Research Paper No. 62: A Review of the Global and Local Securities Markets in 2017 (Featuring Stock Connect Trading and the Expansion of the Short Position Reporting (SPR) Regime)

26 January 2018

[redacted]

11. However, geopolitical concerns trimmed some gains in 2017. North Korea stepped up its missile tests, heightening worries of inadvertent conflict and adding to market uncertainty. Conflicts in the Middle East also weighed on sentiment. The possibility of faster-than-expected rate hikes and the potential withdrawal of the US from NAFTA added further risk to the economic outlook.

12. An extended

[redacted]

Performance of major stock markets

Europe

13. Major European markets remained bullish after posting solid gains in 2016. The FTSE, DAX and CAC rose 7.6%, 12.5% and 9.3% respectively in 2017. Both the FTSE and DAX rose to record highs in late 2017 (14% and 66% higher than their respective peaks in 2007), whilst the CAC hit a 10-year high. The DAX recorded its sixth consecutive year of gains.

14. Optimism over the improving

- Amid tamed inflation, the European Central Bank (ECB) announced

The Mainlan d

19. On the Mainland, the SHCOMP rose 6.6%. After

SHCOMP and market turnover (RMB billion)

- Expectations of gradual interest rate hikes and tax reform in the US Investors were also optimistic about the continuation of an accommodative monetary policy stance and expectations that economic conditions would warrant gradual increases in interest rates. The progress of tax reform, which would benefit most corporations, also supported the broader market.
- Southbound inflows through Stock Connect Southbound net buy in 2017 amounted to HK$339.9 billion, 38% higher than that of HK$246.0 billion in 2016. Mainland investors favoured investment in large-cap stocks through southbound trading and provided support to the broader market.
- Favourable factors in the Mainland The Mainland economy showed signs of stabilisation. Optimism about the inclusion of A-shares in the MSCI Emerging Markets Index in 2018 also boosted sentiment. H-shares rose amid solid earnings and expectations of accelerating state-owned enterprise reforms. In addition, the renminbi stabilized, supporting earnings growth in H

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Stock Co nnect Trading

1. Since its launch three years ago, Stock Connect has provided an important channel for Hong Kong
markets. It has opened up the vast onshore Mainland equity market to the rest of the world and enabled Mainland investors to diversify portfolios outside their home market.
2. Stock Connect now covers some 1,500 Mainland stocks and 440 Hong Kong stocks, representing over 80% of market cap. Stock Connect has been running smoothly and its clearing and settlement systems have been able to accommodate rapidly increasing flows.
3. Southbound trading from Shanghai and Shenzhen into Hong Kong has resulted in a net inflow of RMB625.5 billion since the launch of the programme. Inflows have been strong to HSI heavyweights in sectors such as financials, IT and property. Via northbound trading, international investors have so far bought RMB347.5 billion worth of A-shares. They showed strong interest in financial and infrastructure stocks in Shanghai as well as technology and consumer stocks in Shenzhen.

4. Stock Connect has accounted for an increasing share of the Hong Kong market turnover over time. On average, daily southbound trading reached 6% of total trading in Hong Kong in 2017, doubling that of 3% in 2016. Northbound trading also increased to 1% of the Mainland market total, from 0.3% in 2016.
5. Amid improved access to the Mainland market via Stock Connect, MSCI decided to include A-shares in its Emerging Markets Index in 2018. Further liberalisation of the Mainland market could possibly lead to the inclusion of A-shares in other international indices and increases in index weightings over time.
6. Further enhancements to Stock Connect can be expected. Consideration will be given to expanding the quota and the range of stocks and financial products available for trading. This will add to the breadth and depth of the programme and result in greater participation by both Mainland and international investors.
7. Through Stock Connect, Hong Kong will continue to leverage its role as a super-connector between China and the rest of the world. The increased cross-boundary flow of renminbi funds under Stock Connect will help to
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4. Major short position holders

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44. In 2017, trading in CBBCs decreased both in absolute terms and as a percentage of total market turnover. Average daily

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