THE PRC GOVERNMENT'S UNWELCOME INTERFERENCE IN WHAT SHOULD BE A LAISSEZ-FAIRE MARKET <u>ONLY TENDS TO EXACERBATE SITUATIONS</u>

The two equity markets of the People's Republic of China (PRC) have, always, been subject to the herd mentality of predominantly Chinese retail investors who, really, are not investors at all, but outright speculators: Short-term players who want quick profits and who were prone to bail out of equity markets at the first hint of perceived trouble.

In the not too distant past, China's retail investors have been able to scoop up considerable profits from buying and selling PRC, publicly-listed shares and, then, still not having sufficiently satisfied their greed for more profits, ploughed back into buying more scrip on either (or both) The Shanghai Stock Exchange and The Shenzhen Stock Exchange.

Such speculative activities have proved fruitful in the past, but they do not, and cannot, be applied today due to quite a number of interdependent factors, all of which have conspired, negatively, to affect the economy of the second-largest economy of the world.

The PRC Government has, unwittingly, tried various ploys in one attempt after attempt in order to try to placate the herd mentality of investors as they continued to panic, driving share prices lower.

The determined sell-off of shares on the country's equity markets over the past few months has been very worrying for the powers that be in Beijing and, rather than allow the share prices to find their own levels, introduced measures that, if anything, turned out to be counter-productive.

The PRC Government, initially, took the view that an oblique attack on the problems, facing the PRC's faltering economy and, as it turned out, the rapid falls in the values of the key indices of the equity markets, was in order.

It was determined that sanity must be restored on the two equity markets and that artificial and/or cosmetic means would be the balm to cool investors' nerves.

To this end, the renminbi was depreciated by The People's Bank of China – The Central Bank of the PRC – with a view to stimulate economic growth in the country, one was led to believe.

Meanwhile, PRC factories bemoaned their fate as international orders for their goods dwindled, compared with previous years' demands for their manufactured products.

The second-largest market of the PRC is the **E**uropean **U**nion (**EU**), but this market is in tsuris – and has been in tsuris for the past five years, at least.

By depreciating the renminbi, it made PRC exports, on the surface, have the appearance of being cheaper, as far as international customers were concerned, but it did not assist, to any great extent, to stimulate economic growth.

And the country's export orders continued to wilt, resulting in many a PRC factory, having to shut its doors, permanently.

That which the PRC Government probably did not factor into the equation in its attempts to redirect the country's economy was that the immediate effect of depreciating the renminbi was to risk a material capital flight by foreign investors in the currency of the PRC: The renminbi.

The almost immediate effect of the renminbi's depreciation was to backfire on the ill-fated plans of the PRC Government as quite a number of foreign investors took their money and headed for other, sunnier climes.

The move by the country's Central Bank, also, did not halt the stampedes of the herds of retail investors on the two equity markets of the country.

Currency investors, faced with an unprecedented situation, were caused to look askance on purchasing the scrip of PRC-domiciled, listed companies.

Thus, more tsuris for the prices of most shares, listed on the country's two equity markets.

If the renminbi continued to depreciate against '*hard*' currencies, it was reasoned that any prospective gains in the market values of PRC-listed shares could be negated by the decline in the translation value of the renminbi vis-à-vis the US dollar, the euro, etc, etc, etc.

Further, any material depreciation of the renminbi must, inevitably, come to mean, as far as PRC importers were concerned, that the cost of imports would, proportionally, rise; and, this, in turn, would impact on profit margins of PRC factories – at the time that EU importers were tightening belts as unemployment levels continued to rise in that part of the world.

As **TARGET** () has written on numerous occasions in the past, in a free market, the market will determine the levels of prices.

Government interference on equity markets only has the effect of continuous stoking of the fires of investor panic.

No matter how much money the PRC Government throws into the equity markets of the country in order to try to turn the tide, it will make little difference and, in fact, it cannot ameliorate the situation but, instead, exacerbate it.

And, in addition, it will cause further concerns among retail investors of the country.

'*Alea iacta* est' (the die has been cast) to quote the words of Julius Caesar in 49 B.C..

Somebody should remind the PRC Government that the best controller of a free market is the market, itself.

In a market economy, the unhindered, free market will, as a matter of course, always find its own level, no artificial/cosmetic tools of any colour are required.

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