The Impact of Macro-economic Factors on Banking Industry Stock Return in China

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ABSTRACT

This study examines the impacts of macroeconomic factors which including inflation rate, exchange rate, money supply and interest rate on banking industry stock return in China by using generalized least squares (GLS) model. The research covers 16 banks which listing on both Shanghai stock exchange and Shenzhen stock exchange as a whole banking sector be the dependent variable and moreover, the return of Shanghai stock market and the return of Shenzhen stock market are the control variables. The sample of data is from September 2007 to June 2012 and all data is collected by monthly data. The regression results indicate that both the change of inflation rate and the growth rate of money supply (M2) are positive but insignificant to the banking industry stock return, the exchange rate is positive and significant to banking industry stock return and interest rate is negative and significant to banking industry stock return. But when put the control variables into the model, it shows that all macroeconomic factors have no impact on the banking industry stock return.

Keywords: Banking industry stock return, Inflation rate, Exchange rate, Money supply, Interest rate, Shanghai stock market return, Shenzhen stock market return