

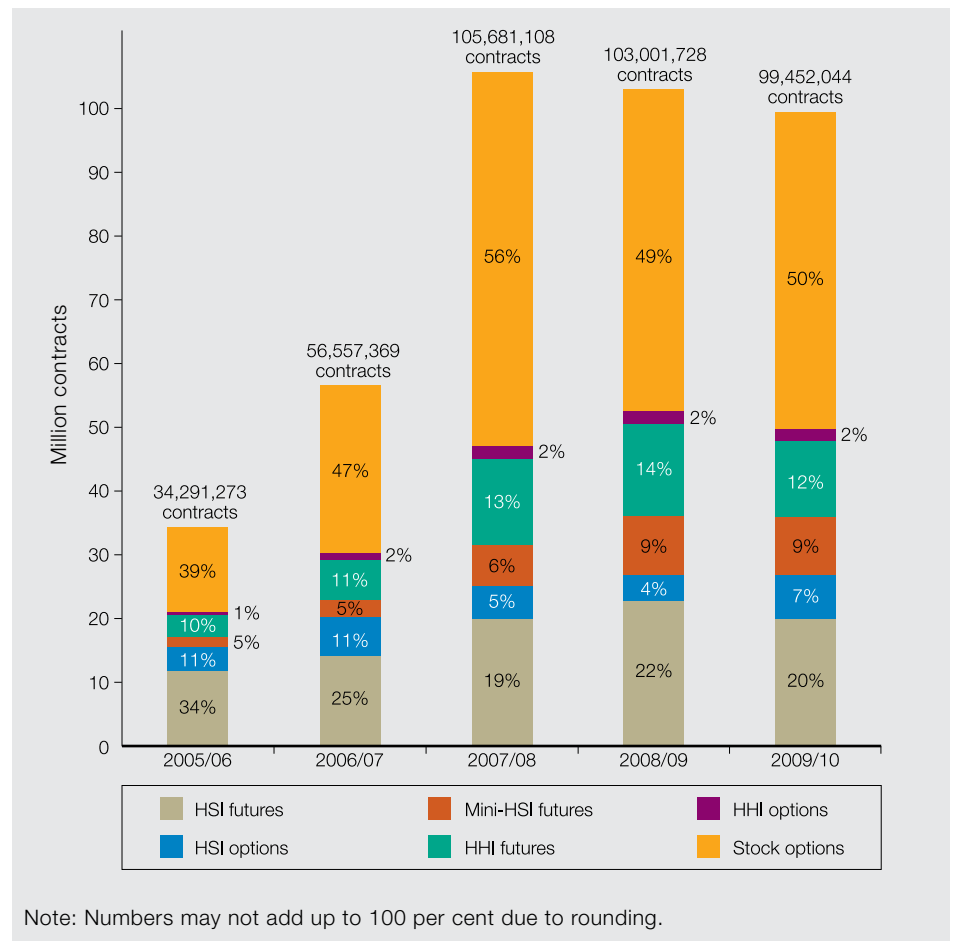
# Retail Online Trading for Derivatives Continues to Grow

By Research & Corporate Development Department

The HKEx Derivatives Market Transaction Survey 2009/10 found that retail investors' online trading continues to grow, accounting for about one-half of retail investor trading. Exchange Participants' principal trading remains the largest contributor to HKEx's derivatives market turnover, however, its contribution has declined over the past two years.

HKEx conducts the Derivatives Market Transaction Survey (DMTS) annually to track trading in its derivatives (futures and options) market by investor type and purpose. The latest survey covers the major products in terms of turnover volume — Hang Seng Index (HSI) futures, HSI options, Mini-HSI futures, H-shares Index (HHI) futures, HHI options and stock options. These products accounted for about 99 per cent of the total turnover volume of the HKEx derivatives market during the study period (July 2009 – June 2010). Figure 1 shows the trading volume by product under study for the five most recent surveys.

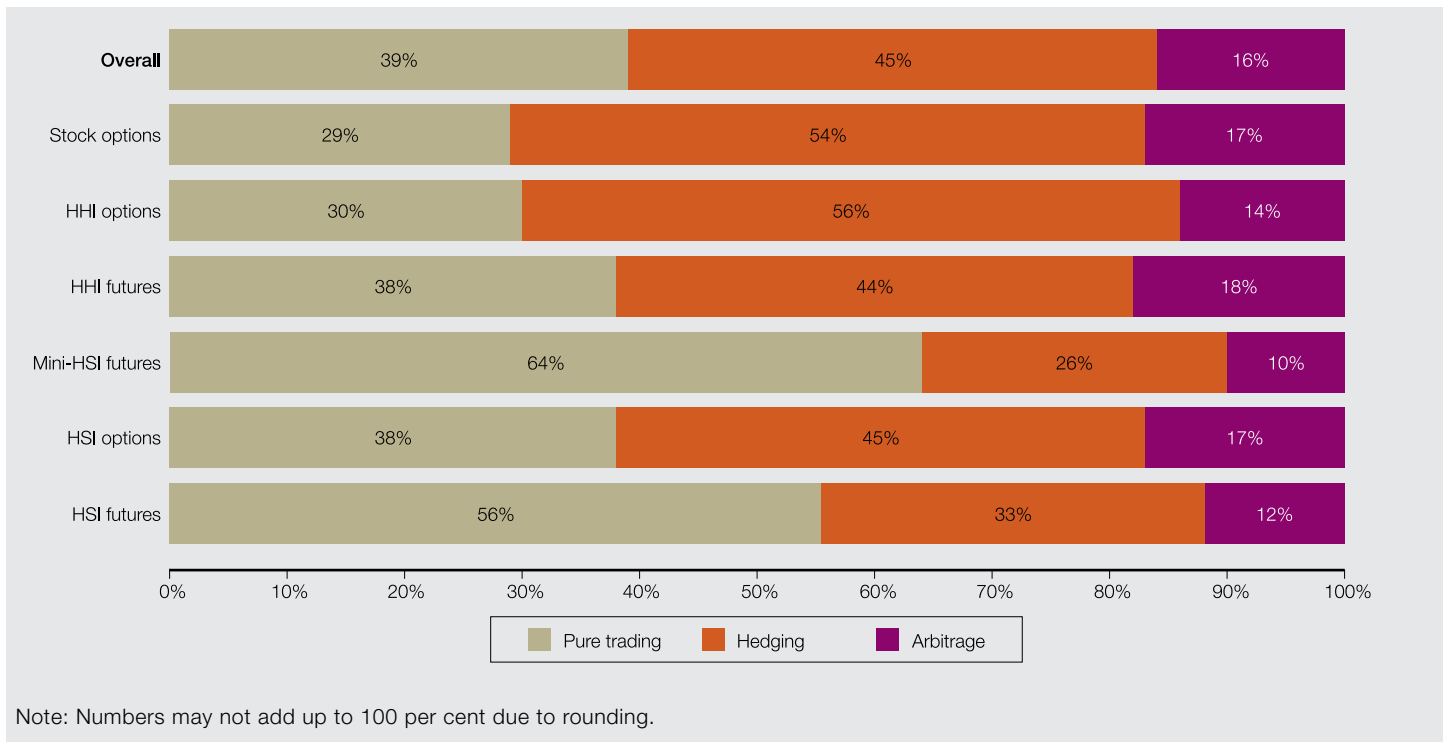
**Figure 1 Contract volume and percentage of total by product under study (2005/06 – 2009/10)**



### Distribution of Trading by Trade Purpose

The main transaction purpose of derivatives trading in 2009/10 was hedging, making up 45 per cent of the total derivatives market turnover in 2009/10, up from 41 per cent in 2008/09. The proportion of turnover for pure trading was also high (39 per cent, down from 42 per cent in 2008/09). Arbitrage turnover accounted for 16 per cent of the overall market turnover in 2009/10, compared to 17 per cent in 2008/09. (See Figure 2.)

**Figure 2 Distribution of derivatives market trading volume by transaction purpose for overall market and each product (Jul 2009 – Jun 2010)**

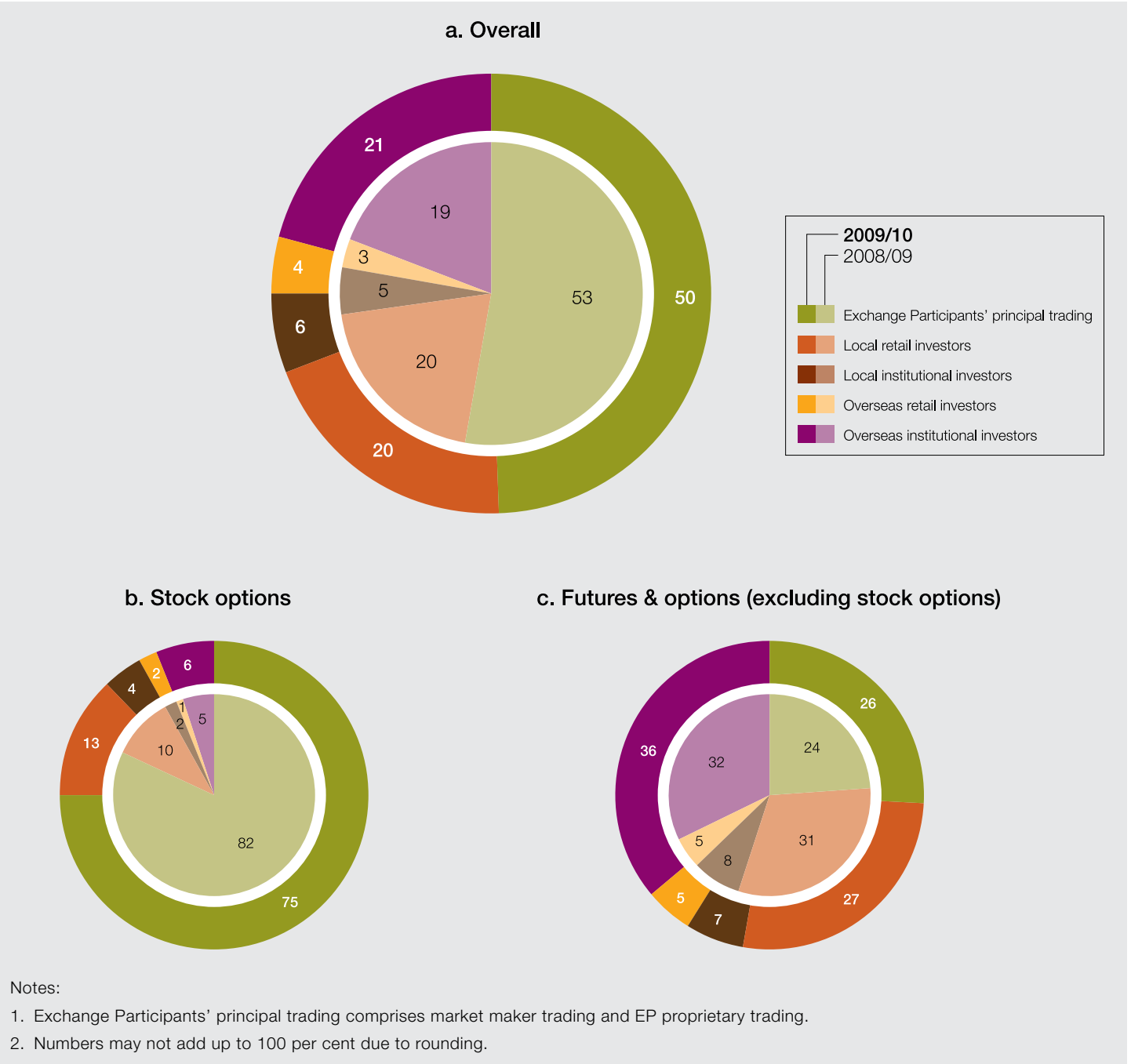


### Distribution of Trading by Investor Type

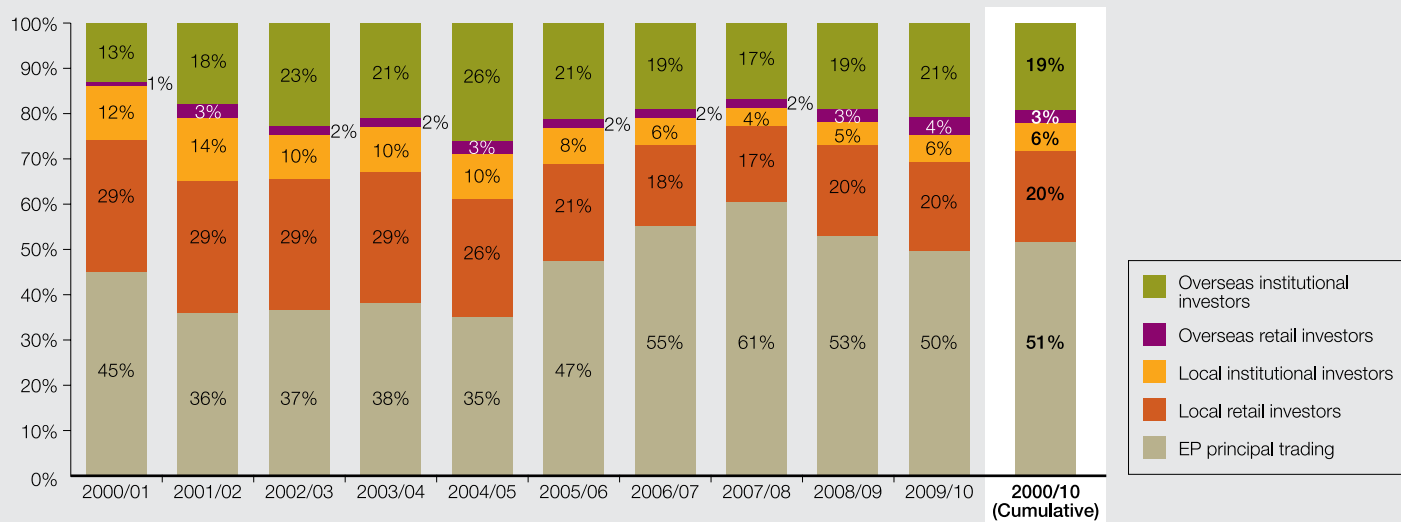
In 2009/10, the contribution of EP principal trading (comprising market maker trading and EP proprietary trading) remained the largest contributor to market turnover in HKEx’s derivatives market, making up 50 per cent of total market volume, mostly from stock options (see Figure 3). However, it has declined for two consecutive years (from 53 per cent in 2008/09 and 61 per cent in 2007/08). This mainly reflects the decreasing contribution of market maker trading (from 49 per cent in 2007/08 to 40 per cent in 2008/09 and down to 36 per cent in 2009/10). (See Figure 4.)

The contribution from overseas investors was 24 per cent (21 per cent from institutions) in 2009/10, up from 22 per cent in 2008/09 and 19 per cent in 2007/08. The contribution from local investors was 26 per cent in 2009/10 — 20 per cent from retail and 6 per cent from institutions, similar to figures in 2008/09. (See Figures 3 to 5.)

**Figure 3** Distribution of derivatives market trading volume by investor type (in percentage terms) (Jul 2009 – Jun 2010)



**Figure 4 Distribution of derivatives market trading volume by investor type (2000/01 – 2009/10)**

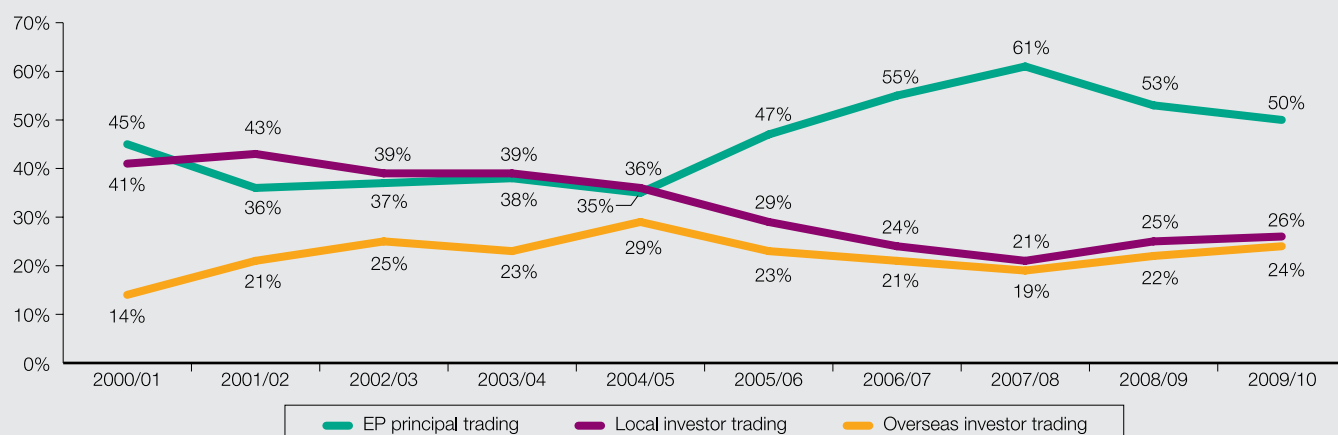


Overall market	2005/06	2006/07	2007/08	2008/09	2009/10
<b>Principal trading<sup>1</sup></b>	47.4	55.0	60.6	52.5	49.9
– Market makers	33.7	40.0	49.0	39.9	36.2
– Proprietary trading	13.7	15.0	11.6	12.6	13.7
<b>Local investors</b>	29.2	23.8	20.6	25.4	25.6
– Retail	21.5	18.0	17.0	20.2	20.0
– Institutional	7.7	5.8	3.6	5.2	5.6
<b>Overseas investors</b>	23.5	21.1	18.8	22.1	24.5
– Retail	2.3	2.0	2.0	3.2	3.5
– Institutional	21.1	19.2	16.8	18.9	20.9
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Notes:

1. Exchange Participants' principal trading comprises market maker trading and EP proprietary trading.
2. Numbers may not add up to 100 per cent due to rounding.

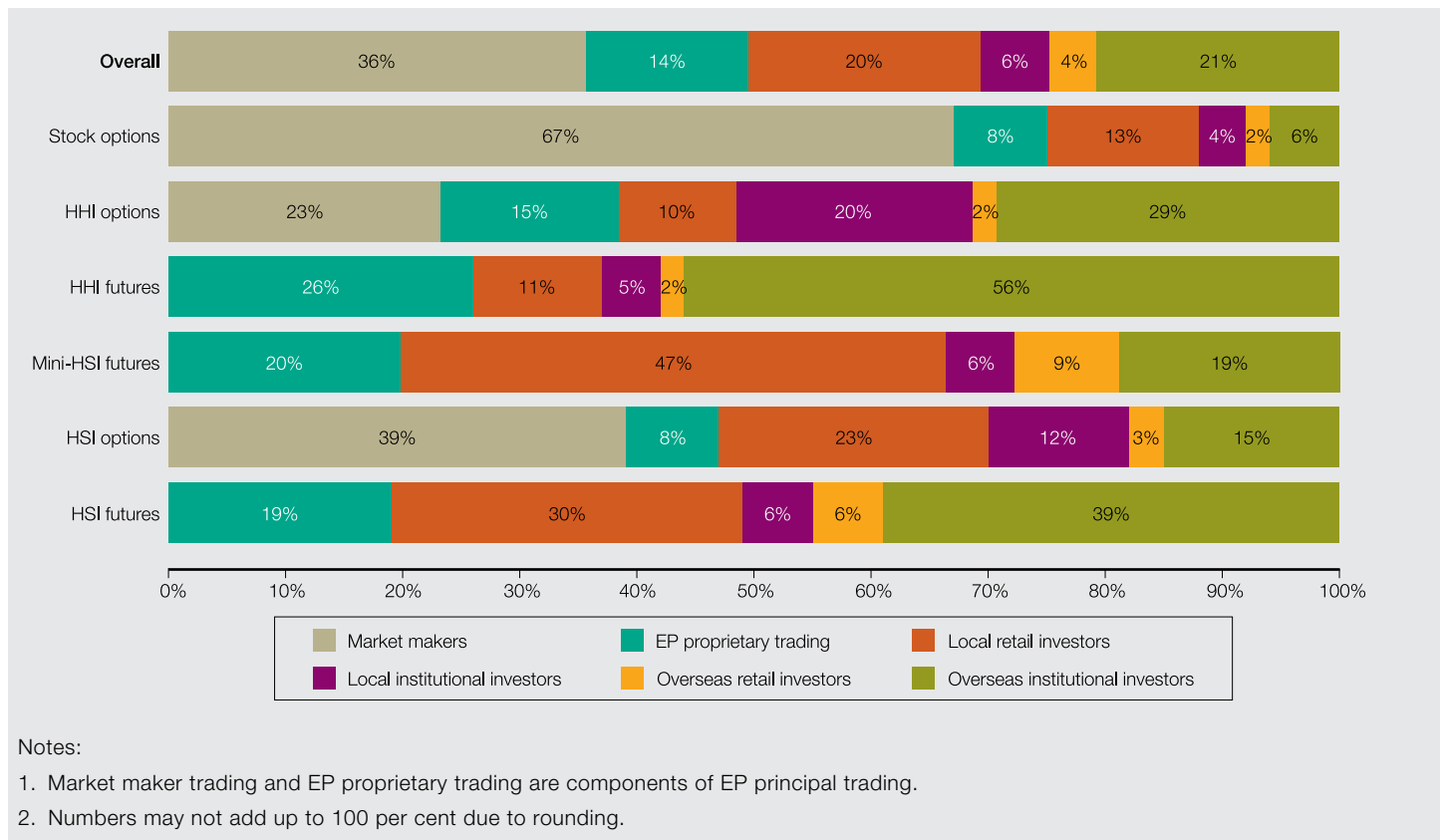
**Figure 5 Distribution of derivatives market trading volume by investor type (local vs overseas) (2000/01 – 2009/10)**



Note: Numbers may not add up to 100 per cent due to rounding.

Trading composition by investor type differed by product. For HSI futures, the contribution from overseas institutional investors was the most significant — 39 per cent (up from 34 per cent in 2008/09), followed by local retail investors (30 per cent). For Mini-HSI futures, local retail investors remained the major participant type. However, their contribution dropped below 50 per cent for the first time to 47 per cent in 2009/10 (58 per cent in 2008/09). For HHI futures, overseas investors contributed the majority of the product’s trading (58 per cent), mainly from institutions (56 per cent). For HHI options, EP principal trading and overseas institutional investors were the two major contributors (38 per cent and 29 per cent respectively). EP principal trading dominated the turnover of stock options (75 per cent) and was also the most significant contributor to HSI options (47 per cent). (See Figure 6.)

**Figure 6 Distribution of derivatives market trading volume by investor type for overall market and each product (Jul 2009 – Jun 2010)**

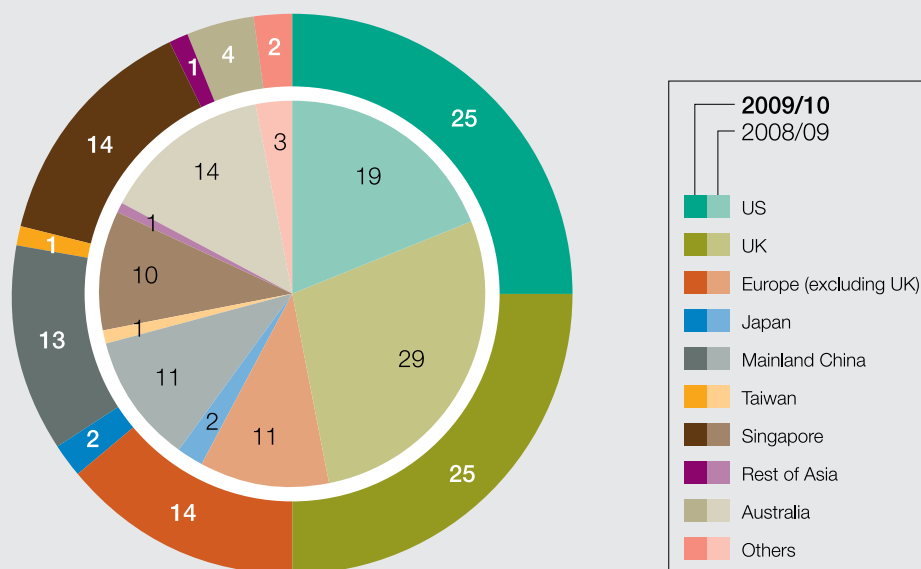


### Distribution of overseas investor trading by origin

Overseas investors contributed 24 per cent of total market trading in 2009/10. Among them, UK investors and US investors were the two largest groups, both contributing 25 per cent of the total overseas investor trading. However, UK investors’ contribution dropped from 29 per cent in 2008/09 while US investors’ contribution grew from 19 per cent in 2008/09. The contributions from European (excluding UK), Singaporean and Mainland China investors were also significant (13–14 per cent in 2009/10, compared to 10–11 per cent in 2008/09). The aggregate contribution to overseas investor trading from Asian investors (Mainland China, Singapore, Japan, Taiwan and the Rest of Asia) was 30 per cent in 2009/10, up from 24 per cent in 2008/09. (See Figure 7.)

Although the survey did not ask for a breakdown by retail/institutional investors for each overseas origin, a minimum proportion of retail/institutional investors trading from each origin could be deduced from EPs' responses. Overseas investor trading from the US, the UK, Continental Europe, Japan, Singapore and Australia came predominantly (around 90 per cent or more) from institutional investors, while at least three-quarters of Mainland investor trading came from retail investors.

**Figure 7 Distribution of overseas investor trading volume in derivatives by origin (in percentage terms) (Jul 2009 – Jun 2010)**



\* Reported origins in "Others" in 2009/10 comprised Africa, Belize, British Virgin Islands, Canada, Caribbean, Cayman Islands, Liberia, Middle East and New Zealand.

Note: Numbers may not add up to 100 per cent due to rounding.

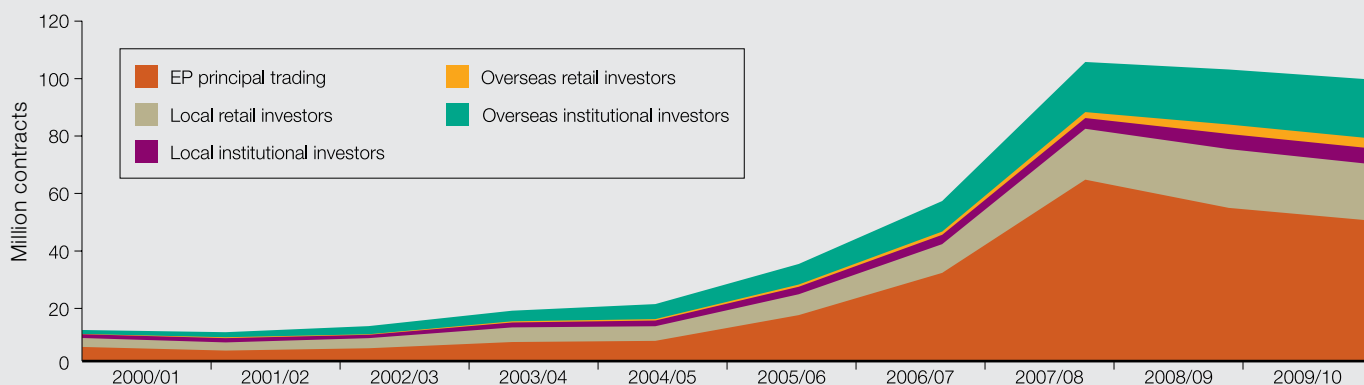
### Changes in Contract Volume by Investor Type

From the percentage contributions obtained from the survey, the implied contract volumes by investor type during each study period were computed based on the actual volume for the products.

The total market turnover volume (products under study only) decreased by 4 per cent year-on-year in 2009/10. The volume of EP principal trading (in number of contracts) decreased for the second year by 8 per cent in 2009/10, mainly reflecting the decrease in market making which was mainly in stock options. Retail investor trading decreased by 3 per cent, the first decrease since 2001/02, mainly reflecting the decrease in **local** retail investor trading (down 4 per cent). Institutional investor trading continued its year-on-year growth for the past nine years and increased by 6 per cent from 2008/09, mostly reflecting the increase in **overseas** institutional trading (up 7 per cent). As overseas investor trading came mainly from institutions, year-on-year growth in total overseas investor trading has also been observed for the past nine years.

For overseas investor trading, trading from all the origins under study recorded year-on-year growth, except the UK, Taiwan and Australia. In particular, trading from Mainland China investors continued its year-on-year growth for the ninth consecutive year. (See Figures 8 & 9.)

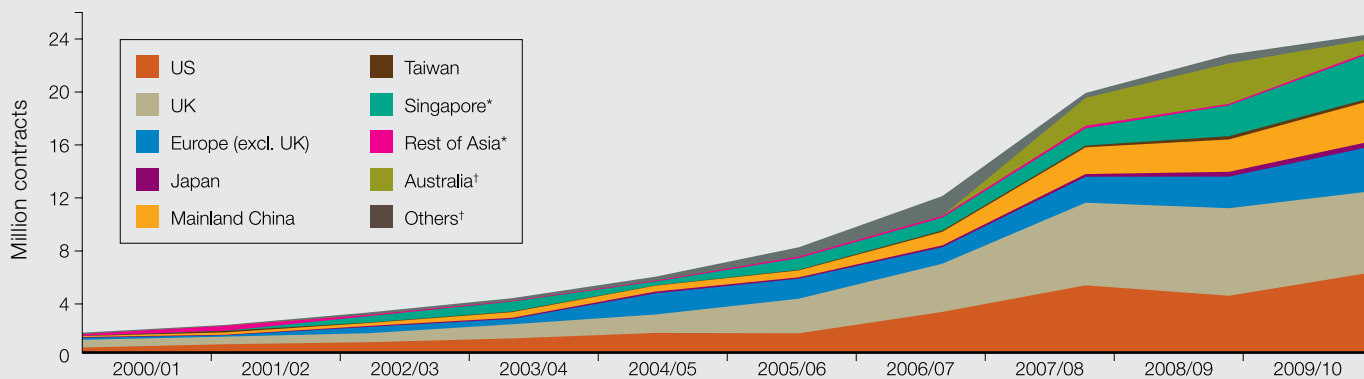
**Figure 8 Implied contract volume of derivatives by investor type (2000/01 – 2009/10)**



Type of trade	Year-on-year % change									
	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	
EP principal trading	-25.82%	22.24%	48.70%	6.19%	128.14%	91.57%	105.85%	-15.57%	-8.30%	
Local investor trading	-2.14%	8.71%	45.13%	4.10%	39.07%	34.75%	61.63%	20.05%	-2.47%	
– Retail	-7.66%	21.86%	45.29%	-0.29%	42.66%	38.21%	76.70%	15.52%	-4.12%	
– Institutional	11.21%	-17.72%	44.65%	17.25%	29.95%	25.07%	15.11%	41.53%	3.91%	
Overseas investor trading	39.52%	44.77%	35.72%	39.27%	38.84%	48.65%	65.84%	14.77%	6.96%	
– Retail	272.57%	-40.70%	108.07%	28.55%	52.10%	39.87%	88.65%	56.14%	6.22%	
– Institutional	24.89%	60.77%	30.72%	40.45%	37.51%	49.63%	63.47%	9.81%	7.08%	
<b>Total</b>	<b>-7.11%</b>	<b>21.11%</b>	<b>44.10%</b>	<b>13.12%</b>	<b>70.56%</b>	<b>64.93%</b>	<b>86.86%</b>	<b>-2.54%</b>	<b>-3.45%</b>	

Note: Exchange Participants' principal trading comprises market maker trading and EP proprietary trading.

**Figure 9 Implied contract volume of overseas investor trading in derivatives by origin (2000/01 – 2009/10)**



Overseas origin	Year-on-year % change									
	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	
US	66.71%	23.07%	36.93%	39.59%	-1.90%	110.60%	65.43%	-15.50%	41.19%	
UK & Europe	-7.36%	70.40%	27.16%	102.25%	37.97%	18.51%	67.89%	9.63%	5.85%	
– UK	-1.98%	19.16%	56.08%	30.41%	87.33%	39.52%	71.41%	5.88%	-7.22%	
– Europe (excluding the UK)	-28.37%	344.19%	-14.31%	289.83%	-5.14%	-17.75%	57.59%	21.58%	42.07%	
Asia	151.04%	30.85%	49.24%	-30.29%	75.63%	41.01%	62.07%	43.19%	31.25%	
– Japan	-46.30%	118.01%	23.79%	55.52%	-19.06%	29.61%	43.49%	83.44%	7.39%	
– Mainland China	145.28%	26.99%	91.35%	5.85%	-15.33%	100.38%	96.75%	21.18%	26.16%	
– Taiwan	1,722.09%	-69.92%	20.05%	-70.04%	230.00%	109.66%	36.92%	88.74%	-20.30%	
– Singapore*	–	–	56.14%	-60.61%	196.62%	9.19%	34.00%	78.66%	45.59%	
– Rest of Asia*	155.25%	-71.17%	-42.14%	10.37%	88.40%	8.39%	38.24%	-39.84%	40.38%	
Australia†	–	–	–	–	–	–	–	45.21%	-71.05%	
Others†	-27.60%	123.90%	15.46%	50.24%	133.24%	116.73%	-75.08%	75.32%	-42.30%	
<b>Total</b>	<b>39.52%</b>	<b>44.77%</b>	<b>35.72%</b>	<b>39.27%</b>	<b>38.84%</b>	<b>48.65%</b>	<b>65.84%</b>	<b>14.77%</b>	<b>6.96%</b>	

– : Not applicable

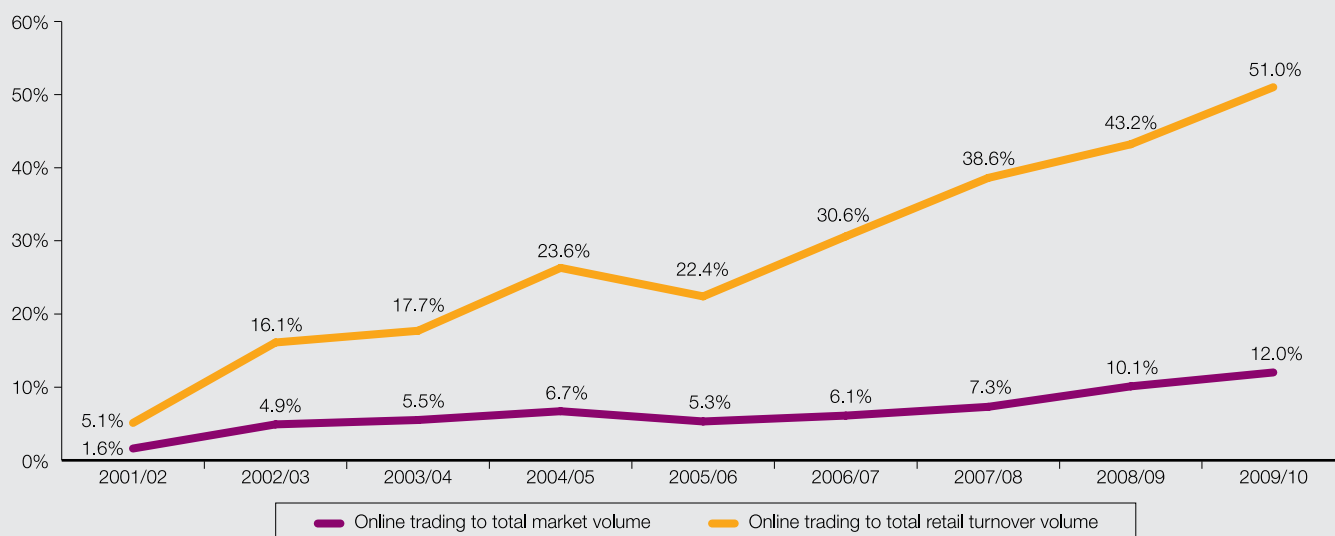
\* For surveys before 2002/03, Singapore was included in "Rest of Asia".

† For surveys before 2007/08, Australia was included in "Others".

## Retail Online Trading

Retail online trading as a proportion of total retail investor trading continued to grow, and for the first time, contributed a majority of retail investor trading (51 per cent) in 2009/10, up from 43 per cent in 2008/09. Its contribution to total market turnover was 12 per cent in 2009/10, up from 10 per cent in 2008/09. The respective proportions for stock options and other derivatives also recorded significant increase. (See Figure 10.)

**Figure 10 Retail online trading to retail turnover volume and total derivatives market volume (2001/02 – 2009/10)**



Retail online trading by product segment	2005/06	2006/07	2007/08	2008/09	2009/10
<b>Futures and options (excluding stock options)</b>					
– As % of total product turnover*	8.4%	10.4%	15.4%	17.6%	19.1%
– As % of total retail investor trading of the products	25.8%	34.3%	43.7%	49.2%	60.3%
<b>Stock options</b>					
– As % of total product turnover#	0.5%	1.1%	0.9%	2.5%	4.8%
– As % of total retail investor trading of the products	4.7%	14.7%	15.2%	22.8%	31.4%

\* Turnover of products in the segment included in the study – HSI futures and options, HHI futures and options and Mini-HSI futures – measured by contract volume.

# Stock options turnover measured by contract volume.

Note: Figures before 2009/10 for the percentage of online trading to total market volume/total retail turnover volume were adjusted to reflect the refinement in the calculation of total implied online trading volume for the overall market.

The full survey report (English only) is available on the HKEx website. [CLICK](#)