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Original Articles

On the convergence of the Chinese and Hong Kong stock markets: a cointegration analysis of the A and H shares

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Abstract

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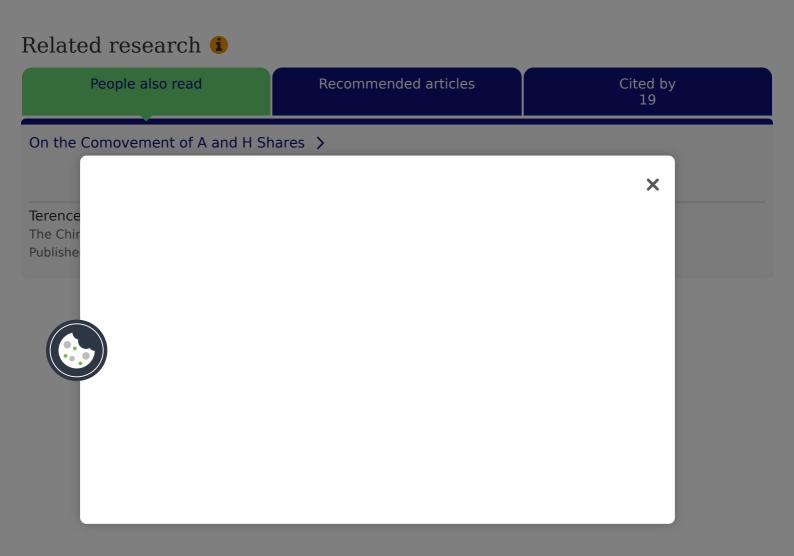
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[1] 'H-share companies' refer to the Chinese companies which are incorporated in Mainland China and listed in Hong Kong. 'A shares' refer to the stocks issued by the domestic companies in Mainland China and are traded in RMB by domestic investors only.

[2] Both the Shenzhen and Shanghai Stock Exchanges are included.

[3] We find that both the HSI and the H-share Index are highly cointegrated with the SHA. The cointegration test results are reported at the end of Table 3. In fact, the two Hong Kong Indices, HSI and H-share index, are found to have a strong correlation of 0.86 in the sample period.

[4] The unit root hypothesis cannot be rejected for any of the 29 stocks when no drift or trend term is included (Equation 1). The same null hypothesis is rejected for 2 stocks only when the drift is included but not the trend (Equation 2). The results for these two specifications are available upon request from the authors.

[5] The results for j = 3 are available upon request.

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