

**THE EFFECT OF MACROECONOMIC VARIABLES ON
CHINESE STOCK MARKET
(A CASE STUDY OF SHANGHAI STOCK EXCHANGE AND
SHENZHEN STOCK EXCHANGE)**

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ABSTRACT

The aim of this paper is to analyze the effect of selected macroeconomic variables, i.e., GDP growth, Consumer Price Index, Real Effective Exchange Rate Index of RMB, money supply, and China Deposits Interest Rates on Shanghai Composite Index at Shanghai Stock Exchanges (SSE), and effect on Shenzhen Component Index at Shenzhen Stock Exchanges (SZSE). The data are monthly and extend from the January of 2000 to the December of 2009. A multiple regression model is designed to test the relationship between the SSE-composite Index and five macroeconomic factors, and the relationship between SSZE-composite index and five macroeconomic factors.

The results of the paper indicate that consumer index price (CPI) positively influence on SSE composite index. On the other hand, gross domestic product (GDP), real effective exchange rate (REER), money supply (M2), and deposit interest rate (DEP) do not appear to have any significant effect on SSE Composite Index. And gross domestic product (GDP), money supply (M2), and deposit interest rate (DEP) positively influence on SZSE composite index. On the other hand, consumer index price (CPI), and real effective exchange rate (REER) do not appear to have any significant effect on SZSE Composite Index. This research only covers five selected macroeconomic variables. Therefore, further research should examine other potential macroeconomic variables.

Keywords: Macroeconomic Variables, Shanghai Stock Exchange, Shenzhen Stock Exchange