

ASF 2016 - Hong Kong Market Report

HONG KONG ECONOMY

Background

As everyone knows, Hong Kong has a very good geographic location, it is surrounded by sea and backed up by a huge China market. HK has taken a very important role in bridging China to the world, such as HK's legal system which is widely recognized by most of the countries in the world, a clearing center for global Renminbi or Yuan. As such, the China economy will heavily influence HK's economy.

Hong Kong has positioned itself as a World Financial Center, and almost every global financial institution has its branch or even head office in Hong Kong, resulting in more than 4000 financial institutions operating in such a tiny place as HK. There are about 550 Securities firms, 1000 Asset management companies, 157 banks (excluding branches of the 70 world biggest banks), 161 global insurance companies and about 2000 insurance broker firms, Trustees and Trust companies as well as other financial operators.

Economic Performance

The Hong Kong economy attained a slower growth in 2015 because of both internal and external challenging environment. For 2015 as a whole, the economy grew by 2.4% in real terms, deteriorated from the 2.7% growth in 2014. The Hong Kong economy slowed down further, to a mere 1.7% year-on-year growth in real terms in the second quarter of 2016.

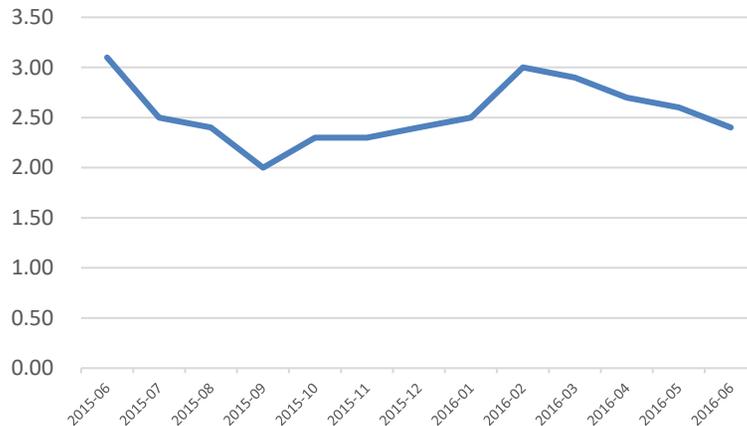
Table 1: Key Economic indicators

	2013	2014	2015	2016Q2
GDP (yoy, %)	3.1	2.7	2.4	1.7
CPI (yoy, %)	4.3	4.4	3.0	2.6
Unemployment rate (%)	3.4	3.3	3.3	3.4
Foreign reserve (US\$ billion)	311.2	328.5	358.8	360.7
Overall Balance of Payments (HK\$ billion)	57.89	139.09	282.00	-16.09

Source: Census and Statistics Department, the HKSAR Government

In 2015, consumer price inflation dropped. Consumer price inflation was 3.0% in 2015, down from 4.3% and 4.4% respectively in 2013 and 2014. Consumer price inflation moderately decreased to 2.6% in the second quarter of 2016 mainly due to abating price increases in the food and private housing rental components.

Chart 1: Year-on-year Rates of Change in the Consumer Price Index



Source: Census and Statistics Department, the HKSAR Government

The labor market was in a state of full employment in 2015. Labor demand remained firm, as a result of the largely resilient domestic sector while the tourism-related sectors slowed down. The labor market remained broadly stable in the second quarter of 2016 with an unemployment rate at 3.4%. Reflecting the slow economic growth, total employment grew only mildly over a year earlier.

The low interest rate environment in Hong Kong continued through 2015 amid the ongoing accommodative monetary policy in the United States. The Hong Kong dollar interest settlement rates slightly increased after United States hiked its interest rate in December 2015. Hong Kong dollar interest rates continued to remain at low levels. The Hong Kong dollar best lending rates remained steady at around 5.00% for 2015 and through first half of 2016.

Chart 2: Hong Kong Dollar Interest Settlement Rates



Source: Census and Statistics Department, the HKSAR Government

Economic Forecasts Re: Hong Kong

Quite many big incidents happened in 2016, such as UK's decision to exit EU, USA's election of the new President Donald Trump, who won the election as a dark horse. RMB's joining SDR and the continuous depreciation of RMB and so on.

Short-China has clouded the economic outlook for both China and HK, while China has defined its economy developing in "L" shape. As such, Hong Kong economy is projected to expand by 1-2% in 2016, compared to the 2.4% growth in 2015.

All the above factors are affecting HK's performance, especially the stock and commodities market. The Hong Kong economy slowed down further, to a mere 1.7% year-on-year growth in real terms in the second quarter of 2016. The weak performance was mainly weighed down by a drop in tourist spending and moderated growth in domestic demand as a whole.

SECURITIES MARKETS

Market Performance in 2015-2016

After the short bull market developed in first half of 2015, followed by a sharp drop in the last two quarters the same year, it created a volatility of 8220 Hang Seng Index points (HSI) (28588-20368). The bear market brought forward to early 2016, made a year low of 18278 (HSI) in February. With the progress of Shenzhen Connect, the market improves in the second half of the year.

Capital Market

The Hong Kong stock market exhibited considerable volatility in 2015. The market capitalization of the Hong Kong stock market was approximately HK\$24.68 trillion at end of 2015.

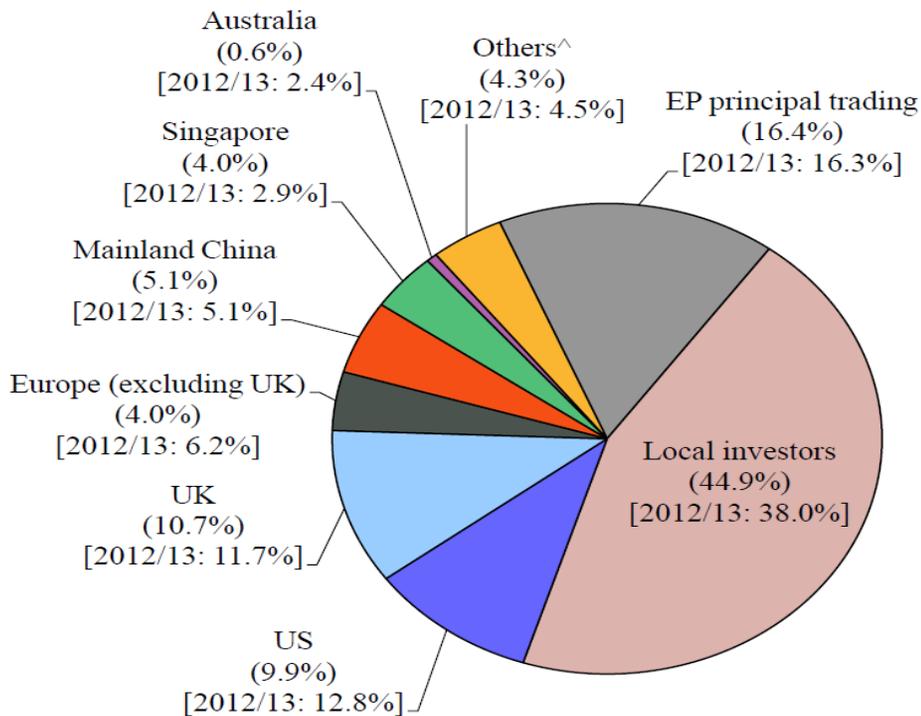
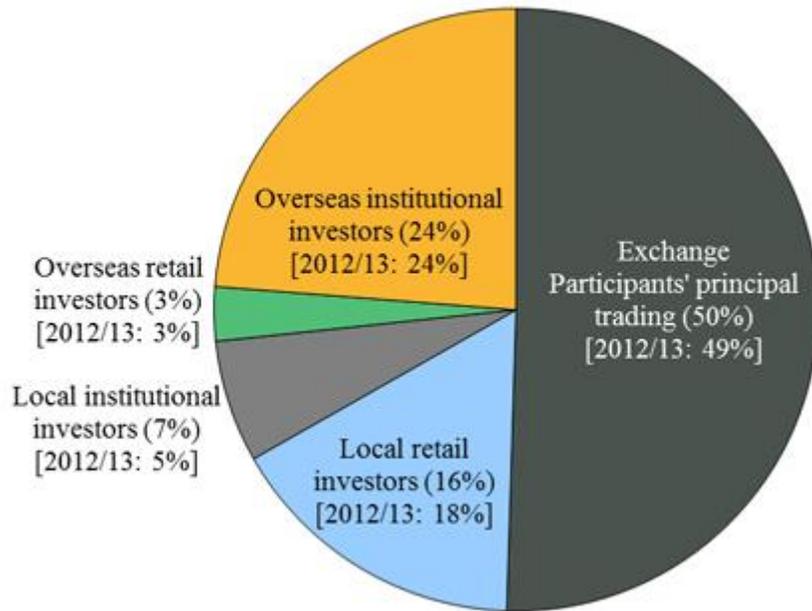
As of June 2016, a total of 1,902 companies were listed on the Stock Exchange of Hong Kong Limited (SEHK) with a total market capitalization of HK\$23.06 trillion, a 6.6% lower than at end of 2015. Mainland enterprises continued to play a dominant role in Hong Kong stock market. At end of June 2016, a total of 966 Mainland enterprises (including 231 H-share companies, 152 “RedChips” companies and 583 private enterprises) were listed on the SEHK, accounting for 50.79% of the total number of listed companies and 63.00% of total market capitalization. By market capitalization, Hong Kong was the eighth largest stock exchange in the world and fourth largest in Asia according to the World Federation of Exchanges as at the end of December 2015.

Table 2: Key statistics of securities listed on SEHK

	2013	2014	2015	2016 (June)
Number of listed companies	1,643	1,752	1,866	1,902
Total market capitalization (HK\$Bil)	24,043	25,072	24,684	23,063
Number of listed securities	8,522	9,060	9,015	8,497
Number of equity warrants	8	10	13	13
Number of derivatives warrants	4,715	4,938	4,590	4,070
Number of Callable Bull/Bear Contracts	1,620	1,579	1,630	1,547
Number of mutual funds	129	134	145	159
Number of debt securities	403	640	762	797

Source: HKEx

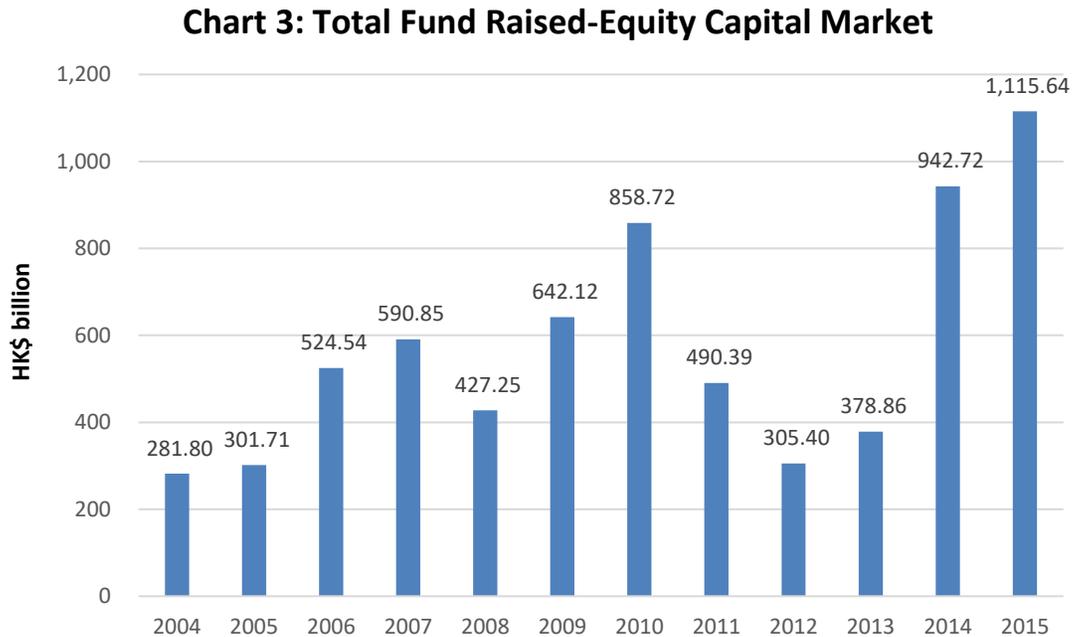
Type of Investors (up to 2014)



As it has always been, Hong Kong is an international market, investors come from all over the places in the world, particularly the other financial centers.

Fund Raising Capital Market

Total equity capital raised for 2015, comprising initial public offerings (IPOs) and post-listing capital raising increased by 18.34% to HK\$1,115.64 billion.



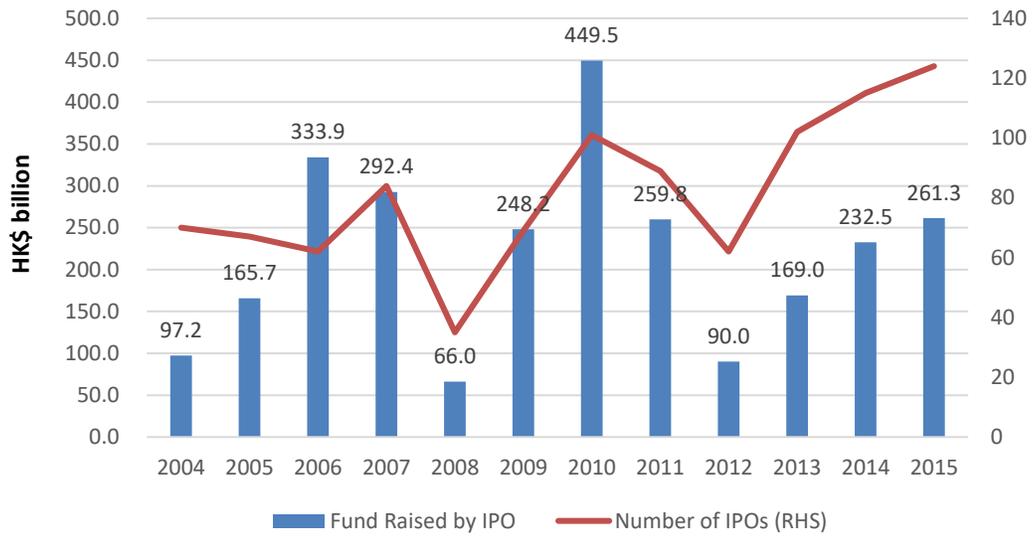
Source: HKEx

There were 124 initial public offerings (IPOs) in Hong Kong during 2015 compared to 115 IPOs during 2014. Total IPO funds raised amounted to HK\$261.3 billion, an increase of approximately 12.39% compared to HK\$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.

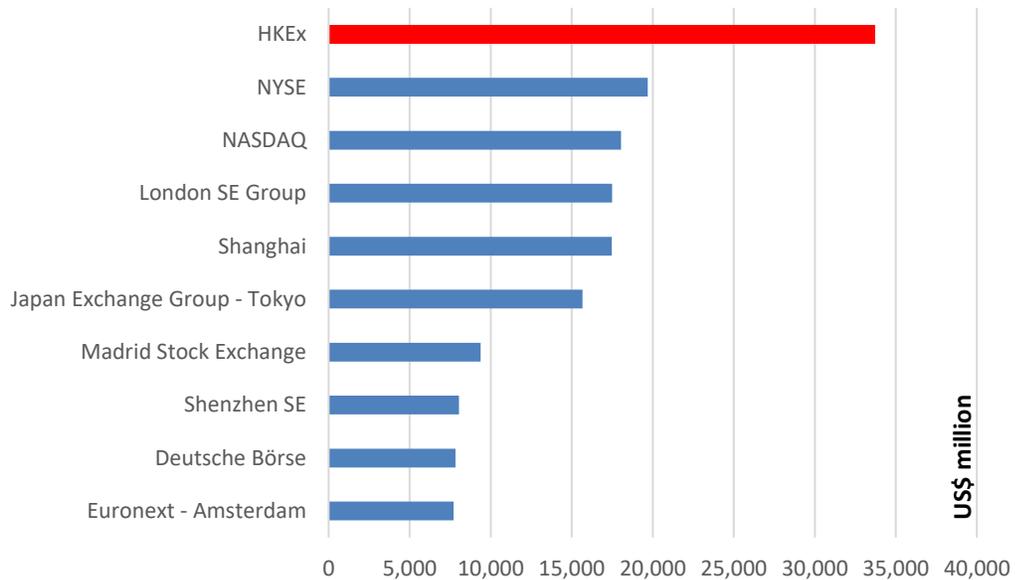
There were 38 IPOs in Hong Kong during the first half of 2016. IPO funds raised totaled HK\$43.6 billion. IPO funds raised by Mainland companies accounted for 91% of the market total during the first half of 2016.

Chart 4: Number of IPOs and Fund Raised



Source: HKEx

Chart 5: 2015 Global IPO league table by equity funds raised

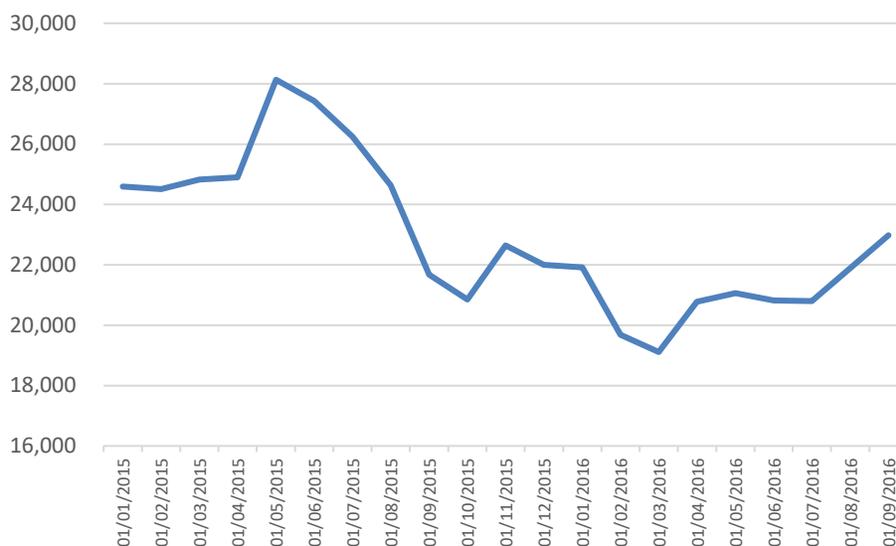


Source: HKEx

Equities Market

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.

Chart 6: Movements of Hang Seng Index



Source: HKEx

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. Later, the Hong Kong market rebounded on hopes of further stimulus measures from the Mainland. Following the US Fed's decision to raise rates at a gradual pace, market losses were trimmed somewhat.

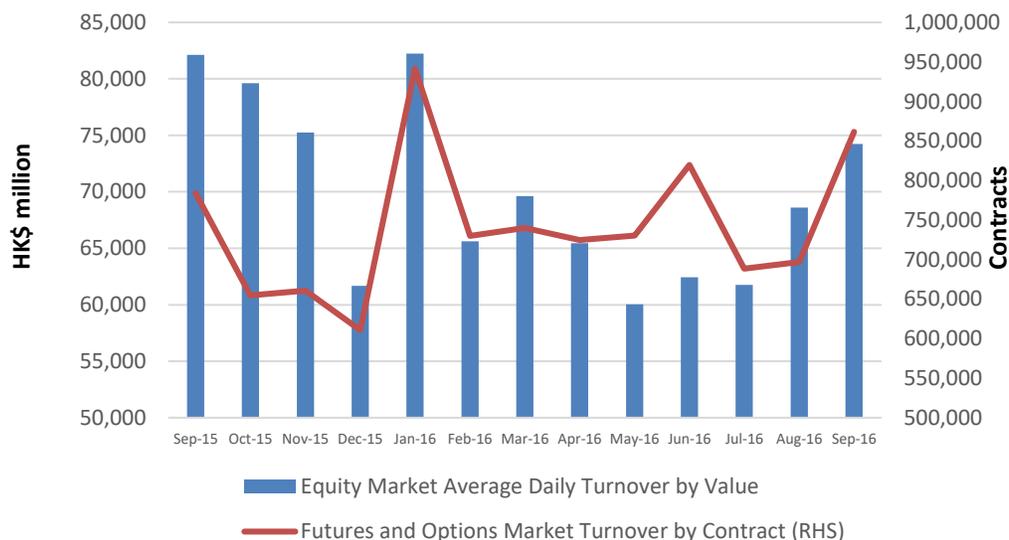
In late 2015, the market declined on lingering uncertainties over the outlook for the Mainland economy and the volatility of the renminbi. Liquidity concerns over upcoming IPOs on the Mainland also paced losses.

In January 2016, the market fell on intensifying worries over Mainland economic slowdown. Volatility in the renminbi and commodity prices also added to losses. Later, following gains in overseas and Mainland markets, the local market rebounded amid optimism about further stimulus measures by global central banks. The RRR cut by the PBoC in February and easing worries over interest rate hikes in the US lifted sentiment. In April, the local market fell amid lingering concerns about the economic outlook in the Mainland and uncertainties about the timing of US rate hikes. In June, sentiment was affected by uncertainties about the UK's vote to exit the EU. Later, the market rebounded amid expectations over central banks' stimulus and speculation of the launch of Shenzhen-Hong Kong Stock Connect.

Total securities market turnover in 2015 was HK\$26.09 trillion, up 52.1% from HK\$17.16 trillion in 2014. The average daily turnover for the securities market in 2015 was

HK\$105.6 billion, 51.9% higher from HK\$69.5 billion in 2014. Mainland stocks remained the most actively traded stocks. Mainland stocks' share of total market turnover was 36% in 2015 compared to 37% in 2014

Chart 7: Trading statistics



Source: HKEx

Trading in the local stock market decreased. During the first half of 2016, average daily turnover amounted to \$67.5 billion, 22% lower than the \$86.7 billion in the second half of 2015.

Futures and Options Market

The Hong Kong Exchanges and Clearing Limited (HKEx) futures and options market in 2015 recorded a total annual trading volume of 189.82 million contracts, up 33.27% from annual trading volume of 142.44 million contracts in 2014.

The average daily turnover of futures and options in 2015 was 768,520 contracts compared with the 576,676 contracts in 2014.

The average daily turnover of futures and options for the first six months of 2016 was 781,427 contracts, a decrease of 3% when compared with the 808,377 contracts for the same period last year.

MAJOR MARKET DEVELOPMENTS

Shenzhen-Hong Kong Stock Connect

Following the successful launch of Shanghai Connect, Shenzhen Connect is considered as its natural extension. Shenzhen Connect will be, very likely applying similar principles and design as Shanghai Connect.

On 16 August 2016, the Securities and Futures Commission (“SFC”) and China Securities Regulatory Commission (“CSRC”) made a Joint Announcement regarding the in-principle approval for the development of Shenzhen Connect for the further establishment of mutual stock market access between the Mainland and Hong Kong.

Daily Quota Mechanism will apply as the same as Shanghai Connect

Table 5: Trading Quotas

	Northbound Trading of SZSE Securities	Southbound Trading of SEHK Securities (separately through SSE or SZSE)
Aggregate Quota	N/A	N/A
Daily Quota	RMB 13 bn	RMB 10.5 bn

Source:HKEx

Trading under Shanghai and Shenzhen Connect will be subject to a Daily Quota. Northbound trading and Southbound trading are respectively subject to a separate set of Daily Quotas, which are shown above, and will be monitored by SEHK and SSE/SZSE respectively.

The Aggregate Quota for Shanghai Connect has been abolished since 16 August 2016, and there will be no Aggregate Quota control since then.

Conclusion

In the changing world as it is today, Hong Kong is facing both challenges and opportunities in pace with the changes, among them some are natural and some are passive ones. The mature financial market and the legal system are the values of HK, and we have a huge China market. What we can do is to turn our values into services which catering the needs of the market behind us.