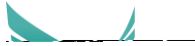




Research Paper No. 69: Half-yearly Review of the Global and Local Securities Markets (Featuring Changes in Market Structure and Stock Connect)

6 August 2021



Executive Summary

1. During the first half of 2021, major indices in the US advanced, with the Dow, Nasdaq and S&P respectively rising 12.7%, 12.5% and 14.4%. Major European markets also gained, with the FTSE, DAX and CAC advancing 8.9%, 13.2% and 17.2% respectively. Expectations for sustained economic recovery supported market sentiment amidst large-scale fiscal stimulus and robust economic data. The stabilising pandemic situation and progress in vaccine rollouts paced gains. However, inflation concerns heightened and government bond yields hovered at high levels. Remarks by central bank officials indicated a potential shift in monetary policies, raising worries over possibly sooner-than-expected interest rate hikes and tapering of bond purchases.
2. On the Mainland, the SHCOMP and the SZCOMP rose 3.4% and 5.9% respectively. Solid economic data and corporate earnings paced gains



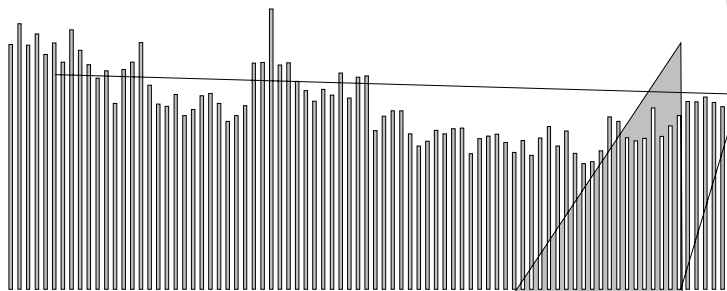
Performance of stock markets

4. Global markets rallied and some hit record highs during the first half of 2021. Market performance was bullish given

The Mainland

10. During the first half of 2021, the SHCOMP and the SZCOMP rose 3.4% and 5.9% respectively. Both indices hit their highest levels in over five years. The average daily trading in the Mainland market was RMB909 billion, 7.2% higher than the average of RMB848.2 billion in 2020.
11. The solid economic recovery and upbeat corporate earnings paced gains. GDP growth accelerated to a record high of 18.3% in Q1 2021. Robust industrial profits, retail sales and trade data boosted investor sentiment.
12. The market was also lifted by policies to boost domestic consumption as well as possible reform to open the financial market. The Shenzhen market outperformed, partly due to optimism about government policy support for small enterprises.
13. Nevertheless, some gains were trimmed by inflation concerns amidst the rising producer price index. Investors stayed cautious about tightening measures in the property sector and policies to contain fluctuations in commodity prices. Uncertainties about the relations with some western countries lingered.

SHCOMP and market turnover (RMB billion) during the first half of 2021





Market outlook and risks

19. Looking ahead, the COVID-19 situation will continue to affect the global economic recovery and stock market performance. Investors remain sensitive to news about rising inflation which may lead major central banks to scale-back stimulus measures. Valuation concerns persist as major overseas benchmark indices hover around record or multi-year highs after substantial gains



Recent changes in the Hong Kong market structure



The technology sector surpasses financials to become the largest sector

The growth of technology sector may continue to boost trading

Major statistics for the Hong Kong securities market

Trading activity

20. Trading in the local stock market was active during the first half of 2021. Daily trading hit a new record above the \$350 billion level. The average daily trading rose to \$188.2 billion, 45% higher than the \$129.5 billion in 2020, amidst strong SB trading through Stock Connect.
21. Mainland stocks (including H-shares, red chips and privately-owned enterprises) remained the most actively



Stock Connect trading accounts for a larger market share

Increasing northbound (NB) trading, particularly to Shenzhen

NB trading continued to grow after the major global indices increased A-share weightings and international investors gained additional exposure to Mainland assets given optimism

