

China's stock circuit-breaker was suspended¹ (1.7)—Peng Lishuang

Summary

- On 7 Jan, China's CSI 300 Index plunged 7.2 percent, triggering a shutdown within 30mins.
- The China Securities Regulatory Commission officials held an emergency meeting to discuss the condition of stock market. Few hours later, CSRC announced a suspension of stock circuit breaker on its micro blog.
- China's moves of intervention
 - Policy makers put funds to prop up stock market, with the strongest support of US\$5 trillion last summer. Besides, state funds were also used to order stock purchase.
 - Policy makers also suspended initial public offerings and allowed trading halts which froze hundreds of China's mainland-listed shares.
 - CSRC imposed a new limit on the amount of stock that major corporate shareholders can sell, in a move to alleviate investors' concerns.
 - China Central Bank is considering new measures to prevent the exchange rate from severely fluctuating and will continue to intervene in the monetary market, aiming to prohibit arbitrage between onshore and offshore rates.

China's stock circuit-breaker

- China's market circuit breakers halt exchanges for 15 minutes after a 5 percent drop in the CSI 300 and for the rest of the day after a 7 percent retreat.
- Circuit breaker in China's stock market was initiated on 4 Jan, 2016, and was ended on 7 Jan, triggered twice in between.

US stock circuit-breaker

In the U.S., trading is halted temporarily after declines of 7 percent and 13 percent in the Standard & Poor's 500 Index, and only suspended for the rest of the day if losses reach 20 percent.

Comments from insiders

- The nation's market circuit breakers have been criticized by analysts for exacerbating losses as investors scramble to exit positions before getting locked in.
- Deutsche Bank AG strategists wrote in a report that China's threshold for trading halts looks "quite tight" versus circuit breakers in other markets.
- Hugh Young, a managing director at Aberdeen Asset Management Plc, said that China's efforts to intervene in the stock market are counterproductive. "Often, the more measures the government takes, the more it encourages people to go against it. The government should regulate the market to make sure rules are clear and people abide by the rules. It shouldn't worry as stock prices go up or down", Young said.

Circuit breaker is a measure to prevent market from getting into irrational and vicious circle and keep the unreasonable panic from spreading in the stock market by halting or freezing trading temporarily. Its main aim is to protect the interest of small investors. But it is the time that can tell whether the foreign measure is wise and suitable for China.

¹ <http://bloombergtv.ca/news/china-suspends-stock-circuit-breaker-days-after-introduction/>