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# Members Transaction Survey 98/99

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Economic Research Department

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## EXECUTIVE SUMMARY

- The survey achieves a 100% response rate for the fifth consecutive year in a row, thanks to the support of our Members.
- The number of Members trading on HKFE products rose to 120 in 98/99 (July 98-June 99).
- The overall participation of institutional investors on HKFE's products increased from 43.5% in 96/97 to 47.9% in 98/99.
- 26.3% of HSI futures transactions in 98/99 came from overseas institutional investors, compared with a mere 0.2% in HS 100 futures and options transactions.
- Arbitrage transactions on HSI futures decreased in 98/99, due to reduced market efficiency.
- Interest from local retail investors on stock futures increased. Its share rose to 44.5% in 98/99, up from 35.4% in 97/98.
- The share of hedging transactions in Red-Chip futures and options rose to 21.7% in 98/99, reflecting a relatively more volatile underlying market.
- Institutional investors are the major players of HIBOR futures, accounting for 74.8% of the transactions in 98/99. Retail investor participation in the market remains minimal.



## INTRODUCTION

This sixth Members Transaction Survey aims to gain an updated and dynamic perspective of the Exchange's business mix (Chart 1). This year, questionnaires were sent to 120<sup>1</sup> Members doing Exchange business to review their transactions in the HKFE's futures and options markets during 98/99. A 100% response rate is achieved for the fifth consecutive year. The survey uncovers the latest patterns<sup>2</sup> and distributions of Members' trading in HSI futures, HSI options, Red-Chip futures and options, stock futures, HS 100 futures and options, HIBOR futures, and Rolling Forex markets.

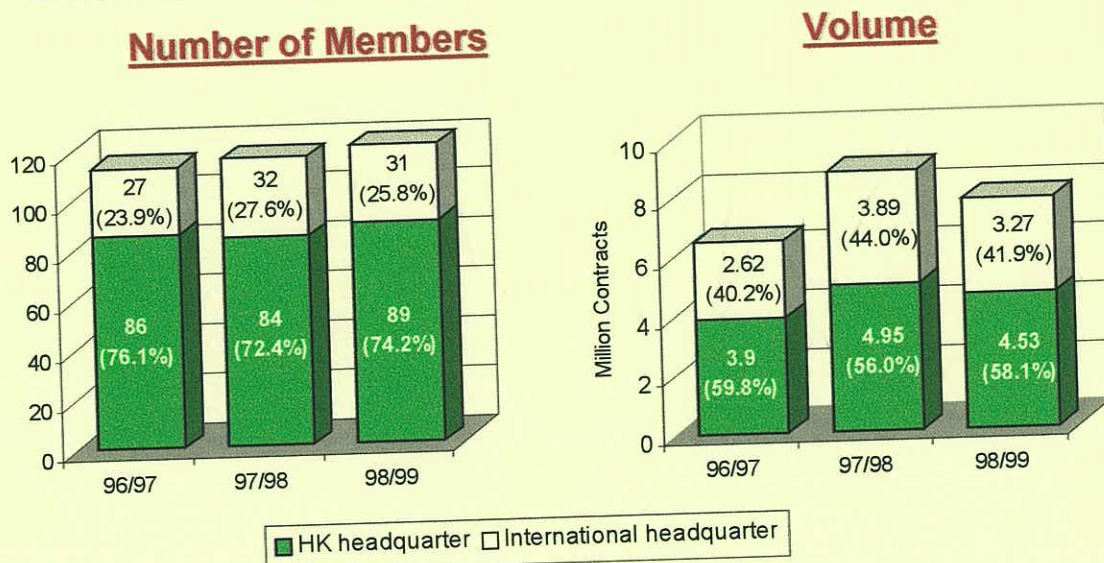
**Chart 1: Classification of Member Trading on HKFE**



## CAPITAL ORIGIN OF HKFE MEMBERS

- The number of Members who participate in trading has increased further, to 120 in 98/99 from 116 in 97/98 (Chart 2).
- The proportion of Hong Kong headquartered Members<sup>3</sup> rose slightly to 74.2%, and their share of volume also edged up to 58.1%.

**Chart 2: Number of Members and Volume by Type of Members**



<sup>1</sup> On trade execution basis.

<sup>2</sup> Findings are based on Members' responses weighted by each Member's trading volume.

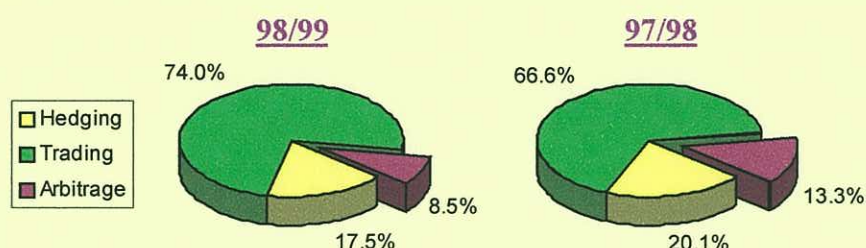
<sup>3</sup> Members who have more than half of the capital coming from local sources. Likewise, internationally headquartered Members are those who have more than half of the capital sources coming from overseas.



## PURPOSE OF FUTURES AND OPTIONS TRADING

- In 98/99, two major changes in the overall pattern were observed: the proportion of trading transactions rose to 71.9% while the proportion of arbitrage transactions dropped to 9.9% (Table 1).
- The share of arbitrage transactions in HSI futures in 98/99 fell to 8.5% (Chart 3), due partly to reduced market efficiency, and the share of trading surged from 66.6% in 97/98 to 74.0%.
- About two-thirds of the HS100 futures and options turnover in 98/99 were for trading and 27.0% for arbitrage.
- The proportion of hedging in Red-Chip futures and options increased to 21.7% in 98/99 from 12.7% in 97/98, and the proportion of trading declined to 72.1% from 74.9%.
- HIBOR futures saw the share of hedging surged to 27.7% in 98/99 from 16.3% in 97/98.

**Chart 3: Transaction Objectives on HSI Futures (%)**



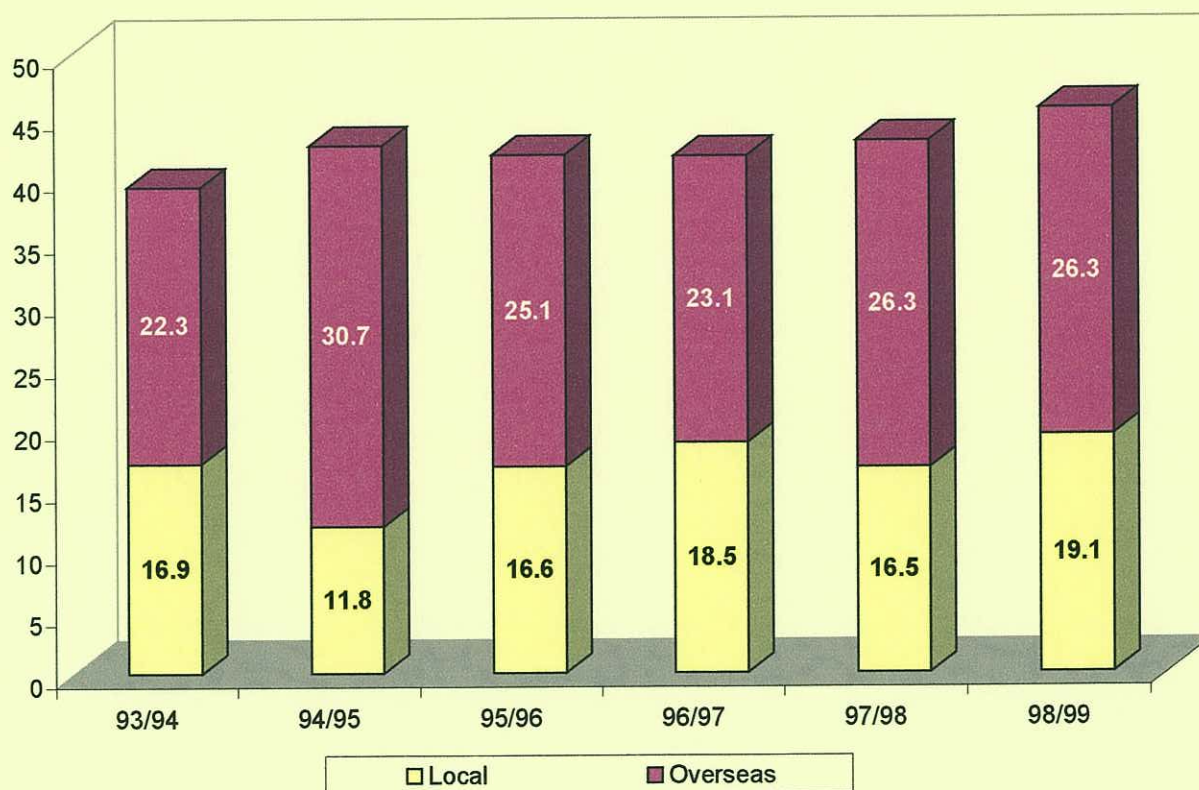
**Table 1: Sectoral Distribution of Transaction Objectives (%)**

	HSI Futures			HSI Options			HS 100 Futures and Options		
	98/99	97/98	96/97	98/99	97/98	96/97	98/99		
Hedging	17.5	20.1	18.6	19.7	22.3	22.7	8.9		
Trading	74.0	66.6	69.7	57.1	66.8	59.0	64.1		
Arbitrage	8.5	13.3	11.7	23.2	10.9	18.3	27.0		
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>		
	Red-Chip Futures and Options		Stock Futures			Rolling Forex			
	98/99	97/98	98/99	97/98	96/97	98/99	97/98	96/97	
Hedging	21.7	12.7	26.2	27.5	13.6	1.5	35.8	37.4	
Trading	72.1	74.9	56.6	71.5	85.8	98.5	64.0	61.6	
Arbitrage	6.2	12.4	17.2	1.0	0.6	0.0	0.2	1.0	
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	
	HIBOR Futures		Total						
	98/99	97/98	98/99	97/98	96/97				
Hedging	27.7	16.3	18.2	20.1	20.2				
Trading	69.4	68.9	71.9	66.9	67.3				
Arbitrage	2.9	14.8	9.9	13.0	12.5				
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>				

## DISTRIBUTION OF FUTURES AND OPTIONS TRADING

- Local retail investors' transactions continued to dominate the overall market and constituted 41.7% of total trades in 98/99 (Table 2).
- The proportion of institutional investors' transactions in HSI futures has been rising, to 45.4% in 98/99 from 39.2% in 93/94. Of which, the share of overseas institutional investors increased to 26.3% in 98/99 from 22.3% in 93/94. The share of local institutional investors rose to 19.1% from 16.9% (Chart 4).
- Interest from local investors on HSI options increased. Its share rose greatly to 48.6% in 98/99, from 30.4% in 97/98.
- Local investors were the major players of HS 100 futures and options, accounting for 68.4% of total trades in 98/99.
- Local retail investors' transactions in stock futures constituted 44.5% of total turnovers in 98/99, up 9.1 percentage points from the previous year.
- Institutional investors remained the dominant players in the HIBOR futures markets. Their contribution to total trades further grew to 74.8% in 98/99.

**Chart 4: Institutional Investors' Share to All HSI Futures Trades (%)**





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

	HSI Futures			HSI Options		
	<u>98/99</u>	<u>97/98</u>	<u>96/97</u>	<u>98/99</u>	<u>97/98</u>	<u>96/97</u>
Registered Trader	-	-	-	10.7	29.2	18.8
Member Proprietary Trading	5.9	9.0	9.7	9.8	3.4	8.5
Local Retail Investor	47.1	43.7	46.9	21.5	18.1	18.2
Local Institutional Investor	19.1	16.5	18.5	27.1	12.3	35.3
Overseas Institutional Investor	26.3	26.3	23.1	30.4	36.0	18.4
Overseas Retail Investor	1.6	4.5	1.8	0.5	1.0	0.8
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
	HS 100 Futures and Options			Red-Chip Futures and Options		
	<u>98/99</u>			<u>98/99</u>	<u>97/98</u>	
Registered Trader	28.9			13.5	3.5	
Member Proprietary Trading	0.9			4.1	1.4	
Local Retail Investor	44.6			35.4	28.0	
Local Institutional Investor	23.8			14.6	20.1	
Overseas Institutional Investor	0.2			30.3	46.6	
Overseas Retail Investor	1.6			2.1	0.4	
<b>Total</b>	<b>100.0</b>			<b>100.0</b>	<b>100.0</b>	
	Stock Futures			Rolling Forex		
	<u>98/99</u>	<u>97/98</u>	<u>96/97</u>	<u>98/99</u>	<u>97/98</u>	<u>96/97</u>
Registered Trader	50.4	49.3	39.8	22.0	48.5	57.8
Member Proprietary Trading	0.0	1.0	1.3	2.4	0.7	1.8
Local Retail Investor	44.5	35.4	44.2	61.5	27.3	7.2
Local Institutional Investor	1.3	12.9	14.7	9.4	20.6	15.4
Overseas Institutional Investor	0.1	1.3	0.0	0.0	0.1	16.6
Overseas Retail Investor	3.7	0.1	0.0	4.7	2.8	1.2
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
	HIBOR Futures			Total		
	<u>98/99</u>		<u>97/98</u>	<u>98/99</u>	<u>97/98</u>	<u>96/97</u>
Registered Trader	24.7		24.4	3.0	4.5	6.3
Member Proprietary Trading	0.3		5.9	5.9	8.0	9.1
Local Retail Investor	0.2		0.1	41.7	38.8	39.5
Local Institutional Investor	35.7		43.0	20.8	17.2	21.6
Overseas Institutional Investor	39.1		26.6	27.1	27.6	21.9
Overseas Retail Investor	0.0		0.0	1.5	3.9	1.6
<b>Total</b>	<b>100.0</b>		<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>



## Appendix 1: Proportion of Members' Volume by Business Composition (%)

	HSI Futures	HSI Options	Red-Chip Futures & Options	Stock Futures	HS 100 Futures & Options	HIBOR Futures	Rolling Forex	98/99 Overall	97/98 Overall
<b>ALL TRADING</b>									
<b>Principal Agency</b>	5.9	20.4	17.6	50.5	29.9	25.0	24.4	8.9	12.5
	94.1	79.6	82.4	49.5	70.1	75.0	75.6	91.1	87.5
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<i>Agency Trading</i>									
<b>Local</b>	70.3	61.1	60.7	92.3	97.5	47.9	93.8	68.6	64.1
<b>Overseas</b>	29.7	38.9	39.3	7.7	2.5	52.1	6.2	31.4	35.9
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<i>Agency Trading</i>									
<b>Retail</b>	51.8	27.7	45.6	97.3	65.9	0.3	87.6	47.3	48.8
<b>Institutional</b>	48.2	72.3	54.4	2.7	34.1	99.7	12.4	52.7	51.2
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<i>Retail Investor Trading</i>									
<b>Local</b>	96.6	97.7	94.5	92.2	96.5	100.0	93.0	96.7	91.0
<b>Overseas</b>	3.4	2.3	5.5	7.8	3.5	0.0	7.0	3.3	9.0
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<i>Institutional Investor Trading</i>									
<b>Local</b>	42.1	47.1	32.5	95.2	99.3	47.7	100.0	43.4	38.4
<b>Overseas</b>	57.9	52.9	67.5	4.8	0.7	52.3	0.0	56.6	61.6
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<i>Local Investor Trading</i>									
<b>Retail</b>	71.1	44.3	70.9	97.2	65.2	0.7	86.8	66.7	69.2
<b>Institutional</b>	28.9	55.7	29.1	2.8	34.8	99.3	13.2	33.3	30.8
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<i>Overseas Investor Trading</i>									
<b>Retail</b>	5.9	1.6	6.4	98.3	91.2	0.0	100.0	5.1	12.3
<b>Institutional</b>	94.1	98.4	93.6	1.7	8.8	100.0	0.0	94.9	87.7
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

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