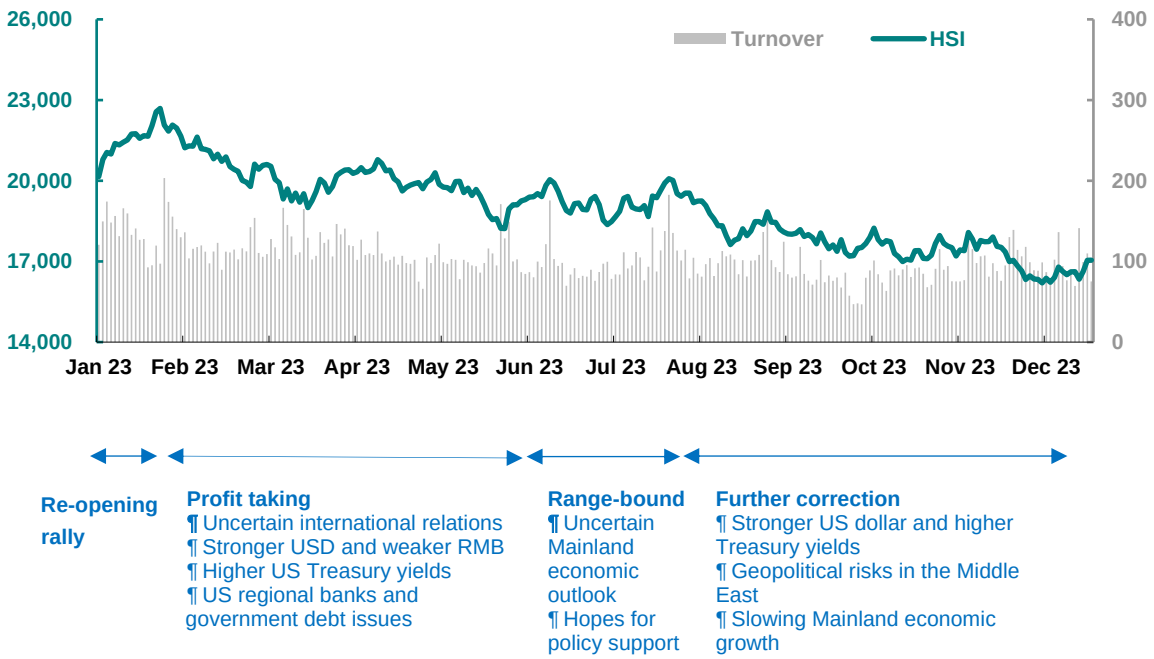
Research Paper No.74: A Review of the Global and Local Securities Markets in 2023

7 February 2024

HSI performance and market turnover ($ billion) in 2023



Trading activities

20. In 2023, average daily turnover in the Hong Kong stock market shrank 15.9% to $105.0 billion, from the $124.9 billion in 2022. The turnover decline seemed to be a global phenomenon, as high interest rates in the US prompted investors to re-allocate from stocks to safe-haven assets.

Short-selling activities

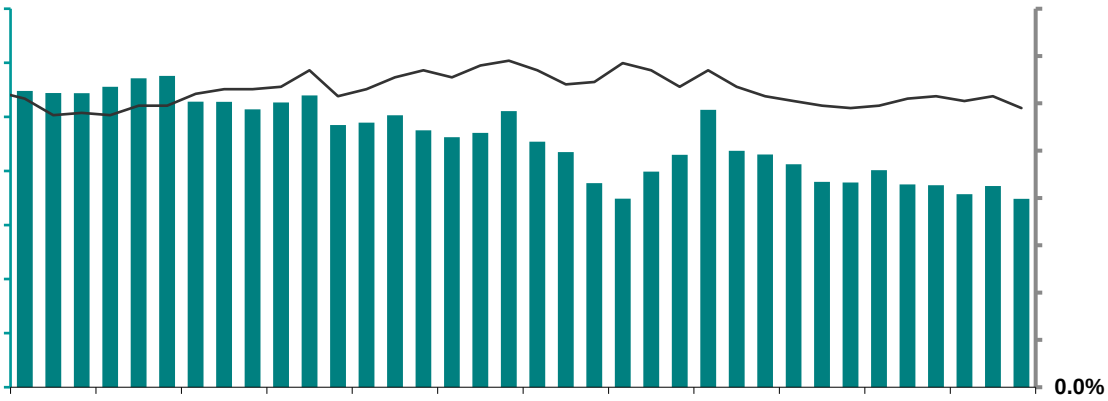
21. In 2023, short selling in Hong Kong dropped in absolute terms and as a percentage of total market turnover. Daily short selling averaged $17.8 billion or 17.0% of total market turnover.

    Of this, $5.7 billion or 31.9% of short selling was attributable to ETFs and L&I products (exchange-traded products, ETPs).

    Excluding ETPs, average daily short selling amount was $12.1 billion or 13.3% of market turnover.

22. For the market as a whole, the market value of reportable short positions fell both in absolute terms and as a percentage of market capitalisation. Based on the data submitted to the SFC, aggregated short positions declined to $348.5 billion as of end-2023 (versus $429.8 billion as of end-2022). Short positions accounted for 1.18% of market capitalisation, compared to 1.27% as of end-2022.

Short positions in the Hong Kong stock market



Market outlook and risks

23. Looking ahead, the Hong Kong market may remain largely influenced by external macro factors. The monetary policy stances of major central banks will likely affect global market performance. At the same time, the economic outlook and magnitude of policy stimulus in Mainland China will affect market sentiment. In addition, investors are keeping an eye on the development of international relations and the possible implications.

Stock Connect

24. Stock Connect continued to account for an important share of turnover. During 2023

By product type, delta one products[2] were the most common (about 60-80% of the total notional value), followed by plain vanilla options (about 10-20%) and other complex products (about 10-20%).

There was no significant concentration at the holder level.

The OTC positions spread across a large number of counterparties (over 1,600).

Box 2: Hong Kong's role as a hub for conducting OTC equity derivatives transactions referencing regional securities

Hong Kong and Mainland stocks which accounted for around 46% of the total positions reported to the HKTR; and

securities in regional markets (including Japan, Korea, Taiwan and Australia), with a share of almost 50%.

Gross notional value of OTC equity derivatives positions reported to the HKTR as of end-2023, by listing place of underlying securities

They serve international clients trading and risk management needs by using OTC equity derivatives in Hong Kong. The OTC equity derivatives transactions referencing securities in other markets are conducted in Hong Kong, thus subject to the reporting requirement to the HKTR.

When clients conduct OTC equity derivatives referencing regional securities, respective branches (eg, the UK or US branch) of major international investment banks first reach out to the Hong Kong desk.

Major investment banks have been using Hong Kong desks to manage the risk exposures in the region. These traders and risk managers are located in Hong Kong whilst hedging their exposures to regional securities.

They revealed that Hong Kong has a robust legal system, sound regulatory framework and free access to talent, markets and clients across the region. In addition, they have not observed any changes of such factors over recent years