



SECURITIES AND FUTURES COMMISSION

證券及期貨委員會

Research Paper No.55: Half-yearly review of the global and local securities markets

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Executive Summary

1. During the first half of 2014, the volatility of the Hong Kong market remained low, but the market continued to face risks stemming from overseas and the Mainland markets. While the US and European markets rose to historical or multi-year highs, investor sentiment was fragile due to worries about the tapering of quantitative easing by the US Federal Reserve Bank (Fed) and the uncertain outlook for the euro zone economies. The bearish market performance and signs of possible economic slowdown in the Mainland also weighed on the Hong Kong market. During the period,
 - the Hang Seng Index (HSI) dropped 0.5% and the Hang Seng China Enterprises Index (HSCEI) fell 4.4%;
 - in the US, the Dow and S&P 500 rose 1.5% and 6.1% respectively to record highs;
 - in Europe, the FTSE fell 0.1%, whilst the DAX and CAC rose 2.9% and 3.0% respectively; and
 - in the Mainland, the Shanghai Composite Index dropped 3.2%.
2. In the US, while the Fed signaled a steady pace of tapering, investors remained concerned about interest rates rising sooner than expected. Expectations are that the Fed's monthly asset purchases might end by late 2014 and interest rates might be raised around six months later. Given encouraging signs in the labour market, it is possible that the Fed will increase interest rates earlier than expected.
3. In Europe, there are growing worries about risks of deflation and subdued economic growth. In the first quarter of 2014, gross domestic product (GDP) in the euro zone grew by a modest 0.2%, whilst the inflation rate in May 2014 dropped to a five-year low of 0.5%, well below the European Central Bank's (ECB) target rate of 2%. In an unprecedented move, the ECB cut the benchmark interest rate to -0.1% in June 2014 and pledged to ease monetary policy further if necessary.
4. In the Mainland, worries about an economic hard landing lingered. Also, several defaults of corporate bonds and wealth management products occurred earlier in the year. In addition, concerns over an increase in share supply in the Mainland's stock market due to the resumption of initial public offerings (IPOs) have dampened market performance.
5. The Hong Kong stock market, being affected by both overseas and Mainland market conditions, has underperformed most major markets. Nonetheless, based on various indicators, such as price-earnings (PE) ratios, systemic risk in the local market does not seem to be very significant. However, if conditions in the Mainland and overseas markets worsen, the local market will be inevitably affected.
 - In the US, investors' perception of liquidity conditions may weigh on the market. In addition, as the market reached record highs, valuation concerns may lead to corrections.
 - In Europe, the effectiveness of the ECB's stimulus remains uncertain and worries about deflation risks may continue to affect investor sentiment.
 - In the Mainland, the stock market outlook will depend on the effectiveness of economic and market reforms. In addition, possible credit events may weigh on the market.
6. Trading in both the cash market and exchange-traded derivatives rose. Average daily turnover in the cash market rose 10% from the second half of 2013. The average daily volume of derivatives increased 3%.





Performance of major stock markets

		End of June 2014	Year-to-date	% change	
		Index Level		2013	2012
Hong Kong and Mainland					
Hong Kong	HSI	23,190.72	-0.5%	2.9%	22.9%
	HSCEI	10,335.03	-4.4%	-5.4%	15.1%
Mainland	Shanghai Composite Index	2,048.33	-3.2%	-6.7%	3.2%
	Shenzhen Composite Index	1,096.79	3.7%	20.0%	1.7%
Asia					
Japan	Nikkei 225	15,162.10	-6.9%	56.7%	22.9%
Australia	AOI	5,382.03	0.5%	14.8%	13.5%
Taiwan	TWSE	9,393.07	9.1%	11.8%	8.9%
Korea	KOSPI	2,002.21	-0.5%	0.7%	9.4%
Singapore	STI	3,255.67	2.8%	0.0%	19.7%
Thailand	SET	1,485.75	14.4%	-6.7%	35.8%
Malaysia	KLCI	1,882.71	0.8%	10.5%	10.3%
Indonesia	JCI	4,878.58	14.1%	-1.0%	12.9%
India	Nifty	7,611.35	20.7%	6.8%	27.7%
Philippines	PCOMP	6,844.31	16.2%	1.3%	33.0%
Vietnam	VN	578.13	14.6%	22.0%	17.7%
US					
US	Dow	16,826.60	1.5%	26.5%	7.3%
	Nasdaq	4,408.18	5.5%	38.3%	15.9%
	S&P 500	1,960.23	6.1%	29.6%	13.4%
Europe					
UK	FTSE 100	6,743.94	-0.1%	14.4%	5.8%
Germany	DAX	9,833.07	2.9%	25.5%	29.1%
France	CAC	4,422.84	3.0%	18.0%	15.2%
PIIGS and Hungary					
Portugal	PSI 20	6,802.20	3.7%	16.0%	2.9%



The tapering of stimulus in the US

8. While the Fed had signaled a steady pace of tapering, investors remained concerned about a sooner-than-expected interest rate rise.



An assessment of risks facing the Hong Kong market

22. The Hong Kong market, being affected by both overseas and Mainland market conditions, has underperformed most major markets. Nonetheless, based on various indicators, the systemic risk of the local market does not seem to be very significant.
- Since the HSI attained a low level of 18,185 points in June 2012, it has risen by 28% and the HSCEI by 10%. Over the same period, the US market has accumulated gains of 39% to 60%, whilst major European markets have risen 28% to 65%.
 - The valuation of the local market was among the lowest relative to other major markets. The PE ratios of the HSI and the HSCEI were 11 times and 8 times respectively as of the end of June 2014, compared to 13 to 22 times for other Asian markets, 16 to 35 times for US market and 18 to 26 times for major European markets.
 - Turnover in the local market remained moderate. During the first half of 2014, the



Major statistics of Hong Kong securities market during the first half of 2014

Trading activity in the local stock market

24. Trading activity in the local stock market was moderate during the first half of 2014. The average daily turnover amounted to \$62.9 billion, 10% higher compared with \$57.1 billion for the second half of 2013.
25. Mainland stocks remained the most actively traded stocks, accounting for 54% of total market turnover—with H-shares, red chips and non-state-owned enterprises accounting for 24%, 11% and 18%, respectively.

Average Daily Turnover (\$ billion)

	1H 2014	2H 2013	1H 2013	% change over	
				2H 2013	1H 2013
HSI (excl. Mainland stocks)	12.2 (19%)	9.1 (16%)	10.5 (15%)	35%	17%
Mainland Stocks	33.9 (54%)	31.1 (54%)	34.9 (51%)	9%	-3%
<i>H-shares</i>	15.3 (24%)	15.9 (28%)	18.7 (27%)	-4%	-18%
<i>Red chips</i>	7.1 (11%)	6.4 (11%)	7.7 (11%)	11%	-7%
<i>Non-state-owned enterprises</i>	11.5 (18%)	8.7 (15%)	8.5 (12%)	31%	35%
Derivative Warrants	6.7 (11%)	6.0 (10%)	8.7 (13%)	13%	-22%
Callable bull/bear contracts (CBBCs)	4.6 (7%)	4.7 (8%)	5.7 (8%)	-2%	-20%
Exchange-traded funds (ETFs)	2.5 (4%)	2.9 (5%)	4.5 (7%)	-14%	-45%
Others	3.0 (5%)	3.4 (6%)	3.9 (6%)	-12%	-24%
Market total	62.9 (100%)	57.1 (100%)	68.3 (100%)	10%	-8%

Note: Percentages in parenthesis denote market share.

Sources: HKEx and SFC Research

Short-selling activity

26. During the first half of 2014, the average daily short-selling turnover amounted to \$6.6 billion (or 10.2% of total market turnover), higher than the \$5.5 billion (or 9.7%) for the



Initial public offerings (IPOs)



Derivative warrants (DWs) and callable bull/bear contracts (CBBCs)

31. The average daily turnover of DWs rose to \$6.7 billion (10.8% of total market turnover), compared with \$6.0 billion (10.5% of total market turnover) in the second half of 2013.
32. The average daily turnover of CBBCs fell slightly to \$4.6 billion (7.4% of total market turnover) during the first half of 2014, compared with \$4.7 billion (8.2% of total market turnover) in the second half of 2013.





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

		1H 2014	2H 2013	1H 2013
Futures	HSI Futures	68,280	73,924	86,890
	Mini-HSI Futures	26,317	30,486	33,975
	HSCEI Futures	85,156	88,500	82,427
	Mini-HSCEI Futures	11,219	10,179	8,237
	Stock Futures	1,505	1,383	2,406
	RMB Currency Futures^	900	539	599
	Other futures products*	1,444	988	802
	Total Futures	194,822	205,999	215,336
Options				