

Stock markets since Yuan devaluation

Global markets have been on a downward spiral ever since the news of the slowdown in China took centre-stage. It started with the devaluation of the Yuan on 11th of August and the repercussions were witnessed in the stock market in China which had a contagion effect.

The two days – 24th and 25th of August witnessed the nadir of almost all the stock markets after which there has been some semblance of a recovery though compared with the indices on 11th August, the values are still lower.

How have the stock indices moved since 11th August 2015?

	11th Aug	24/25th August	9th Sept	25th Aug over 11 th Aug	9th Sep over 25 th Sep	9th Sep over 11 th Aug
	<i>Value of indices</i>			<i>Percentage change</i>		
Nikkei 225	20,720	17,806	18,311	-14.1	2.8	-11.6
Shanghai Composite	3,927	2,927	3,195	-25.5	9.2	-18.6
Hong Kong Hang Seng	24,498	21,404	21,779	-12.6	1.8	-11.1
Indonesia: Jakarta Composite	4,622	4,163	4,376	-9.9	5.1	-5.3
India BSE	27,866	26,032	25,770	-6.6	-1.0	-7.5
Korea KOSPI	1,986	1,829	1,944	-7.9	6.3	-2.1
Malaysia KLCI	1,637	1,532	1,606	-6.4	4.8	-1.9
US DJIA	17,402	15,666	16,330	-10.0	4.2	-6.2
UK FTSE 100	6,571	6,081	6,155	-7.5	1.2	-6.3
Brazil BOVESPA	49,072	44,544	46,503	-9.2	4.4	-5.2
Mexico IPC	44,379	41,471	42,888	-6.6	3.4	-3.4
Turkey BIST	97,993	87,545	88,276	-10.7	0.8	-9.9

Source: Bloomberg

The table above traces the movement in stock indices of some major markets, with the focus being more on the emerging economies which prima facie tend to be linked closer to the turmoil in China than developed economies. Even currencies of emerging markets tended to be impacted more by the Chinese crisis than those of developed countries.

The time points chosen are 11th August when the Yuan was devalued and 9th September. In between there was uniformly a sharp fall in all indices on 24-25th of August (depending on when the market was affected by other market movements) after which there was a recovery.

Some observations

1. In the first phase of the stock market decline on 24/25th August, all indices went down sharply in the 9-10 sessions following the Yuan depreciation, with Shanghai witnessing the sharpest decline followed by Nikkei, Hang Seng, Turkey's BIST and DJIA.

- a. The Sensex had done relatively better with a decline of 6.6%. It was the third best performing market of the 12 countries selected.
2. The second phase post the low of 24/25th, did witness an increase in all indices with the Sensex being the only exception which continued to decline though by a modest rate of 1%. The sharpest recoveries were witnessed in China, Korea (KOSPI) and Indonesia (Jakarta composite). Hence, the markets do appear to have gotten over the shock.
3. For the entire period, the fall in case of the Sensex was higher than the median and India ranked 5th in the list of markets that went down sharply in the last month.
4. The highest declines were registered by China, Japan, Hong Kong and Turkey.
5. The Latin American markets appeared to have declined less than the other Asian countries.

The Indian economic fundamentals have appeared to be generally positive during this period.

- Sowing of kharif crop,
- GDP growth
- IIP growth,
- inflation,
- trade deficit and
- stable interest rates,

The decline in the Sensex could be attributed to the close relationship which all indices share with each other under the force of globalization. Similar trends may be expected to prevail as the Sensex tracks closely the movements in major stock indices.

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