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MORE INTERNATIONAL ECONOMIC TSURIS IS IN THE OFFING

This Is Far From Being Near The End: Because It Is Just The Beginning

Many an elderly, ethnically Chinese lady and gentleman, resident of the People's Republic of China (PRC), are asking themselves today:

- What happened on The Shanghai Stock Exchange and The Shenzhen Stock Exchange?
- How much further will my life-savings, invested in stocks and shares, fall?
- Why isn't the Chinese Government helping me?

The horrible truth of the current situation, as it affects the elderly of the country, especially, is that the people of the PRC have been persuaded, directly and indirectly, over the past decade or so, to invest in equities, listed on the country's two equity markets.

As share prices rose, people who bought stocks and shares, naturally, were very happy because, to them, they were getting money for jam.

They thought that there was no limit to the profits that one may obtain from equity trading: It would go on … and on … and on.

But stock-and-share prices, of late, have taken terrible tumbles and, as a direct result, the above three questions are being asked … as well as many more.

For what valid reason would the PRC Government have encouraged the elderly people of the country to invest in stocks and shares?

If anything, they should have been dissuaded from trading on equity markets.

Perhaps, the question, as to the rationale behind encouraging the elderly to invest in equities, should be asked of the powers-that-be in Beijing, the Capital City of the PRC.

For the most part, the elderly of the country have little to no idea about investing in stocks and shares and, as a direct result of this ignorance and innocence, they became the convenient, hapless victims of stockbrokers who determined to put their grubby hands into the elderly peoples' pockets.

Many elderly people were told that buying stocks and shares was akin to putting their money in the bank and obtaining interest in the form of dividends.

These people could not and, still cannot, for the most part, fully understand that, in a market-driven economy, prices of goods and services move up due, mainly, to supply-demand factors and, conversely, prices can move down just as fast as they had risen when there is a material change in the factors that caused the prices to rise.

Compounding the problems for many of the elderly of the PRC, many of whom are without very much in the way of academic achievement (if any, at all), is that, on equity markets, there are many other factors to consider other than just supply-demand considerations.

Some of these other factors include:

1. Illegal share price manipulations whereby speculators cause share prices to rise or to fall by various insidious or vile methods;

2. Insiders, having secret knowledge about the company(ies) in which they hold a privileged position, take advantage of that knowledge either to buy, aggressively, or, alternatively, to sell, aggressively, and, by so doing, drive share prices up or down as they see fit in order to obtain an illegal profit; and,

3. Speculators, being flush with very material amounts of money, legally buy or sell shares in targeted companies in order to cause those companies' share prices to rise or to fall until the speculators' actions produce the desired effects.

For the uninitiated in stock-market activities in the PRC, all of the above and much more is way over their heads and, thus, they, simply put, are not able to comprehend the reasons for the gyrations of stock-and-share prices.

It is widely accepted that only about two percent of the total population of the PRC beneficially own shares, listed on the two equity markets of the country.

That two percent comprises, inter alia, the elderly, the hawkers, selling their wares on many of the open markets of the country, businessmen and businesswomen, professionals of all kinds, stockbrokers and their staff members, banks and their staff members, and institutions, excluding PRC Government corporate entities.

That two percent is responsible for most of the daily turnovers on PRC equity markets.

It is well appreciated that many of the elderly people, the hawkers, the staff members of a variety of companies, as well as many clients of large, stockbrokerage houses made equity purchases in the past, using borrowed money, either with the help of lending organisations or operating margin accounts with stockbrokers.

This group of investors are, today, having to sell their stocks and shares '*at market*' in order to top up margin purchases and, in many cases, just to reduce their financial commitments to their lenders.

TARGET () should point out, at this time, that two percent of the total population of the PRC is equivalent to about 26 million people.

<u>Is The PRC Economy The Culprit?</u>

In a market-driven economy, prices of just about everything are subject to rises and falls due to a plethora of reasons.

But, in a controlled economy, things are quite different and misery tends to enjoy the company of those who, like themselves, suffer from those or similar miseries.

The PRC, today, maintains control over many aspects of the country, including the imposition of a Government fiat in the determination of the exchange rates of the renminbi vis-à-vis other world currencies.

(In most other countries, market forces determine exchange rates with regard to the media of exchange.)

For this reason, official, PRC Government statistics as they apply to the country's economy may be called into question as to their validity and accuracy.

In 2014, the PRC Government stated that the country's growth rate, measured by the value of the **G**ross **D**omestic **P**roduct (**GDP**) – the total value of goods produced and services provided in a country, during a specific time period, usually one year – was 7.40 percent.

That figure was a decline of about 5.13 percentile points, compared with the estimated GDP of the previous year.

The composition of the PRC's GDP for 2014 comprised:

Household Consumption	36.80 percent
PRC Government Consumption	14.00 percent
Investment in Fixed Capital	46.00 percent
Investment in Inventories	1.10 percent
Export of Goods and Services	23.90 percent
Import of Goods and Services	(21.70 percent)

Again, one has to question the validity of the PRC Government's statistics as they relate to growth, or otherwise, of the GDP due to, inter alia, the PRC Government's exchange rate, being determined by fiat rather than market forces.

As a result of the PRC's Governmental policy with regard to foreign-exchange rates vis-à-vis the renminbi, one cannot accept, blindly, many, if not most, of the statistics, produced and disseminated by The National Bureau of Statistics of China.

Many economists – excluding those economists, employed by the PRC Government, of course – maintain that the PRC's GDP substantially understates the true picture.

Thus, the world fears the worst in respect of the estimated growth of the economy of the PRC, a country whose economy is supposed to be the second-largest of the world, today.

This fear, to a very great extent, was exemplified in the chaotic conditions that one has been forced to witness, of late, on equity markets, the world over.

Going further, the PRC Government's public debt is thought to be in the region of about 15.10 percent of GDP: $US28 trillion.

The public debt comprises, among other things, PRC Central Government debt and local government debt, but it does not take into account policy bank bonds, the known debts of China Railway, the national railway operator of the PRC that comes under the authority of The Ministry of Transport, the debt that has been incurred by China Asset Management Company Ltd () and non-performing loans of all descriptions.

On the flip side of the coin, the PRC Government is known as being flush with cash, estimated in excess of $US5.67 trillion, with foreign reserves and gold, thought to be at least $US3.90 trillion.

The PRC Government, just about every day, now, is attempting to employ measure after measure in order to ameliorate the situation with which it is being faced as sagging indices on the country's equity markets continue to seek lower levels.

Thus far, all emergency efforts by the PRC Government have been too little or of no avail, notwithstanding an occasional, half-hearted, anaemic gain of a key index.

Another underlying fear of the PRC Government, of course, must be that the falling stock-market indices, which have wiped out tens of billions of investors' hard-earned renminbi, could, like a fungus, spread fiercely to the man-in-the-street, resulting in a decidedly negative attitude toward the Government of the day.

And, this could well lead to widespread discontent among pockets of the population, leading, potentially, to insurrection.

(It is a well-known fact that many people consider that money and real property are more important than a person's life.)

The PRC's Encouragement

The PRC Government has gone on record, stating that it encourages a market-driven economy for the country, but, at the same time, it appears to be unwilling to adopt a laissez-faire attitude in respect of prices of goods and services and stock-and-share prices.

The PRC Government has yet to learn that, by employing artificial means in attempts to support stock-and-share prices, it will not be beneficial, long-term.

If anything, such artificial measures, as have been introduced by the PRC Government, of late, measures that were said to be aimed at preventing further downward pressures on the key indices of the country's two equity markets, are quite likely to exaggerate the situation that exists, today.

However, this medium is excluding from the failed, artificial measures, the five, interest-rate cuts since last November (the interest rate, today, now stands at 4.60 percent) and the 1.90-percent, renminbi devaluation of a fortnight ago, both measures, being positive steps in trying to assist the economy of the country and, in addition, an attempt to restore some semblance of confidence in the minds of equity investors.

In fact, The People's Bank of China (), the Central Bank of the PRC, has gone on record, stating that the most-recent, 0.25-percent, interest-rate reduction was aimed at reducing '*the social cost of financing in order to promote and to support the sustainable and healthy development of the real economy*'.

In addition, The People's Bank of China has reduced PRC banks' Reserve Ratio by 0.50 percent. This action, in effect, will free up more money that banks may lend to qualified customers.

It is, therefore, very obvious that the PRC Government, aside from its initial bumbling efforts at trying to bring to a halt the downward pressure on the key indices of the two equity markets of the PRC by causing many tens of billions of renminbi to be used to purchase stocks and shares, is trying to find a long-term solution to the problems, confronting, not only PRC investors, but, also, the entire country.

The major question is whether or not the PRC's coffers have sufficient ammunition to do the job for which it is intended.

The next question is whether or not the PRC Government is willing and is able to make effective use of its available cash reserves, in an orderly fashion and without panicking investors, so as to effect a '*soft landing*' for the PRC's equity markets.

The Underlying Causes

Share-price stabilisation, leading to a partial recovery in share prices on the two equity markets of the country, is the foremost consideration of the PRC Government, today, because the downward pressure on the key indices is impacting on equity markets in other parts of the world.

Also, it is well expected that, in the second half of this Fiscal Year, the losses, experienced on the PRC's equity markets, will shave the country's GDP by at least 0.50 percent.

The most-important consideration for the Government of the PRC, today, is to reverse the slowing down of the overall economy, the decline in exports, being but just one of the many problems, confronting the country's economists.

There are many indications that point to the fact that the second-largest economy of the world is losing traction as the days grind to a close.

It is losing traction, in fact, at an increasingly faster rate than had, hithertofore, been expected … or even considered, seriously.

This loss of traction is fast eroding the confidence of many investors in the PRC economy; and, this is, today, being reflected in the falling key indices of equity markets in many developed countries.

Wall Street has felt the impact of the PRC's problems, with many investors, running for cover, selling stocks and shares in order to cover margin positions as well as to prevent any further, undesirable '*haircuts*'.

As has been made manifest in the past week, that which affects the economy of the PRC, negatively, affects other countries' economies, too.

This is due to the fact that the PRC is less likely, in the intermediate term, at least, to be requiring new demand in order to grease the wheels of its industries as well as to satisfy its domestic needs.

A determined slowdown in the PRC's requirements is, most certainly, going to impact on many developed economies: Australia has, already, felt the pinch.

Because the PRC has become such an important driver for many of the world's economies, and because it has, already, cut back sharply on imports of basic raw materials and commodities, it could foster an economic slowdown, internationally.

An indication of the PRC's previous requirements for raw materials and commodities, in terms of world's total, is hereby shown:

Oil	14.40 percent
Iron ore	57.70 percent
Soya beans	57.70 percent
Copper ore	31.00 percent
Integrated circuits	31.80 percent

It has to be expected that investment capital will start trickling out of the PRC in greater volumes than in the past – if it has not done so, already – for fear of further devaluations in the renminbi and a paucity of investment opportunities where risk can be tolerated.

For foreign investors, having determined, some years ago, to establish bases in the country, they must be staring at potentially staggering financial losses – and with nowhere to run for cover.

Meanwhile, the relatively weaker renminbi must, invariably, put pressure on a number of the PRC's trading partners as factories in the country ramp up production levels because their managements, now, see themselves in a position, being able to compete in terms of quality, quantity and price.

Ironically, this will put pressure on many an emerging market.

Conclusion

The world appears to be in for a very rough ride.

In the words of Lucius Annaeus Seneca (c.4 BC – AD 65), a Roman Stoic philosopher:

'*Multis parasse divitias non finis miseriarum fuit, sed mutation; non est in rebus vitium sed* *in animo.'*

Rough translation:

'The acquisition of riches has been to many, not an end of their miseries, but a change in them; the fault is not in the riches, themselves, but in their disposition.'

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