





Executive summary

1. In the US, the Dow, S&P and Nasdaq rose 7.5%, 11.4% and 13.4% respectively during 2014. After gaining some 30% in 2013, the US market continued to rise on optimism about economic recovery and corporate earnings. The commitment of the US Federal Reserve Bank (Fed) to a low interest rate provided support. The Dow and S&P rose to record highs whilst the Nasdaq rose to its highest level in 14 years.
2. In Europe, the FTSE and CAC fell 2.7% and 0.5% respectively, whilst the DAX rose 2.7%. A dim economic outlook and deflation concerns persisted. Losses were trimmed due to the European Central Bank's policy to adopt negative deposit rates and cut its benchmark interest rate.
3. In Asia, the Nikkei 225 Index, which had surged 56.7% in 2013, rose 7.1% in 2014 to hit a seven-year high after the Bank of Japan announced massive stimulus. The weaker yen paced gains. The performance of other major regional markets was mixed, ranging from a 5.7% loss in Malaysia to a 31.4% increase in India.
4. In the Mainland, the Shanghai Composite Index rose 52.9%, making the Mainland market one of the best performing markets worldwide. The Mainland market rose on hopes for supportive government policies. Expectations for more state-owned enterprise reforms and increases in infrastructure spending paced gains. In November, the People's Bank of China (PBoC) unexpectedly cut interest rates, the first time in more than two years. The market rallied to an almost five-year high of over 3,200 points in active trading. Total daily trading on the Shanghai and Shenzhen stock markets rose to a historical high of over RMB1 trillion in early December.
5. In Hong Kong, the Hang Seng Index (HSI) and the Hang Seng China Enterprises Index (HSCEI) rose 1.3% and 10.8% respectively, respectively. The Hang Seng rose 1.3% and the HSCEI rose 10.8% respectively.

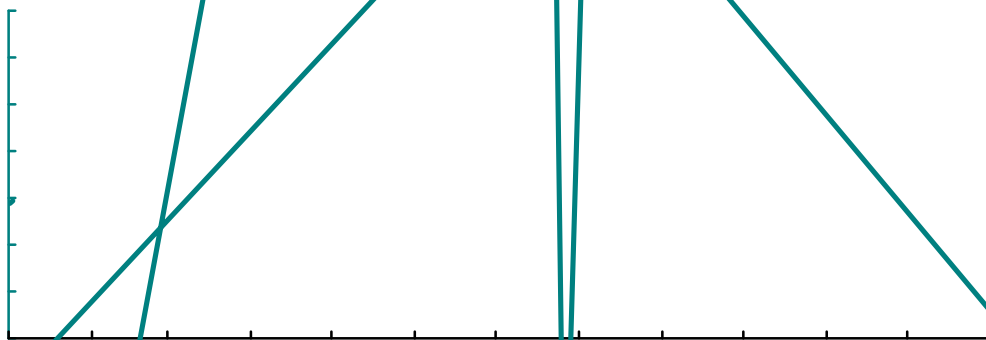


Performance of stock markets during 2014

8. During 2014, most major markets rose on optimism about supportive government measures. In early 2014, concerns about the Fed's tapering and uncertainties about the global economic outlook weighed on the markets. Later, most markets recovered on the back of upbeat economic data and better corporate earnings. In late 2014, while the Fed ended stimulus measures smoothly, the central banks in Europe, Japan and the Mainland adopted monetary easing policies, providing support to the global stock markets.

The US

9. After gaining some 30% in 2013, the US market continued to rise in 2014 as the Dow, S&P and Nasdaq rose 7.5%, 11.4% and 13.4% respectively on optimism about economic recovery and corporate earnings. The Dow and S&P reached record highs whilst the Nasdaq also rose to its highest level in 14 years.
10. In early 2014, the US market was volatile following the start of the Fed's tapering. Since December 2013, the Fed began to reduce its monthly bond purchase by US\$10 billion each time from US\$85 billion. Investors were worried that the withdrawal of stimulus might hurt the fragile economic recovery and corporate earnings. This triggered some sell-off in emerging market assets amid concerns about a withdrawal of liquidity.
11. Losses were recouped later as emerging market currencies stabilised somewhat after certain central banks raised interest rates. Upbeat earnings and solid economic data also provided support. However, heightened tensions in Iraq trimmed gains.
12. In early October, the market corrected on worries over the global economic outlook. The International Monetary Fund cut its global growth forecast for the third time since the beginning of the year. The diagnosis of Ebola cases in the US also hurt investor sentiment.
13. In late October, the Fed's stimulus program ended as expected. Though the timing of interest rate hikes remained uncertain, the Fed reassured that it would keep interest rates low for a considerable period of time. It also indicated confidence in the pace of economic recovery.
14. The Dow and S&P 500 rose to fresh record highs as the Republicans won control of the Senate in mid-term election during November. Solid jobs and housing data paced gains.
15. However, the market became choppy in December given concerns about contagion from the correction in the Russian market. Amid declining oil prices, Russia, as a major oil exporter, saw its stock market and currency both drop sharply. Later, the Russian situation stabilised somewhat and the US market rose strongly after the Fed stated that it would not raise interest rates in the near future.





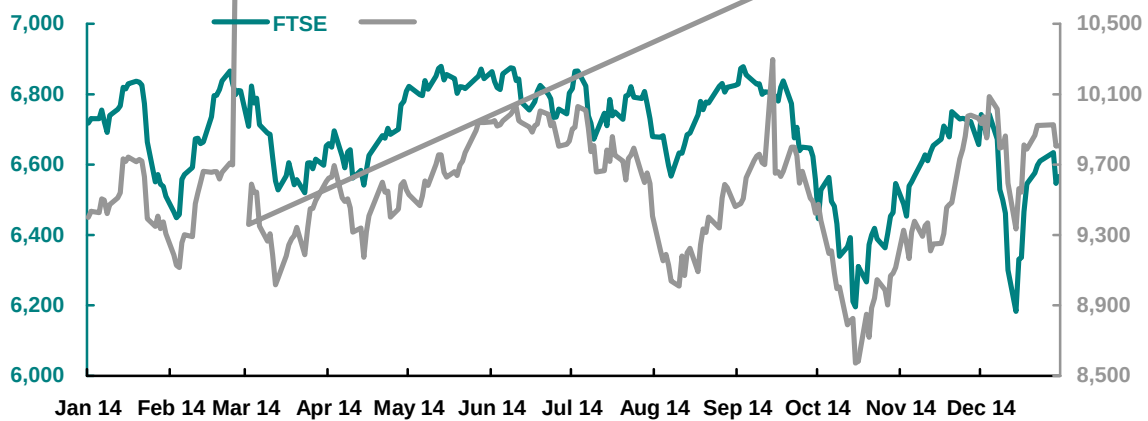
Performance of major stock markets

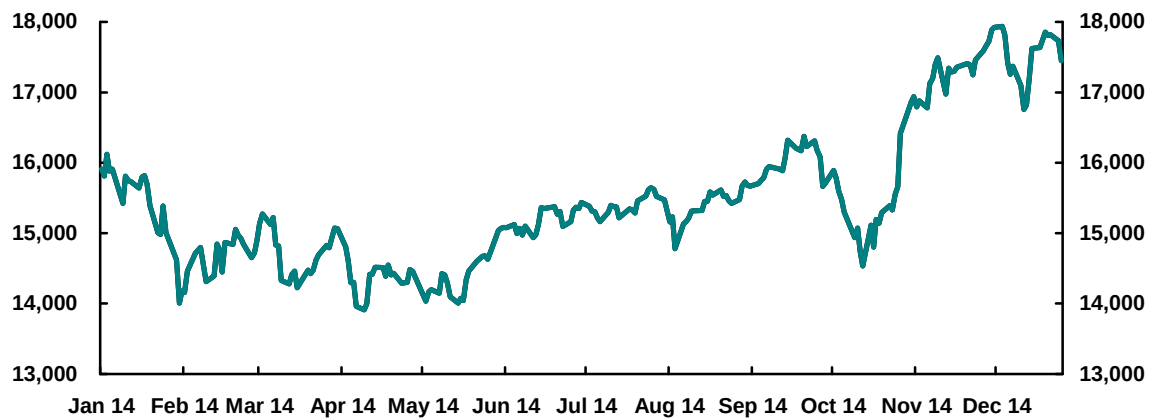
Europe

16. In 2014, the FTSE and CAC fell 2.7% and 0.5% respectively, whilst the DAX rose 2.7%, after recording gains of 14.4%, 25.5% and 18.0% respectively in 2013. The DAX once rose to a record high.
17. European markets were volatile amid uncertainties over economic growth in the Eurozone economy. The European Central Bank (ECB) adopted negative deposit rates in June and cut its benchmark interest rate by 10 basis points to 0.05% in September. The measures provided some short-term boost to European markets. However, uncertainties remained



18. In late July, Standard & Poor's downgraded Argentina's credit rating to selective default. Concerns about financial stress in the Portuguese banking sector paced losses. Ongoing geopolitical tensions in Russia and Ukraine and uncertainties during the Scottish referendum on independence also weighed on market sentiment.
19. In October, the markets retreated as deflation concerns persisted and investors were disappointed at the timing and size of further monetary easing measures from the ECB. Worries over the debt problem revived. Bond yields of peripheral Eurozone countries rose amid worries about the pace of economic recovery in Greece.
20. The ECB's plans to inject liquidity into the Eurozone economy recouped some losses before the markets dipped again in December, as worries over the market situations in Russia intensified amid a slump in the Russian ruble and crude oil prices. The markets also paced losses on uncertainties over the continuation of the Greek bailout plan after its government unexpectedly advanced the presidential election. Sovereign credit rating downgrades of Italy and France, by Standard & Poor's and Fitch respectively, dragged the markets lower. However, the markets rebounded somewhat towards the end of the year as the Bank of Spain forecasted more rapid growth and Portugal's budget deficit declined.





Performance of Nikkei 225 during 2014

Source: Bloomberg

The Mainland

23. Following a fall of 6.7% in 2013, the Shanghai Composite Index rose 52.9% in 2014, making the Mainland market one of the best performing markets worldwide. Trading was active, and total daily trading on the Shanghai and Shenzhen stock markets rose to a historical high of over RMB1 trillion in early December.
24. In early 2014, the market was volatile on lingering liquidity concerns amid worries over the resumption of initial public offerings (IPOs). There were uncertainties about a slowdown in economic growth given mixed economic data. Concerns about credit risks heightened amid default cases of corporate bonds and wealth management products.
25. From July, the market rebounded on hopes for supportive government policies. The People's Bank of China (PBoC) announced measures to support smaller companies and cut the reserve requirement ratio for qualified banks. In September, it injected liquidity to major banks through the Standing Lending Facility. Expectations for more state-owned enterprise reforms and the possible expansion of free trade zone projects paced gains.
26. In early November, investor sentiment became more bullish as President Xi Jinping announced a plan to accelerate the construction of the Silk Road Economic Belt, boosting hopes for an increase in infrastructure spending.

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Major statistics of Hong Kong securities market in 2014

Trading activity in the local stock market

34. Trading in the local stock market increased. In 2014, the average daily turnover amounted to \$70 billion, 11% higher than the \$63 billion level in 2013.
35. Mainland stocks remained the most actively traded. Their share of total market turnover was 37% in 2014 (39% in 2013), while HSI stocks (excluding H-shares and red chips) accounted for about 17% (16% in 2013).

Average Daily Turnover (\$ billion)

	2014		2013		% change over 2013
HSI (ex H shares & red chips)	12.1	(17%)	9.8	(16%)	+23%
Mainland Stocks	25.5	(37%)	24.3	(39%)	+5%
<i>H-shares</i>	17.8	(26%)	17.3	(28%)	+3%
<i>Red chips</i>	7.7	(11%)	7.0	(11%)	+10%
Derivative Warrants	8.3	(12%)	7.3	(12%)	+13%
CBBCs	5.0	(7%)	5.2	(8%)	-4%
ETFs	4.7	(7%)	3.7	(6%)	+28%
Others	13.9	(20%)	12.3	(20%)	+13%
Market Total	69.5	(100%)	62.6	(100%)	+11%

Remark: Percentages in parenthesis denote market share.

Sources: Hong Kong Exchanges and Clearing Limited (HKEx) and Sw9 ref465.72 497.96 .9608Resanges (HKExm0 0 0 scn3be3bear



Short-selling activity

40. Compared to 2013, short selling was higher in both absolute terms and as a percentage of total market turnover. The average daily short selling was \$7.2 billion, or 10.3% of total market turnover in 2014. In 2013, the average daily short selling was \$6.1 billion, or 9.8% of total market turnover.
41. Based on the data submitted, as at 24 December 2014, aggregated short positions





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

		2014	2013
Futures	HSI Futures	69,098	80,247
	Mini-HSI Futures	28,177	32,188
	HSCEI Futures	89,005	85,538
	Mini-HSCEI Futures	13,884	9,232
	Stock Futures	1,731	1,882
	3-Month HIBOR Futures	0	0
	RMB Currency Futures ^	830	568
	Gold Futures	0	0
	Other futures products*	1,238	1,214
	Total Futures	203,965	210,869
Options	HSI Options	30,440	35,252
	Mini-HSI Options	3,892	4,743
	HSCEI Options	36,433	32,899
	Stock Options	301,797	249,295
	Other options products**	150	164

103