



## **Research Paper No. 52: A review of the global and local securities markets in 2012**

18 January 2013



## **Executive summary**

1. After the corrections in 2011, most major markets rebounded in 2012 as central banks injected liquidity into the banking system.



- (b) *Risks of inflation and increase in interest rates:* The global market performance has been strong under a low interest rate environment. However, if the inflation rate rebounds unexpectedly, this may increase the risk of interest rate hikes and cause corrections in stock and asset prices.
  - (c) *Global macro risks:* The market outlook may be affected by unresolved global macro risks such as the debt ceiling in the US, the Eurozone debt problem, continued recession in Japan as well as possible economic slowdown in China and other emerging markets. The concern is that deterioration in the global economic environment could negatively impact market confidence. This may lead to corrections in the stock market as fund managers re-allocate investment portfolios.
8. Trading in both the cash market and exchange-traded derivatives fell in 2012. The average daily trading in the cash market fell 23%, while that in futures and options dropped 8% and 19% respectively from 2011.

## **Performance of worldwide stock markets in 2012**

9. Major stock markets around the world rebounded in 2012 amid abundant global market



## Performance of major stock markets

|                                   |      | End-2012    | % change |        |      | PE ratio |
|-----------------------------------|------|-------------|----------|--------|------|----------|
|                                   |      | Index level | 2012     | 2011   | 2010 | End-2012 |
| <b>Hong Kong and the Mainland</b> |      |             |          |        |      |          |
| HK                                | -HSI | 22,656.92   | 22.9%    | -20.0% | 5.3% | 11.63    |



## **The US**

10. By the end of 2012, the Dow, Nasdaq and S&P 500 rose 7.3%, 15.9% and 13.4% respectively as optimism over the economic outlook outweighed worries overhanging the lingering Eurozone debt problem.



## Europe

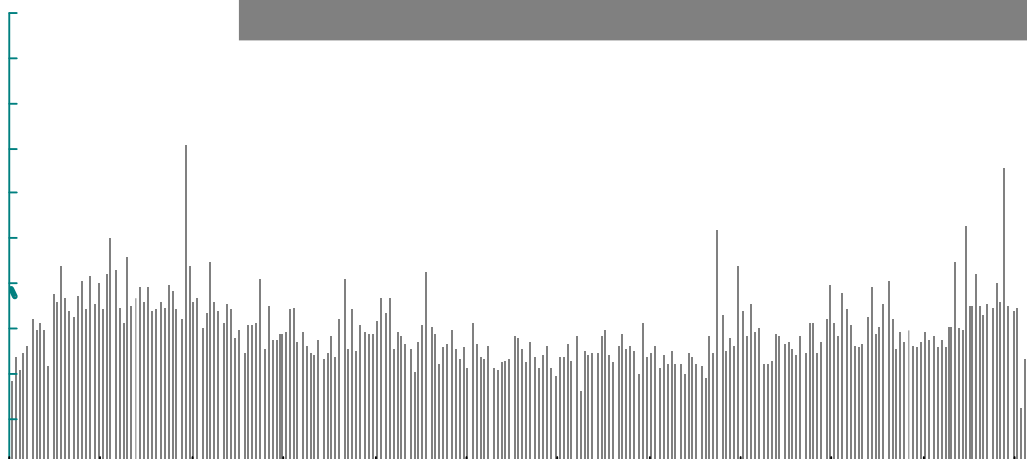
14. After the losses in 2011, most major European markets rebounded in 2012. The FTSE, DAX and CAC rose 5.8%, 29.1% and 15.2% respectively. However, the performance of the PIIGS markets was mixed, ranging from a loss of 4.7% in Spain to a gain of 33.4% in Greece.













## Top 10 Global stock markets by equity funds raised through IPOs (2012)

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Equity funds raised through IPOs



## Exchange-traded derivatives

34. Trading in exchange-traded derivatives decreased 15% in 2012, alongside the decline in cash market trading. Trading in futures products fell 8% during 2012. Among futures products, HSI Futures remained the most actively traded contract, accounting for 43% of all futures trading. Compared to 2011, their average daily trading volume decreased by 12%. The second most actively traded futures were HSCEI Futures, accounting for almost one-third of all futures trading. As of end-2012, open interests of HSI and HSCEI Futures were 139,344 and 181,909 contracts respectively, compared to 86,409 and 106,277 contracts as of end-2011.
35. Trading in options dropped 19% during 2012, largely driven by a decline in trading in stock options. Whilst stock options remained the most actively traded options product, its trading volume fell 25% from the 2011 level. Open interests of stock options fell 24% to 4.0 million contracts as of end-2012.

### Average daily trading volume of derivatives on HKEx by product type (contracts)

|                                  |                          | 2012           | 2011           | 2010           |
|----------------------------------|--------------------------|----------------|----------------|----------------|
| <b>Futures</b>                   | HSI Futures              | 82,905         | 94,036         | 84,462         |
|                                  | Mini-HSI Futures         | 34,810         | 41,933         | 33,336         |
|                                  | HSCEI Futures            | 64,863         | 61,116         | 49,919         |
|                                  | Mini-HSCEI Futures       | 6,356          | 7,516          | 3,985          |
|                                  | Stock Futures            | 1,315          | 1,809          | 961            |
|                                  | 3-Month HIBOR Futures    | 1              | 2              | 4              |
|                                  | Gold Futures             | 0              | 15             | 23             |
|                                  | Other futures products*  | 837            | 263            | 27             |
|                                  | <b>Total futures</b>     | <b>191,176</b> | <b>206,688</b> | <b>172,717</b> |
| <b>Options</b>                   | HSI Options              | 37,597         | 43,452         | 34,197         |
|                                  | Mini-HSI Options         | 5,014          | 3,888          | 1,939          |
|                                  | HSCEI Options            | 25,666         | 15,364         | 11,690         |
|                                  | Stock Options            | 228,438        | 302,750        | 245,485        |
|                                  | Other options products** | 103            | 133            | 55             |
|                                  | <b>Total options</b>     | <b>296,818</b> | <b>365,586</b> | <b>293,365</b> |
| <b>Total futures and options</b> |                          | <b>487,994</b> | <b>572,275</b> | <b>466,082</b> |

Remark: \* 1-Month HIBOR Futures, 3-Year Exchange Fund Note Futures, Hang Seng China H-Financials Index Futures, FTSE/Xinhua China 25 Index Futures, HSI Dividend Point Index Futures, HSCEI Dividend Point Index Futures, HSI Volatility Index Futures (launched on 20 February 2012), IBOVESPA Futures, MICEX Index Futures, Sensex Index Futures, FTSE/JSE Top40 Futures (These four futures were launched on 30 March 2012) and USD/CNH Futures (launched on 17 September 2012).

\*\* Flexible Hang Seng Index Options and Flexible H-shares Index Options

^ The average daily trading volume was based on the number of trading days after the product was launched.

Sources: HKEx and SFC Research

### Trading in gold and silver futures on the Hong Kong Mercantile Exchange Ltd (HKMEx)

36. During 2012, the average daily turnover of gold futures and silver futures on the HKMEx reached 5,042 contracts (4,229 contracts in 2011) and 799 contracts (1,228 contracts in 2011) respectively. On a monthly basis, however, trading in gold futures and silver futures had been falling since their peaks in July and June respectively.

