average daily turnover in the Mainland market was RMB369.4 billion, 19.5% lower than in 2017.

20. Among other factors, investor sentiment was weakened by:

- Rising trade tensions with the US – Tensions intensified as the US imposed tariffs on Mainland exports and the Mainland retaliated. The US-Mexico-Canada

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SHCOMP and market turnover (RMB billion) during 2018

Source: Bloomberg

SZCOMP and market turnover (RMB billion) during 2018

Source: Bloomberg

Trading and short selling during the CAS

3. During 24 July 2017 – 31 December 2018, daily trading during the CAS averaged $6.1 billion, which was 5.7% of the market turnover. This compares to an average of 4.7% during 3 January – 21 July 2017, before the launch of Phase 2.

4. Short selling during the CAS was modest and averaged $0.7 billion or 11.2% of the total short selling for the whole day. Share prices remained stable during the CAS.

CAS trading during Phase 1 and 2

CAS trading on index rebalancing days

5. Market participants have effectively utilised the CAS mechanism on days when index rebalancing was conducted. In 2018, CAS trading accounted for a greater share of market turnover, ranging from 12% to 47%, on days when the MSCI, HSI and FTSE indexes were rebalanced.

6. When MSCI rebalancing took place of the 13 Tw 4.-04 0.Td [w][(w)-13.592(Fz.2(t)-6.w 17.)1341)-Td.2

CAS turnover on index rebalancing days in 2018

Remark: The labels show CAS turnover as percentages of daily turnover on MSCI, FTSE and HSI rebalancing dates.

Trading by type of ls a e

2018, some crucial issues remain unresolved. Global economic growth may slow as a result of escalating trade tensions. In the US, the partial suspension of government [illegible]

The average daily turnover ($ billion)

	2018		2017		% change over 2017
HSI (ex H-shares & red chips)	25.1	(23%)	17.5	(20%)	+43.4%
Mainland stocks	35.8	(33%)	30.5	(35%)	+17.4%
H-shares	27.0	(25%)	22.7	(26%)	+18.9%
Red chips	8.8	(8%)	7.8	(9%)	+12.8%
Derivative warrants	15.7	(15%)	12.2	(14%)	+28.7%
Callable bull/bear contracts	7.5	(7%)	4.8	(5%)	+56.3%

Increasing impact of southbound inflows on market performance

1. Since the beginning of 2017, Stock Connect southbound brokers have had a greater impact on market performance in Hong Kong than institutional brokers, whose influence has declined despite their dominance in trading. This can be explained by the growing participation of southbound brokers and their directional trading which results in a larger net buy/sell position compared to institutional brokers, whose trading is more balanced and who therefore have a smaller net position.

Diminishing impact of institutional brokers

2. Trading patterns (total of buy and sell trades) and net inflows/outflows (difference between buy and sell trades) reveal that prior to 2017, institutional brokers accounted for a large share of market trading in Hong Kong and had a large impact on stock market performance. However, since 2017, whilst they continue to dominate trading, their impact on market performance has declined. The net inflows/outflows of institutional brokers have become smaller and occasionally been surpassed by those of southbound brokers.
   (a) In 2015 and 2016, institutional brokers' net inflows/outflows were in line with the performance of the HSI. Very often, they were net buyers (with net inflows) when the market rallied and net sellers (with net outflows) when the market retreated. Their net inflows/outflows moved in the same direction as the market in 23 out of 24 months.
   (b) However, since 2017, this trend has changed as institutional brokers' impact on the HSI started to diminish. From January 2017 to December 2018, their net inflows/outflows moved in the same direction as the market in only 12 out of 24 months.
   (c) Institutional brokers accounted for about 70% of trading in the Hong Kong market from January 2015 to December 2018. However, their net inflows/outflows were smaller than southbound brokers in half of the months since 2017 due to their different trading patterns.

Growing impact of southbound brokers on market performance

3. Southbound brokers only account for a small share of total trading but their influence on stock market performance has increased.
   (a) In 2015 and 2016, net inflows of southbound brokers were seldom in the same direction as the HSI.
   (b) From 2017, their net flows began to have an impact on the performance of the HSI, moving in tandem with it amidst larger net inflows/outflows.
   (c) Southbound brokers accounted for less than 10% of trading in the Hong Kong market during the period from January 2015 to December 2018. However, their net inflows/outflows were comparable to or exceeded those of institutional brokers in most of the months since 2017.

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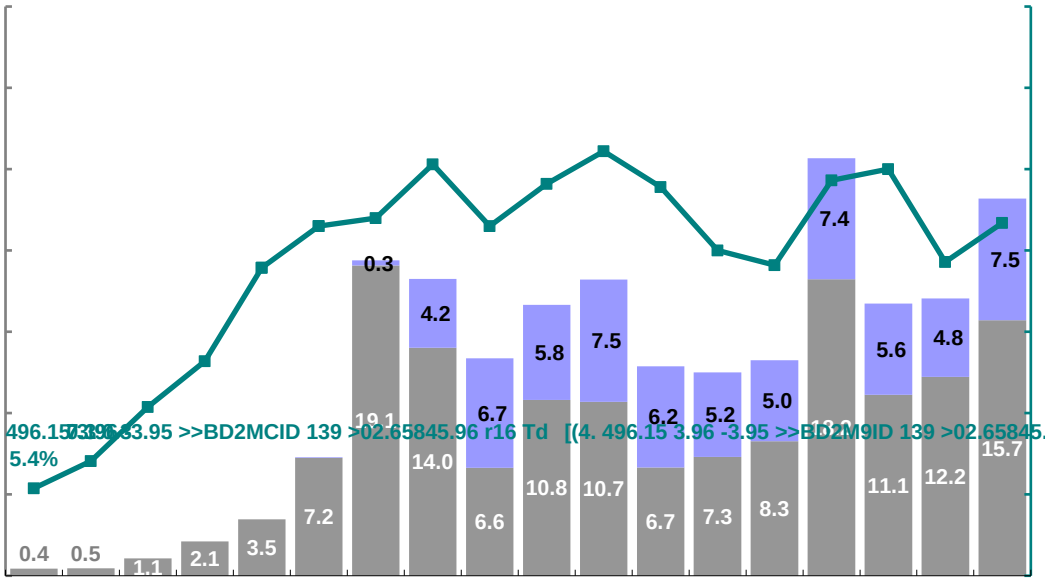
on **Implications of brokers' changing trading patterns**

Derivative warrants and callable bull/bear contracts

38. Trading in DWs increased in both absolute terms and as a percentage of total market turnover. The average daily turnover of DWs was $15.7 billion (14.7% of total market turnover), compared to $12.2 billion (13.8% of total market turnover) in 2017.

39. Trading in CBBCs also increased both in absolute terms and as a percentage of total market turnover. The average daily turnover of CBBCs amounted to $7.5 billion (7.0% of total market turnover), compared to $4.8 billion (5.5% of total market turnover) in 2017.

Turnover of DWs and CBBCs ($ billion)



Sources: HKEX and SFC

Exchange-traded derivatives

40. In 2018, the average daily trading in exchange-traded derivatives rose by 38.4%. There was strong demand for hedging instruments given high market volatility and the need to manage the risks of Mainland exposures.

- The average daily trading in futures products rose by 67.9%. Amongst all futures products, HSI futures and HSCEI futures were the most actively traded contracts, each accounting for about 44.8% and 29.1% of all futures trading respectively. The average daily trading volume of HSI and HSCEI futures rose 83.9% and 30.3%, respectively, from 2017.
- The average daily trading in options products rose by 21.9%. Stock options remained the most actively traded options products and their trading volume increased by 20.7% from 2017.

The average daily trading volume of derivatives traded on HKEX by product type (contracts)

		2018	2017	2016
Futures	HSI Futures	234,424	127,478	130,826
	Mini-HSI Futures	100,262	46,507	50,516
	HSCEI Futures	152,241	116,812	133,729
	Mini-HSCEI Futures	22,568	14,823	19,718
	Stock Futures	3,508	492	915

market participants are more willing to use HSCEI futures contracts to hedge Mainland exposures.

(d) **Active new players** – The recent entry of new players trading HSI futures, some of whom are active in day-trading, has boosted trading volumes.

Market situation

5. The more active derivatives market seemed to be in line with activities in

Open interest and volume of HSCEI options