Global Major Stock Market Crashesincluding Causes and Their Effects of 2016 Chinese Stock Market Crash

Dr.D.S.Selvakumar
School of Social Science,
VIT University, Vellore-632014
India.
dsselvakumar@vit.ac.in

Dr.PaulSundarKirubakaran
Department of International Business Administration,
College of Applied Sciences, Ministry of Higher Education
NIZWA, Sultanate of Oman
paulkaran@rediffmail.com

***Abstract*-There were eight major Stock Market crashes including the Chinese ,in the past thirty years.Only three only three of the seven crises can be considered as genuine turning points.The beginning of 2016 was very worst for Chinese Stock Market. Chinese stock market was heavily affected and faced a drop nearly 8 per cent. Fundamentals will see the market struggle is the belief of Investors.This paper reviews the major stock market crashes including the recent Chinese crash and the causes and effects of the Chinese stock Market Crash.**

***Key words:* Global ,StockMarket,Crash,Chinese,2016,Effects.**

I. INTRODUCTION

There were eight major Stock Market crashes including the Chinese ,in the past thirty years.Only three of the eight crises can be considered as genuine turning points: Black Monday in 1987, the bursting of the technology bubble burst in 2000 and the great financial crisis of 2008.

The rest, ranging from the Asian crisis in 1997 to the European debt crisis in 2011, were more in the nature of corrections. There are major stock market crashes and their causes and effects are more or less connected to heavy fall in the stock market indexes in their respective stock markets and it is the first time that china used “Circuit breaker” in its stock market crash of 2016.

II. MAJOR STOCK MARKET CRASHES(From 1987-2015)

'*Program trade' crash – 1987*
(Time to regain pre-crash level: 456 trading days)

Something had to give and eventually Black Monday arrived. Some blamed weakening global economic data, but losses were exacerbated by the fact that computerised trading had become more widely available. Wall Street fell by almost 23pc in a day, while the FTSE 100 posted two successive daily falls of 10pc.

Asian crisis – 1997
(*Time to regain pre-crash level: 46 trading days*)

America’s decision to raise interest rates in 1994 had already sparked a financial crisis in Mexico, which could no longer afford to service its debts. A couple of years later Thailand, Korea and the Philippines found themselves in the same boat. In the end their currencies tumbled and investors fled, sparking fears of worldwide economic meltdown. Western stock markets fell, but rebounded quickly after the Asian countries agreed to fierce austerity programmes.

Russian crisis – 1998
(*Time to regain pre-crash level: 44 trading days*)

A year later the Asian crisis finally fed through to commodity prices, which hit Russia’s foreign exchange reserves. In the end it devalued its currency and defaulted on its debt. Again, this triggered financial panic around the world.

Tech bubble – 2000
(*Time to regain pre-crash level: 1,015 trading days*)

By the turn of the millennium investors had caught the technology bug, falling over themselves to buy fast-growing firms with ambitious plans. At the height of the mania it was not uncommon for a share to double on its first day of trading, even those that did not seem to have a sustainable business model. But in the end the bubble popped. These falls were compounded by the panic induced by the 9/11 attacks on New York and Washington.

Global financial crisis – 2008
(*Time to regain pre-crash level: 230 trading days*)

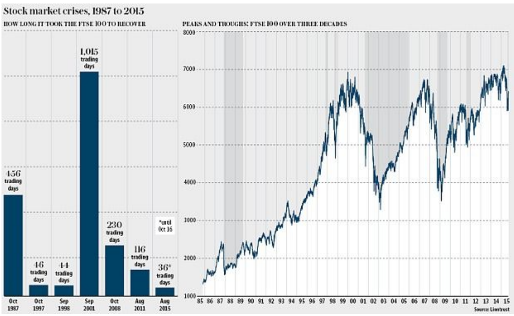
FTSE fell by another one thousand five hundred points in the event of bankruptcy filed by layman brothers which is an American investment bank. It took nearly two years for the index to recover.

Greek debt crisis – 2011
(*Time to regain pre-crash level: 116 trading days*)

Further shocks came in 2011, when there was a long term debt crisis which lead to the collapse of Greece economy. .A massive default on its debt sparked panic, but markets recovered when the European institutions and the International Monetary Fund granted Greece a bail-out.

China's 'Black Monday' – 2015
(*Time to regain pre-crash level: 36 (and counting) trading days*)

Global investors lost confidence in August, thanks to concerns about the global economy and China's stock market bubble. Liontrust said it saw the downturn as beginning on August 18, when the FTSE 100 stood at 6526. "In 1987 and 2008 the first three rose, while yields on US government bonds shrank [meaning that their prices rose] as investors fled to safety. Stock markets are driven by fear and greed, and each of these early warning indicators was a reflection of the fear at the time.



III. CHINESE STOCK MARKET CRASH (2016)

Chinese stock market has lost 7 per cent on Thursday in 1st week of January; it totally affected the global market including Dwjones down by 5% already.

Chinese crash and the effect on global economy

China is the worlds largest trading partner when compared to other developed and developingcountries in the world .Most of the consumer good consumed by consumers in the world are of chinese made. The developing countries like in middle-east asia and some parts of European countries face problems if anything happen to chinese economy.

Once china is considered as totally communist country, and slowly the transition to capitalism is in process and they are succeeded in the process and thus, it occupies the major portion of global economy and it is evidenced if anything happens to chinese stock marker ,it affects the whole of the other stock markets in the world.

Most of the consumer goods in the world wear this letters(Made in China) somewhere in the product and also in the package ,china has the advantage of cheap labour and also it used to import the basic raw materials for production from other parts other the world. It has agreements with other parts of the world for importing raw materials. The emerging economies in the world largely depend on china to import the raw materials.The emerging economies should try to avoid being wholly depend on china for their purchasing power parity.

Chances of Currency War

Obviously china tries to manage the value of Yuan equivalent to the US dollar. Though it is risky most of the countries in the world make their own currencies by way of trading freely in foreign exchange markets. But the government of china usually keep the value of yuan very cheap when compared to other currencies in the world. By way of doing this it is a big headache for the entire economies of the world. The exports of china become more expensive and the imports from china becomes very cheapwhen china devalues its currency all the times.

The concern is that if China does this again, other countries could move to also devalue their currency to prevent China from gaining to great of an advantage. This is known as a currency war, and it can wreak havoc on economies. Whenever china devalues its currency, the other countries in the world also tend to devalue its currency.

IV. IV.CAUSES OF 2016 CHINESE STOCK MARKET CRASH

1. Many investors forced to sell off their shares.
2. Emerging and also developed countries devalue its currencies.
3. Shanghai stock market faced a deep 30 per cent fall.
4. More than 50 per cent of the listed companies in Shanghai stock market marched towards trading halt.
5. Shanghai stock market faced a further fall of 8.48 per cent.

V. V.EFFECTS OF 2016 CHINESE STOCK MARKET CRASH

1. Shanghai stock market index has lost 8.49 per cent of its value.
2. There were to Black Days ,one on 4th and 8th January 2016.
3. Dwjones industrial average faced an uncertainty and dropped a thousand points .
4. It created fears among of a global slowdown.
5. US stock indexes tumbled about 2 per cent.
6. The chinese stock market fell by 5 per cent on January 4th ,2016.
7. Shenzhen composite was fell by more than 8 per cent.

VI. CONCLUSION

Whenever china devalues its currencies , it affects the whole world because the other economies largely depend on their exports to china.Infact,to lead the economy of the world,the Chinese continue to do any kind of drastic step which affects the whole world economies not at all a welcoming trend.

REFERENCES

[1] Evan Osnos (15 July 2015). "The Real Risk Behind China's Stock-Market Drama".The New Yorker. Retrieved 18 July 2015. Wang mocked fears of a bubble—"What's a bubble? Tulips and Bitcoins are bubbles
[2] Charles Riley; Sophia Yan (13 July 2015). "China's stock market crash ... in 2 minutes". CNNMoney (Hong Kong). Archived from the original on 13 July 2015. Retrieved 13 July 2015.
[3] Jim Zarroli (27 August 2015). "Beijing Government Spurred Ordinary Investors To Make Risky Margin Bets". NPR. Retrieved 2 September 2015.
[4] Gold, Howard (9 July 2015). "Opinion: China's stock-market crash is just beginning".MarketWatch. Archived from the original on 10 July 2015. Retrieved 13 July 2015.
[5] Duggan, Jennifer (8 July 2015). "Chinese stock markets continue to nosedive as regulator warns of panic". The Guardian (Shanghai). Archived from the original on 9 July 2015. Retrieved 14 July 2015.
[6] "China bans major shareholders from selling their stakes for next six months". The Guardian. Reuters. 8 July 2015. Archived from the original on 11 July 2015. Retrieved13 July 2015.
[7] Hunt, Katie (9 July 2015). "Key things to know about China's market meltdown". CNN(Hong Kong). Archived from the original on 13 July 2015. Retrieved 13 July 2015.
[8] Gough, Neil (28 July 2015). "Chinese Shares Tumble Again". The New York Times.
[9] Paul J. Lim. "How China's Stock Market Crash Affects You". MONEY.com.
[10] Serafino, Phil (21 July 2015). "China's Aftershock Ripples Through Sales of Cognac to Ore". Bloomberg. Retrieved 28 July 2015.
[11] Colombo, Jesse (12 July 2015). "Watch These Charts To Better Understand China's Stock Market Crash". Forbes. Archived from the original on 13 July 2015. Retrieved13 July 2015.
[12] R., S. "A red flag". The Economist. Retrieved 10 July 2015.
[13] Times of India-Chennai