Will the Chinese Economic Stimulus Help Chinese Stocks?

Shares on Asian markets rose on a broad front in response to expectations of economic stimulus measures by mainland China. An article in *Reuters* notes the cuts in interest rates in China and in the EU. Our focus is on **Asian stocks**, specifically Chinese stocks.

Asian share markets were broadly higher on Monday as the prospect of further policy stimulus in China and Europe whetted risk appetites while sending the euro skidding.

The single currency was near 28-month lows having shed 1.2 percent on Friday when European Central Bank President Mario Draghi surprised by declaring his commitment to fighting deflation.

That came hot on the heels of an unexpected cut in interest rates from the People's Bank of China, and sources told Reuters Beijing was ready to ease further to head off slowing inflation.

Chinese growth is leveling off and the ever present risk of a collapse in prices in the real estate market haunts the country of *managed Capitalism*. From Japan to China to Europe there is a threat of deflation, a downward spiral in prices, that kills economies. The Chinese and Europeans are finally taking a hint from the success of the Bernanke-inspired stimulus program that saved the US economy from another Great Depression. Our direct concern for investors is will the Chinese economic stimulus help Chinese stocks? We will look at the likely effect on European stocks of easier money in Europe in our next article.

Chinese Stocks Already Going Up

Will the Chinese economic stimulus help Chinese stocks? The prospect of lower interest rates and other stimulus measures is already driving stocks higher. The Economic Times reports that **Chinese stocks rise** after an unexpected interest rate cut.

Chinese stocks rose, with a key index hitting a three-year high, while bond yields fell on Monday, as markets cheered a surprise rate cut that investors hope may signal the start of a fresh cycle of aggressive policies to boost flagging growth.

The People's Bank of China (PBOC) cut one-year benchmark lending rates by 40 basis points to 5.6 per cent late on Friday, taking market participants who had predicted more covert policy easing measures such as liquidity injections by surprise.

It is also of note that when a country drops its interest rates the value of its currency falls. So, will the Chinese economic stimulus help Chinese stocks? It is already raising the value of stocks as denominated in Renminbi but how about in dollars. The US dollar is likely to go up in value across the board when the Fed raises rates next year. The USA is several years ahead of both the Chinese and Europeans in dealing with the recession and its after effects. Make sure to value you investments in dollars and then decide if the Chinese economic stimulus will help Chinese stocks trading as ADRs in the USA.

Gold Prices

Not only are Chinese stocks rising in response to an interest rate cut and expectations of further stimulus measures but gold has gone up too. An article in *Investing.com* notes that prospects of a weak Renminbi as well as a weak Yen have driven up **gold prices**.

Gold prices gained in early Asia on Monday with the focus on a weak yen and signals from Beijing on measures to boost the economy.

On the Comex division of the New York Mercantile Exchange, gold futures for December delivery traded at 1,202.20 a troy ounce, up 0.32%. On Friday they settled at $1,197.70 a troy ounce. Markets in Japan are shut on Monday.

Last week, gold prices rose on news that the People's Bank of China cut its benchmark one-year deposit rate by 25 basis points to 2.75% and trimmed its one-year lending rate by 40 basis points to 5.6%.

The move came in response to recent signs of a slowdown in the world's second-largest economy.

How is it that stocks and gold are both going up together? They are both denominated in currencies and as currencies fall gold, as measure of the cost of commodities rises.

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