Executive Summary

1. Major overseas markets advanced during the first hal[illegible], the Dow, Nasdaq and S&P rose 3.8%, 31.7% and 15.9% respectively. In Europe, the FTSE, DAX and CAC rose 1.1%, 16.0% and 14.3% respectively. Hopes for a pause in rate hikes lifted the markets at one point, but worries about inflation and possible further monetary tightening then reappeared. The banking sector turmoil in the US and Europe also weighed on market sentiment, though concerns eased somewhat after government authorities and financial institutions proi 0 0 1 278.69 6W*nBT/F4 11.0 Qq0.000008871 0 595./F4 W*n

course of providing liquidity to the market, the market makers may need to short sell the relevant ETPs. The short selling of ETPs is unlikely to pose a significant systemic impact on the market, as the short positions of ETPs held by market makers are generally closed out within a short period of time.

Performance of stock markets

7. Globally, major stock markets rose but the Hong Kong market declined during the first half of 2023. The Hong Kong market saw a drop as investors remained cautious about the US interest rate outlook and technology stocks underperformed amid policy uncertainties. Worries about a slowing global economy and geopolitical tensions in Ukraine lingered. The turmoil in the US and European banking sector weighed on global investor sentiment, but has had a limited effect on the Hong Kong market thus far. Although the debt ceiling problem seemed resolved temporarily, there remained uncertainties about the outlook for the US credit rating. On the Mainland, the evolving economic situation and hopes for policy stimulus affected market sentiment.

Overseas markets

8. During the first half of 2023, the Dow, Nasdaq and S&P rose 3.8%, 31.7% and 15.9% respectively. For major European markets, the FTSE, DAX and CAC rose 1.1%, 16.0% and 14.3% respectively.

9. Against the backdrop of moderating inflationary pressure in the US and Eurozone in early 2023, major central banks slowed the pace of monetary tightening. As widely expected, the US Federal Reserve (Fed) raised interest rates three times by 75 basis points (bps) in total, whilst the European Central Bank (ECB) raised interest rates four times for a total of 150 bps. Hopes for a pause in rate hikes lifted investor sentiment at one point, but worries over the possibility of further monetary tightening revived later as both the Fed and the ECB remarked on the possibility of further rate hikes over the remainder of this year.

10. Tech stocks in the US outperformed, supported by solid corporate earnings and optimistic prospects for the growing artificial intelligence sector. Nevertheless, heightened worries about the financial health of the US and European banking sectors in March 2023 weighed on investor sentiment. Subsequently, liquidity concerns eased somewhat following reassurance and interventions by government authorities and financial institutions. Later, the debt ceiling impasse in the US also weighed on market sentiment. Whilst the US Congress approved a bill to suspend the US debt limit, uncertainties about the credit rating outlook lingered.

11. Recession fears persisted amidst mixed economic data and corporate earnings. The International Monetary Fund (IMF) downgraded its 2023 global GDP growth forecast from 2.9% to 2.8%. It expected global growth to remain around 3% over the next five years the lowest medium-term forecast in 30 years. US GDP growth slowed from 2.6% in Q4 2022 to 2.0% in Q1 2023. The Eurozone GDP growth also slowed

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Activity in the Hong Kong securities market

Box 2: HKD-RMB dual counter trading

Short-selling activities

29. During the first half of 2023, short selling in Hong Kong decreased both in absolute terms and as a percentage of the total market turnover compared to 2022. Average daily short selling amounted to HK$18.6 billion or 16.2% of the total market turnover (versus HK$21.7 billion or 17.4% in 2022).

30. Of the average daily short selling of HK$18.6 billion, exchange-traded products (ETPs), including ETFs and leveraged and inverse products, accounted for 29.0% or HK$5.4 billion. Excluding ETPs, averbillion,