



**SECURITIES AND
FUTURES COMMISSION**
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Research Paper No. 72: A Review of the Global and Local Securities Markets in 2022 (Featuring Market Turnover and Short Positions)

10 February 2023

Executive Summary

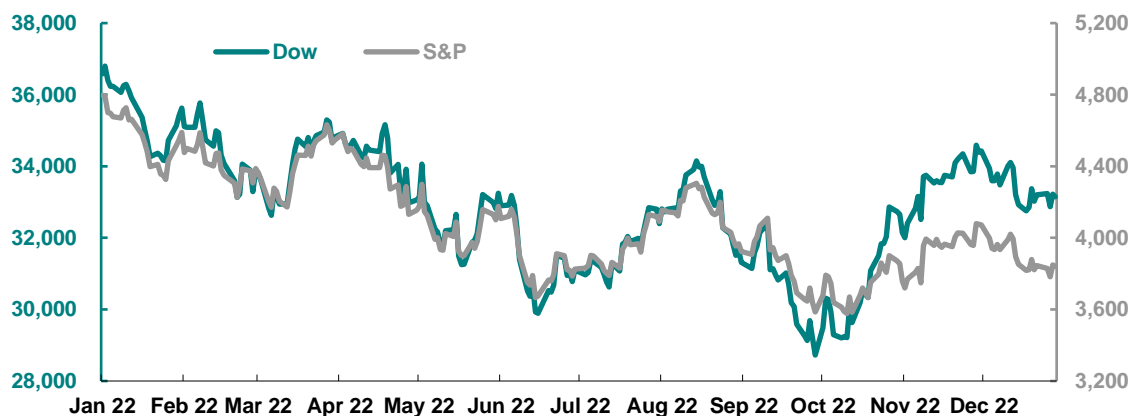
1. In 2022, most major markets fell on uncertainties about the pace and extent of monetary tightening by major central banks amid persistent global inflationary pressures. Since early 2022, a strong US dollar has weighed on Asian currencies and capital flows to stock markets in the region. Globally, worries about recession risks affected corporate earnings outlook and stock market performance. Prolonged geopolitical conflicts in Ukraine and energy supply issues in Europe also added to market volatility. In late 2022, some losses were recouped in major markets on hopes for moderating interest rate hikes.
2. In the US, the Dow, Nasdaq and S&P dropped 8.8%, 33.1% and 19.4% respectively in 2022. In Europe, the FTSE rose 0.9%, whilst the DAX and CAC fell 12.3% and 9.5%. In late 2022, losses were trimmed in most major overseas markets as some major central banks indicated possible plans to slow the pace of rate hikes. In the Mainland, the SHCOMP and the SZCOMP fell 15.1% and 21.9% in 2022 amid uncertainties about the pandemic situation and economic outlook.
3. The Hong Kong market fell amid the global market correction, with the HSI, HSCEI and the Hang Seng TECH Index down 15.5%, 18.6% and 27.2% respectively. The HSI and HSCEI hit their 13- and 17-year lows, whilst the Hang Seng TECH Index fell to the lowest level since its launch at one point. The market decline seemed to be largely driven by external macro factors, partly attributable to worries about US interest rate hikes, a global economic slowdown and lingering geopolitical risks related to Ukraine. Rate-sensitive technology stocks led losses. In late 2022, hopes for slower US interest rate hikes and measures to boost the economy in the Mainland trimmed some losses. Investor sentiment was also lifted by alleviated worries over the financial conditions of Mainland property developers and relaxation of pandemic-related restrictions. During the year, the performance of the Hong Kong market seemed to be largely in line with major overseas markets. Moreover, from international investors' perspectives, the declines in most major European and regional markets in US dollar terms were more significant.
4. Turnover in the Hong Kong stock market fell in 2022, but the decline was largely in line with trends in overseas markets (see Box 1 for details). Stock Connect continued to account for an important share of trading. Reflecting the improvements in market sentiment towards the end of 2022, northbound (NB) trading recorded a net buy during November – December, resulting in an overall net buy of RMB90.0 billion during the year. Southbound (SB) trading recorded net buy for 13 consecutive months and the cumulative net buy reached RMB339.4 billion in 2022. Whilst market volatility increased somewhat at times, the Hong Kong market remained resilient. Trading has been orderly with normal operations in various market segments. In 2022, aggregated short positions as a percentage of market capitalisation remained relatively stable. There were no signs of build-ups of large short positions in individual stocks, as well as no concentration of short positions in any particular securities or holders (see Box 2 for the profile of short positions).
5. Despite an overall decline in stock market trading, trading of exchange-traded derivatives in 2022 increased. Among others, the MSCI China A 50 Connect Index Futures, which were launched in October 2021 and provide an effective hedging tool for investors to manage risks in the A-share market, were also actively traded.

Performance of stock markets

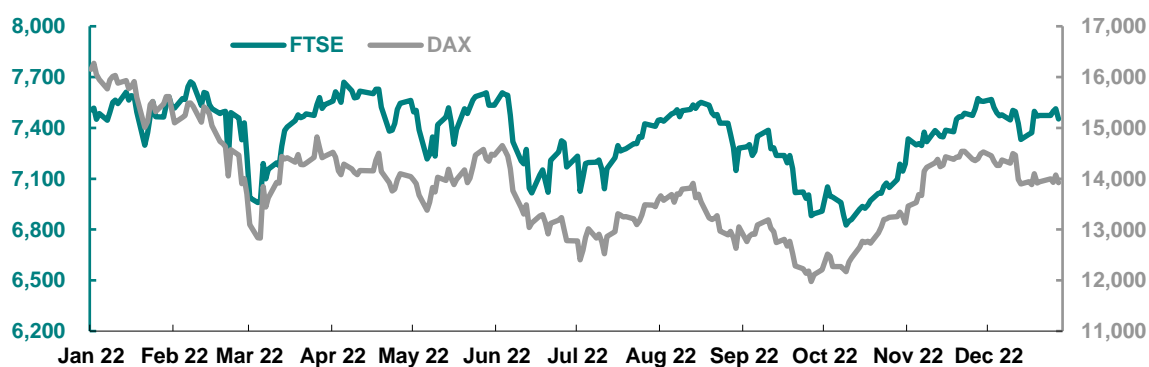
Overseas markets

6. In the US, the Dow, Nasdaq and S&P dropped 8.8%, 33.1% and 19.4% respectively in 2022. In Europe, the FTSE rose 0.9%, whilst the DAX and CAC fell 12.3% and 9.5%. All three US indices recorded their largest annual declines in percentage terms since the 2008 global financial crisis.
7. Global stock markets were volatile. Since early 2022, major overseas markets plummeted as persistent inflationary pressures prompted synchronised rate hikes by various central banks. The pace and duration of these rate hikes were more aggressive than previously anticipated, raising concerns about the impact on the global economy and a wide range of asset classes in financial markets.
 - In the US, the Fed raised interest rates seven times during the year for a total of 425 basis points (bps). It also began reducing its balance sheet in June. The 10-year US Treasury yield rose above 4.2% at one point, the highest level since 2008.
 - In Europe, the European Central Bank raised interest rates four times during the year for a total of 250bps and concluded its asset purchase programme in July.
8. Worries grew about a slowing global economy. The International Monetary Fund and the World Bank both warned about the risk of a global recession amid interest rate hikes. Disappointing earnings results and profit warnings by some heavyweight companies paced losses.
9. Prolonged geopolitical tensions in Ukraine and the energy shortage in Europe had widespread consequences for the global economy. Uncertainties about the pandemic situation had a prolonged impact on global demand as well as supply chains.
10. Nevertheless, most major overseas markets rebounded in late 2022 amid easing price pressures and interest rate hike concerns. Moderating inflation in the US and Eurozone raised hopes for a potential deceleration in monetary tightening. Some major central banks signalled the possibility of a slowdown in the pace of future rate hikes.
11. The global economic outlook improved in late 2022 as US gross domestic product (GDP) growth rose to 3.2% in the third quarter, reversing contractions of 1.6% and 0.6% during the previous two quarters. In Europe, there was optimism about measures to address high energy prices.

Performance of the Dow and S&P in 2022



Performance of FTSE and DAX in 2022



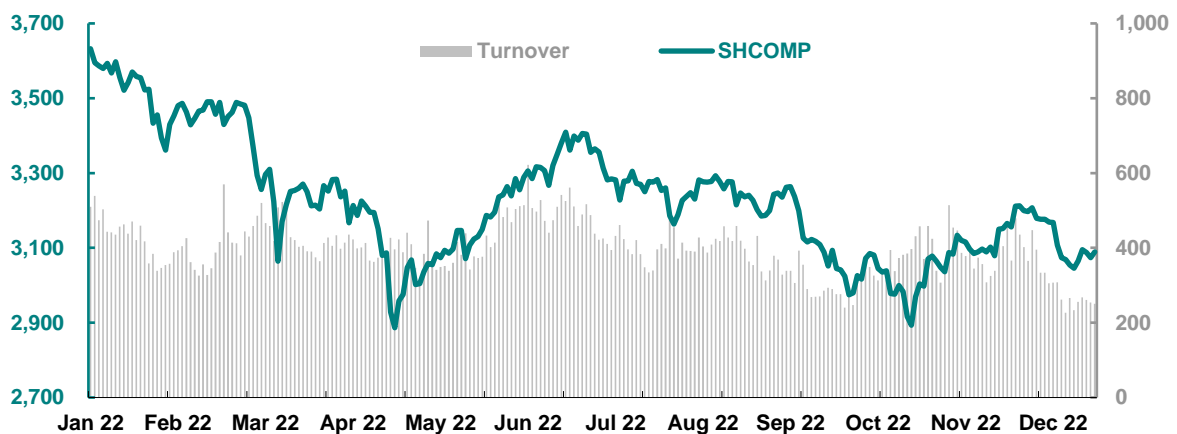
Performance of major stock markets

		Index level	% change		
			2022	2021	2020
Hong Kong and the Mainland					
Hong Kong	-HSI	19,781.4	-15.5%	-14.1%	-3.4%
	-HSCEI	6,704.9	-18.6%	-23.3%	-3.8%
	-HS TECH	4,128.8	-27.2%	-32.7%	+78.7%
Mainland	-SHCOMP	3,089.3	-15.1%	+4.8%	+13.9%
	-SZCOMP	1,975.6	-21.9%	+8.6%	+35.2%
US					
US	-Dow	33,147.3	-8.8%	+18.7%	+7.2%
	-Nasdaq	10,466.5	-33.1%	+21.4%	+43.6%
	-S&P	3,839.5	-19.4%	+26.9%	+16.3%
Europe					
UK	-FTSE100	7,451.7	+0.9%	+14.3%	-14.3%
Germany	-DAX	13,923.6	-12.3%	+15.8%	+3.5%
France	-CAC	6,473.8	-9.5%	+28.9%	-7.1%

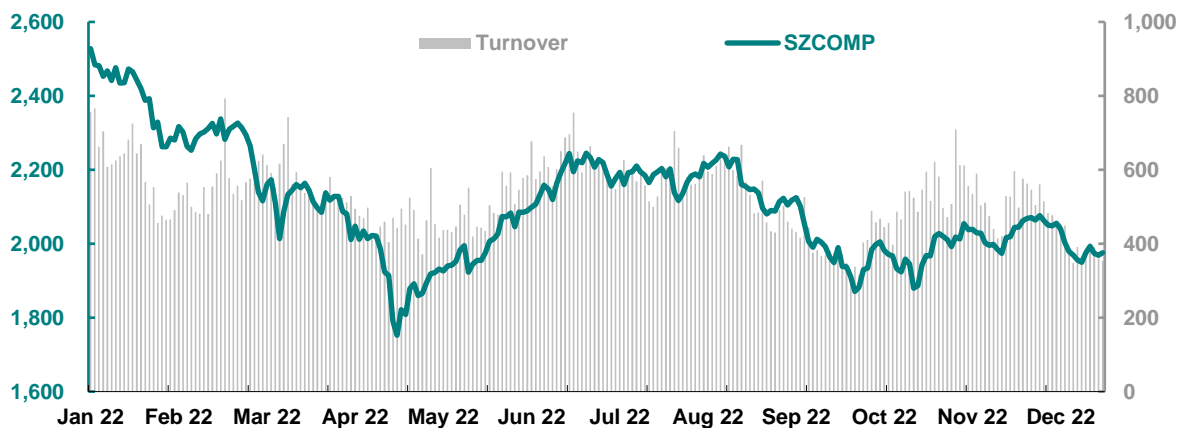
The Mainland

12. In 2022, the SHCOMP fell 15.1% and the SZCOMP dropped 21.9%. Average daily trading in the Mainland market was RMB925 billion, 12.6% lower than the average of RMB1,058 billion in 2021.
13. Pandemic uncertainties and supply-chain disruptions heightened worries about their impact on the Mainland's economic recovery. GDP growth slowed from 8.4% in 2021 to 4.8% and 0.4% in the first and second quarter of 2022, before rebounding to 3.9% in the third quarter.
14. In addition, the weakening RMB (depreciated 7.9% in 2022) raised concerns about the corporate earnings of Mainland companies in Hong Kong dollar terms.
15. The supportive economic policies helped trim some losses during the year. Measures such as tax cuts and infrastructure investments were introduced to revive the economy. The reserve requirement ratio was cut twice in 2022 for a total of 50bps.

SHCOMP performance and market turnover (RMB billion) in 2022



SZCOMP performance and market turnover (RMB billion) in 2022



Hong Kong

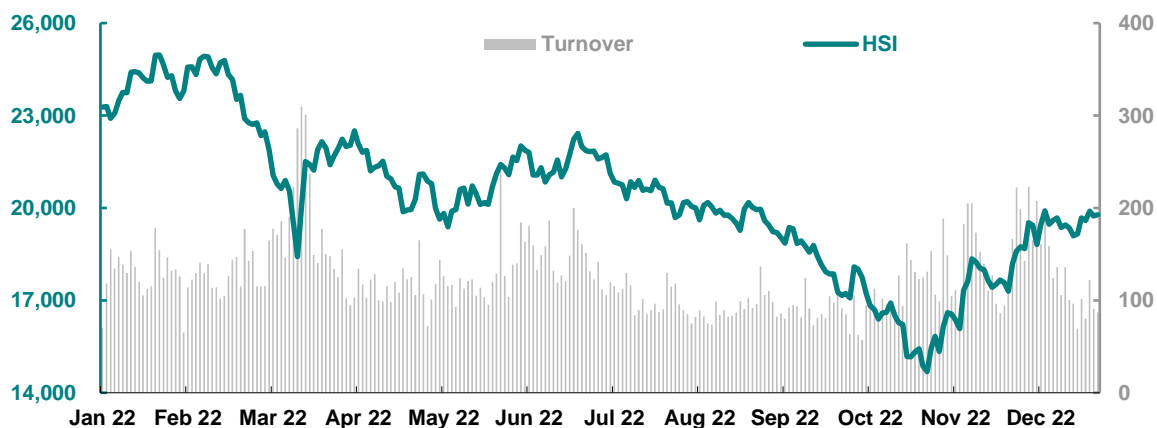
Market performance

16. The Hong Kong market fell in 2022 and was characterised by high volatility. For instance, after recording an accumulated loss of 2,138 points during 14 – 15 March, the HSI posted a total gain of 3,086 points during the following two days. Also, in October, the HSI and the HSCEI hit their 13- and 17-year lows and recorded their largest monthly declines in percentage terms since October 2008 and September 2011. The Hang Seng TECH Index dropped to a record low at one point and posted its largest monthly loss since its launch.
17. Whilst market volatility increased somewhat at times, the Hong Kong market remained resilient. Trading has been orderly with normal operations in various market segments. Trading by different types of brokers and investors stayed relatively stable. There do not appear to be any irregularities which may affect financial stability.
18. During the year, the HSI dropped 15.5%, the HSCEI dropped 18.6% and the Hang Seng TECH Index fell 27.2%. The performance of the Hong Kong market seemed to be largely in line with major overseas markets. Moreover, from international investors' perspectives, the declines in most major European and regional markets in US dollar terms were more significant given the depreciation of their currencies against the US dollar.
19. For most of 2022, the Hong Kong market declined. This was very much due to external macro factors, leading to high volatility in global markets. First, amid concerns about US interest rate hikes due to persistently high inflation, the US dollar rose to a 20-year high at one point. This triggered increased capital flows to US dollar assets, thereby affecting the performance of regional stock markets. A weaker RMB raised worries about the possible impact on the share prices of Mainland stocks.
20. Second, concerns about a global economic slowdown grew amid energy supply issues in Europe and supply-chain disruptions due to prolonged geopolitical tensions.
21. Third, heavyweight technology stocks led losses following corrections in the prices of their US peers amid heightening worries about US interest rate hikes. Investor sentiment was also affected by risks of some Mainland American depository receipts (ADRs) being delisted in the US and policy developments in the technology sector.
22. In late 2022, the Hong Kong market rebounded strongly. In November – December, the HSI and HSCEI recorded their largest two-month increases in percentage terms since April 1999 and October 2007, respectively, and the Hang Seng TECH Index posted the largest gain since its launch.
23. The local market recouped some losses amid optimism about slower future interest rate hikes in the US. Decelerating increases in consumer prices alleviated worries about inflation and further monetary tightening. Easing concerns about the financial conditions of Mainland property developers and the relaxation of pandemic restrictions in the Mainland and Hong Kong further bolstered the market. Investor sentiment also improved on hopes for more policy support to boost the economy.

Market outlook and risks

24. Looking ahead, the pace and scale of monetary tightening by major central banks to tame inflationary pressures may continue to affect global market performance. Risks of a global recession may also add to market volatility. At the same time, US dollar movements may affect capital flows to emerging markets and the performance of stock markets in Asia. Ongoing geopolitical tensions in Ukraine may also affect market sentiment. In addition, the policy stimulus to support the Mainland's economic growth and the development of Sino-US relations may affect the market outlook.

HSI performance and market turnover (\$ billion¹) in 2022



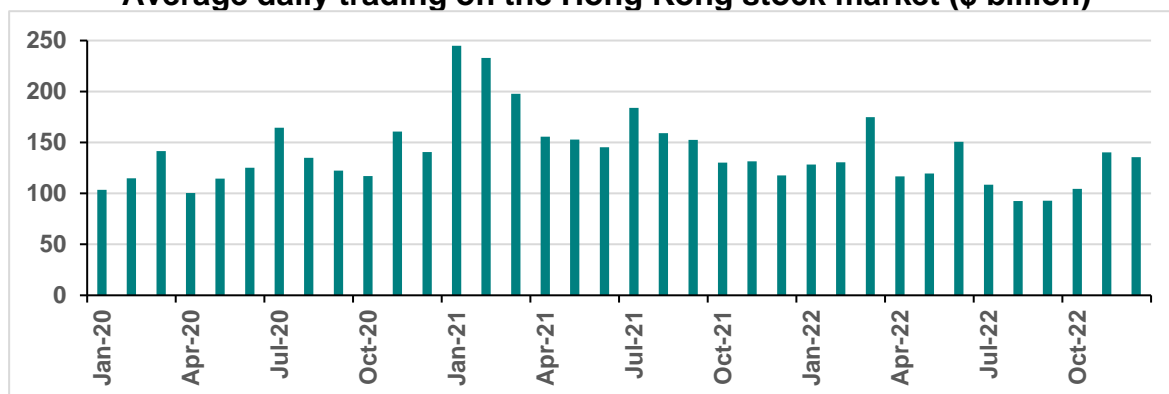
¹ Unless otherwise stated, \$ denotes the Hong Kong dollar.

Box 1: Decline in market trading

Turnover in the Hong Kong stock market declined in 2022, with average daily turnover falling to \$124.9 billion, 25% lower than the \$166.7 billion in 2021. In particular, average daily turnover was \$92.4 billion in August—the lowest since December 2019.

- The drop in market turnover was partly due to a price effect following the market correction.
- Moreover, average daily market turnover in 2022 was only 4% lower than the \$129.5 billion in 2020.
- The decline seemed to be broad-based. Average daily trading of Hang Seng TECH Index constituents decreased 28%. This was partly due to concerns about the delisting risk of ADRs in the US and uncertainties about the pace of interest rate hikes.
- Average daily SB trading dropped 24%. Nevertheless, as a percentage of Hong Kong’s market turnover, the share of SB trading rose slightly from 12.5% to 12.7%.

Average daily trading on the Hong Kong stock market (\$ billion)



Also, the decline in Hong Kong’s stock market turnover was largely in line with trends in overseas markets. In the Mainland, UK, Japan, Singapore and Taiwan, average daily market trading declined between 4% and 43% in US dollar terms.

In view of the uncertain economic outlook, investors may have reallocated their higher-risk assets to safe assets, which resulted in reduced stock market activities.

Activity in the Hong Kong securities market

Stock Connect

25. Stock Connect continued to account for an important share of trading. During 2022:
- daily NB trading (including buy and sell trades) averaged RMB100.4 billion, or 5.4% of trading in the Mainland market (compared to RMB120.1 billion, or 5.7% of market trading in 2021); and
 - daily SB trading (including buy and sell trades) averaged \$31.7 billion, or 12.7% of trading in the Hong Kong market (compared to \$41.7 billion, or 12.5% of market trading in 2021).
26. Both NB and SB trading recorded net buy in 2022.
- During 2022, the net buy was RMB90.0 billion via NB trading (compared to RMB432.2 billion in 2021). NB trading recorded a net sell of RMB57.3 billion in October 2022, the second largest monthly net sell since the launch of Stock Connect. Reflecting the improvements in market sentiment towards the end of 2022, NB trading recorded a net buy of RMB95.1 billion during November – December.
 - During 2022, the net buy was RMB339.4 billion via SB trading (compared to RMB382.3 billion in 2021). SB net buy was recorded for 13 consecutive months.
27. ETF Connect was launched on 4 July 2022.
- For NB trading, it covered 83 ETFs tracking major indices such as SSE50 Index, SSE180 Index, CSI300 Index and ChiNext Index.
 - For SB trading, it covered 5 ETFs including Tracker Fund, HSCEI ETF, CSOP HS TECH Index ETF, iShares HS TECH ETF and CSOP HSI ETF.
 - During 2022, daily NB trading averaged RMB66.7 million, while daily SB trading averaged \$908.1 million.
 - During the period, the net buy was RMB1.5 billion via NB trading and \$4.7 billion via SB trading.

Short-selling activities

28. In 2022, short selling in Hong Kong dropped in absolute terms, but increased as a percentage of total market turnover, partly due to a decline in trading activities. Daily short selling averaged \$21.7 billion or 17.4% of total market turnover in 2022 (compared to \$22.4 billion or 13.5% in 2021).

Exchange-traded derivatives

29. In 2022, average daily trading of exchange-traded derivatives was 12.2% higher than that in 2021.
- Trading of futures products rose 38.3%.
 - HSI futures and HSCEI futures were the most actively traded contracts, accounting for 25.8% and 31% of total futures trading respectively. Trading in HSI and HSCEI futures rose 10% and 43.4% respectively.

- Trading of Hang Seng TECH Index Futures was about four times higher than in 2021, partly because of increasing hedging needs amid higher volatility in technology stocks.
- The MSCI China A 50 Connect Index Futures, which provide an effective hedging tool for investors to manage risks in the A-share market, were also actively traded. Their average daily trading was 46.1% higher than in 2021².
- Trading of options products fell 3%. Stock options remained the most active, accounting for 82.6% of total trading of options products. Trading of stock options fell 7.8% from 2021.

Box 2: Profile of short positions in the Hong Kong stock market

In 2022, the short selling ratio once rose to high levels (eg, a record high of 24.5% on 10 October). However, aggregated short positions declined in value terms and only increased slightly as a percentage of market capitalisation.

- As of end-2022, aggregated short positions reported under the short position reporting regime amounted to \$429.8 billion (1.27% of total stock market capitalisation), compared to \$485 billion or 1.23% as of end-2021.

There were no signs of build-ups of large short positions in individual securities. There was also no concentration of short positions in any particular securities or holders.

Position level

- Short positions spread over a large number of securities (648).
- The top 20 securities with the largest positions, which were mostly large-cap stocks, accounted for only 37% of the total market short position.
- The majority (64%) of short positions at the securities level were relatively small (less than \$300 million).
- The majority (74%) of short positions accounted for a small share of the securities' market capitalisation (less than 2%).

Distribution of short positions of individual securities by market value as of end-2022

Market value of short positions	Number of securities (% of total)
< \$300 million	416 (64%)
\$300 million - 1 billion	130 (20%)
\$1 - 5 billion	85 (13%)
> \$5 billion	17 (3%)
Market total	648 (100%)

Distribution of short positions by shares in securities' market capitalisation as of end-2022

Short position as % of securities' market capitalisation	Number of securities (% of total)
<2.00%	477 (74%)
2.00 - 5.00%	125 (19%)
5.00 - 10.00%	39 (6%)
>10.00%	7 (1%)
Market total	648 (100%)

² The MSCI China A 50 Connect Index Futures were launched on 18 October 2021.

Holder level

- Short positions of most holders (56%) were relatively small (less than \$300 million).
- These short positions were spread over quite a large number (181) of short position holders, with no significant concentration at the holder level. The largest holders were typically investment banks which held short positions mainly for their client facilitation business. Moreover, these short positions were largely spread over quite a large number of securities (about or over 500 securities for the top investment banks).

Distribution of short positions of individual holders by market value as of end-2022

Market value of short position	Number of holders (% of total)
< \$300 million	101 (56%)
\$300 million - 1 billion	43 (24%)
\$1 - 5 billion	21 (12%)
>\$5 billion	16 (9%)
Market total	181 (100%)

Short positions in the Hong Kong stock market

