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The impact of RMB exchange rate change on the banking stock prices in China

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ABSTRACT

Exchange rate plays an important role in international trade, which connects domestic and international economy. Under the background of economic globalization, every economy in the world can be greatly influenced although the exchange rate changes slightly. Across all industries, the banking industry has the most direct impact on the economy. Thus, the performance of economy can be reflected through the performance of the whole banking industry, and the performance of banks can be shown by the prices of their stocks to some extent. It is necessary to study the impact of RMB exchange rate on the banking stock prices so that the investors can raise their risk awareness and judge the right trend in the stock market.

This paper is supported by the previous theories and research results, and then makes an empirical analysis of the impact of RMB exchange rate on the banking stock prices. The data is on weekly basis and the time period is from 2014 to 2019(5 years).

Finally, this paper draws the conclusion that, in the long run, when the RMB appreciates, the banking stock price will rise, which means that the operation and development of commercial banks will benefit from the appreciation of RMB in China for a long time, and eventually cause the rise of the stock price of banks in China. Among different types of banks, the impact of RMB exchange rate on the stock price is different.

1.Introduction

The exchange rate is to use one currency to express the price of another one, and the value of different countries' currency reflects the difference of purchasing power. In fact, exchange rate can not only be a sign of national credit level, but also a tool for the government to regulate the economy and a weapon against the trade war. In addition, With the global economy becoming more open and diversified, no matter the economic behaviors in the micro level such as enterprises and individuals, or the economic behaviors in the macro level, both of them are easily influenced by the exchange rate changes. The issue of RMB exchange rate has become a hot topic in the world. A correct understanding of the RMB exchange rate and its impact on China's economy will help our government and enterprises to resolve financial risks and promote the further development of China's economy.

With the rapid growth of economic power and the rise of international status, the Chinese currency, RMB, is producing an important spillover effect on the currencies of neighboring countries and is expected to be steady. However, the exchange rate of RMB has fluctuated a lot recently, which is mainly influenced by some factors such as the trade war between China and the United States, as well as global economic downturn. In view of the uncertainty of trade frictions between China and the United States, the two sides are likely to continue the trend of "fighting while talking", and the RMB exchange rate is likely to fluctuate near "7" in the near future. Looking back

over the past five years, RMB has depreciated a lot, and the Chinese stock market also went through a lot of fluctuations. Some people hold the opinion that RMB is depreciating since investors are not optimistic about the Chinese market. Thus, the economic market will naturally weaken, the capital flowing into the Chinese stock market and the profits of corporations in China will decrease, which directly lead to the decline of stock prices. While others think the decline of the RMB exchange rate is a result of more RMB entering the market due to policy adjustment. If more RMB enters the market, it will undoubtedly promote economic growth, which will undoubtedly lead to the rise of the overall stock price.

Banks play an important role in the economy, which has become the economic pillar of the whole country. Compared with other industries, the risk of banking industry is usually higher. Considering the important position of banking industry in China's economic system, based on the relevant economic theory and related research methods, the purpose of the study is to further study and the relationship between the stock market and the RMB exchange rate. To be specific, the research selects ten largest banks by value listed in A-share market as samples to study the impact of RMB exchange rate change on the banking stock prices. And the related theory and literature is reviewed in Part Two. Then the methodology is discussed in Part Three. Next, Part Four shows the findings and results, and the final part draws the conclusion based on the analysis.

2.Literature review

2.1 Relevant Theoretical Basis

(1) Effective Market Theory

It is assumed that all the investors participating in the market are rational and can react reasonably to all the information in the market quickly. The theory holds that a society full of information exchange and information competition, a specific information can be quickly known by investors in the stock market. As long as the market price of securities fully and timely reflects all valuable information, and the market price represents the actual value of securities, such a market is an "effective market"

(2) Behavioral Finance Theory

This paper studies the relationship between information and stock price change by empirical analysis, and draws a general conclusion about investors' behavior. It holds that the market price of securities is not only determined by some internal factors contained in the securities itself, but also greatly influenced by the behavior of all participants, that is, the psychology and behavior of investors have a significant impact on the price determination and change of the securities market.

(3) The theory of balance of payments

A traditional theory of determining exchange rate which holds that the demand and supply of foreign exchange market jointly determine the exchange rate, while the demand and supply of foreign exchange market are caused by international lending. International lending relationship is generated by commodity import and export, securities trading, capital trading, tourism expenses and profits among countries. For example, the amount of money spent by a country's residents on imported goods is also the demand for foreign exchange, while the amount of money spent by foreign residents on domestic exports is the supply of foreign exchange. The import and export of goods between countries will cause international lending relations.

2.2. The previous literatures

There are many articles on the relationship between foreign exchange market and stock price, and most of the early research subjects are developed countries. Researchers started to explore the impacts of exchange rate changes on stock prices a long time ago. And they studied it through qualitative research, and then built models to analyze the relationship between the two variables. Since most countries no longer use the fixed exchange rate system, many scholars were driven to further studied their relationship, and most researchers' results show that there is a stable relationship between them in the long term.

From data selected by the research institute, the types of data chosen by the researchers

are different, including daily data as well as monthly data. Similarly, the variables selected are different, some used stock prices as stock market variables, and some used stock returns as variables.

Franck and Young (1972) were the first groups to study how exchange rate changes is related to stock market. Six different statistics were used to study the relationship, then he got the conclusion that there is almost no relationship between them. Some models show that exchange rate changes can also influence the balance of payments, and then result in the changes of cash flow of a company, finally lead to the changes of the stock price. In turn, changes of the exchange rate market will be influenced by changes of the share market. Solnik (1987) used a multivariate regression model to test the impact of exchange rate and inflation expectation changes on securities prices. His study contains data from nine countries. The results show that the share price will rise when the currency appreciates. Ajayi (1996) used the error correction model to study the relationship between exchange rate and stock price index in several developed countries, and then got a conclusion that there exists a significant relationship between stock price index and exchange rate market. In the long term, the rising stock price will promote the appreciation of the currency. In the short term, rising domestic stock prices will promote the currency to depreciate.

Long (2007) drew a conclusion that there is a co-integration relationship between A-share index and RMB dollar exchange rate, and there is a negative correlation between them, that is to say, the appreciation of RMB will lead to the rise of stock price.

Pan (2007) used interest spreads and Asian stock index as exogenous variables, and then selected two stages during the Asian financial crisis to study seven markets in Asia. The results show that both trade scale and stock market size are factors that can influence stock price.

Li (2009) used VAR model to analyze the relationship between RMB exchange rate and Dow Jones index, and took interest rate as intermediary variable. The results show that the change of RMB exchange rate will affect the stock price in the short term, and the change of interest rate will also affect the exchange rate, but it will not affect the stock price in China.

Deng (2012) made an empirical analysis on the causal relationship between the nominal exchange rate of RMB and Shanghai A-share index. The empirical results show that there was a two-way causal relationship between RMB exchange rate and Shanghai A-share index before the financial crisis.

Husam (2012) used co-integration test and Granger test to study the dynamic relationship between Turkish nominal exchange rate and domestic stock price index. The empirical results show that there is an equilibrium relationship between exchange rate and stock price in the long run. At the same time, when Turkey's stock price or exchange rate is impacted externally, the response time of another variable to the impacted variable is relatively short.

Inci (2014) introduced the two variables into the model, and studied the relationship between return rate and change rate in the United States, Japan and other five major European countries. The results show that there is a two-way causal relationship in these

countries, and the characteristics of the relationship are stronger in the period of economic depression than in the period of economic prosperity. Some scholars even use monthly time-series data from 24 countries and non-linear ARDL method to show that the effects of exchange rate changes on stock prices could be asymmetric. The same is true when we consider the effects of changes in stock prices on the exchange rate. Introducing nonlinearity yields relatively more support for asymmetric co-integration compared to symmetric co-integration. When the exchange rate rises, the local currency appreciates, which makes the export situation unfavorable. When the exchange rate falls, the local currency depreciates, which is disadvantageous to the enterprises.

Seri (2015) analyzed how the stock markets is related with major economic variables from a new perspective, and got a conclusion which is different from another point-in Indonesia, Malaysia and the Philippines, the exchange rate is going to rise when the stock price goes up. However, in Thailand and Singapore, exchange rate is going to fall when the stock price goes up.

Abundant studies provide theoretical references and logical points for this paper. These successful experiences also give me the inspiration to carry out my research and their mature research methods are also worth learning. However, there are few studies on RMB exchange rate and banking stocks in China. Therefore, this paper aims to explore the impact of RMB exchange rate on banking stock prices in China from a new angle.

3.Methodology

To explore the impact of RMB exchange rate on the banking stock prices in China, I choose to use quantitative and empirical analysis to get the result. And I use regression and correlation function to test the hypothesis and find the correlation between the dependent variable and independent variable.

3.1 Hypothesis

RMB Exchange Rate has impact on the Banking Stock Prices in China

3.2 Models (simple linear regression model)

This simple linear regression model is:

$$Y_i = \beta_0 + \beta_1 X_i + \epsilon_i$$

Where the dependent variable(Y) is Weekly Rate of Return of Stock Price and the independent variable(X) is Weekly Exchange Rate Change.

3.3 Dataset

I collect weekly CNY/USD exchange rate and weekly stock prices of ten banks with scale advantages (GH, ZS, JT, ZH, NY, XY, PA, ZX, JS, MS) in the past five years (From November 1,2014 to November 1,2019) from Bloomberg.

Note: The closing price is the final result of the market game in a day, which is the most

representative one. Therefore, the weekly closing prices of all banking stocks and weekly closing exchange rates are selected to calculate the variables. This paper uses the intermediate exchange rate change between the dollar and RMB as the exchange rate variable because United States is one of the most important trading partners of China and the dollar has the property of world currency.

4.Results

4.1 Table display and explanation

According to the table 1, the p-value is 0.000204, which is too small compared to 0.05 and even could be neglect. Therefore, the null hypothesis can be rejected that RMB Exchange Rate has no impact on the Banking Stock Prices in China can be rejected. Therefore, I can get the point that RMB exchange rate has impact on the banking stock prices in China.

| SUMMARY OUTPUT | | | | | | | | |
|------------------------------|--------------|----------------|----------|----------|----------------|-----------|-------------|-------------|
| Regression Statistics | | | | | | | | |
| Multiple R | 0.230585 | | | | | | | |
| R Square | 0.053169 | | | | | | | |
| Adjusted R | 0.049427 | | | | | | | |
| Standard Error | 0.032926 | | | | | | | |
| Observations | 255 | | | | | | | |
| ANOVA | | | | | | | | |
| | df | SS | MS | F | Significance F | | | |
| Regression | 1 | 0.015402 | 0.015402 | 14.20722 | 0.000204 | | | |
| Residual | 253 | 0.274276 | 0.001084 | | | | | |
| Total | 254 | 0.289678 | | | | | | |
| | Coefficients | Standard Error | t Stat | P-value | Lower 95% | Upper 95% | Lower 95.0% | Upper 95.0% |
| Intercept | 0.003577 | 0.002072 | 1.725888 | 0.085588 | -0.0005 | 0.007658 | -0.0005 | 0.007658 |
| X Variable | 1.474139 | 0.391096 | 3.769247 | 0.000204 | 0.70392 | 2.244358 | 0.70392 | 2.244358 |

Table 1

According to table 2, the correlation coefficient is 0.230585, which is positive and weak. Therefore, RMB exchange rate has a weak positive impact on the Chinese banking stock prices in general.

| | Column 1 | Column 2 |
|----------|----------|----------|
| Column 1 | 1 | |
| Column 2 | 0.230585 | 1 |

Table 2

To find the difference among different banks and get a more accurate overview, then I carried out the regression and correlation function to these ten banks one by one.

Here are my results:

ZX: P-value is 0.023561, the correlation coefficient is 0.14177 (Table 3 and Table 4)

| | Coefficients | Standard Error | t Stat | P-value | Lower 95% | Upper 95% | Lower 95.0% | Upper 95.0% |
|------------|--------------|----------------|----------|----------|-----------|-----------|-------------|-------------|
| Intercept | 0.0027 | 0.002962 | 0.911549 | 0.362874 | -0.00313 | 0.008532 | -0.00313 | 0.008532 |
| X Variable | 1.273267 | 0.55894 | 2.278004 | 0.023561 | 0.1725 | 2.374035 | 0.1725 | 2.374035 |

Table 3

| | Column 1 | Column 2 |
|----------|----------|----------|
| Column 1 | 1 | |
| Column 2 | 0.14177 | 1 |

Table 4

GH: P-value is 0.00006082, the correlation coefficient is 0.2483(Table 5 and Table 6)

| | Coefficients | Standard Error | t Stat | P-value | Lower 95% | Upper 95% | Lower 95.0% | Upper 95.0% |
|------------|--------------|----------------|----------|-------------|-----------|-----------|-------------|-------------|
| Intercept | 0.003469 | 0.002143 | 1.618956 | 0.106702702 | -0.00075 | 0.007689 | -0.00075 | 0.007689 |
| X Variable | 1.649265 | 0.404405 | 4.078251 | 6.08297E-05 | 0.852836 | 2.445694 | 0.852836 | 2.445694 |

Table 5

| | Column 1 | Column 2 |
|----------|----------|----------|
| Column 1 | 1 | |
| Column 2 | 0.248364 | 1 |

Table 6

ZS: P-value is 0.001701, the correlation coefficient is 0.195566(Table 7 and Table 8)

| | Coefficients | Standard Error | t Stat | P-value | Lower 95% | Upper 95% | Lower 95.0% | Upper 95.0% |
|------------|--------------|----------------|----------|----------|-----------|-----------|-------------|-------------|
| Intercept | 0.006539 | 0.002565 | 2.548893 | 0.011398 | 0.001487 | 0.011591 | 0.001487 | 0.011591 |
| X Variable | 1.535692 | 0.484152 | 3.171923 | 0.001701 | 0.582211 | 2.489174 | 0.582211 | 2.489174 |

Table 7

| | Column 1 | Column 2 |
|----------|----------|----------|
| Column 1 | 1 | |
| Column 2 | 0.195566 | 1 |

Table 8

JT: P-value is 0.003236, the correlation coefficient is 0.183716(Table 9 and Table 10)

| | Coefficients | Standard Error | t Stat | P-value | Lower 95% | Upper 95% | Lower 95.0% | Upper 95.0% |
|------------|--------------|----------------|----------|----------|-----------|-----------|-------------|-------------|
| Intercept | 0.002608 | 0.002527 | 1.032193 | 0.302967 | -0.00237 | 0.007584 | -0.00237 | 0.007584 |
| X Variable | 1.417467 | 0.476816 | 2.972777 | 0.003236 | 0.478433 | 2.3565 | 0.478433 | 2.3565 |

Table 9

| | Column 1 | Column 2 |
|----------|----------|----------|
| Column 1 | 1 | |
| Column 2 | 0.183716 | 1 |

Table 10

ZH: P-value is 0.00264, the correlation coefficient is 0.187541(Table 11 and Table 12)

| | Coefficients | Standard Err | t Stat | P-value | Lower 95% | Upper 95% | Lower 95.0% | Upper 95.0% |
|------------|--------------|--------------|----------|----------|-----------|-----------|-------------|-------------|
| Intercept | 0.002594 | 0.002382 | 1.088775 | 0.277289 | -0.0021 | 0.007285 | -0.0021 | 0.007285 |
| X Variable | 1.365269 | 0.44956 | 3.036898 | 0.00264 | 0.479912 | 2.250626 | 0.479912 | 2.250626 |

Table 11

| | Column 1 | Column 2 |
|----------|----------|----------|
| Column 1 | 1 | |
| Column 2 | 0.187541 | 1 |

Table 12

NY: P-value is 0.00355, the correlation coefficient is 0.18195(Table 13 and Table 14)

| | Coefficients | Standard Err | t Stat | P-value | Lower 95% | Upper 95% | Lower 95.0% | Upper 95.0% |
|------------|--------------|--------------|----------|----------|-----------|-----------|-------------|-------------|
| Intercept | 0.002668 | 0.002088 | 1.277864 | 0.202469 | -0.00144 | 0.00678 | -0.00144 | 0.00678 |
| X Variable | 1.159794 | 0.394056 | 2.943222 | 0.00355 | 0.383746 | 1.935841 | 0.383746 | 1.935841 |

Table 13

| | Column 1 | Column 2 |
|----------|----------|----------|
| Column 1 | 1 | |
| Column 2 | 0.18195 | 1 |

Table 14

XY: P-value is 0.004455, the correlation coefficient is 0.177555(Table 15 and Table 16)

| | Coefficients | Standard Err | t Stat | P-value | Lower 95% | Upper 95% | Lower 95.0% | Upper 95.0% |
|------------|--------------|--------------|----------|----------|-----------|-----------|-------------|-------------|
| Intercept | 0.00385 | 0.00247 | 1.558796 | 0.120295 | -0.00101 | 0.008714 | -0.00101 | 0.008714 |
| X Variable | 1.337703 | 0.466135 | 2.869776 | 0.004455 | 0.419704 | 2.255702 | 0.419704 | 2.255702 |

Table 15

| | Column 1 | Column 2 |
|----------|----------|----------|
| Column 1 | 1 | |
| Column 2 | 0.177555 | 1 |

Table 16

PA: P-value is 0.000782, the correlation coefficient is 0.209042(Table 17 and Table 18)

| | Coefficients | Standard Err | t Stat | P-value | Lower 95% | Upper 95% | Lower 95.0% | Upper 95.0% |
|------------|--------------|--------------|----------|----------|-----------|-----------|-------------|-------------|
| Intercept | 0.005273 | 0.002964 | 1.779008 | 0.076439 | -0.00056 | 0.011111 | -0.00056 | 0.011111 |
| X Variable | 1.902032 | 0.559399 | 3.400133 | 0.000782 | 0.80036 | 3.003705 | 0.80036 | 3.003705 |

Table 17

| | Column 1 | Column 2 |
|----------|----------|----------|
| Column 1 | 1 | |
| Column 2 | 0.209042 | 1 |

Table 18

JS: P-value is 0.00036, the correlation coefficient is 0.221718(Table 19 and Table 20)

| | Coefficients | Standard Err | t Stat | P-value | Lower 95% | Upper 95% | Lower 95.0% | Upper 95.0% |
|------------|--------------|--------------|----------|----------|-----------|-----------|-------------|-------------|
| Intercept | 0.004007 | 0.002559 | 1.565944 | 0.118612 | -0.00103 | 0.009047 | -0.00103 | 0.009047 |
| X Variable | 1.746669 | 0.482951 | 3.61666 | 0.00036 | 0.795553 | 2.697785 | 0.795553 | 2.697785 |

Table 19

| | Column 1 | Column 2 |
|----------|----------|----------|
| Column 1 | 1 | |
| Column 2 | 0.221718 | 1 |

Table 20

MS: P-value is 0.002987, the correlation coefficient is 0.185229(Table 21 and Table 22)

| | Coefficients | Standard Err | t Stat | P-value | Lower 95% | Upper 95% | Lower 95.0% | Upper 95.0% |
|------------|--------------|--------------|----------|----------|-----------|-----------|-------------|-------------|
| Intercept | 0.002058 | 0.002393 | 0.859825 | 0.390699 | -0.00266 | 0.006771 | -0.00266 | 0.006771 |
| X Variable | 1.354229 | 0.451691 | 2.998134 | 0.002987 | 0.464676 | 2.243782 | 0.464676 | 2.243782 |

Table 21

| | | |
|----------|----------|----------|
| | Column 1 | Column 2 |
| Column 1 | 1 | |
| Column 2 | 0.185229 | 1 |

Table 22

Among the correlation coefficients, the largest one is 0.2483, the smallest one is 0.14177, all of them are between 0.1 and 0.3, which show a weak positive relationship between RMB exchange rate and the banking stock prices.

One interesting note: In the early hours of July 6, 2018, US President Donald Trump confirmed to reporters aboard Air Force One that an additional 25 percent tariff would be imposed on \$34 billion worth of Chinese goods, indicating that a "trade war" has begun.

| Date | Weekly Exchange Rate Change |
|-------------|-----------------------------|
| 2018年7月1日 | -0.003311258 |
| 2018年7月8日 | -0.00730897 |
| 2018年7月15日 | -0.011378849 |
| 2018年7月22日 | -0.006770481 |
| 2018年7月29日 | -0.00204499 |
| 2018年8月5日 | -0.00204918 |
| 2018年8月12日 | -0.004791239 |
| 2018年8月19日 | 0.010316369 |
| 2018年8月26日 | -0.003403676 |
| 2018年9月2日 | -0.00136612 |
| 2018年9月9日 | -0.004103967 |
| 2018年9月16日 | 0.00206044 |
| 2018年9月23日 | -0.002056203 |
| 2018年10月7日 | -0.008241758 |
| 2018年10月14日 | -0.000692521 |
| 2018年10月21日 | -0.002079002 |
| 2018年10月28日 | 0.008333333 |
| 2018年11月4日 | -0.010330579 |
| 2018年11月11日 | 0.003479471 |
| 2018年11月18日 | -0.002080444 |
| 2018年11月25日 | -0.001389854 |

Table 23

According to Table 23, we can observe that RMB continued to depreciate for months after Trump announcing tariff policy. Recently, the trade war between China and the

United States continues to escalate. Although the Chinese government has taken a number of measures to ease the pressure of depreciation of the RMB under the strong US dollar and trade war, and the exchange rate of the RMB has rebounded, unlike the rise of the international influence of the RMB exchange rate under the strong US dollar in 2016, the international influence of the exchange rate of the RMB in this depreciation continues to be under pressure. Exchange rate affects stock price through international capital, international trade, interest rate, company performance, psychological expectation and other ways. When the exchange rate changes, the profits of the import and export enterprises will change, which will affect the stock price of the company. When the RMB appreciates, the competitiveness of the products of the export enterprises will decline, the stock price will fall due to the decrease of the profits, the cost of the import enterprises will fall, and the stock price will rise due to the increase of the profits of the enterprise. If the exchange rate changes, the same direction of the domestic profit level will change because of the stock price. If it is inversely proportional to the interest rate, then the exchange rate will increase and the stock price will decrease. Otherwise, the exchange rate will decrease and the stock price will rise.

4.2 Analyses of the Influence of RMB Exchange Rate Change on Commercial Banks

Here are two analyses of the Influence of RMB Exchange Rate Change on Commercial Banks:

(1) Impact on the bank's earnings

Under the condition that other conditions remain unchanged, the change of exchange rate will change the price of the company's goods denominated in foreign currency, resulting in the decline of the international competitiveness of the country's goods to a certain extent, thus affecting the company's import and export business. When we look at the relationship between the exchange rate of RMB against the US dollar and the net profit of the five state-owned banks, we find that no matter the five state-owned banks or the joint-stock banks, with the appreciation of RMB, the net profit is increasing.

(2) It has a certain impact on the Shanghai Composite Index, which also affects the price of banking stocks.

Many scholars have studied the impact of exchange rate on the stock market. We compare the closing price of Shanghai Composite Index with that of banking stocks. The closing price of the five bank stocks is obviously similar to that of the general market, and the closing price of most shares of joint-stock banks fluctuates slightly.

5. Conclusion

5.1 Empirical conclusion

According to these data, from the overall point of view, the p-value is 0.000204, which is too small compared to 0.05. Therefore, the null hypothesis can be rejected

that RMB Exchange Rate has no impact on the Banking Stock Prices in China can be rejected. From individual banks, each p-value is less than 0.05, thus all the null hypotheses can be rejected that RMB Exchange Rate has no impact on the Banking Stock Prices in China can be rejected. That means the previous hypothesis that RMB Exchange Rate has impact on the Banking Stock Prices in China is reliable and accurate enough. Thus, I can get a preliminary conclusion that RMB exchange rate has impact on the banking stock prices in China.

According to these correlation coefficients shown in the tables, from the overall point of view or from an individual bank, all of them are between 0.1 and 0.3(positive and relatively small values)

Therefore, the conclusion can be drawn that RMB Exchange Rate Change has weak and positive impact on the Banking Stock Prices in China.

In addition, for a long time, the appreciation of RMB will be beneficial to the operation and development of commercial banks in China, and eventually lead to the rise of bank share price. Among different types of banks, the influence of RMB exchange rate on stock price is different, but the difference is not significant.

5.2 Policy recommendations

Based on the above theoretical and empirical analysis, we explore whether there is a certain relationship between RMB exchange rate and banking stock price. In the face of complex economic environment, we should improve the mechanism of the two markets as soon as possible and effectively prevent risks.

(1) The government can establish a dynamic monitoring and early warning mechanism of capital flow

At present, our country has not realized the free flow under the RMB capital account. There are still big obstacles for the short-term international capital flow caused by the change of RMB exchange rate to enter our domestic capital market through formal channels. In addition, a large number of international capital will flow into the domestic capital market due to the relaxation of investment restrictions, especially in the context of RMB devaluation, the frequent entry and exit of speculative capital will cause severe turbulence in the securities market. Therefore, the conclusion of this paper can help the government to establish and improve the monitoring and early warning mechanism of capital flow in the financial market, which is conducive to the effective supervision of the financial authorities on the securities market.

(2) Guide reasonable psychological expectation

The influence of psychological expectation factors on foreign exchange market and stock market is more and more obvious, but the degree of information transparency, the degree of information openness and the degree of accuracy in China need to be strengthened, so cognitive bias is more likely to occur in psychological expectation. China should increase the degree of information disclosure to ordinary investors and enterprise investors, cultivate a correct investment concept, and make it to our country. Foreign exchange market, stock market and even the whole economy have an accurate understanding and form a reasonable expectation. The conclusion of this

paper can guide reasonable psychological expectation, make full use of the public opinion tools to show the effectiveness of the market and the whole economic environment order, show the determination and strength of the government to cultivate the market mechanism, improve the public credibility of the government, guide the public to the reasonable expectation of the macroeconomic situation, strengthen their confidence, and avoid excessive psychological panic caused by the violent fluctuation of the economy.

(3) Investors should establish correct investment ideas, improve the awareness of exchange rate risk prevention, and make reasonable investment decisions

According to the conclusion of this paper, investors can analyze whether they should invest in banking stocks when the RMB depreciates, and reduce their capital losses when the stock market environment deteriorates. The investment idea of investors should be changed from blindly pursuing income to paying attention to risk prevention. It is necessary to carefully evaluate the future development prospect, profitability and expected profit of the enterprise, and then make a reasonable valuation of the stock price and corresponding investment decisions.

(4) Bank managers should effectively identify foreign exchange risks, establish a compliant risk prevention system, and actively respond to the impact of exchange rate fluctuations on bank stock prices

Commercial banks should strengthen the awareness of exchange rate risk and put the prevention of exchange rate risk on the agenda. China's commercial banks should pay attention to the current exchange rate risk, firmly establish a modern bank risk management awareness, and always adhere to the principle of the organic unity of safety and profitability in the operation of commercial banks, so as to adapt to the new trend of the international banking industry into the comprehensive risk management. In the daily operation and management of listed banks, we should fully understand the impact of exchange rate on the stock price of banks. RMB appreciation can not only improve the risk management level of large commercial banks, but also improve the market value of banks, and create wealth for bank shareholders.

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