

MEMBERS TRANSACTION SURVEY 1998

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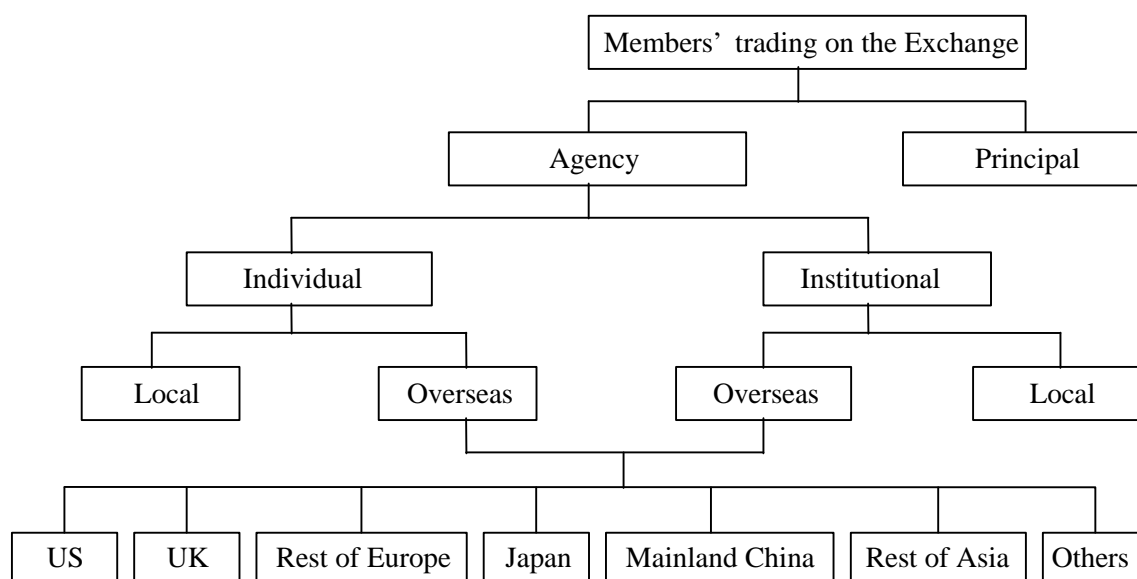
1. INTRODUCTION

The Exchange has conducted the Members Transaction Survey annually since 1991 to ascertain the composition of its members' trading. The main objectives are to understand the relative significance of market participation of different types of investors and the business composition of members with different sizes, thereby to help formulate the Exchange's market strategies. The types of members' trading were classified as in Figure 1.

The 1998 Members Transaction Survey covered members' transactions from *October 1997 to September 1998*. Questionnaires were mailed to all members contributing the top and second one-third of total market turnover value (100% response rate); and a randomly selected sample comprising about 60% of those members contributing the bottom one-third of total market turnover value (99.6% response rate). The overall responded sample represented 88% in turnover value and 66% of the members by number.

The Survey results indicated that the *absolute* value of all types of trade in 1998 decreased significantly from the previous year. Local investors, including individuals and institutions, remained the major participants in the market, contributing 63% of total market trading in value terms, down from 73% in 1997. Overseas investors (mainly institutions) contributed 32% of the total, up from 22% in 1997. The major origins of overseas participation were the UK (44% of overseas participation) and the US (25%).

Figure 1. Classification of members' trading on the Exchange



2. MAIN FINDINGS OF 1998 SURVEY

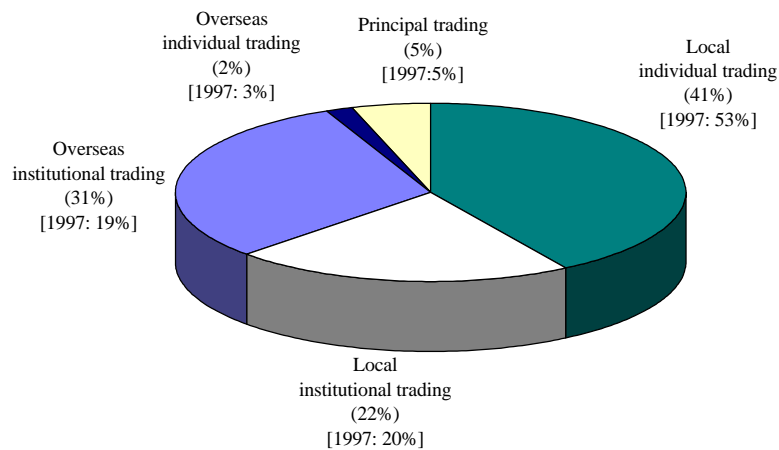
The findings were obtained by weighting each member's response by that member's turnover value.

2.1 Distribution of trading by type of trade (Figure 2)

The *absolute* value of all types of trade in 1998 decreased significantly from the previous year. But different types of trade had different decreasing rates so that their *relative* market share increased or decreased accordingly.

- The contribution of local individual trading decreased from 53% in 1997 to 41% but remained the largest component of total market turnover.
- The contribution of overseas agency trading increased from 22% in 1997 to 32%.

Figure 2. Distribution of trading by type of trade



2.2 Members' business composition by type of trade (Table 1)

Members were classified into Group I, II and III by their turnover, each contributing the top, middle and bottom one-third of total market turnover value. The respondents consisted of 12 member firms in Group I, 49 in Group II and 250 in Group III. Comparison was made to see if there were significant differences in turnover composition between groups. Since the distribution of market turnover value among members in 1998 was more skewed than 1997, some former Group I members were classified as Group II members and former Group II members became Group III members. Such difference must be noted when comparing with previous year's findings.

- Agency trading remained the core business for members of all groups (91% or more of total turnover value for each group).
- Institutional trading was the main business for Group I members (78%), the proportion decreased to 60% for Group II members and 19% for Group III members. Group III members mainly relied on local individual trading (78%).
- 57% of the business for Group I members originated overseas. Local agency business was dominant for Group II members (58%) and Group III members (92%).

Table 1. Business composition of different member groups by type of trade

Type of trade	Group I members		Group II members		Group III members	
	1997	1998	1997	1998	1997	1998
Principal trading	9.47	5.04	3.57	8.53	1.42	1.54
Overseas individual trading	3.06	1.27	2.71	1.59	1.72	1.75
Overseas institutional trading	39.76	55.73	14.87	31.39	4.02	4.55
Local institutional trading	22.31	22.31	25.83	28.51	13.13	14.07
Local individual trading	25.40	15.65	53.02	29.98	79.71	78.08
All trading	100.00	100.00	100.00	100.00	100.00	100.00

2.3 Distribution of market share in different types of trade by member group (Table 2)

- Group I members captured half of the institutional trading (local and overseas) while Group III members captured about 62% of the individual trading (local and overseas).
- Group III members alone captured 63% of local individual trading. The proportion decreased to 25% by Group II members and 13% by Group I members.
- Group I members alone captured 60% of overseas institutional trading. The proportion decreased to 35% by Group II members and 5% by Group III members.

Table 2. Distribution of market share in different types of trade by member group

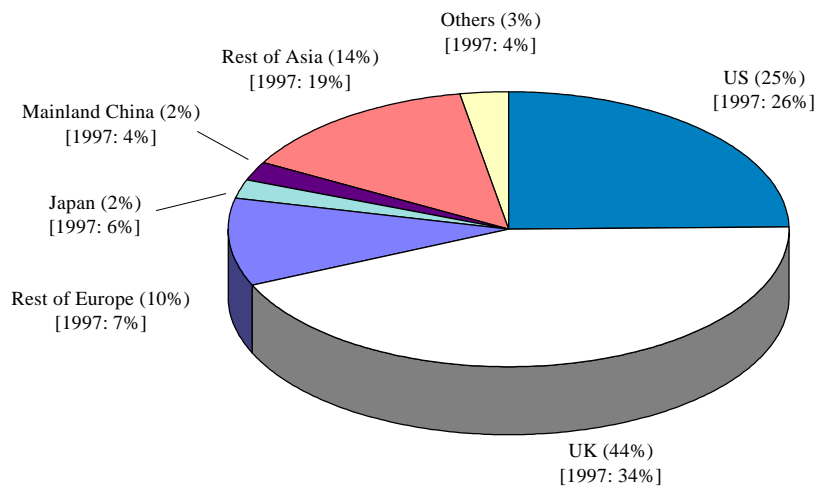
	Group I members		Group II members		Group III members		All members
	%		%		%		%
	1997	1998	1997	1998	1997	1998	1997 & 1998
All trading	32.55	33.17	34.08	33.71	33.37	33.12	100.00
Agency	30.95	33.18	34.51	32.48	34.55	34.34	100.00
Principal	64.60	33.04	25.50	56.85	9.91	10.10	100.00
Agency trading	30.95	33.18	34.51	32.48	34.55	34.34	100.00
Individual	16.71	13.15	34.26	24.93	49.03	61.93	100.00
Institutional	50.77	49.54	34.85	38.65	14.39	11.80	100.00
Agency trading	30.95	33.18	34.51	32.48	34.55	34.34	100.00
Local	21.16	20.04	36.61	31.38	42.22	48.57	100.00
Overseas	63.81	58.88	27.42	34.62	8.77	6.50	100.00
Individual trading	16.71	13.15	34.26	24.93	49.03	61.93	100.00
Local	15.62	12.61	34.13	24.56	50.25	62.83	100.00
Overseas	40.00	27.47	37.03	34.82	22.97	37.71	100.00
Institutional trading	50.77	49.54	34.85	38.65	14.39	11.80	100.00
Local	35.52	34.15	43.05	44.35	21.43	21.50	100.00
Overseas	66.87	60.45	26.19	34.61	6.94	4.93	100.00

2.4 Distribution of overseas agency trading by origin (Figure 3)

Overseas agency trading contributed 32% of total market turnover value.

- The UK remained the largest source of overseas orders, contributing 44% of total overseas agency trading. The UK together with the US (25%) accounted for over two-thirds of total overseas agency trading.
- Investors in Asia were also significant contributors, accounting for 18% of overseas agency trading.

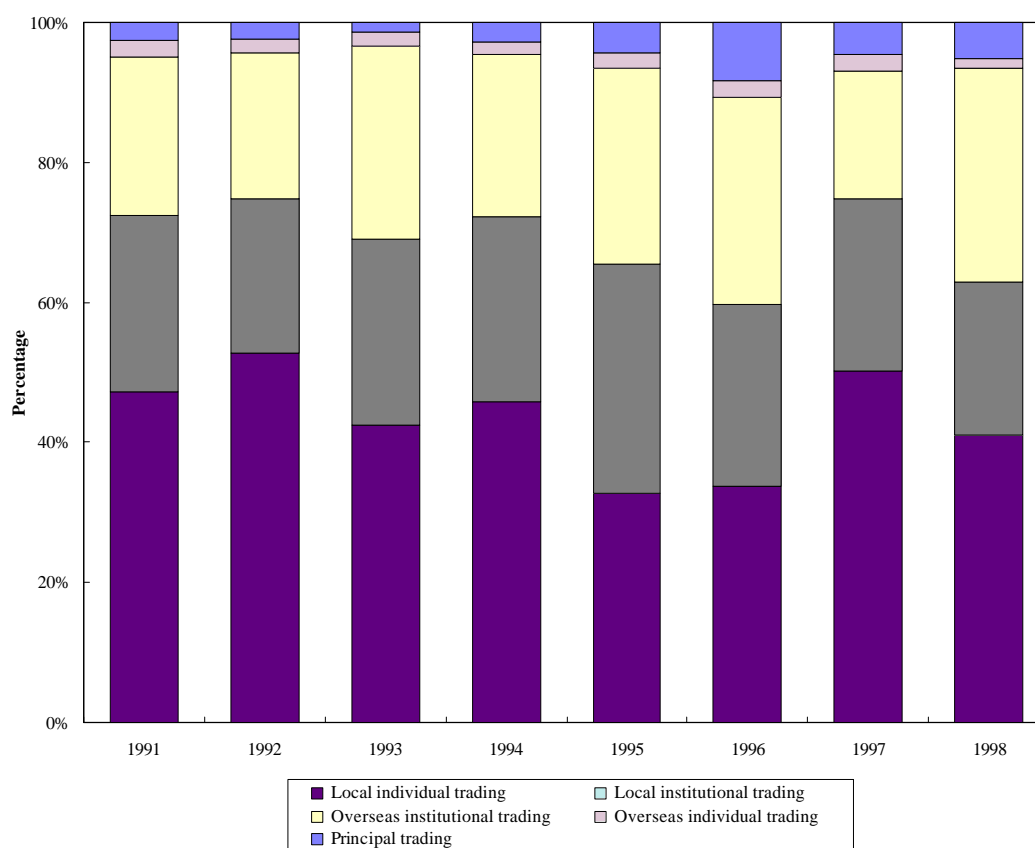
Figure 3. Distribution of overseas agency trading by origin



2.5 Distribution of market trading over time (Figures 4 & 5)

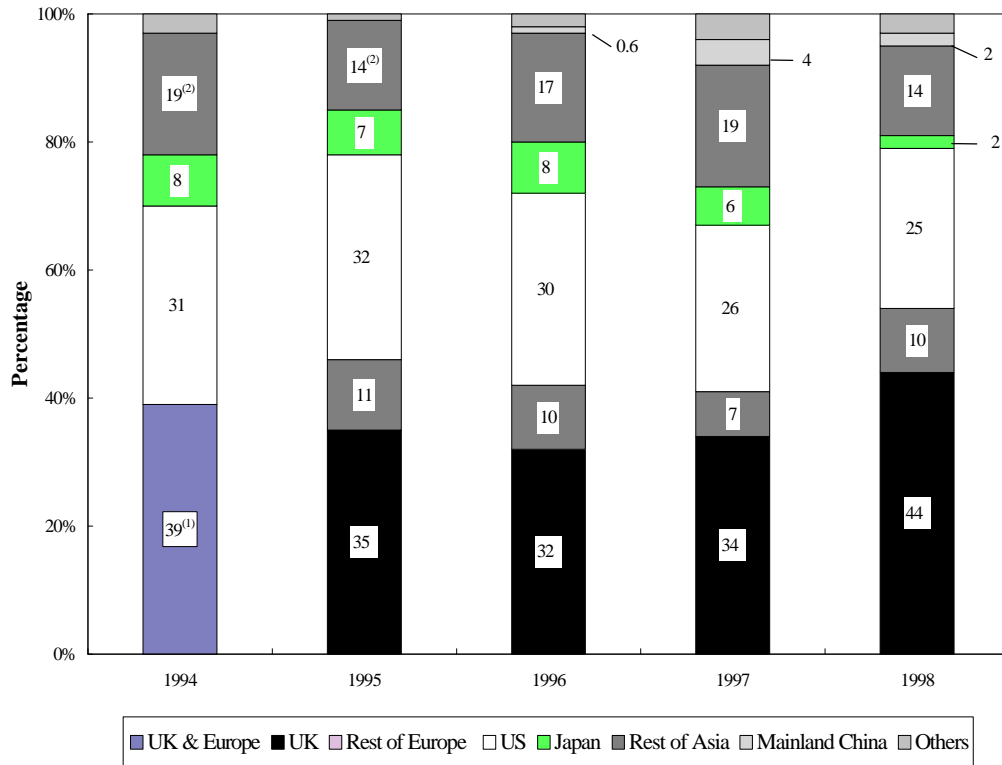
- Except in bullish 1997 in which local individual trading was dominant, overseas institutional trading has been relatively stable (close to 30%) since 1995.
- The UK and the US remained the major sources of overseas agency business for the past 4 years, but the relative contribution by the US gradually decreased (from 32% in 1995 to 25% in 1998) while that of the UK increased (from 32% in 1996 to 44% in 1998).
- The contribution of local individual trading fluctuated strongly in response to major changes in market sentiment. For example, the contribution of local individual trading decreased significantly when the market turned bearish in 1998 (from 53% in 1997 to 41%) and 1995 (from 46% in 1994 to 33%).
- Local agency trading contributed the majority of total market turnover (60-70%) throughout the past 8 years. Local individuals contributed most to the 8-year cumulative market turnover (43%) and overseas institutional investors also had considerable contribution (26%).

Figure 4. Distribution of trading by type of trade (1991-1998)



Type of trade	1991 %	1992 %	1993 %	1994 %	1995 %	1996 %	1997 %	1998 %	% of 1991-1998 market turnover
Principal trading	2.60	2.33	1.43	2.70	4.43	8.43	4.77	5.06	5.12
Overseas agency trading	25.04	22.84	29.43	25.15	30.02	31.84	21.85	32.11	28.08
Individual trading	2.36	2.05	1.96	1.85	2.08	2.35	2.49	1.54	2.09
Institutional trading	22.68	20.79	27.47	23.30	27.94	29.49	19.36	30.58	25.99
Local agency trading	72.36	74.83	69.14	72.15	65.54	59.73	73.38	62.83	66.80
Individual trading	47.24	52.80	42.40	45.75	32.73	33.76	52.94	41.16	42.93
Institutional trading	25.12	22.03	26.74	26.40	32.81	25.97	20.44	21.67	23.87

Figure 5. Distribution of overseas agency trading by origin (1994-1998)



GLOSSARY OF TERMS

Group I members :

Members of the Exchange who contributed the top one-third of the total market turnover value for the period October 1997 to September 1998.

Group II members :

Members of the Exchange who contributed the second one-third of total market turnover value for the period October 1997 to September 1998.

Group III members :

Members of the Exchange who contributed the bottom one-third of total market turnover value for the period October 1997 to September 1998.

Principal trading :

Trading in the member firm's own account.

Agency trading :

Trading on behalf of the member firm's clients.

(Local / Overseas) individual trading :

Trading on behalf of individual clients in Hong Kong or overseas.

(Local / Overseas) institutional trading :

Trading on behalf of institutional clients in Hong Kong or overseas.

Individual clients :

Clients who trade on their personal accounts.

Institutional clients :

Clients who are not individual clients.