

SECURITIES AND FUTURES COMMISSION 證券及期貨事務監察委員會

Research Paper No. 57: Half-yearly Review of the Global and Local Securities Markets

17 July 2015



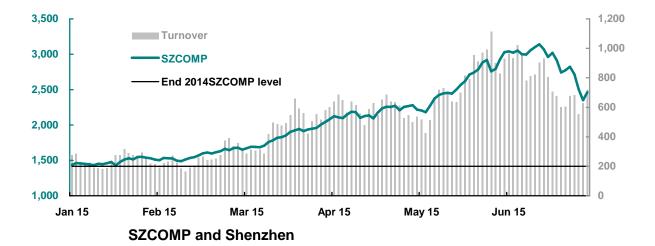
Executive summary

1.	In the US.	the Dow fell 1	.1% during the first ha
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Risks and uncertainties facing the Hong Kong market

27. The Hong Kong market's performance will continue to be affected by a combination of risks related to the Mainland and uncertainties in overseas markets. With growing linkage with the Mainland market, the performance of the local market is more susceptible to Mainland risks. Also, changes in overseas market conditions could affect the direction and size of fund flows, potentially adding volatility to the Hong Kong market.

In the Mainland, in the face of a very volatile market, sentiment has become increasingly fragile. As the market has accumulated substantial gains, valuation concerns began to weigh on the market. The outstanding margin level is high, triggering worries over margin curbs. Deleveraging activities have grown, with investors taking early gains to cut their equities positions. Investors have also become cautious given the uncertain outlook for the economy and concerns that any disappointing data or news about policy changes could trigger sell-offs and market corrections.

In the US, the timing and magnitude of the interest rate hike remained uncertain. The expectation is that the rate hike will start in late 2015, depending on the Fed's assessment of the economic situation. The concern is that when this happens, it could trigger capital outflows from regional and emerging markets, adding downward pressure on regional asset markets. Moreover, investor worries over valuations have heightened as equity indices rose to fresh record highs.

In Europe, despite the region's improving economic outlook and some progress in Greek debt talks with its creditors, the debt problem in Greece continued to hang over the market. In addition to the lack of clear arrangements and procedures for handling a potential default of Greek bonds or a potential exit of Greece from the Eurozone, political instability in the region and fluctuations in commodity prices also pose risks of much greater volatility ahead for markets.



Major statistics of Hong Kong securities market during the first half of 2015 Trading activity in the local stock market

- 28. Trading in the local stock market increased. During the first half of 2015, average daily turnover amounted to \$125.3 billion, 65% higher than the \$75.9 billion in the second half of 2014.
- 29. Mainland stocks remained the most actively traded. Their share of total market turnover was 36% in the first half of 2015 (38% in the second half of 2014), while HSI stocks (excluding H-shares and red chips) accounted for about 12% (16% in the second half of 2014).

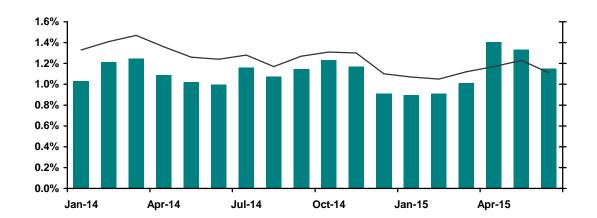
Average Daily Turnover (\$ billion)

	1H 2015 2H 2014		1H 2014		% change over 2H 2014			
HSI (ex H shares & red chips)	15.5	(12%)	12.0	(16%)	12.2	(19%)	29%	27%
Mainland Stocks	45.7	(36%)	28.5	(38%)	22.4	(36%)	60%	104%
H-shares	34.1	(27%)	20.2	(27%)	15.3	(24%)	69%	123%
Red chips	11.6	(9%)	8.3	(11%)	7.1	(11%)	40%	63%
Derivative Warrants	21.6	(17%)	9.8	(13%)	6.7	(11%)	120%	222%
CBBCs	6.7	(5%)	5.4	(7%)	4.6	(7%)	24%	46%
ETFs	10.9	(9%)	6.9	(9%)	2.5	(4%)	58%	336%



Short-selling activity

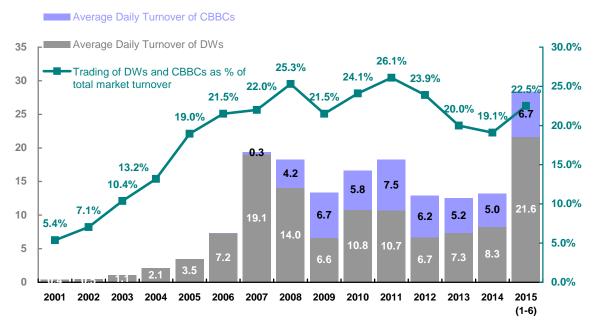
- 34. Compared to the second half of 2014, short selling was higher in absolute terms but lower as a percentage of total market turnover. Average daily short selling was \$10.9 billion, or 8.8% of total market turnover in the first half of 2015. In the second half of 2014, average daily short selling was \$7.9 billion, or 10.5% of total market turnover.
- 35. Based on the data submitted, as at 26 June 2015, aggregated short positions amounted to \$215 billion (or 1.1% of the market cap of the reported stocks).





Derivatives warrants and callable bull/bear contracts

- 38. In the first half of 2015, trading of derivatives warrants (DWs) increased in absolute terms and as a percentage of total market turnover. The average daily turnover of DWs rose to \$21.6 billion (17.2% of total market turnover), compared to \$9.8 billion (13.0% of total market turnover) in the second half of 2014.
- 39. In the first half of 2015, trading in callable bull/bear contracts (CBBCs) increased in absolute terms but decreased as a percentage of total market turnover. The average daily turnover of CBBCs increased to \$6.7 billion (5.3% of total market turnover), compared to \$5.4 billion (7.1% of total market turnover) in the second half of 2014.



Turnover of DWs and CBBCs (\$ billion)

Source: SFC Research

Exchange-traded derivatives

- 40. In the first half of 2015, average daily trading in exchange-traded derivatives increased by 29%, compared to the second half of 2014. Average daily trading in futures products rose 31%. Among futures products, HSI futures and HSCEI futures were the most actively traded contracts, representing about 26% and 47% of all futures trading respectively. The average daily trading volume of HSI futures rose by 4% compared to the second half of 2014, whilst that of HSCEI futures rose by 42%.
- 41. Average daily trading in options rose by 28% in the first half of 2015. Stock options remained the most actively traded options products and their trading volume rose by 31%, compared to the second half of 2014.



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

		1H 2015	2H 2014	1H 2014
Futures	HSI Futures	72,875	69,884	68,280
	Mini-HSI Futures	36,118	29,964	26,317
	HSCEI Futures	131,474	92,701	85,156
	Mini-HSCEI Futures	32,488	16,443	11,219