

China's Stock Market "Cheat Sheet"

❖ There are two stock exchanges in Mainland China ("China"): **Shanghai Stock Exchange** and **Shenzhen Stock Exchange**, with **2,774** companies listed on the Chinese exchanges. The capitalization of the Chinese stock market is only **30%** of China's GDP and only **15%** of China's household financial assets are invested in the stock market.

❖ Most companies will offer two classes of shares: **A-shares** and **B-shares**. **A-Shares** are quoted in Renminbi and, for the most part, are only accessible to domestic investors. **B-shares** are quoted in foreign currencies (USD in Shanghai and HKD in Shenzhen) and are open to both domestic and foreign investment.

❖ **50 million** active individual Chinese investors account for about **80%** of the turnover on the Shanghai and Shenzhen stock exchanges. The vast majority of investors are small-time day traders, mom-and-pop investors, without any financial investment experience or understanding.

❖ The **ChiNext board** is Shenzhen Stock Exchange's NASDAQ-style board for fast-growing companies. The ChiNext started operating in 2009 and today includes 460 listed companies. Most analysts agree that the ChiNext is **overvalued** and appears to be disconnected from economic fundamentals. At its peak, the P/E ratio of some stocks reached 147.

❖ Most **foreign exposure** to Chinese stocks happens through the **H-share** market. H-shares are stocks of about 1,800 mainland-incorporated companies (regulated by Chinese law) which are listed on the **Hong Kong Stock Exchange**. Additional foreign exposure to Chinese-related businesses can be achieved through shares of companies incorporated outside of China (usually in offshore centers) with a primary place of business in China, which are listed on the London Stock Exchange (**L-shares**), the NY Stock Exchange or NASDAQ (**N-shares**), the Singapore Stock Exchange (**S-shares**) or the HK Stock Exchange (**Red Chips** and **P-chips**).

❖ **Foreign investment** in the A-Share market is only allowed through a tightly-regulated system of limited quotas and thus accounts for only **3%** of the holdings. High-anticipated **reform** of China's equity market will hopefully allow foreign investors to freely buy A-Shares.

❖ The main index for A-shares is the Shanghai Stock Exchange Composite Index (SHCOMP). In just three weeks the SHCOMP dropped **30%**. **3.5 trillion dollars** worth of market value were wiped out. On July 7th, trading in **90%** of A-share stocks was suspended or halted.

❖ In general, the amount of **leverage** in the Chinese equity market is **very high**. The sharp slide in the price of stocks raised **worries** about the impact on China's economy and consumer spending.

❖ Most analysts believe the recent stock market crash will bear **little impact** on China's economy, because: (i) the CHOMP is still **15% higher** compared with the start of 2015, and more than **75% higher** since 2014; (ii) stock markets play a **small roll** in China's economy; and (iii) the Chinese government reacted **quickly** and **aggressively** in responding to the crash by capping short-selling, suspending IPOs, and crack down on grey market lenders providing credit for leveraged share purchases. Additionally, government-controlled pension funds and government-backed stock brokers pledged to buy more stocks in the market.

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