



## Research Paper No.75: Half-yearly Review of the Global and Local Securities Markets

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16 August 2024

## Executive Summary

1. Market sentiment was bullish in overseas markets during the first half of 2024. Major US and European indices hit record highs successively. Major US stock indices – the Dow, Nasdaq and S&P500 – advanced 3.8%, 18.1% and 14.5% respectively. In Europe, the FTSE and DAX rose 5.6% and 8.9%, whilst the CAC fell 0.8%. Mainland China's SHCOMP and the SZCOMP fell 0.3% and 12.0%.
2. Supported by optimism about the China Securities Regulatory Commission's (CSRC) five measures on capital market cooperation with Hong Kong, Hong Kong's stock market sentiment improved with increased turnover. During the first half of 2024, the HSI and HSCEI rose 3.9% and 9.8% respectively, whilst the Hang Seng TECH index fell 5.6%. As of end-June, the HSI, HSCEI and Hang Seng TECH Index had rebounded 18.4%, 26.6% and 18.3% respectively from their lows in late January 2024. In particular, market gains accelerated after the CSRC announced the five measures on 19 April (see Box 1). The HSI hit a nine-month high in May. Optimism over the Mainland's supportive policies and better economic outlook boosted market sentiment. As a result, the Hong Kong market outperformed most other major markets during 22 April – 28 June. Moreover, investor interest in Hong Kong and Mainland stocks grew given the relatively low valuation. Nevertheless, investors remained cautious about the monetary policy stances of major central banks as well as lingering geopolitical tensions in the Middle East and Ukraine.
3. Average daily turnover in the Hong Kong stock market increased 5.1% to \$110.4 billion<sup>1</sup> during the first half of 2024 from \$105.0 billion in 2023. In addition, Hong Kong's exchange-traded derivatives market recorded strong growth whilst the over-the-counter (OTC) derivatives market remained relatively stable (see Boxes 2 and 3).
4. For Stock Connect, both northbound (NB) and southbound (SB) trading recorded net buys (RMB38.6 billion and \$371.4 billion) during the period. SB net buy during the first half of 2024 already exceeded the \$318.8 billion recorded for the whole year of 2023. As at end-June, cumulative net buys for NB and SB trading reached RMB1.8 trillion and \$3.3 trillion respectively.
5. Short selling in Hong Kong remained stable as a percentage of market turnover during the period, as were short positions as a percentage of overall market capitalisation. There were no signs of build-ups of large short positions in individual stocks or concentration of short positions in any particular securities or holders.

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<sup>1</sup> Unless otherwise stated, \$ denotes the Hong Kong dollar.

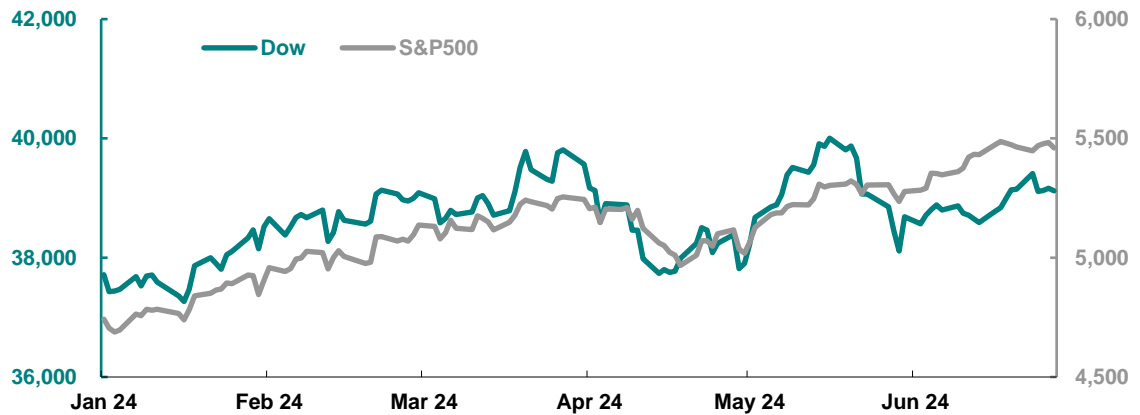


## Performance of stock markets

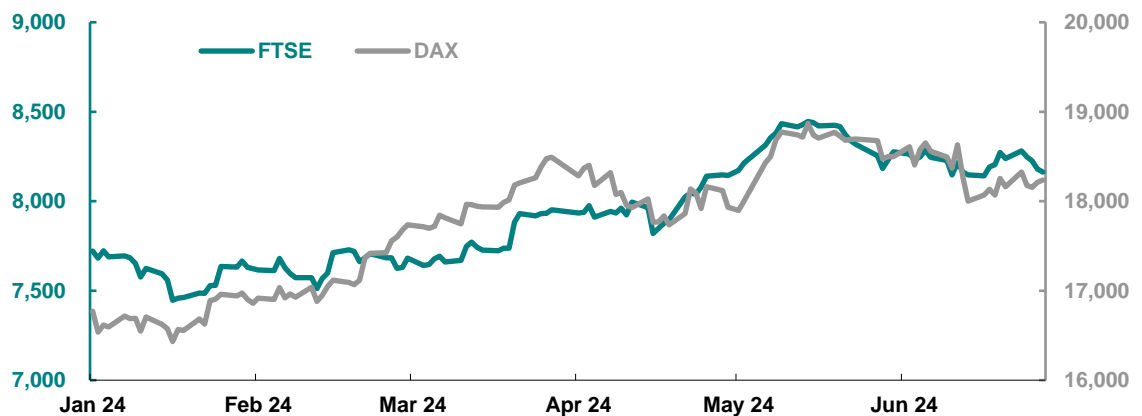
### Overseas markets

6. In the US, the Dow, Nasdaq and S&P500 rose 3.8%, 18.1% and 14.5% respectively during the first half of 2024. In Europe, FTSE and DAX rose 5.6% and 8.9%, whilst the CAC fell 0.8%. Major US and European indices hit new highs successively.
7. In the US, market gains seemed to be largely driven by technology stocks, given the favourable prospects for the artificial intelligence sector. In the Eurozone, GDP grew 0.3% in the first quarter of 2024, the strongest growth since the third quarter of 2022. The UK GDP growth was 0.7% in the first quarter of this year, easing recessionary concerns.
8. The Federal Reserve (Fed) Chairperson reassured that a further interest rate hike would be unlikely. Nevertheless, expectations on the extent of rate cuts in the US diminished amid persistent inflationary concerns. Remarks by Fed officials reaffirmed a cautious approach to monetary easing. The 10-year US Treasury yield rose to 4.7% at one point from below 4% as of end-2023. In Europe, the European Central Bank reduced interest rates for the first time in nearly five years with a cut of 25 basis points in June 2024.
9. Political uncertainties weighed on the CAC after the French President unexpectedly called for an early parliamentary election. Ongoing geopolitical tensions in both the Middle East and Ukraine also dented market sentiment. Valuation concerns grew as major US and European market indices hit successive record highs.

### Performance of the Dow and S&P500 during the first half of 2024



### Performance of FTSE and DAX during the first half of 2024



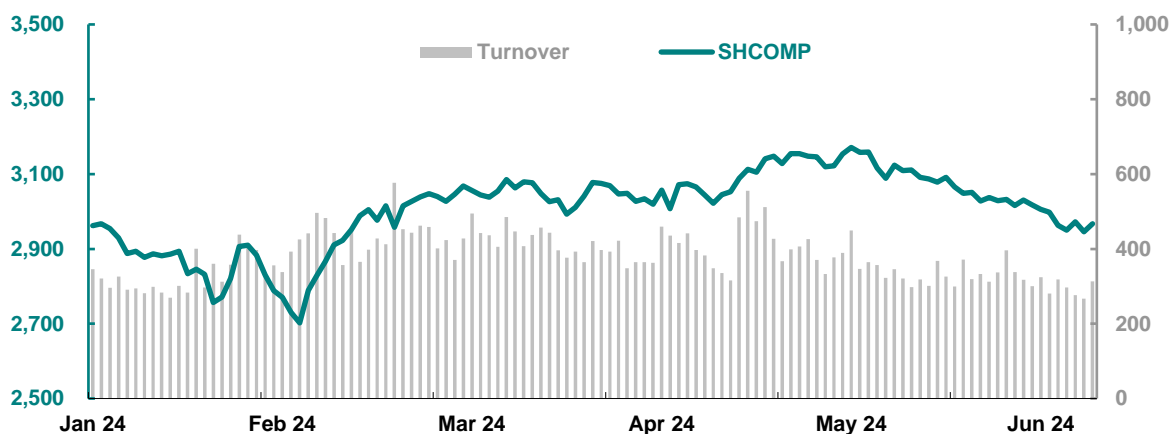
### Performance of major stock markets

		Index level	% change		
			2024 H1	2023	2022
<b>Hong Kong and the Mainland China</b>					
Hong Kong	-HSI	17,718.6	+3.9%	-13.8%	-15.5%
	-HSCEI	6,331.9	+9.8%	-14.0%	-18.6%
	-HS TECH	3,554.5	-5.6%	-8.8%	-27.2%
Mainland China	-SHCOMP	2,967.4	-0.3%	-3.7%	-15.1%
	-SZCOMP	1,618.1	-12.0%	-7.0%	-21.9%
<b>US</b>					
US	-Dow	39,118.9	+3.8%	+13.7%	-8.8%
	-Nasdaq	17,732.6	+18.1%	+43.4%	-33.1%
	-S&P500	5,460.5	+14.5%	+24.2%	-19.4%
<b>Europe</b>					
UK	-FTSE	8,164.1	+5.6%	+3.8%	+0.9%
Germany	-DAX	18,235.5	+8.9%	+20.3%	-12.3%
France	-CAC	7,479.4	-0.8%	+16.5%	-9.5%

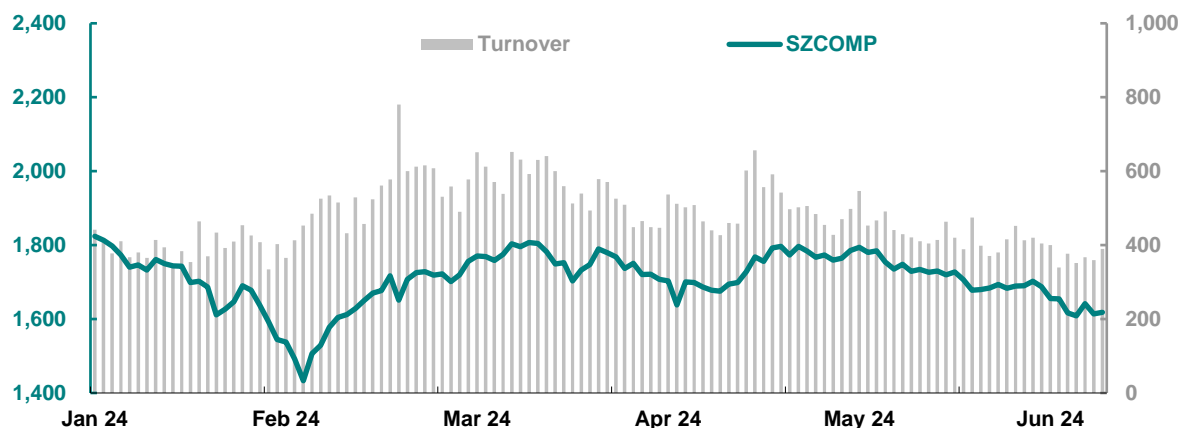
## Mainland China

10. During the first half of 2024, the SHCOMP and the SZCOMP retreated 0.3% and 12.0%. Average daily turnover in the Mainland market decreased 2.1% to RMB856 billion, compared to RMB874 billion in 2023.
11. The SHCOMP once fell to a five-year low in February 2024 on concerns about the Mainland’s economic outlook and property sector. The index rebounded to an eight-month high in May 2024, before closing the first half largely flat.
12. Producer price index continued to fall. Investors were concerned about uncertainties about the pace of economic recovery following data on home sales, foreign direct investment and industrial profit growth. Auto and tech sectors were affected, as the European Union announced its plan to impose additional import tariffs on Mainland electric vehicles and there were news that the US might restrict the Mainland’s access to certain high-tech chips.
13. Nonetheless, the market saw some support from optimism over the Central Government’s policy stimulus for various sectors such as property, semiconductor and artificial intelligence. Prospects for accelerated capital market reform heightened as the State Council unveiled the “Guideline on strengthening regulation, forestalling risks and promoting the high-quality development of the capital market” (國九條). In addition, the International Monetary Fund upgraded the Mainland’s GDP growth forecast to 5.0% for 2024.

### SHCOMP performance and market turnover (RMB billion) during the first half of 2024



## SZCOMP performance and market turnover (RMB billion) during the first half of 2024



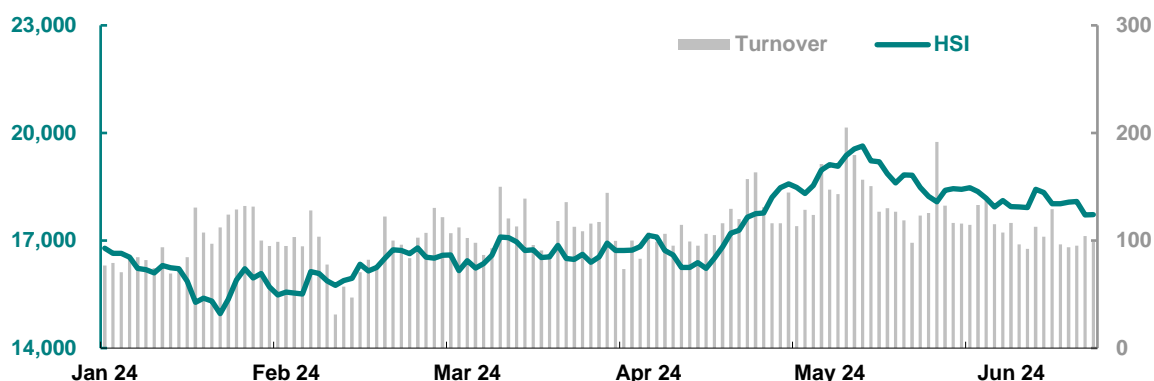
## Hong Kong

### Market performance

14. Hong Kong's market sentiment improved during the first half of 2024 given optimism about the CSRC's five measures. The HSI and HSCEI rose 3.9% and 9.8%, whilst the Hang Seng TECH index fell 5.6%. After hitting a 15-month low in January, the HSI rebounded to a nine-month high in May. As of end-June, the HSI, HSCEI and Hang Seng Seng TECH Index had rebounded 18.4%, 26.6% and 18.3% from their lows in late January 2024.
15. On 19 April, the CSRC announced five measures<sup>2</sup> on capital market cooperation with Hong Kong. As a result, the Hong Kong market outperformed most other major markets during 22 April – 28 June.
16. In Mainland China, prospects for the Government's measures to support the property market boosted stock market sentiment. Expectations for a brighter economic outlook also lifted the market.
17. Investor interest in Hong Kong and Mainland stocks grew given the relatively low valuation, as the PE ratio had dropped to 10 times, compared to 22 times for the Dow and 25 times for the Nikkei.
18. Nevertheless, there remained uncertainties about the timing, pace and magnitude of interest rate cuts in the US. Rate-sensitive tech stocks underperformed. Lingering geopolitical tensions in the Middle East and Ukraine weighed on the market. A weaker RMB, which fell 2.3% during the first half, also affected the earnings of Mainland companies listed in Hong Kong and their share prices (in HKD terms).

<sup>2</sup> Please see details about the measures and market impact in Box 1.

## HSI performance and market turnover (\$ billion) during the first half of 2024



### Trading activities

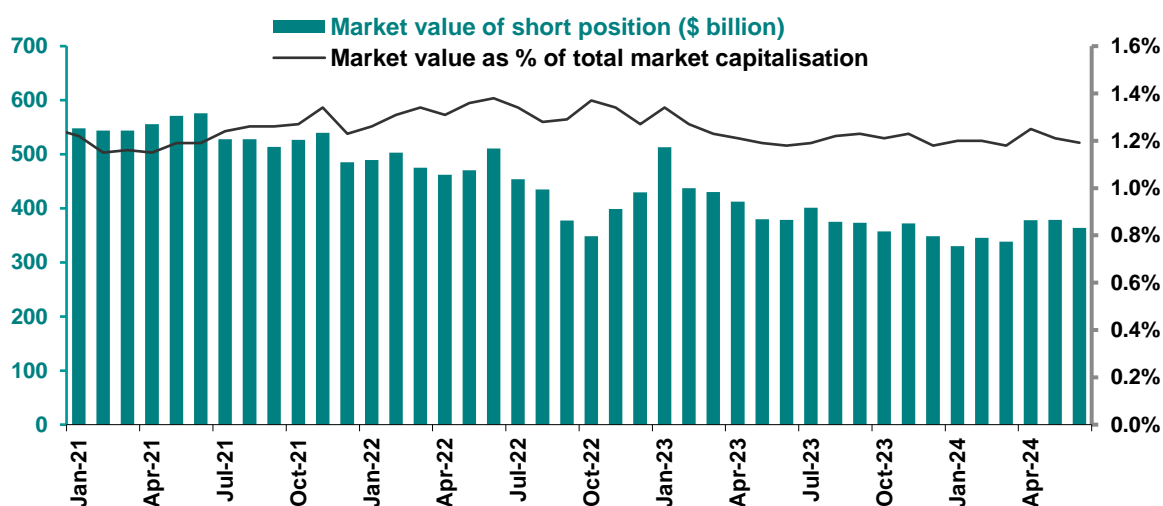
19. During the first half of 2024, average daily turnover in the Hong Kong stock market increased 5.1% to \$110.4 billion from \$105.0 billion in 2023.

### Short-selling activities

20. Short selling in Hong Kong remained stable as a percentage of total market turnover during the period. Daily short selling averaged \$18.6 billion or 16.8% of total market turnover.
- Of this, \$4.6 billion or 24.8% of short selling was attributable to ETFs and leveraged and inverse products (exchange-traded products, ETPs).
  - Excluding ETPs, average daily short selling amounted to \$14.0 billion or 14.5% of market turnover.

21. Aggregated short positions totalled \$363.8 billion as of end-June (versus \$348.5 billion as of end-2023). Short positions accounted for 1.19% of market capitalisation, which was stable compared to 1.18% as of end-2023.

### Short positions in the Hong Kong stock market



### Market outlook and risks

22. Looking ahead, the Hong Kong market may remain largely influenced by external macro factors. Valuation is increasingly a concern for major US and European markets which have hit successive record highs. The monetary policy stances of major central banks will continue to affect global market performance. Mainland China's economic outlook and magnitude of policy stimulus will also tip market sentiment, whilst investors are keeping an eye on developments in international relations and their possible implications.





## Stock Connect

23. Stock Connect continued to account for an important share of market turnover. During the first half of 2024, for buy and sell trades:
- daily NB trading averaged RMB130.2 billion, or 7.6% of turnover in the Mainland market (compared to RMB108.3 billion, or 6.2% of market turnover in 2023); and
  - daily SB trading averaged \$37.5 billion, or 17.0% of turnover in the Hong Kong market (compared to \$31.1 billion, or 14.8% of market turnover in 2023).
24. Both NB and SB trading recorded net buys during the period:
- RMB38.6 billion via NB trading (compared to RMB43.7 billion in 2023), which hit a record high of RMB22.4 billion on 26 April 2024.
  - \$371.4 billion via SB trading (compared to \$318.8 billion in 2023).
25. ETF Connect also recorded net buys both ways during the period:
- Daily NB trading averaged RMB1,090.2 million whilst daily SB trading averaged \$1,485.2 million (RMB499.8 million and \$2,692.9 million, respectively, in 2023).
  - Net buys reached RMB0.6 billion for NB trading and \$8.0 billion for SB trading (RMB1.5 billion and \$7.9 billion, respectively, in 2023).
26. The ETF eligibility criteria for both NB and SB trading, including the assets under management and index weighting requirements, have been relaxed. Such expansion took effect on 22 July 2024. 85 ETFs were added to NB trading and 6 ETFs were added to SB trading.

## Exchange-traded derivatives

27. During the first half of 2024, the trading of exchange-traded derivatives increased 14.2% from 2023.
- Turnover of futures products rose 14.2%.
    - HSI futures and HSCEI futures were the most actively traded contracts, accounting for 21.1% and 28.9% of total futures turnover. Turnover of HSI futures rose 5.4% whilst that of HSCEI futures rose 7.2%.
    - Turnover of Hang Seng TECH Index futures rose 6.8% from the previous year, partly due to increasing hedging needs amid the high volatility in technology stocks.
  - Turnover of options products went up 14.2%, amongst which stock options remained the most actively traded product, accounting for 82.2% of total turnover of options products. Compared to 2023, turnover of stock options rose 15.1% whilst that of Hang Seng TECH Index Options jumped 64.7%.

### **Box 1: Hong Kong's recent market rally**

The Hong Kong market's gains accelerated after the CSRC announced measures on capital market cooperation with Hong Kong on 19 April 2024. These measures included: (i) expanding the scope of eligible exchange-traded funds (ETFs) under Stock Connect; (ii) incorporating real estate investment trusts (REITs) into Stock Connect; (iii) supporting the inclusion of RMB-denominated stocks into SB Stock Connect; (iv) enhancing the mutual recognition of funds scheme; and (v) supporting the listing of leading Mainland companies in Hong Kong.

#### **Year-to-date HSI performance recovered to positive territory**

- The HSI fell 4.8% during 2 January – 19 April, but rose 3.9% during the first half.
- During 22 April – 28 June, the HSI rose 1,494 points or 9.2%. The HSCEI and the Hang Seng TECH Index advanced 10.2% and 8.4% respectively.
- The HSI rose for 10 days in a row during 22 April – 6 May. This was the longest rising streak in more than six years.

#### **Outperforming most major markets**

- During 22 April – 28 June, Hong Kong outperformed most major markets, including the Dow (+3.0%), the FSTE (+3.4%) and the Nikkei (+6.8%).
- Average daily trading in the cash market increased 27.4% to HK\$127.1 billion from HK\$99.8 billion during 2 January – 19 April. The increase was 13.3% in the exchange-traded derivatives market.
- The increase beat most major overseas markets, which ranged from -13% to +21% in USD terms.
- On 16 May, Hong Kong's market turnover rose to \$205 billion, the highest level since 7 December 2022.

#### **Stock Connect continued to record a strong SB net buy**

- The SB net buy amounted to HK\$174.2 billion, following a net buy of HK\$197.2 billion during 2 January – 19 April.
- In April, SB trading rose to 17% of Hong Kong's market turnover, the highest level since the launch of Stock Connect.

## Box 2: Profile of OTC equity derivatives market

### Market size

- The total notional value of OTC equity derivatives referencing Hong Kong stocks and indices amounted to about \$1-1.3 trillion or 3-4% of the stock market capitalisation during the first half of 2024. The share was smaller than about 8% for the US market.
- By product type, delta one products<sup>3</sup> 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%).

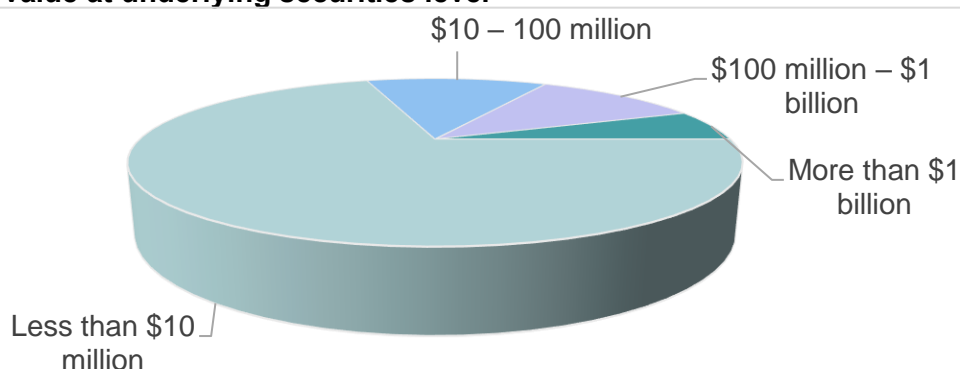
### Profile of market players

- There was no significant concentration of positions at the holder level.
  - The OTC positions spread across a large number of counterparties (over 1,700).
  - The notional values of positions held by most counterparties were relatively small. About three quarters of the counterparties had positions of less than \$100 million.
- By investor type, active players included investment banks, asset managers (such as mutual funds, pension funds and hedge funds), securities firms and other financial institutions.

### OTC positions by underlying

- Similarly, no significant concentration was observed at the underlying level.
  - The OTC positions spread across a large number of securities referencing Hong Kong indices and stocks.
  - Major indices (eg, the HSI, HSCEI and the Hang Seng TECH index) and top index constituent stocks together accounted for about half of the total notional value of the entire market referencing Hong Kong stocks and indices. More than 80% of Hong Kong-listed securities had outstanding positions of less than \$100 million.

### **OTC equity derivatives positions referencing Hong Kong stocks and indices, by size of notional value at underlying securities level**



### Individual OTC positions

- Most individual OTC positions were small, with around 90% having notional value of below \$10 million and 99% below \$100 million.

<sup>3</sup> Delta measures the sensitivity of a derivative's value to changes in the price of the underlying securities. A delta one product is a product that has a delta of one, giving an investor the similar exposure as if the investor were to own the underlying securities.

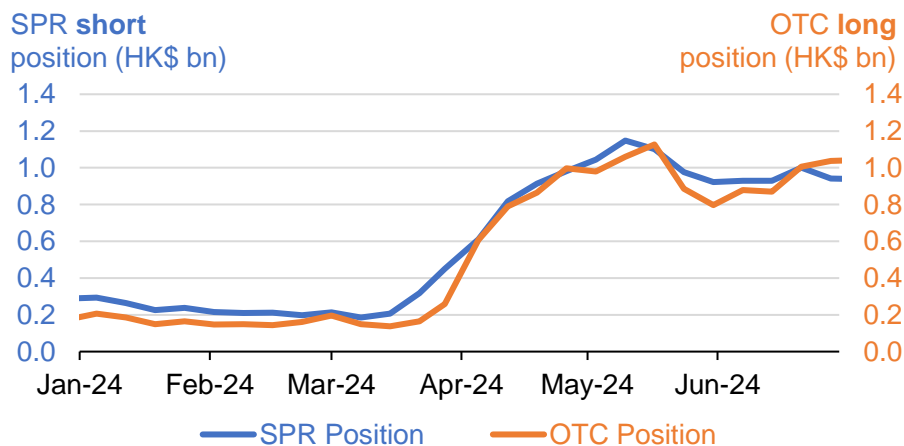
### Box 3: Implications of OTC equity derivatives positions and monitoring

#### Holistic monitoring of systemic risks

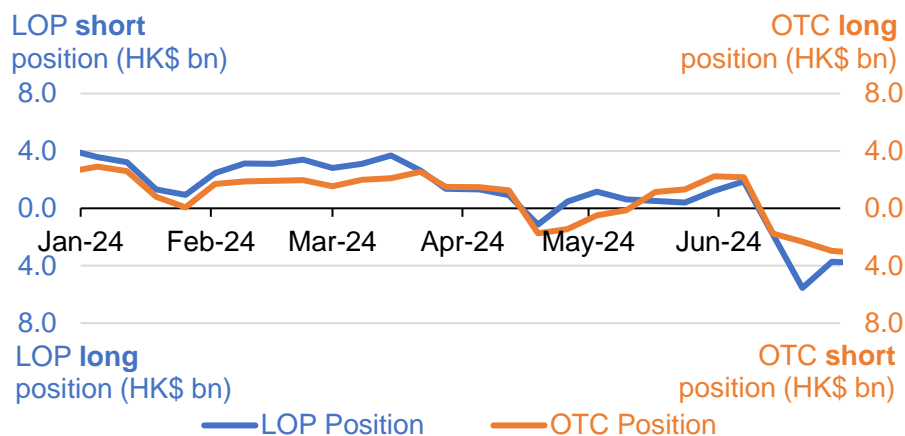
- The SFC has developed a comprehensive monitoring framework covering different market segments in the securities market.
  - In the exchange-traded market, the short position reporting (SPR) regime covers the Hong Kong stock market, and the large open positions (LOP) reporting regime covers the derivatives market.
  - The mandatory OTC derivatives reporting regime covers the OTC transactions booked at authorized institutions / licensed corporations or conducted in Hong Kong.
- Based on the data obtained from these reporting regimes, the SFC is able to timely monitor the sizes and changes in positions held by market participants in various underlying securities (in particular Hong Kong-listed securities) across different market segments, as well as the number of brokers used by market participants. Such information enables the SFC to holistically analyse potential risks to market stability and assess the market impact of changes in positions, particularly under extreme situations.
- Data collected from various reporting regimes contain the identity information of position holders, allowing us to analyse the types and geographical locations of investors. The SFC also cross-checks and monitors positions in different market segments, and notes that investment banks often report on-exchange and OTC positions in the same underlyings, but in opposite market directions (see the examples below) as investment banks may use the underlying stocks and exchange-traded derivatives to hedge their positions established in the OTC market for client facilitation business. The sizes and changes in these positions seem to be associated, indicating that activities in the OTC market are somewhat reflected in the exchange-traded market.

#### Examples of investment banks' positions in different market segments

##### Investment bank A's positions in a major stock



Investment bank B's positions in a flagship index



- It should also be noted that investment banks may conduct hedging activities on a portfolio basis and with other investment banks in the OTC market such that the on-exchange and OTC positions of investment banks may not necessarily be one-to-one.
- In addition to the sizes and changes in positions, the OTC data reveals the use of multiple brokers by market participants. This facilitates the SFC's monitoring of risks related to the interconnectedness of market participants.