM market governance issues. At present, the governance of China's stock market continues to improve, but the small and medium-sized GEM market still has a lot of room for improvement. Because the information inside the market is not transparent, and due to the small scale and short listing time, there is a large operation space, and some institutions will also become the hands of manipulating this kind of stocks. In addition, it is also necessary to strengthen the supervision of new share issuance to ensure that the market is fair and equitable. At present, there are still many problems in the trading mechanism of China's stock market, such as large selling orders after the daily limit increase in the morning, floating capital in the business department, T+0 and other problems need to be solved. A more scientific trading mechanism needs to be formulated to ensure the smooth operation of the market and protect the interests of investors.

3. Analysis of Fluctuations Connection

There is a relationship between China's securities market and the U.S. market, and although the two have separate market mechanisms and operating rules, the connection can be seen in the market and stock market changes. Of course, such a phenomenon is also due to a combination of factors. Many global investors hold portfolios in both the Chinese stock market and the US market. They may invest in multinational corporations in the US market, while also investing in Chinese companies in the Chinese market. Therefore, the volatility and movements in the US market may have a direct impact on the investment decisions of these investors in the Chinese stock market. The impact of external market factors is also an important part of the equation. Factors such as trade relations between the US and China, political relations and economic data may have an impact on the markets of both countries. For example, the escalation of trade friction between the US and China may trigger volatility in global stock markets, including China's securities market and the US market. The Fig. 1 and Fig. 2 provide a visual representation of how the stock markets in both countries have changed in recent years.

Fig. 1 Price trend of index of SSE.

Fig. 2 Price trend of index of USS.

There is a similar link between the volatility of the Chinese stock market and that of Europe, due to the multiple influences of their markets, economies, and policies. Firstly, in today's society, both China and Europe are important players in the global economy, and their economic conditions and policy changes affect the stability and trend of the global financial markets. As a result, there is an indirect link between the Chinese and European stock markets, where changes in one market may affect the other, a universal link between the individual in the whole. Secondly, there are huge trade and investment flows between China and Europe. China, as the world's second largest consumer, has a huge volume of exports. China is one of the EU's major trading partners, and trade between the two sides involves a wide range of industries, including manufacturing, technology, and consumer goods. These trade and investment activities have a direct impact on the economic conditions and stock market performance of both sides. There are also some common factors that moves made by stock investors in the stock market out of their judgment of risk can also affect international stock markets.4 Both China and Europe have attracted a large number of international investors. China and Europe both attract many international investors, and their investment behavior may cause some volatility in the stock markets of both sides, especially during periods of high volatility in global financial markets. The Fig 1 and Fig. 3 provide a visual representation of how the stock markets in both countries have changed in recent years.

Fig. 3 Price trend of index of EU50.

The rise of China's stock market is highly correlated with the volatility of some Asian countries' stock markets. This is because China's comprehensive national power has been increasing, and its influence in the Asian economic circle has also increased. Currently, the world economy is recovering sluggishly and the international situation is in a state of flux. The World Bank believes that the world economy has entered the slowest growth in 30 years in five years, but Asia still has great economic potential. China is in the East Asian economic circle, and Asian countries in the economic and trade exchanges are very frequent. China's mature manufacturing system allows China to meet domestic demand at the same time can carry out a large number of basic trade exports, which makes many countries in Asia, the national standard of living, disposable income increased, in favor of the overall development of the Asian stock market. China's policy is to befriend the rest of Asia and actively promote the Belt and Road. In this way, the infrastructure of many Asian economies has been improved with the help of China. Infrastructure is a "key driver" of economic progress and poverty reduction in these countries.5 Such changes will be reflected visually in the movements of stock market values in many Asian countries. The Fig. 1, Fig 4, Fig. 5 and Fig. 6 visualize the correlation between the stock markets of some Asian countries and China.

Fig. 4 Price trend of index of JP225.

Fig. 5 Price trend of index of FTSE.

Fig. 6 Price trend of index of KSE100.

4. Conclusion

To sum up, comparing China's stock market with other stock markets around the world, there have been some twists and turns in China's booming securities market. From a long-term development perspective, China's stock market has great potential to be tapped, and China, as a huge economy, will play a driving role In the process of flying across of global stock markets. The stock markets of countries that are politically and economically close to China can easily change in response to changes in China. Chinese stock market investors should pay close attention to the direction of the global economic situation and international political changes, any policy published in international forums have the ability to change the direction of the stock market. Global stock market investors should also pay attention to the Chinese market, as one of the mainstays of the world's economic development, China will bring more and more surprises to investors in the future.

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