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FUTURES

Hong Kong Futures Exchange Limited
A wholly-owned subsidiary of
Hong Kong Exchanges and Clearing Limited

ENGLISH/CHINESE VERSION

Exchange Participants Transaction Survey 99/00

Market Development, Training
and Education Department

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LMP-HKFE
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English

EXECUTIVE SUMMARY

- ⇒ The survey achieves a 100% response rate for the sixth consecutive year, thanks to the continued support of Exchange Participants.
- ⇒ 114 Exchange Participants participated in trading HKFE products in 99/00 (July 99 – June 00).
- ⇒ Local retail investors continue to be the dominant players of the Exchange's products, with their volume share of 41.3% in 99/00.
- ⇒ The overall participation of institutional investors on the Exchange's products amounted to 46.5% in 99/00, with interest from local institutional investors further increasing to 22.6% in the year from 17.2% in 97/98.
- ⇒ 46.6% of HSI futures transactions in 99/00 came from local retail investors, followed by local institutional investors of 23.5% and overseas institutional investors of 22.5%.
- ⇒ The share of arbitrage transactions on HSI futures dropped to 6.6% in 99/00, with stock borrowing cost increasingly more expensive.
- ⇒ The proportion of hedging in HSI options, and HS 100 futures and options rose to 28.4% and 16.3% respectively in 99/00, with more investors using the products as hedging tools.
- ⇒ Interest from local institutional investors on stock futures has risen. Their share increased to 41.8% in 99/00, from a mere 1.3% in 98/99.
- ⇒ Institutional investors remain the major players of HIBOR futures, accounting for 69.0% of the transactions in 99/00. For registered traders (i.e. market makers), their volume share further increased to 30.9% during the year from 24.7% in 98/99. Retail investor participation in the market continues to be minimal.

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INTRODUCTION

This seventh Exchange Participants Transaction Survey aims to gain an updated and dynamic perspective of the Exchange's business mix (Chart 1). This year, questionnaires were sent to 114¹ Exchange Participants to review their trading patterns in the Exchange's futures and options markets during 99/00. A 100% response rate is achieved for the sixth consecutive year. This survey uncovers the latest patterns² and distributions of Exchange Participants' trading in HSI futures, HSI options, HS 100 futures and options, Red-Chip futures and options, stock futures, HIBOR futures and Rolling Forex markets.

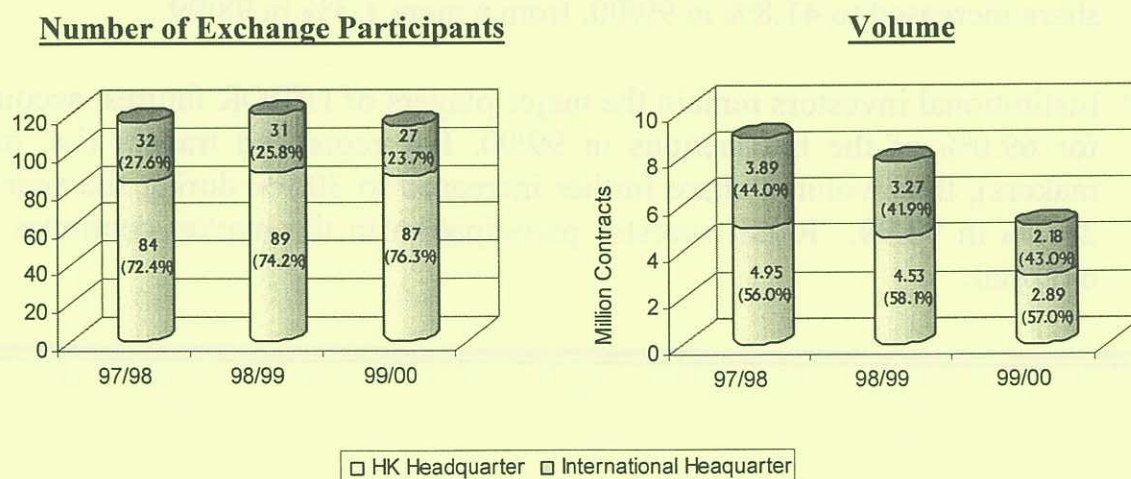
Chart 1: Classification of Exchange Participants' Trading in HKFE



CAPITAL ORIGIN OF EXCHANGE PARTICIPANTS

- ⇒ 114 Exchange Participants participated in trading during 99/00, 27 of them are internationally headquartered³ (Chart 2).
- ⇒ The proportion of Hong Kong headquartered Exchange Participants rose further to 76.3% in 99/00, while their share of volume dropped slightly to 57.0%.

Chart 2: Number of Exchange Participants and Volume by Type of Participants



¹ On trade execution basis.

² Findings are based on Exchange Participants' responses weighted by each Exchange Participant's trading volume.

³ Exchange Participants who have more than half of their capital coming from overseas sources. Likewise, Hong Kong headquartered Exchange Participants are those who have more than half of their capital coming from local sources.

PURPOSE OF FUTURES AND OPTIONS TRADING

- ⇒ Trading remains as the major purpose of transactions in the overall pattern. The proportion of trading transactions increased to 74.8% in 99/00, while hedging and arbitrage transactions dropped to 17.4% and 7.8% respectively (Chart 3 and Table 1).
- ⇒ The share of arbitrage transactions in both HSI futures and HSI options in 99/00 fell to 6.6% and 16.8% respectively (Table 1), with stock borrowing cost increasingly more expensive.
- ⇒ The share of trading in HSI futures in the period continued to increase to 78.0% from 74.0% in 98/99, and about 54.8% of the HSI options turnover in 99/00 were for trading.
- ⇒ More investors use HSI options, and HS 100 futures and options as hedging tools. In 99/00, their shares of hedging rose to 28.4% and 16.3% respectively.
- ⇒ For Red-Chip futures and options, the share of arbitrage transactions rose to 18.2% in 99/00 from 6.2% in 98/99, while that of trading transactions continued to drop to 65.0% from 72.1%.
- ⇒ The proportion of trading in HIBOR futures further increased to 72.3% in 99/00 from 68.9% in 97/98.

Chart 3: Transaction Purposes on All Exchange Products

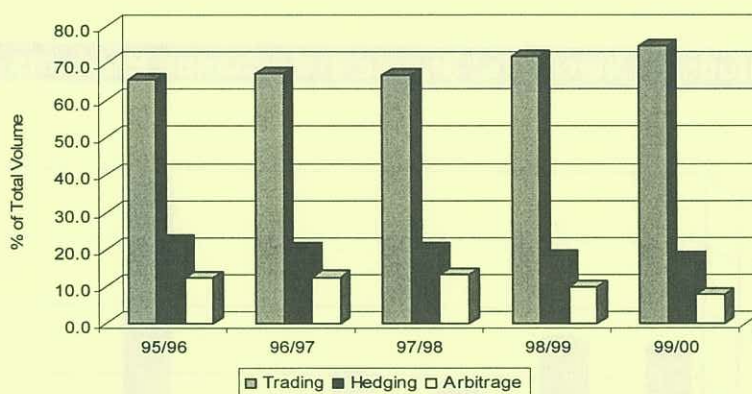


Table 1: Transaction Purposes on Each Exchange Product (%)

	HSI Futures			HSI Options			HS 100 Futures and Options			Stock Futures		
	<u>99/00</u>	<u>98/99</u>	<u>97/98</u>	<u>99/00</u>	<u>98/99</u>	<u>97/98</u>	<u>99/00</u>	<u>98/99</u>		<u>99/00</u>	<u>98/99</u>	<u>97/98</u>
Trading	78.0	74.0	66.6	54.8	57.1	66.8	69.4	64.1		69.8	56.6	71.5
Hedging	15.4	17.5	20.1	28.4	19.7	22.3	16.3	8.9		30.0	26.2	27.5
Arbitrage	6.6	8.5	13.3	16.8	23.2	10.9	14.3	27.0		0.2	17.2	1.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0		100.0	100.0	100.0
	Red-Chip Futures and Options			HIBOR Futures			Rolling Forex			Total		
	<u>99/00</u>	<u>98/99</u>	<u>97/98</u>	<u>99/00</u>	<u>98/99</u>	<u>97/98</u>	<u>99/00</u>	<u>98/99</u>	<u>97/98</u>	<u>99/00</u>	<u>98/99</u>	<u>97/98</u>
Trading	65.0	72.1	74.9	72.3	69.4	68.9	62.6	98.5	64.0	74.8	71.9	66.9
Hedging	16.8	21.7	12.7	23.7	27.7	16.3	37.4	1.5	35.8	17.4	18.2	20.1
Arbitrage	18.2	6.2	12.4	4.0	2.9	14.8	0.0	0.0	0.2	7.8	9.9	13.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

DISTRIBUTION OF FUTURES AND OPTIONS TRADING

- Local retail investors remained as the major players in the overall market. They accounted for 41.3% of total trades in 99/00 (Table 2 on next page).
- The proportion of local investors' transactions in HSI futures rose from 66.2% in 98/99 to 70.1% in 99/00. Of which, the share of local institutional investors increased from 11.8% in 94/95 to 23.5% in 99/00.
- Interest from local retail investors in HSI options further increased. Their share rose to 21.8% in 99/00 from 18.1% in 97/98.
- Local retail investors and registered traders were the two major players of HS 100 futures and options, accounting for 47.2% and 49.4% of total trades respectively in 99/00.
- Local institutional investors have shown a much larger interest in the stock futures market. They accounted for 41.8% of the transactions in 99/00 (Chart 4), compared to a mere 1.3% in 98/99.
- For HIBOR futures, institutional investors remain as the dominant players. Their contribution to total trades stood at 69.0% in 99/00. Active market support from registered traders was seen in 99/00, with their volume share rising further to 30.9% from 24.7% in 98/99. For local retail investors, their contribution continues to be minimal.

Chart 4: Institutional Investors' Shares in Exchange Products in 99/00 (%)

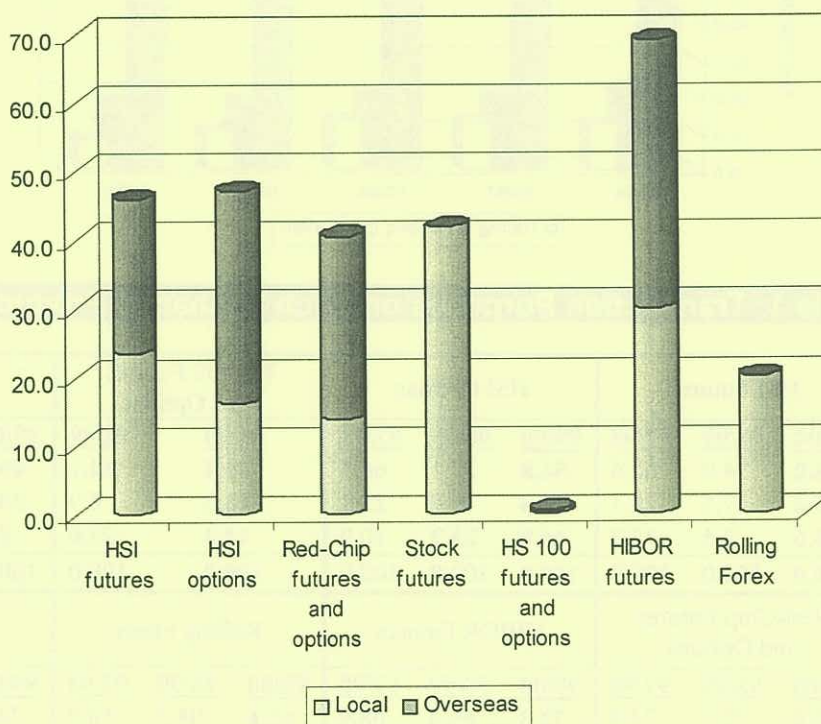


Table 2: Sectoral Distribution of Trading by Investors (%)

	HSI Futures			HSI Options		
	<u>99/00</u>	<u>98/99</u>	<u>97/98</u>	<u>99/00</u>	<u>98/99</u>	<u>97/98</u>
Registered Trader	-	-	-	28.9	10.7	29.2
Proprietary Trading	6.0	5.9	9.0	1.4	9.8	3.4
Local Retail Investor	46.6	47.1	43.7	21.8	21.5	18.1
Local Institutional Investor	23.5	19.1	16.5	16.1	27.1	12.3
Overseas Retail Investor	1.4	1.6	4.5	0.7	0.5	1.0
Overseas Institutional Investor	22.5	26.3	26.3	31.1	30.4	36.0
Total	100.0	100.0	100.0	100.0	100.0	100.0
	HS 100 Futures and Options			Red-Chip Futures and Options		
	<u>99/00</u>	<u>98/99</u>	<u>97/98</u>	<u>99/00</u>	<u>98/99</u>	<u>97/98</u>
Registered Trader	49.4	28.9		13.4	13.5	3.5
Proprietary Trading	2.3	0.9		10.5	4.1	1.4
Local Retail Investor	47.2	44.6		35.2	35.4	28.0
Local Institutional Investor	0.5	23.8		13.8	14.6	20.1
Overseas Retail Investor	0.5	1.6		0.3	2.1	0.4
Overseas Institutional Investor	0.1	0.2		26.8	30.3	46.6
Total	100.0	100.0		100.0	100.0	100.0
	Stock Futures			Rolling Forex		
	<u>99/00</u>	<u>98/99</u>	<u>97/98</u>	<u>99/00</u>	<u>98/99</u>	<u>97/98</u>
Registered Trader	30.5	50.4	49.3	55.0	22.0	48.5
Proprietary Trading	0.0	0.0	1.0	0.9	2.4	0.7
Local Retail Investor	27.7	44.5	35.4	24.1	61.5	27.3
Local Institutional Investor	41.8	1.3	12.9	20.0	9.4	20.6
Overseas Retail Investor	0.0	3.7	0.1	0.0	4.7	2.8
Overseas Institutional Investor	0.0	0.1	1.3	0.0	0.0	0.1
Total	100.0	100.0	100.0	100.0	100.0	100.0
	HIBOR Futures			Total		
	<u>99/00</u>	<u>98/99</u>	<u>97/98</u>	<u>99/00</u>	<u>98/99</u>	<u>97/98</u>
Registered Trader	30.9	24.7	24.4	5.9	3.0	4.5
Proprietary Trading	0.0	0.3	5.9	5.1	5.9	8.0
Local Retail Investor	0.1	0.2	0.1	41.3	41.7	38.8
Local Institutional Investor	29.8	35.7	43.0	22.6	20.8	17.2
Overseas Retail Investor	0.0	0.0	0.0	1.2	1.5	3.9
Overseas Institutional Investor	39.2	39.1	26.6	23.9	27.1	27.6
Total	100.0	100.0	100.0	100.0	100.0	100.0



**Table 3: Proportion of Exchange Participants' Volume
by Business Composition (%)**

	HSI Futures	HSI Options	Red-Chip Futures & Options	Stock Futures	HS 100 Futures & Options	HIBOR Futures	Rolling Forex	99/00 Overall	98/99 Overall
<i>ALL TRADING</i>									
Principal	6.0	30.3	24.0	30.5	51.7	30.9	55.8	11.0	8.9
Agency	94.0	69.7	76.0	69.5	48.3	69.1	44.2	89.0	91.1
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<i>Agency Trading</i>									
Local	74.5	54.5	64.4	100.0	98.7	43.3	100.0	71.7	68.6
Overseas	25.5	45.5	35.6	0.0	1.3	56.7	0.0	28.3	31.4
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<i>Agency Trading</i>									
Retail	51.0	32.3	46.7	39.8	98.7	0.1	54.7	47.8	47.3
Institutional	49.0	67.7	53.3	60.2	1.3	99.9	45.3	52.2	52.7
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<i>Retail Investor Trading</i>									
Local	97.0	96.9	99.0	100.0	98.9	100.0	100.0	97.0	96.7
Overseas	3.0	3.1	1.0	0.0	1.1	0.0	0.0	3.0	3.3
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<i>Institutional Investor Trading</i>									
Local	51.1	34.2	34.0	100.0	77.3	43.2	100.0	48.6	43.4
Overseas	48.9	65.8	66.0	0.0	22.7	56.8	0.0	51.4	56.6
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<i>Local Investor Trading</i>									
Retail	66.4	57.5	71.9	39.8	99.0	0.3	54.7	64.7	66.7
Institutional	33.6	42.5	28.1	60.2	1.0	99.7	45.3	35.3	33.3
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<i>Overseas Investor Trading</i>									
Retail	6.0	2.2	1.3	n.a.	78.7	0.0	n.a.	5.0	5.1
Institutional	94.0	97.8	98.7	n.a.	21.3	100.0	n.a.	95.0	94.9
	100.0	100.0	100.0	n.a.	100.0	100.0	n.a.	100.0	100.0

n.a. - not applicable

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