Research Paper No. 65: Half-yearly Review of the Global and Local Securities Markets (Featuring the Northbound Investor Identification Regime and Short Selling)

26 July 2019

Performance of stock markets

8. In early 2019, global markets were bullish amidst progress made in trade talks between the Mainland and the US. Major markets recorded substantial gains, with some hitting record highs. Although global trade tensions worsened and dragged down most markets at one point, the rally resumed soon on news about further trade negotiations.

The US

9. During the first half of 2019, the Dow, Nasdaq and S&P rose 14.0%, 20.7% and 17.3% respectively. Following declines in 2018, major benchmark indices in the US hit successive record highs. The S&P registered the highest half-yearly increase since 2010.

10. The market rallied on growing hopes for interest rate cuts. The Fed signalled a shift from a tightening to an easing monetary policy stance. In addition, emerging signs of a slowing economy and modest inflation data reinforced expectations for an accommodative monetary policy. The Fed also decided to slow the monthly reduction of its balance sheet in May 2019 and conclude it by September 2019.

11. Trade talks with the Mainland showed signs of progress. In early 2019, the US President extended the deadline for a trade deal and the Mainland prolonged the suspension of additional tariffs on US autos. Media reported the progress on key issues such as technology transfer. In May 2019, the trade talks suffered a sudden setback after the US increased tariffs on US$200 billion worth of Mainland imports and imposed sanctions on several Mainland technology companies. Later, hopes for a trade deal revived ahead of the G20 summit, during which the US postponed new tariffs on Mainland imports and eased restrictions on a major Mainland technology company.

12. The end of the longest US government partial shutdown in history, which lasted for 35 days from 22 December 2018 to 25 January 2019, helped ease political uncertainties.

13. However, economic data was mixed. GDP growth for Q1 2019 was 3.1%, marking the strongest first-quarter growth in four years. Nonetheless

16. Concerns about the economic outlook eased slightly in early 2019 y

The Mainland

21. In the Mainland, the SHCOMP and the SZCOMP rose 19.4% and 23.2% respectively. In early 2019, the Mainland market recorded a strong surge with active trading. In particular, during January to April 2019, the SHCOMP rose 23.4%, outperforming major markets. It once broke above the 3,200 level, the highest since May 2018. However,

SHCOMP and market turnover (RMB billion) during the first half of 2019

Source: Bloomberg

SZCOMP and market turnover (RMB billion) during the first half of 2019

Source: Bloomberg

Hong Kong

26. Following a volatile year in 2018, the local market rebounded in the first half of 2019. The HSI once hit a 10-month high of above 30,000 in April 2019 but fell below 27,000 in May 2019 amidst higher volatility in overseas markets. Later, it bounced back to around 28,000, following an upward trend in global markets. During the first half of 2019, the HSI and the HSCEI rose 10.4% and 7.5% respectively.

27. During January to April 2019, the market was bullish with the HSI and HSCEI both rising over 14%. This was in line with major overseas markets and was attributable to:

    Optimism about a trade deal ï Market sentiment was lifted by positive developments in the trade negotiations between the Mainland and the US.

    Hopes for US monetary easing ï The US Fed reiterated a patient stance towards future interest rate changes, indicating that its policy approach might become more dovish than expected.

28. However, investor sentiment later reversed suddenly. The HSI fell 9.4% in May 2019, recording the largest monthly decline in eight months. The slide was mainly due to:

Escalating trade tensions between the Mainland and the US ï Investor sentiment was dampened by the prolonged and worsening trade conflict between the

36. In early 2019, NB net buy had been strong on the back of A-share inclusion into international indices. In particular, the NB net buy reached new monthly highs in January and February 2019, when the NB net buy for the two months totalled RMB121.1 billion, accounting for 16% of the cumulative NB net buy since the launch of Stock Connect. As at end-June 2019, the cumulative net buy was:

RMB738.1 billion via NB trading; and
RMB756.1 billion via SB trading.

Investor identification data shows that funds and fund managers were major net buyers of A-shares through northbound trading under Stock Connect

1. On 26 September 2018, an investor identification regime for NB trading under Stock Connect was implemented to facilitate more effective market surveillance by making trade data available at the investor level. This section analyses the NB net buy or net sell (i.e. the difference between the values of buy and sell trades) and NB trading (i.e. the total value of buy and sell trades) by different types of investors based on data from 26 September 2018 to 30 June 2019.

NB trading and net buy by investor type during 26 September 2018 to 30 June 2019

	Average daily trading		**Net buy**	
	RMB billion	**Market share**	**RMB billion**	**Market share**
Proprietary trading by investment banks	*28.8*	*78%*	*16.1*	*10%*

the positions of international investors will continue to grow, and the availability of these products will be a factor in their decision to invest in the A-share market.

5. The investor identification regime is still in its early stage of implementation. The trading patterns and observations noted here are preliminary and may change under different market situations.

Short selling activities

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Despite the fact that 210 ETFs were eligible for short selling as of end 2018, the contribution of ETFs was mainly attributable to the top five ETFs.
Short selling in ETFs was mainly conducted by market makers who tended to

Turnover of DWs and CBBCs