China stock market descends into crisis

By Laura Henrique, Deputy Business Editor (2015/16)
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The Shanghai Composite Index has declined more that 43 per cent since June 2014. Image: Aaron Goodman

Following decades of steady economic growth, the Chinese stock market has hit a downward spiral after peaking in June 2015. Since then the Shanghai Composite Index has declined by 43 per cent, wiping billions of Yuan from Chinese companies. Last week, Chinese markets experienced the worst start in history when the CSI 300, an index of the largest companies listed on the Shanghai or Shenzhen stock exchanges, plunged by five per cent within the first thirteen minutes. In an attempt to “prevent panic selling”, a 15-minute cooling-off period came into effect as a result of the newly-installed circuit breaker. This proved to be of little comfort as anxious traders rushed to sell forcing the index to decline by a further two per cent. This led to trading being suspended for the remainder of the day, with a similar situation occuring earlier in the week.

The circuit breaker is a new policy designed to suspend trading if the index falls by seven per cent in a single day to help promote market stability. However Wu Xiangeng, president of the Longteng Asset Management, says that the mechanism contradicts its intended purpose, as it only intensifies feelings of panic. Traders worry that the circuit breaker will be triggered after the index drops by two or three per cent, leading to frantic panic selling by worried invested. As a result the China Securities Regulatory Commission decided to suspend the breaker mechanism in order to maintain market stability but this is proving difficult in such an uncertain market.

Globally, China’s stock market instability could have serious implications with the fear of a “domino effect” on global markets. Across the world stock markets have seen falls because of China. Germany’s DAX Index has lost nearly three per cent with FTSE and the Dow Jones falling by two per cent. George

Osborne warned that 2016 could be “the year we look back at the beginning of the decline”. Osborne cited China and the fall in commodity prices which have led to a drop in the cost of crude oil, as part of the “cocktail of threats” to global prosperity.

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