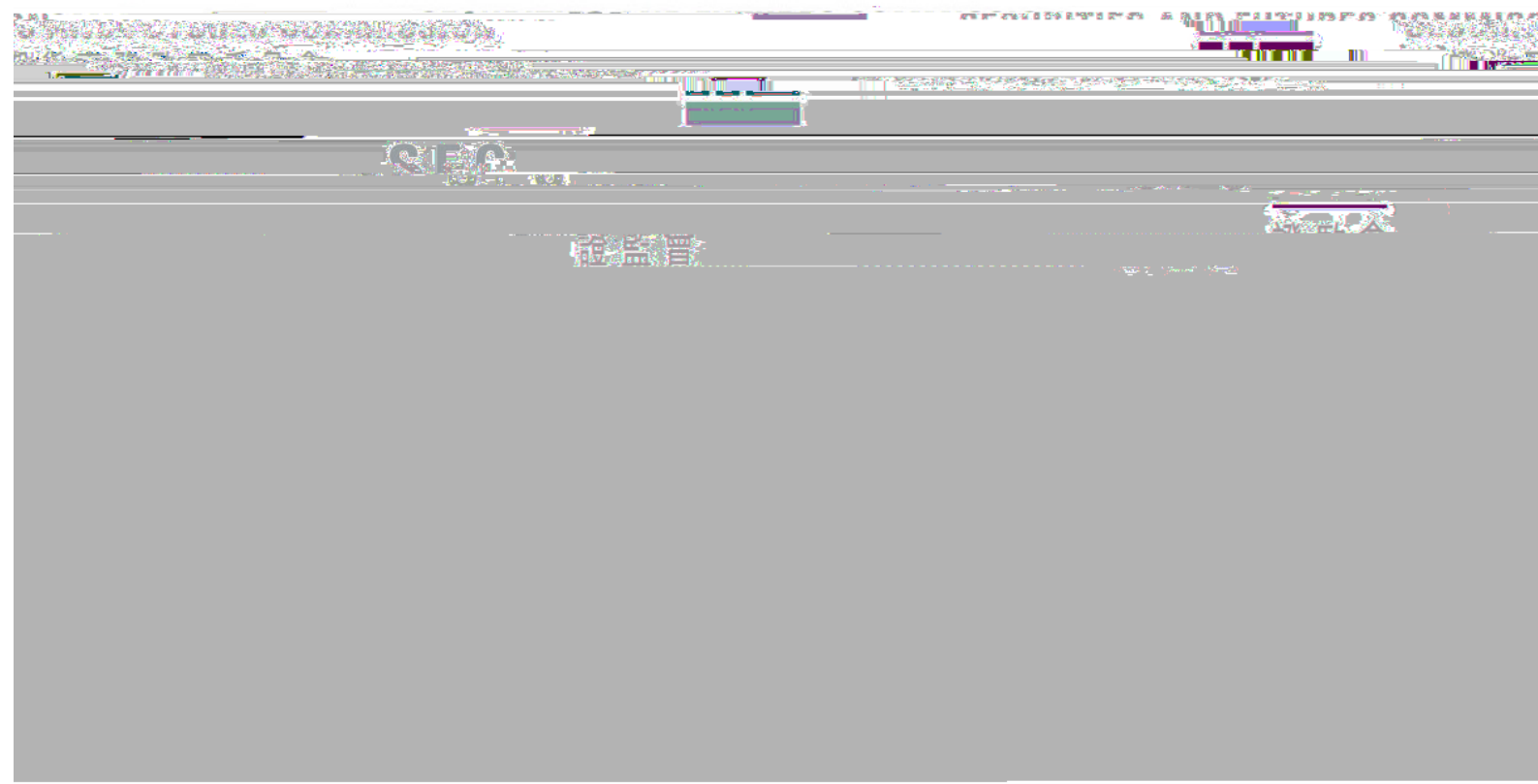






Performance of stock markets during the first half of 2016



17. In April, optimism over likely further monetary easing measures grew as regional economic outlook remained weak. The International Monetary Fund cut its GDP forecast for the Euro area to 1.5% from 1.7% for 2016.
18. In June, the markets became volatile again as the UK voted to exit the EU. There were concerns about the implications of Brexit on regional economies, as well as financial and political stability. The British pound fell to its lowest level against the dollar since 1985. Moody's Investors Service lowered the rating outlook for the UK to negative from stable. Standard & Poor Global Ratings lowered the UK's rating by two notches to AA from AAA, while Fitch Ratings also downgraded its rating by one notch to AA from AA+. Political uncertainties heightened in the UK after the resignation of Prime Minister David Cameron. Later, losses were recouped on easing worries about Brexit and hopes of more stimulus by central banks to support the market and economy. In particular, the UK market rebounded given the support by a weaker British pound, which might translate into stronger overseas revenues.

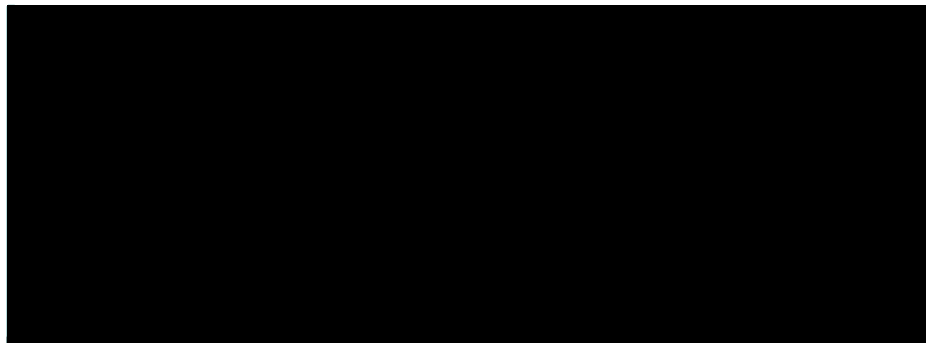
Performance of FTSE and DAX during the first(e)13(r)-3()eT E 6ET EMC2541.-4()6(mJ



Hong Kong

28. During the first half of 2016, the Hong Kong market fell. The HSI and the HSCEI fell 5.1% and 9.8% respectively.
29. In January, the market fell on intensifying worries over Mainland economic slowdown. Volatility in the renminbi and commodity prices also added to losses. Concerns over a weakening Hong Kong dollar weighed on the market. The Hong Kong dollar hit an 8-year low at one point.
30. Later, following gains in overseas and Mainland markets, the local market rebounded amid optimism about further stimulus measures by global central banks. The RRR cut by the PBoC in February and easing worries over interest rate hikes in the US lifted sentiment. Financial stocks were higher. Higher oil prices also lent support to energy stocks. Yet, concerns about rising credit risk and increasing bad debts in the Mainland capped gains.
31. In April, the local market fell amid lingering concerns about the economic outlook in the Mainland and uncertainties about the timing of US rate hikes. Investor sentiment was fragile amid volatility in overseas and Mainland markets. In June, sentiment was affected by uncertainties about the UK's vote to exit the EU. Later, the market rebounded amid expectations over central banks's stimulus measures and speculation of the launch of Shenzhen-Hong Kong Stock Connect.

HSI and Hong Kong Market Turnover (\$¹ billion) during the first half of 2016



Source: Bloomberg

Risks and uncertainties facing the Hong Kong market

32. The performance of the Hong Kong market will continue to be affected by a combination of risks related to the Mainland and uncertainties in overseas markets.
In the US, the timing of interest rate hikes remains uncertain. The US dollar may continue to strengthen, weighing



In the Mainland, investor sentiment is fragile given mixed economic data and the volatile renminbi exchange rate. There are concerns that the renminbi might further depreciate amid worries about the Mainland's economic slowdown. Dimmed hopes for proactive government stimulus measures will likely continue to weigh on the market. Investors are also cautious about high bad debts and rising credit default risks which can affect the Mainland banking sector. All of these will continue to affect the outlook of the Hong Kong market, which is closely linked with the Mainland market.

In Europe, economic recovery remains fragile and worries over deflation persist. It is uncertain as to what extent the supportive policy would be able to offset the impact of any future US interest rate hikes on the economy. If economic growth stalls, the financial health of some indebted EU nations may be affected. In addition, Brexit has complicated the situation and created further political and economic uncertainties in Europe. This heightened uncertainty of the global economic outlook will add more volatility to global and local markets.

Major



37. The northbound aggregate quota is set at RMB300 billion, and the southbound aggregate qu

