

China: Is the End of One-Child Policy Behind Stock Rally?

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The recent top-level meeting of the Chinese Communist Party leaders (the Third Plenum) has produced headlines announcing many broad economic and social reforms -- for example, the end of the one-child policy, which has been in place in China for decades.

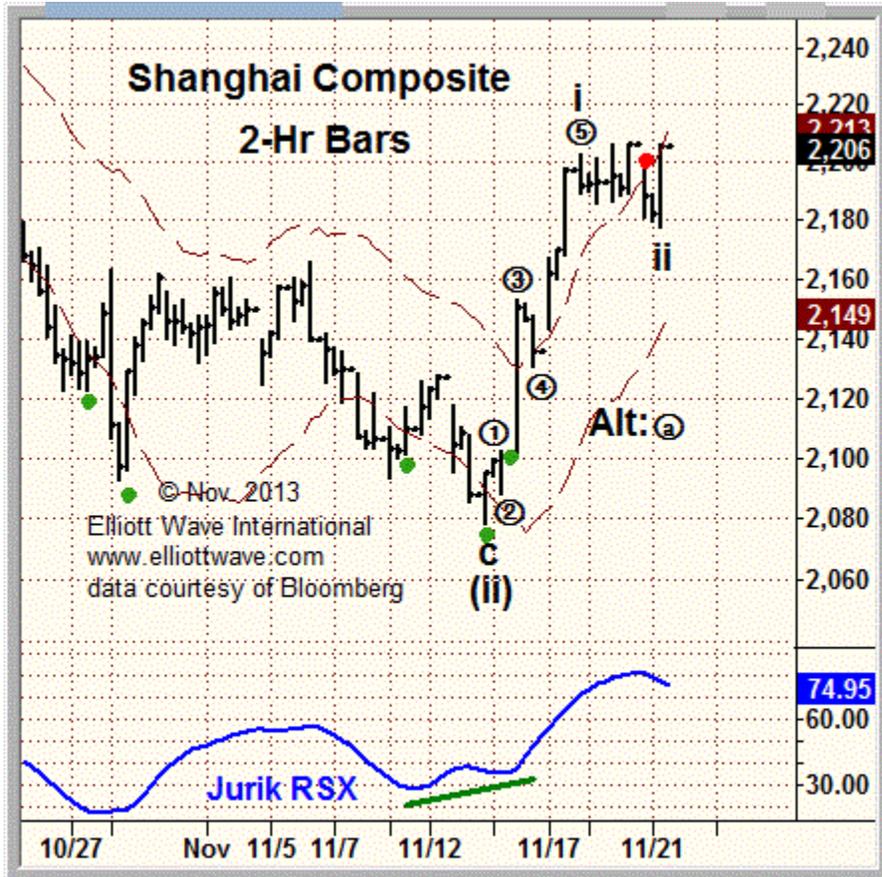
Conventional analysts are crediting these announcements for the surge in the Shanghai Composite over the past few days. But, from the perspective of the Wave Principle, it's precisely the opposite: The sharp move up is a kickoff to wave (iii) up in Chinese stocks (and social mood).

We have been looking higher in Chinese stocks. In fact, this chart we published in the November 14 issue of *The Asian-Pacific Short Term Update* (APSTU) predicted the rally before the conclusion of the Third Plenum, where the one-child policy changes and other economically significant reforms were announced:



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Wave (ii) was ending, and a wave (iii) rally was next. “Chinese equities are quite close to a short-term low,” wrote APSTU editor Chris Carolan on November 14. This chart shows you the subsequent five-wave advance:



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What made it possible to forecast the rally before the “bullish” news?

[Socionomics](#) explains that social mood is the primary driver of stock prices, not the other way around. Mood changes first, and the stock market follows. That’s why investors are usually most optimistic at market tops and most pessimistic at bottoms. The subsequent stock market reversal, which catches the majority by surprise, indicates a mood change – and a new trend in stocks.

It appears that in the short term, the Shanghai Composite has completed the initial waves i and ii within wave (iii) up. Next, China should proceed higher in a third-of-a-third wave rally.

Adapted from the Sunday-Tuesday-Thursday *Asian-Pacific Short Term Update*, part of Elliott Wave International's Global Forecast Service.

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