



Red chips or H shares: which China-backed securities process information the fastest?

Winnie P.H. Poon^a  , Hung-Gay Fung^b

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Abstract

This study examines the information flow between China-backed securities, namely H shares, red chips, Shanghai and Shenzhen listed common shares. We document several findings. We find that an exponential generalized autoregressive conditional heteroscedasticity in mean (EGARCH-M) model appears to describe adequately the return process of the China-backed securities. Our empirical findings show that both H shares and red chips (which are listed in Hong Kong) are more sensitive to ‘good’ news than ‘bad’ news, while stocks listed in the China market are more sensitive to ‘bad’ news than ‘good’ news. Using a multivariate EGARCH-M model, we have found significant return and volatility spillover effects among the China-backed securities. Our study indicates that the red chips appear to spread information to other China-backed markets ‘directly’ or ‘indirectly’. The results imply that the red chip market processes information faster than the other markets.



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JEL classification

G14; G15; F30

Keywords

EGARCH; China-backed securities; Information and market efficiency

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