



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

## **Research Paper No. 58: A Review of the Global and Local Securities Markets in 2015**

22 January 2016



## Executive Summary

1. In the US, the Dow and S&P 500 (S&P) fell 2.2% and 0.7% respectively in 2015 whilst the Nasdaq rose 5.7%. The market became more volatile amid uncertainties about the timing of interest rate hikes and the economic outlook, as well as declining commodity prices.
2. In Europe, the DAX hit a historical high and recorded a 9.6% gain for the year, outperforming most major markets. The CAC also rose 8.5%. The FTSE hit a historical high but recorded a loss of 4.9% for the year. In spite of a dim economic outlook and deflation concerns, the markets advanced on the back of the European Central Bank's (ECB) supportive measures and a weaker euro.
3. In Asia, the Nikkei 225 Index rose 9.1%, marking the fourth consecutive year of gains. At one point it reached an 18-year high of over 20,000. The performance of other major regional markets was mixed, ranging from a 14.3% drop in Singapore to a 6.1% increase in Vietnam.
4. On the Mainland, the Shanghai Composite Index (SHCOMP) rose 9.4%. The market rose above 5,100 points to a seven-year high amid expectations of supportive government policies and further state-owned enterprise reforms. However, the market corrected later amid tightened margin trading rules, worries about renminbi devaluation and an uncertain economic outlook.
5. In Hong Kong, the Hang Seng Index (HSI) and the Hang Seng China Enterprises Index (HSCEI) dropped 7.2% and 19.4% respectively, underperforming major overseas markets. The HSI rose to a seven-year high in April, tracking a Mainland market rally. However, the market retreated later amid a heavy sell-off in the Mainland market. Volatility heightened on concerns over a hard landing of the Mainland economy and the devaluation of the renminbi. Uncertainties over the timing of US interest rate hikes paced losses.
6. Some of the major risks and uncertainties facing the Hong Kong market include:
  - concerns about economic growth in the Mainland and renminbi movements;
  - uncertainties about US interest rate hikes;
  - concerns about movements of US dollar and commodity prices; and
  - fragile economic recovery in Europe and Japan.
7. Trading in both the cash market and exchange-traded derivatives rose. Average daily trading in the cash market rose 52%. Trading in futures and options products increased 46% and 26% respectively.

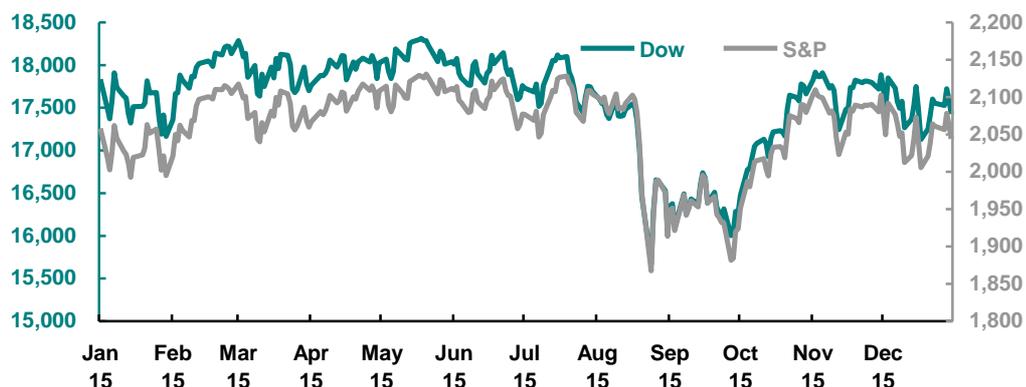


## Performance of stock markets during 2015

8. During 2015, most major markets rose on optimism about supportive government measures. In early 2015, concerns about US interest rate hikes and uncertainties about the global economic outlook weighed on markets. Later, most markets recovered on the back of optimism surrounding upbeat economic data and better corporate earnings. In late 2015, while the US Federal Reserve Bank (Fed) ended stimulus measures, the central banks in Europe, Japan and the Mainland adopted stimulus policies, providing support to global stock markets.

### The US

9. The US market was volatile in 2015 amid uncertainties about the timing of interest rate hikes and the economic outlook. The Dow, S&P and Nasdaq hit record highs in May, but gave up their gains later. By the end of 2015, the Dow and S&P fell 2.2% and 0.7% respectively whilst the Nasdaq rose 5.7%.
10. In early 2015, the US market rose as rate hike concerns eased. The Fed removed the pledge to be patient in raising rates from its policy statement. However, it stressed that any rate decision would depend on economic data. Economic data was moderate, but seemed not strong enough to justify an early rate hike. In January, the World Bank cut its global growth forecast for 2015 from 3.4% to 3.0% (and subsequently to 2.8%).
11. However, in August, the US market corrected following the devaluation of the renminbi which heightened worries about the outlook for the Mainland and global economies. On 24 August, the Dow once tumbled by more than 1,000 points, and posted a record intra-day drop.
12. Later, the market rebounded on improving economic data and upbeat earnings. The Fed expressed confidence in the domestic economy. In addition, the prospects for new stimulus measures in Europe and monetary easing on the Mainland lifted investor sentiment.
13. In December, the market rose after the Fed raised interest rates by 25 basis points as expected and pledged to raise rates at a gradual pace. Later, these gains were erased as oil prices fell to a nearly seven-year low of US\$35 per barrel on worries about surplus supply and weaker demand. Energy stocks paced losses.



Performance of Dow and S&P during 2015

Source: Bloomberg



## Performance of major stock markets

		End-2015	% change			PE Ratios
		Index Level	2015	2014	2013	End-2015
<b>Hong Kong and the Mainland</b>						
HK	-HSI	21,914.40	-7.2%	1.3%	2.9%	9.68
	-HSCEI	9,661.03	-19.4%	10.8%	-5.4%	7.16
Mainland	-Shanghai Comp	3,539.18	9.4%	52.9%	-6.7%	18.64
	-Shenzhen Comp	2,308.91	63.2%	33.8%	20.0%	53.56
<b>Asia</b>						
Japan	-Nikkei 225	19,033.71	9.1%	7.1%	56.7%	20.00
Australia	-AOI	5,344.60	-0.8%	0.7%	14.8%	25.85
Taiwan	-TWSE	8,338.06	-10.4%	8.1%	11.8%	13.27
Korea	-KOSPI	1,961.31	2.4%	-4.8%	0.7%	14.18
Singapore	-STI	2,882.73	-14.3%	6.2%	0.0%	13.33
Thailand	-SET	1,288.02	-14.0%	15.3%	-6.7%	16.84
Malaysia	-KLCI	1,692.51	-3.9%	-5.7%	10.5%	18.00
Indonesia	-JCI	4,593.01	-12.1%	22.3%	-1.0%	26.78
India	-Nifty	7,946.35	-4.1%	31.4%	6.8%	20.84
Philippines	-PCOMP	6,952.08	-3.9%	22.8%	1.3%	19.94
Vietnam	-VN	579.03	6.1%	8.1%	22.0%	11.31
<b>US</b>						
US	-Dow	17,425.03	-2.2%	7.5%	26.5%	15.36
	-Nasdaq	5,007.41	5.7%	13.4%	38.3%	31.11
	-S&P	2,043.94	-0.7%	11.4%	29.6%	18.26
<b>Europe</b>						
UK	-FTSE100	6,242.32	-4.9%	-2.7%	14.4%	27.92
Germany	-DAX	10,743.01	9.6%	2.7%	25.5%	22.76
France	-CAC	4,637.06	8.5%	-0.5%	18.0%	21.26
<b>PIIGS and Hungary</b>						
Portugal	-PSI20	5,313.17	10.7%	-26.8%	16.0%	28.67
Italy	-FTSEMIB	21,418.37	12.7%	0.2%	16.6%	n.a.
Ireland	-ISEQ	6,791.68	30.0%	15.1%	33.6%	23.48
Greece	-ASE	631.35	-23.6%	-28.9%	28.1%	n.a.
Spain	-IBEX	9,544.20	-7.2%	3.7%	21.4%	18.33
Hungary	-BUX	23,920.65	43.8%	-10.4%	2.2%	22.24
<b>Middle East and North Africa</b>						
Egypt	-EGX30	7,006.01	-21.5%	31.6%	24.2%	9.59
Dubai	-DFMGI	3,151.00	-16.5%	12.0%	107.7%	12.38
<b>Other BRIC markets</b>						
Brazil	-IBOV	43,349.96	-13.3%	-2.9%	-15.5%	25.17
Russia	-MICEX	1,761.36	26.1%	-7.1%	2.0%	10.46

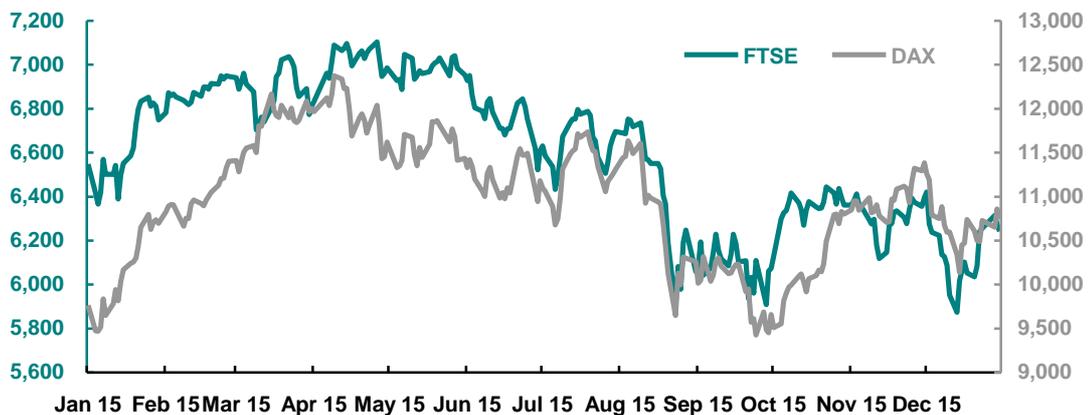
Source: Bloomberg

### Europe

- In 2015, the performance of European markets was mixed. The DAX hit a historical high and recorded a 9.6% gain for the year, outperforming most major markets. The CAC also rose 8.5%. The FTSE hit a historical high but recorded a loss of 4.9% for the year.
- In early 2015, European markets rallied on the back of improving economic and earnings prospects, ECB stimulus measures and solid economic data in the Eurozone. The euro hit a 12-year low against the US dollar, boosting optimism about corporate earnings. The ECB kept benchmark rates unchanged and started to purchase securities and sovereign debt of up to EUR 60 billion per month from March 2015 to September 2016.



16. Concerns over the debt crisis in Greece and its possible exit from the Eurozone weighed on European markets at one point, but worries eased after Greece made substantial concessions in its reform proposals in return for a bailout fund in July. After a temporary closure of five weeks, the Greek stock market resumed trading in early August. Greece's credit rating was downgraded by S&P's, Moody's and Fitch during the year.
17. A dim economic outlook in Europe weighed on markets. Concerns over the Mainland's economic slowdown, a stronger US dollar and uncertainty about the timing of the US rate hikes lingered. The volatility in commodity prices also affected investor sentiment.
18. In October, the markets rebounded as the ECB signaled a possible extension of its stimulus programme beyond 2016 to boost growth. Worries over an early US rate hike also eased, lending support to the market. The terrorist attacks in Paris in November had relatively limited impact on the markets.
19. Towards the end of the year, the markets became more volatile. Although the ECB extended its bond-buying programme by six months and cut the deposit rate by 10 basis points to -0.3% in December, investors were disappointed at the scale of the stimulus measures. Lingering political uncertainties in Portugal and geopolitical tensions between Turkey and Russia further dampened investor sentiment.

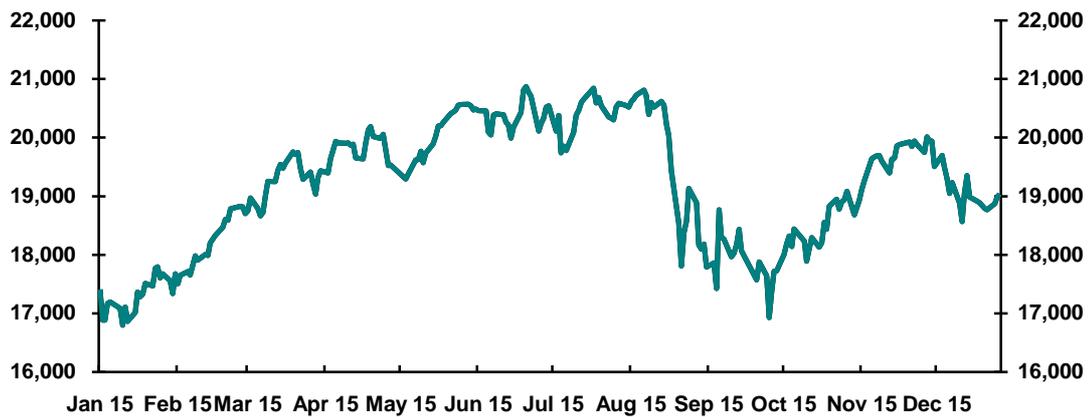


**Performance of FTSE and DAX during 2015**

Source: Bloomberg

## Asia

20. In Japan, the Nikkei 225 Index rose 9.1% in 2015, marking the fourth consecutive year of gains. At one point the index reached an 18-year high of over 20,000. In early 2015, the market rose steadily, underpinned by stronger economic prospects and solid domestic corporate earnings. Exporters paced gains on a weaker yen, which fell to a 12-year low at one point. Expectations of further stimulus measures by the government continued to provide support to the market. In December, the Bank of Japan announced an exchange-traded fund (ETF) buying programme, although its scale was smaller than expected.
21. The performance of other major regional markets was mixed in 2015, ranging from a 14.3% drop in Singapore to a 6.1% increase in Vietnam. Concerns regarding the devaluation of the renminbi and possible capital outflows following US rate hikes affected investor sentiment. The bomb attack in Thailand in August seemed to have limited impact on regional markets.

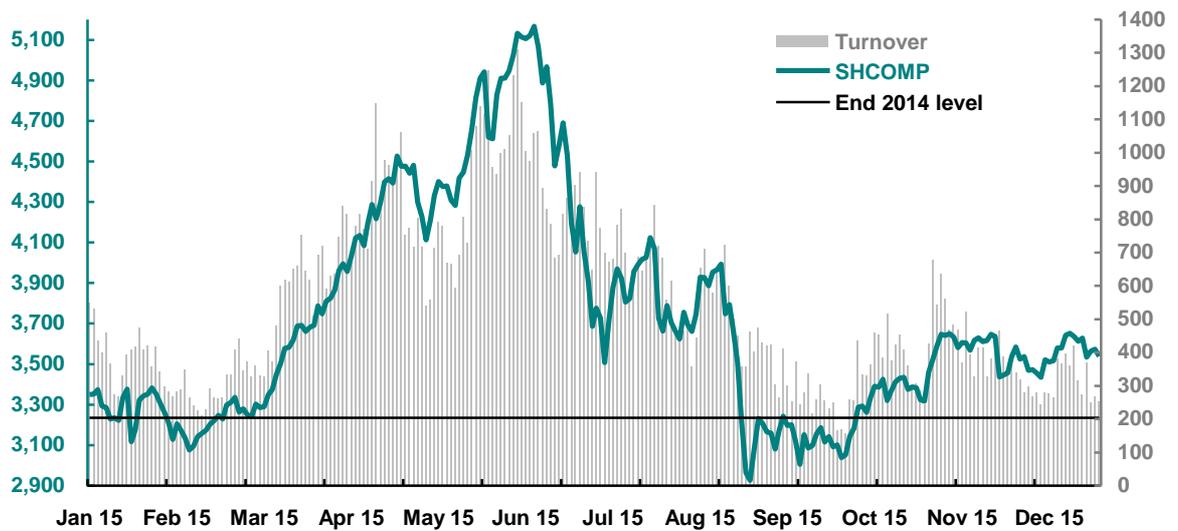


### Performance of Nikkei during 2015

Source: Bloomberg

#### The Mainland

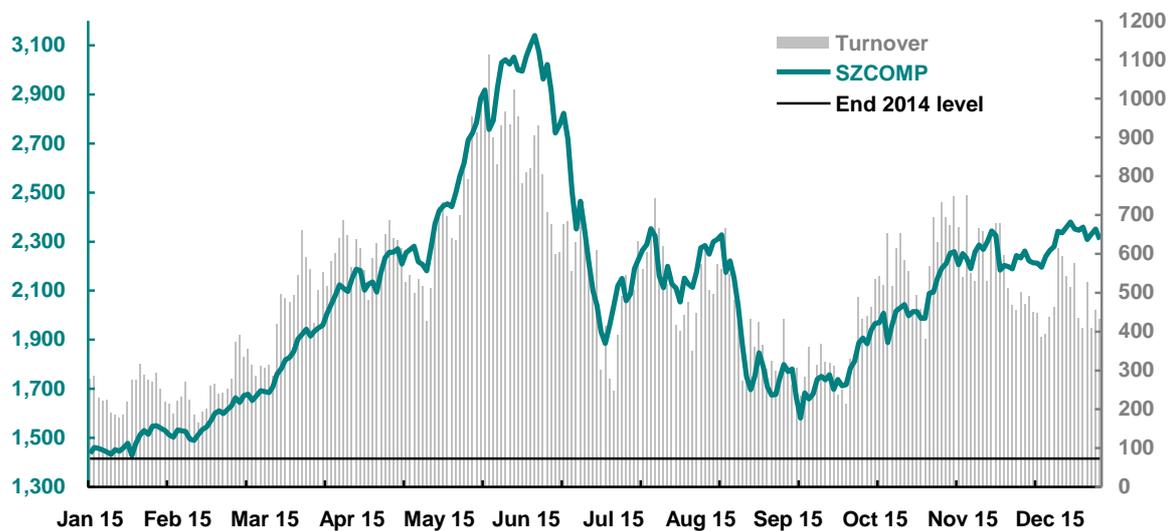
22. Following a rally of 52.9% in 2014, the SHCOMP continued to rise by 9.4% in 2015. However, the market was highly volatile.
23. Initially, the market advanced amid speculation about supportive government measures. Optimism about the “One Belt One Road” initiative provided support. In mid-June, the market rose above 5,100, a seven-year high. Outstanding margin loans peaked at RMB2.3 trillion in June. Trading was active, with total daily trading in the Shanghai and Shenzhen stock markets reaching a historical high of over RMB2.4 trillion on 28 May.
24. The market corrected later as fragile market sentiment prevailed on uncertainties about the sustainability of the rally. The tightening of margin trading rules paced losses. There were also concerns about the locking up of liquidity for initial public offerings (IPOs). In addition, there were ongoing worries over an economic slowdown.
25. In July, the Mainland authorities announced a series of market support measures. The China Securities Regulatory Commission set up a stabilisation fund and halted new share issues. The People’s Bank of China (PBoC) provided liquidity to support margin purchases of stocks by brokers.
26. During 11-13 August, the renminbi devalued by a total of 4.4%. Global investors were shocked by the devaluation, triggering worries of worsening economic conditions on the Mainland and a further weakening of the renminbi. Concerns about the scaling back of supportive government measures also weighed on the market. The SHCOMP dropped below 3,000 in the same month.
27. In October, the market recovered somewhat after the PBoC cut its interest rate by 25 basis points for the fifth time in 2015 (a total cut of 125 basis points in 2015). The PBoC also cut the reserve requirement ratio by 50 basis points, which was the fifth reduction in the year (a total cut of 300 basis points in 2015). Later, in line with market expectations, the International Monetary Fund announced the inclusion of the renminbi in the Special Drawing Rights currency basket with a weighting of 10.92%. Optimism about further supportive government policies paced gains.
28. However, some gains were trimmed in late 2015. Liquidity concerns grew on expectations of more new listings with the introduction of a registration-based IPO mechanism. Investors were also concerned as the six-month ban on share sales by large shareholders, which was imposed amid the earlier stock market correction, would expire in early January 2016.



**SHCOMP and market turnover (RMB billion) during 2015**

Source: Bloomberg

29. The Shenzhen Composite Index (SZCOMP) rose 63.2% in 2015, following a gain of 33.8% in 2014. The Shenzhen market outperformed in anticipation of the launch of Shenzhen-Hong Kong Stock Connect. Both the SZCOMP and the ChiNext Price Index rose to record highs. However, concerns about high valuations and deleveraging erased some gains. In June, market sentiment was affected by news reports on the possible launch of the Strategic Emerging Industries Board in Shanghai to compete with the ChiNext Board. Towards the end of the year, the market rebounded on the back of the government's commitment to develop the high-tech sector under the Mainland's 13<sup>th</sup> five-year plan.



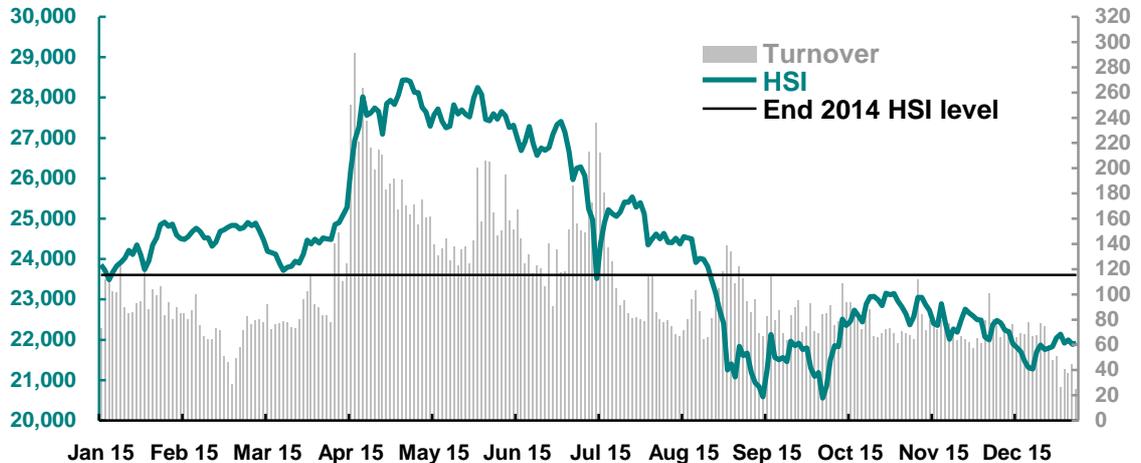
**SZCOMP and market turnover (RMB billion) during 2015**

Source: Bloomberg



## Hong Kong

30. In 2015, the HSI and the HSCEI dropped 7.2% and 19.4% respectively, after increasing 1.3% and 10.8% in 2014. The Hong Kong market underperformed major overseas markets.
31. In early 2015, the market rose in tandem with the Mainland's market rally. Optimism about increasing capital inflows via Shanghai-Hong Kong Stock Connect and hopes for further supportive measures on the Mainland paced gains. In April, the HSI rose to a seven-year high of over 28,000 points. Market turnover also rose to a fresh high of \$291.5 billion<sup>1</sup> on 9 April.
32. In mid-2015, the market became volatile amid heavy sell-offs in the Mainland market. The HSI recorded its largest intra-day decline in history on 8 July. It once dropped 2,138 points and closed 1,458 points (5.8%) lower.
33. The local market extended losses and volatility heightened on concerns of a hard landing of the Mainland economy and the devaluation of the renminbi. Uncertainties over the timing of US rate hikes paced losses. The fall in commodity prices weighed on energy and resource stocks.
34. Later, the Hong Kong market rebounded on hopes of further stimulus measures on the Mainland. Following the US Fed's decision to raise rates at a gradual pace, market losses were trimmed somewhat.
35. In late 2015, the market declined on lingering uncertainties over the outlook for the Mainland economy and the volatility of the renminbi. Liquidity concerns over upcoming IPOs on the Mainland also paced losses.



**HSI and Market Turnover (\$ billion) during 2015**

Source: Bloomberg

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



## Risks and uncertainties facing the Hong Kong market

36. In 2015, the Hong Kong market continued to be affected by volatility in the Mainland and overseas markets. Looking forward, the Hong Kong market face several risks and uncertainties including:
- concerns about economic growth in the Mainland and renminbi movements – Worries over the Mainland’s economic slowdown linger despite monetary easing. Investor sentiment has been fragile and is susceptible to hints about the economic outlook and changes in government policy. The performance of the Hong Kong market would be affected given its close linkage with the Mainland market. Investors are also concerned that renminbi devaluation could trigger competitive currency depreciation in emerging markets and accelerate capital outflows. The Hong Kong market, as part of emerging Asia, will also be affected.
  - uncertainties about US interest rate hikes – Although the US Fed had pledged to raise interest rates at a gradual pace, the actual pace for future rate hikes remains uncertain. There are worries that subsequent rate hikes could continue to be a drag on the global economy. Higher volatility in overseas markets may have spill-over effects on the Hong Kong market.
  - concerns about the movements of US dollar and commodity prices – A strong US dollar coupled with weak global demand could lead to high price volatility of oil and other commodities. Emerging markets, some of which rely heavily on commodity exports, will be affected.
  - fragile economic recovery in Europe and Japan – Europe’s economic recovery remains fragile and worries over deflation persist. Japan still faces the risk of a further slowdown despite continued stimulus measures. These factors will affect the global economic and market outlook.

## Major statistics for the Hong Kong securities market during 2015

### Trading activity in the local stock market

37. Trading in the local stock market increased. In 2015, average daily turnover amounted to \$105.6 billion, 52% higher than the \$69.5 billion in 2014.
38. Mainland stocks remained the most actively traded stocks. Their share of total market turnover was 36% in 2015 (37% in 2014), whilst that of HSI stocks (excluding H-shares and red chips) was about 13% (17% in 2014).

### Average Daily Turnover (\$ billion)

	2015		2014		% change over 2014
HSI (ex H shares & red chips)	13.9	(13%)	12.1	(17%)	15%
Mainland Stocks	37.7	(36%)	25.5	(37%)	48%
<i>H-shares</i>	27.9	(27%)	17.8	(26%)	57%
<i>Red chips</i>	9.8	(9%)	7.7	(11%)	27%
Derivative Warrants	18.2	(17%)	8.3	(12%)	120%
CBBCs	7.4	(7%)	5.0	(7%)	48%
ETFs	8.8	(8%)	4.7	(7%)	87%
Others	19.6	(18%)	13.9	(20%)	41%
<b>Market Total</b>	<b>105.6</b>	<b>(100%)</b>	<b>69.5</b>	<b>(100%)</b>	<b>52%</b>

Remark: Percentages in parenthesis denote market share.

Sources: Hong Kong Exchanges and Clearing Limited (HKEX) and SFC Research



## Shanghai-Hong Kong Stock Connect

39. Stock Connect was launched on 17 November 2014 to provide mutual trading access between the Shanghai and Hong Kong stock markets. Investors can trade eligible shares listed on the other market subject to daily and aggregate quotas.
40. The northbound daily quota is set at RMB13 billion, and the southbound daily quota at RMB10.5 billion. During 2015, daily quota usage ranged between:
- RMB0.01 billion (0.1%) and RMB8.3 billion (63.6%) for northbound trading; and
  - the southbound daily quota was used up on 8 and 9 April. On other days, the southbound daily quota usage ranged between RMB0.002 billion (0.02%) and RMB5.4 billion (51.3%).
41. The aggregate quotas are RMB300 billion for northbound trading and RMB250 billion for southbound trading. As of 31 December 2015, cumulatively:
- northbound aggregate quota usage was RMB119.7 billion (39.9%); and
  - southbound aggregate quota usage was RMB108.3 billion (43.3%).
- In percentage terms, southbound aggregate quota usage exceeded northbound aggregate quota usage for the first time in December 2015.
42. As of 31 December 2015, there were 569 eligible stocks for northbound trading and 296 eligible stocks for southbound trading. During 2015:
- average daily northbound trading was RMB6.4 billion, or 0.6% of trading in the Shanghai market. Most of the actively traded stocks were large-cap stocks and AH stocks; and
  - average daily southbound trading was RMB2.7 billion, or 1.6% of trading in the Hong Kong. Most of the actively traded stocks were large-cap stocks, AH stocks and Mainland private enterprises.

## Short-selling activity

43. Compared to 2014, short selling was higher in absolute terms but lower as a percentage of total market turnover. Average daily short selling was \$10.0 billion, or 9.5% of total market turnover in 2015. In 2014, average daily short selling was \$7.2 billion, or 10.3% of total market turnover.
44. Based on data submitted to the SFC, as at 31 December 2015, aggregated short positions amounted to \$197.8 billion (or 1.3% of the market cap of the reported stocks).



Market value of short positions (\$ billion) during 2015

Source: SFC Research



### Initial public offerings

45. There were 124 initial public offerings (IPOs) in Hong Kong during 2015. Total IPO funds raised amounted to \$261.3 billion. This compared to 115 IPOs (\$232.5 billion) in 2014. IPO funds raised by Mainland companies accounted for 92% of the market total during 2015. Hong Kong ranked first in IPO activities worldwide during 2015 and came second in both 2014 and 2013.

### Top 10 stock markets by equity funds raised through IPOs (2015)

	Equity funds raised through IPO		
	US\$ billion	Worldwide ranking	Asia ranking
Hong Kong	33.7	1	1
US (NYSE Euronext)	19.7	2	
US (Nasdaq OMX)	18.0	3	
UK (London)	17.5	4	
Shanghai	17.5	5	2
Japan (Tokyo)	15.7	6	3
Spain	9.4	7	
Shenzhen	8.0	8	4
Germany	7.8	9	
Europe (NYSE Euronext)	7.7	10	

Remark: Data is provisional only.

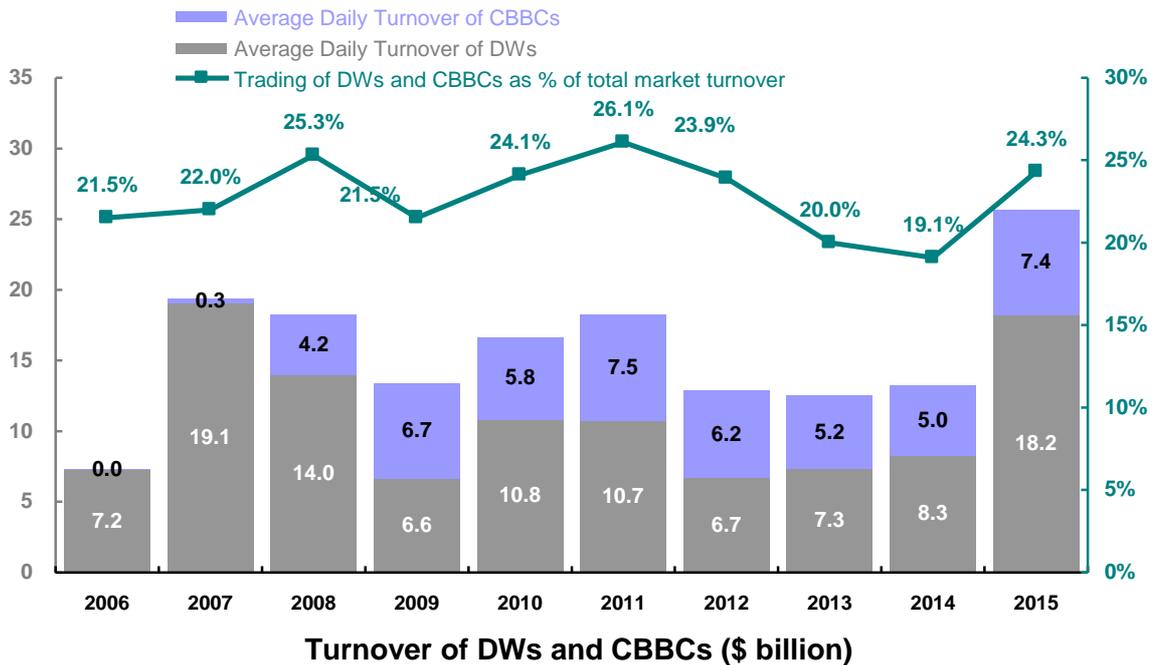
Sources: World Federation of Exchanges and HKEX

### Exchange-traded funds

46. The number of ETFs rose to 133 as at end-2015 from 122 as at end-2014. Average daily turnover in 2015 was \$8.8 billion, which was 87% higher than the \$4.7 billion in 2014. ETFs accounted for 8% of the total market turnover in 2015 (compared to 7% in 2014). Average daily turnover of A-shares ETFs was \$6.0 billion, accounting for 68% of total ETF turnover (compared to \$3.6 billion and 76% in 2014).

### Derivative warrants and callable bull/bear contracts

47. In 2015, trading in derivative warrants (DWs) increased both in absolute terms and as a percentage of total market turnover. Average daily turnover of DWs rose to \$18.2 billion (17.3% of total market turnover), compared to \$8.3 billion (11.9% of total market turnover) in 2014.
48. In 2015, trading in callable bull/bear contracts (CBBCs) increased in absolute terms but decreased as a percentage of total market turnover. In 2015, average daily turnover of CBBCs was \$7.4 billion (7.0% of total market turnover). In 2014, average daily turnover of CBBCs was \$5.0 billion (7.2% of total market turnover).



Source: SFC Research

### Exchange-traded derivatives

49. In 2015, average daily trading in exchange-traded derivatives increased by 33% compared to 2014.

- Average daily trading in futures products rose 46%. Among futures products, HSI futures and HSCEI futures were the most actively traded contracts, each accounting for about 29% and 45% of all futures trading respectively. The average daily trading volume of HSI futures and HSCEI futures rose by 24% and 52% respectively, compared to 2014.
- Average daily trading in options products rose by 26% in 2015. Stock options remained the most actively traded options products and trading volume rose by 24%, compared to 2014.



### Average daily trading volume of derivatives traded on HKEX by product type (contracts)

		2015	2014	2013
<b>Futures</b>	HSI Futures	85,991	69,098	80,247
	Mini-HSI Futures	40,674	28,177	32,188
	HSCEI Futures	135,139	89,005	85,538
	Mini-HSCEI Futures	30,391	13,884	9,232
	Stock Futures	2,951	1,731	1,882
	3-Month HIBOR Futures	0	0	0
	RMB Currency Futures	1,062	830	568
	Gold Futures <sup>^</sup>	0	0	0
	Other futures products <sup>*</sup>	1,210	1,238	1,214
	<b>Total Futures</b>	<b>297,418</b>	<b>203,965</b>	<b>210,869</b>
<b>Options</b>	HSI Options	30,427	30,440	35,252
	Mini-HSI Options	4,185	3,892	4,743
	HSCEI Options	61,961	36,433	32,899
	Stock Options	374,346	301,797	249,295
	Other options products <sup>**</sup>	183	150	164
	<b>Total Options</b>	<b>471,102</b>	<b>372,712</b>	<b>322,353</b>
<b>Total Futures and Options</b>		<b>768,520</b>	<b>576,676</b>	<b>533,222</b>

Remarks: Average daily trading volume was based on the number of trading days after the product was launched.

<sup>^</sup> Trading of gold futures was suspended on 16 Mar 2015.

<sup>\*</sup> CES China 120 Index Futures (launched on 12 Aug 2013), London Aluminium Mini Futures (launched on 1 Dec 2014), London Zinc Mini Futures (launched on 1 Dec 2014), London Copper Mini Futures (launched on 1 Dec 2014), London Lead Mini Futures (launched on 14 Dec 2015), London Nickel Mini Futures (launched on 14 Dec 2015) and London Tin Mini Futures (launched on 14 Dec 2015)

<sup>\*\*</sup> Flexible Hang Seng Index Options and Flexible H-shares Index Options

Sources: HKEX and SFC Research

### After-hours futures trading

50. Trading in HSI and HSCEI futures during the after-hours futures trading (AHFT) session was more active than in 2014. Trading in mini-HSI futures, mini-HSCEI futures, and renminbi currency futures was also more active.

- In 2015, average daily trading volume of HSI and HSCEI futures was 14,088 contracts, about 6.8% of the volume during the daytime session, compared to 8,630 contracts and 5.8% in 2014.
- In 2015, average daily volume of mini-HSI futures and mini-HSCEI futures was 7,333 contracts, about 11.4% of the volume during the daytime session, compared to 3,264 contracts and 8.3% in 2014.
- In 2015, average daily volume of renminbi currency futures was 135 contracts, about 14.4% of the volume during the daytime session, compared to 51 contracts and 7.8% in 2014.