



**SECURITIES AND
FUTURES COMMISSION**
證券及期貨事務監察委員會

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. Government stimulus measures and market opening initiatives boosted investor sentiment. At the same time, inflation concerns grew and tightening measures to contain property and commodity prices fluctuations weighed on these sectors.
3. The performance of the Hong Kong market was mixed, with the HSI rising 5.9% and the HSCEI and the Hang Seng TECH Index falling 0.7% and 3.2% respectively. Rallies in overseas markets lent support. The improving pandemic situation raised hopes about the economic outlook, but gains were trimmed by worries about the possible withdrawal of supportive measures by major central banks. Looking ahead, uncertainties about COVID-19 and monetary policy will continue to affect stock market performance. Valuation concerns in major overseas markets and uncertainties about Sino-US relations may add to market volatility.

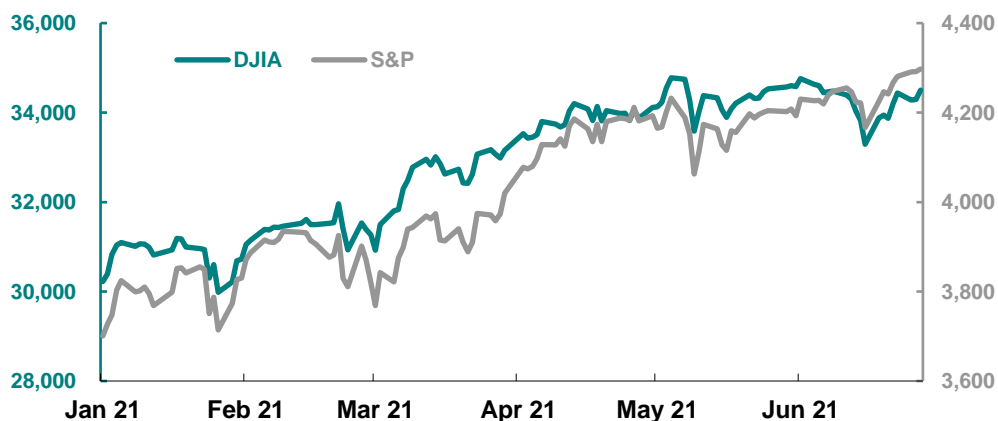
Performance of stock markets

4. Global markets rallied and some hit record highs during the first half of 2021. Market performance was bullish given optimism about fiscal and monetary stimulus in major markets as well as the resumption of economic activity as the pandemic situation stabilised. Nevertheless, investor sentiment remained fragile given concerns about inflation risks and potential changes in central banks' monetary policies. Pandemic risks lingered due to a new wave of COVID-19 infections in some parts of the world. Volatility increased on concerns about stretched valuations in some markets.

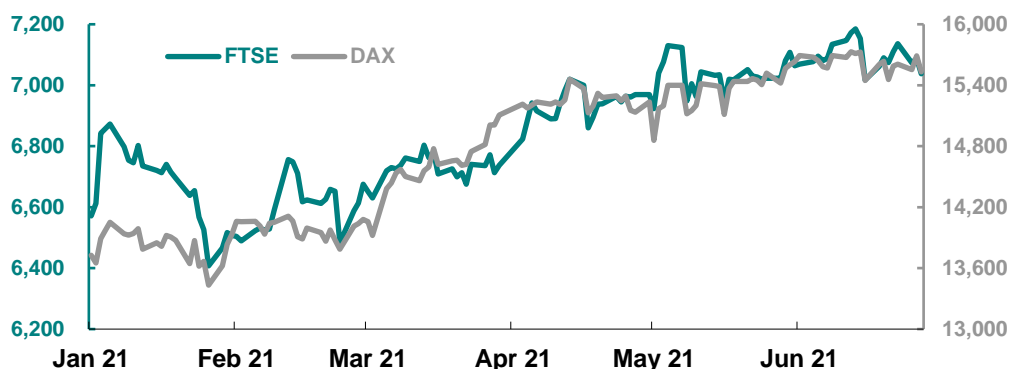
Overseas markets

5. During the first half of 2021, major indices in the US advanced, with the Dow, Nasdaq and S&P rising 12.7%, 12.5% and 14.4% respectively. The performance of major European markets was also bullish, with the FTSE, DAX and the CAC gaining 8.9%, 13.2% and 17.2% respectively. The three major indices in the US and the DAX hit record highs.
6. Substantial fiscal stimulus measures supported market sentiment. Following the passage of COVID-19 relief, the US President outlined plans for two additional spending packages. The European Parliament approved a pandemic recovery fund.
7. The growth outlook improved. US GDP growth was strong at 6.3% in Q1 2021 and the European Commission earlier upgraded the Eurozone GDP growth forecast to 4.2% for 2021. In the US, key economic indicators for retail sales, consumer confidence, manufacturing and services approached or exceeded their pre-pandemic levels.
8. The stabilisation of the COVID-19 pandemic and the accelerating rollout of vaccines boosted hopes for a sustained economic reopening. New infection numbers slowed across the US and the Eurozone and governments relaxed restrictive measures. Energy stocks rose in tandem with oil prices on prospects for increased travel demand.
9. However, while the Fed and the European Central Bank (ECB) offered reassurances that accommodative monetary policies would be maintained, the Fed projected that rate hikes might start in 2023 and remarks from some officials indicated that tapering central banks' asset purchase programs was under consideration. Inflation concerns heightened and the US 10-year Treasury yield hovered at high levels. Rate-sensitive technology stocks were affected. Valuation concerns grew as the Dow gained 48% since end-2018, whilst the corresponding figures for the Nasdaq and S&P were 119% and 71% respectively.

Performance of the Dow and S&P during the first half of 2021



Performance of FTSE and DAX during the first half of 2021



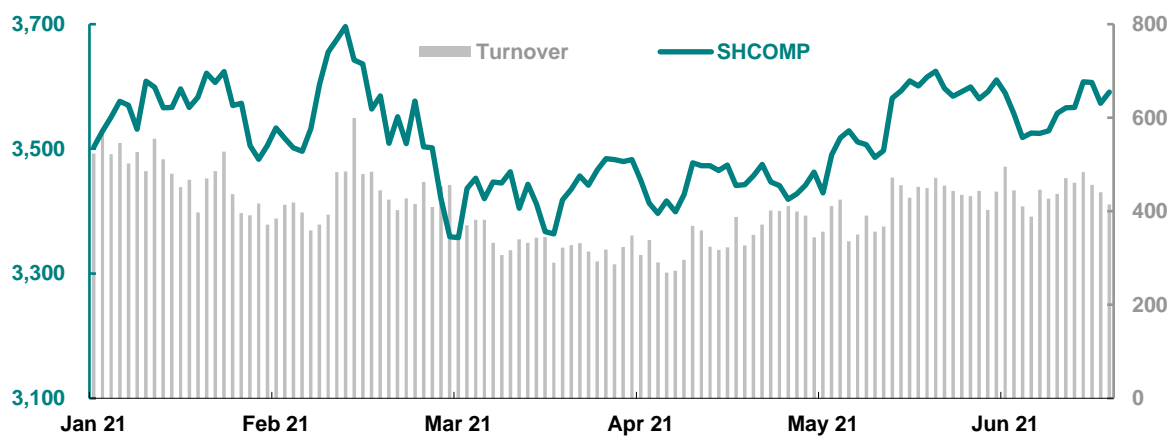
Performance of major stock markets

		Index level	% change		
			2021 H1	2020	2019
Hong Kong and the Mainland					
Hong Kong	-HSI	28,828.0	+5.9%	-3.4%	+9.1%
	-HSCEI	10,663.4	-0.7%	-3.8%	+10.3%
	-HS TECH	8,155.4	-3.2%	+78.7%	+36.2%
Mainland	-SHCOMP	3,591.2	+3.4%	+13.9%	+22.3%
	-SZCOMP	2,466.2	+5.9%	+35.2%	+35.9%
US					
US	-Dow	34,502.5	+12.7%	+7.2%	+22.3%
	-Nasdaq	14,504.0	+12.5%	+43.6%	+35.2%
	-S&P	4,297.5	+14.4%	+16.3%	+28.9%
Europe					
UK	-FTSE100	7,037.5	+8.9%	-14.3%	+12.1%
Germany	-DAX	15,531.0	+13.2%	+3.5%	+25.5%
France	-CAC	6,507.8	+17.2%	-7.1%	+26.4%

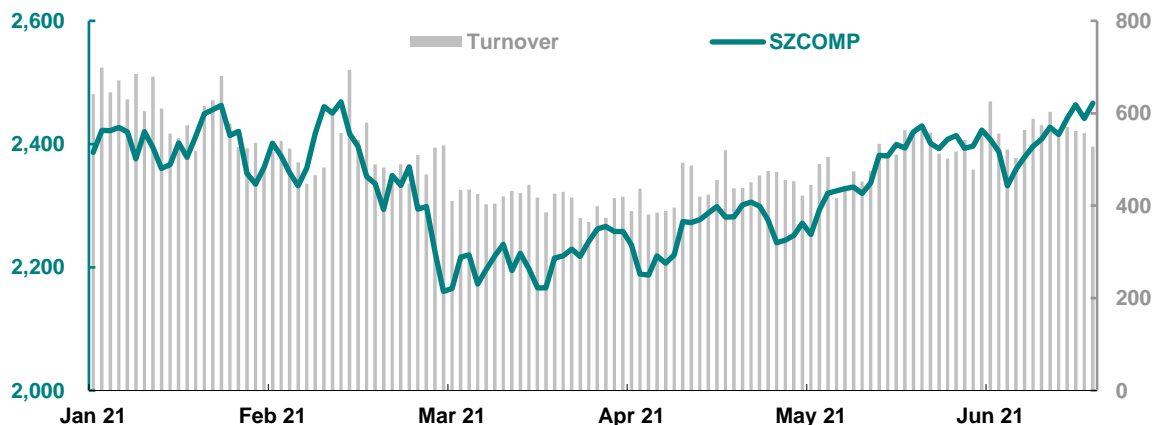
The Mainland

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 Mainland's relations with some western countries lingered.

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



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



Hong Kong

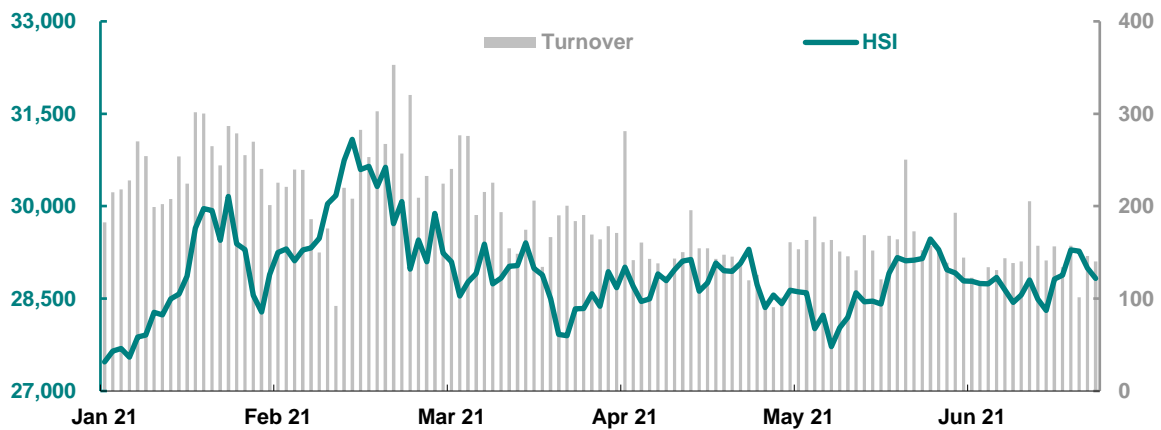
Market performance

14. The performance of the Hong Kong market was mixed during the first half of 2021. The HSI rose 5.9%, whilst the HSCEI and the Hang Seng TECH Index fell 0.7% and 3.2% respectively. The HSI hit a 32-month high of over 31,000 points in February 2021.
15. Gains in overseas markets lent support, aided by the US fiscal stimulus package and the Fed's reiteration of its accommodative policy stance. In Europe, the ECB also maintained an accommodative monetary policy and kept interest rates at low levels. These policies provided ample liquidity to global markets.
16. Optimism about economic recovery lifted market sentiment. Given the improving pandemic situation and vaccine rollouts in various parts of the world, there were rising hopes for a resumption of economic activity. Upbeat corporate earnings of some index constituent stocks lent support.
17. Nevertheless, gains were trimmed by worries about the possible withdrawal of policy support by major central banks on the back of higher bond yields and inflation concerns. Pandemic risks persisted amidst the emergence of new variants and a resurgence of COVID-19 cases in parts of the world.
18. Rate-sensitive technology stocks underperformed. In addition, uncertainties about relations between the Mainland and western countries affected market performance.

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 in the previous few years and the first half of 2021. In addition, uncertainties about Sino-US relations may contribute to market volatility.

HSI and market turnover (\$ billion¹) during the first half of 2021



¹ Unless otherwise stated, \$ denotes the Hong Kong dollar.

Recent changes in the Hong Kong market structure

Over the past few years, there were various changes in the structure of the Hong Kong market. One of the most prominent was the strong growth in the Mainland component, largely underpinned by the growth of the technology sector².

Mainland component accounts for a larger share of the market

Mainland companies accounted for an increasing share of the market in Hong Kong.

- Their share of total market capitalisation rose gradually from 63% at end-2016 to 81% at end-June 2021.
- Their share of trading rose steadily from 48% in 2016 to 74% during the first half of 2021.

	2021 H1	2016	% change
Market capitalisation (period end, \$ billion)			
Total	52,841	24,761	+113%
Mainland companies	42,565	15,664	+172%
% share of Mainland companies	81%	63%	-
Market turnover (daily average, \$ billion)			
Total	188	67	+181%
Mainland companies	139	32	+332%
% share of Mainland companies	74%	48%	-

Technology sector underpins the larger Mainland component

The growth of the Mainland component was largely driven by technology stocks, most of which were listed in Hong Kong after April 2018³.

Since the end of 2016, the Mainland's technology sector has grown rapidly, outpacing other sectors such as financials and properties.

- By market capitalisation, it rose 726%.
- By market turnover, it increased 1,195%.

	2021 H1	2016	% change
Market capitalisation (period end, \$ billion)			
Technology sector	17,700	2,143	+726%
Financials	8,859	7,871	+13%
Properties	5,340	3,105	+72%
Turnover (daily average, \$ billion)			
Technology sector	55.7	4.3	+1,195%
Financials	21.8	15.1	+44%
Properties	10.0	4.5	+122%

² Technology stocks in this analysis refer to constituents of the Hang Seng TECH Index.

³ In April 2018, HKEX introduced a new listing regime which permits listings of companies with Weighted Voting Rights structures and provides a new concessionary listing route for Greater China and international companies seeking a secondary listing in Hong Kong.

The technology sector surpasses financials to become the largest sector

During the first half of 2021, the technology sector accounted for 33% of total market capitalisation and 30% of total trading in Hong Kong, up from 9% and 6% respectively in 2016.

- It has become the largest sector, surpassing financials which accounted for 17% of total market capitalisation and 12% of total trading in Hong Kong.

In addition, technology stocks were amongst the most actively traded.

- During the first half of 2021, five out of the 10 most actively traded stocks were technology stocks. This represented a significant growth from 2016 when only one technology stock was among the top 10 actively traded stocks.
- Southbound (SB) trading was active for these stocks. During the first half of 2021, four out of top 10 actively-traded SB stocks were technology stocks.

The growth of technology sector may continue to boost trading

As more Mainland technology stocks are included in major benchmark indices, this has attracted passive funds to invest in these companies. Also, the introduction of derivatives products related to technology stocks may further boost trading in the Hong Kong market.

Major statistics for the Hong Kong securities market

Trading activity

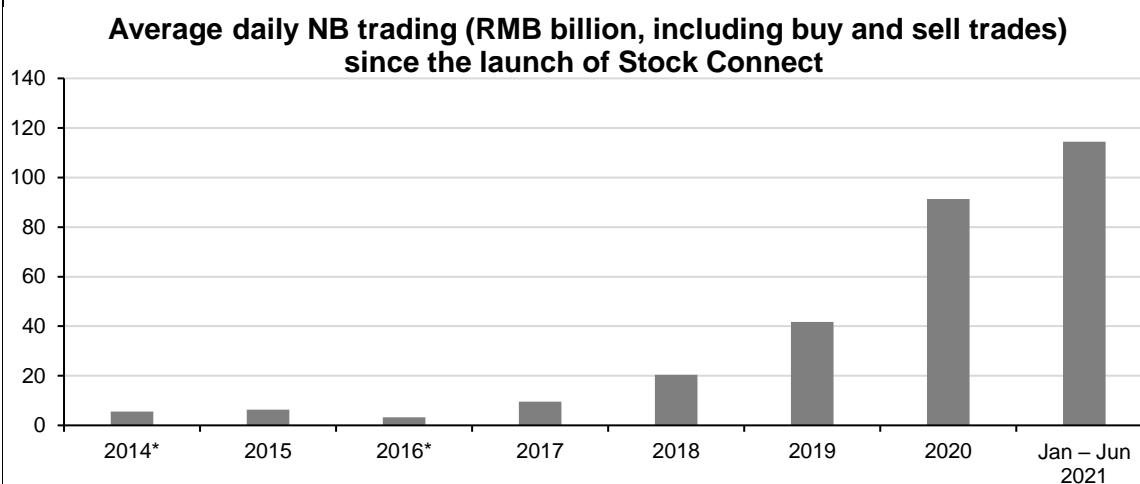
20. Trading in the local stock market was active during the first half of 2021. Daily trading hit a new record above the \$350 billion level. The average daily trading rose to \$188.2 billion, 45% higher than the \$129.5 billion in 2020, amidst strong SB trading through Stock Connect.
21. Mainland stocks (including H-shares, red chips and privately-owned enterprises) remained the most actively traded. Their share of total market turnover was 74% during the first half of 2021 (68% in 2020), whilst HSI stocks (excluding Mainland stocks) accounted for about 6% (9% in 2020).

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 about an economic recovery.

- During the first half of 2021, the average daily NB trading (including buy and sell trades) was RMB114.4 billion, 6% of equity trading in the Mainland market (5% in 2020 and 4% in 2019).
- The average daily NB trading in Shenzhen increased to RMB61.6 billion during the period, outweighing the RMB52.8 billion in Shanghai. This also reflected NB investors' interest in technology stocks in Shenzhen.



*Shanghai Connect was launched on 17 November 2014 and Shenzhen Connect on 5 December 2016.

SB trading increases

SB trading hit successive record highs and accounted for an increasing share of the Hong Kong market.

- During the first half of 2021, the average daily SB trading (including buy and sell trades) was \$48.1 billion, or 15% of equity trading in the Hong Kong market (12% in 2020 and 9% in 2019).
- The increase was partly driven by the relatively low valuations of some Hong Kong stocks and Mainland investors' desire to diversify portfolio investments offshore. Mainland investors showed strong interest in buying technology stocks through SB trading.

SB net buy remains robust

During the first half of 2021, the total SB net buy amounted to \$464.7 billion, almost 70% of the \$672.1 billion for all of 2020 and 86% higher than the \$249.3 billion in 2019.

As at end-June 2021, the cumulative net buy was RMB1,912.8 billion via SB trading and RMB1,426.0 billion via NB trading.

Short-selling activities

22. During the first half of 2021, short selling in Hong Kong was higher in absolute terms, but declined as a percentage of total market turnover. The average daily short selling amounted to \$23.8 billion or 12.7% of total market turnover during the first half of 2021 (\$17.6 billion or 13.6% in 2020).
23. The market value of reportable short positions rose but as a percentage of market capitalisation it declined. Based on data submitted to the SFC, as at end-June 2021, aggregated short positions amounted to \$575.6 billion (\$524.4 billion as of end-2020). Short positions accounted for 1.19% of market capitalisation, compared to 1.25% as of end-2020.

Exchange-traded derivatives

24. During the first half of 2021, the average daily trading of exchange-traded derivatives was 1.7% higher than that in the corresponding period in 2020.
 - Trading of futures products fell 17.7%. HSI futures and HSCEI futures were the most actively traded contracts, accounting for 34.0% and 28.5% of total futures trading respectively. Compared to the corresponding period in 2020, trading in HSI and HSCEI futures fell 23.5% and 24.8% respectively. Compared to 2020 (since its launch in November), trading of Hang Seng Tech futures was about three times higher in the first half of 2021, partly because of low base effect and increasing hedging needs amidst more active trading of technology stocks.
 - Trading of options products rose 16.6%. Stock options remained the most active, accounting for 88.0% of total trading of options products. Trading of stock options rose 35.9% from the first half of 2020.