

Information Transmissions among US, China and Hong Kong Stock Markets

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The purpose of this paper is to investigate the dynamic relationships among the US, China and Hong Kong stock markets. Information transmission on return and volatility spillovers among these three markets are examined by using daily stock market data for the January 1992 to June 2014 period and by analysing these data through a dynamic conditional correlation multivariate generalised autoregressive conditional heteroskedasticity model. The empirical results show that transmission and spillover effects exist among the three markets. Over the whole sample period, the US market is found to have dominant volatility effects on the other two markets. Further detection of time variation and structural breaks in volatility spillovers suggests that the volatility of the China market has had a greater effect on the Hong Kong market since the financial crisis in 2007. The volatility interactions between the China and Hong Kong markets have been more prominent than those between the US and China or between the US and Hong Kong. These findings suggest that asset allocation and hedging strategies in the greater China market, especially in Hong Kong, require sensitivity to information on volatility behaviour in China and close attention to the US market. The results of this research provide important implications for international portfolio diversification.

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