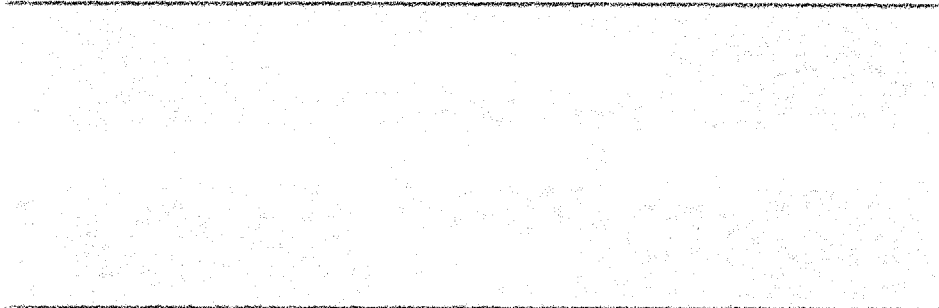
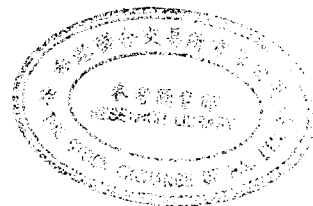


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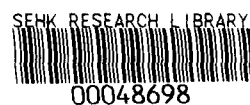
# HONGKONG FUTURES



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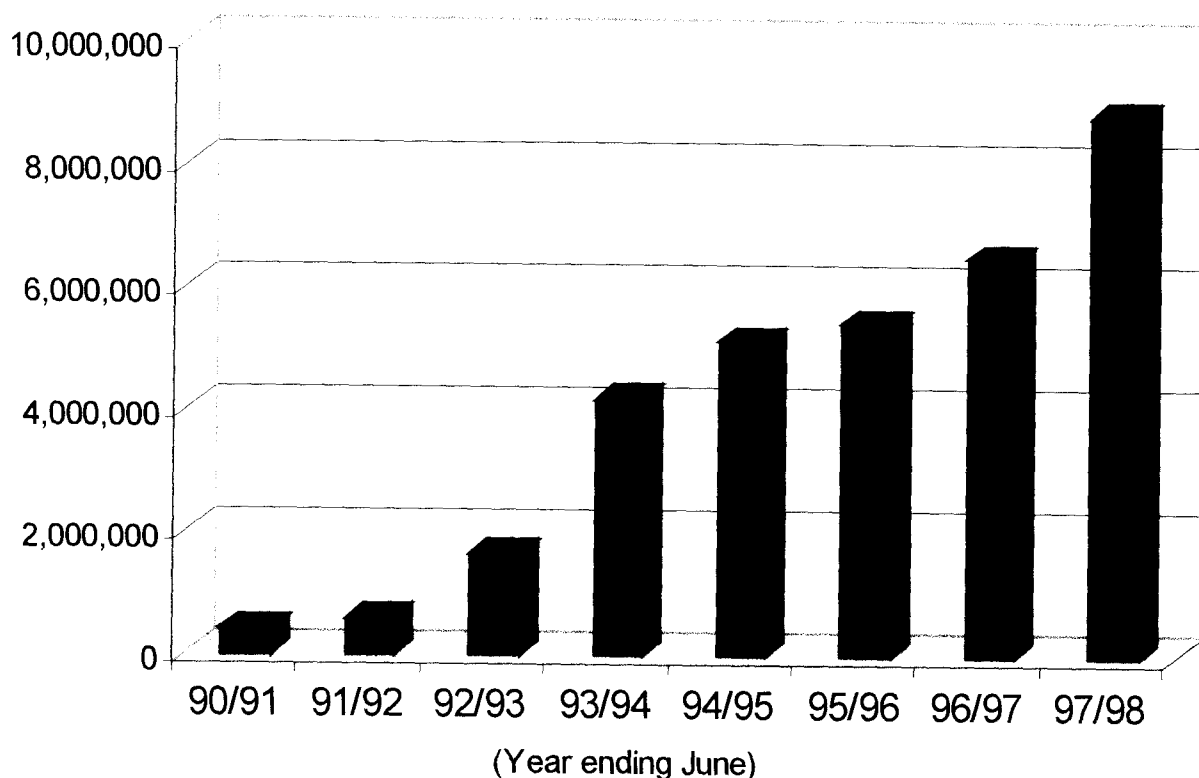
**Economic Research Department**  
**18 August 98**



## EXECUTIVE SUMMARY

- The survey achieves a 100% response rate for the fourth consecutive year, thanks to Members' full support.
- Trading activity in 97/98 (July 97 - June 98) rose 35.5% to an all-time record of 8,842,867 contracts (Chart 1).
- International headquartered Members' share of trade volume rose to 44.0% in 97/98, in line with their rising proportion of all Members (Chart 3).
- Trading remains the major transaction objective, accounting for 66.9% of total trades in 97/98.
- Hedging and arbitrage transactions in HSI futures increased notably in 97/98.
- Almost one-half of Red-Chip futures and options transactions come from overseas institutional investors, compared with about 26.0% in HSI futures transactions.
- Institutional investors are the major players of the three-month HIBOR futures while retail investor participation in the market is minimal.

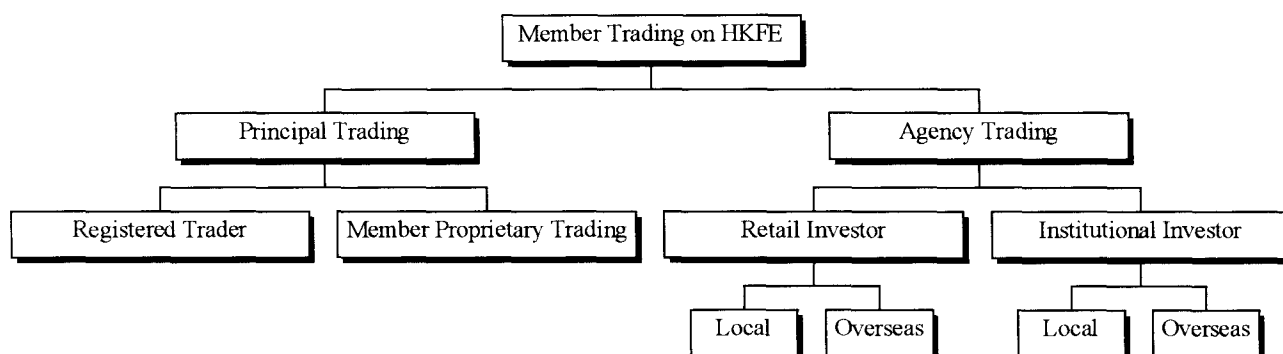
**Chart 1: Record Trading Volume in HKFE's History (Contracts)**



## INTRODUCTION

The *Members Transaction Survey* aims to gain an updated and dynamic perspective of the Exchange's business mix (Chart 2). Questionnaires were sent to 116<sup>1</sup> Members doing Exchange business to review their transactions in the HKFE's futures and options markets during 97/98. A 100% response rate is achieved. The survey unveils the latest developments<sup>2</sup> of patterns and distributions of Members' trading in HSI futures, HSI options, Red-Chip futures and options, stock futures, three-month HIBOR futures and Rolling Forex markets.

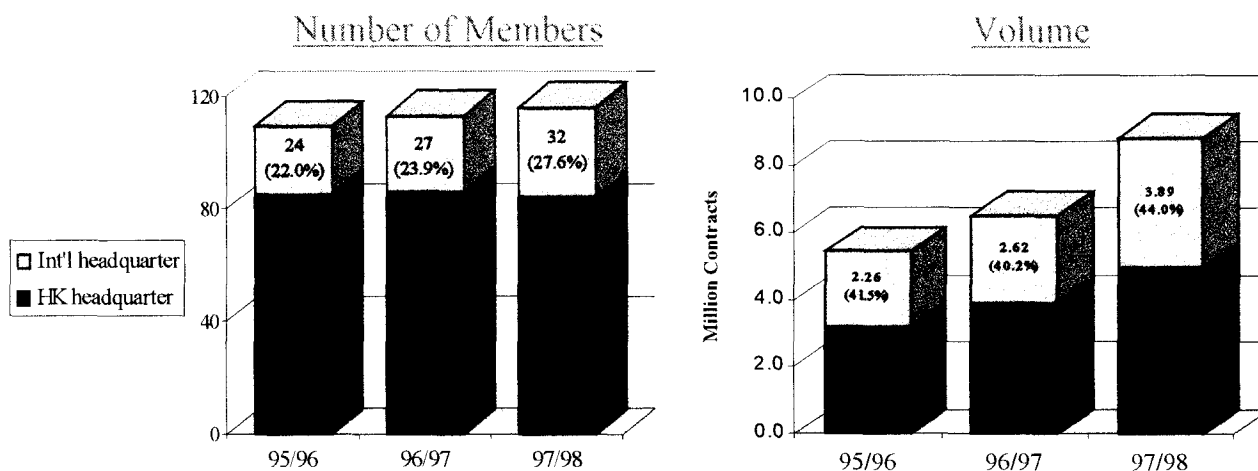
**Chart 2: Classification of Member Trading on HKFE**



## CAPITAL ORIGIN OF HKFE MEMBERS

- The number of Members who participate in trading increased further to 116 in 97/98.
- 97/98 saw the proportion of international headquartered Members<sup>3</sup> rising to 27.6% and their share of trade volume edging up to 44.0% (Chart 3).

**Chart 3: Number of Members and Volume by Type of Members**

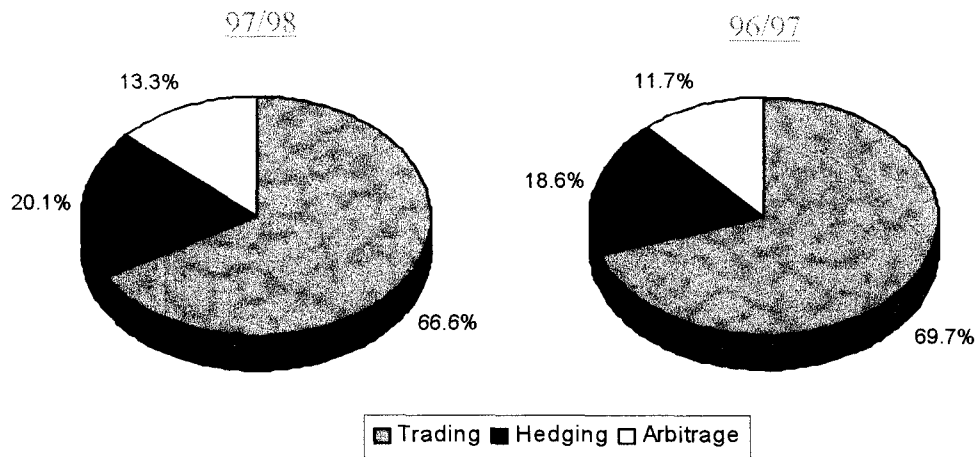


1. Due to recording limitation, this number does not include those Members who have their house and client orders executed by other Members.
2. Findings are based on Members' responses weighted by each Member's trading volume.
3. Members who have more than half of the capital sources coming from overseas.

## PURPOSES OF TRADING FUTURES AND OPTIONS

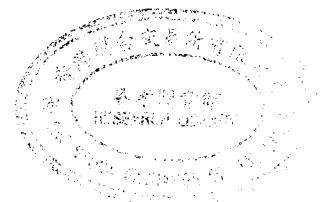
- In 97/98, no major change in the overall trade pattern was observed and trading remained the dominant transaction objective, accounting for 66.9% of all trades (Table 1).
- Chart 4 indicates that the proportion of hedging and arbitrage transactions in HSI futures rose to 20.1% and 13.3% respectively in 97/98.
- HSI options saw the share of trading surged from 59.0% in 96/97 to 66.8% in 97/98.
- The proportion of arbitrage transactions in Red-Chip futures and options was 12.4% in 97/98, while trading was 74.9%.
- About two-thirds of the three-month HIBOR futures turnover in 97/98 were for trading and 16.3% for hedging.

**Chart 4. Transaction Objectives on HSI Futures**



**Table 1. Sectoral Distribution of Transaction Objective (%)**

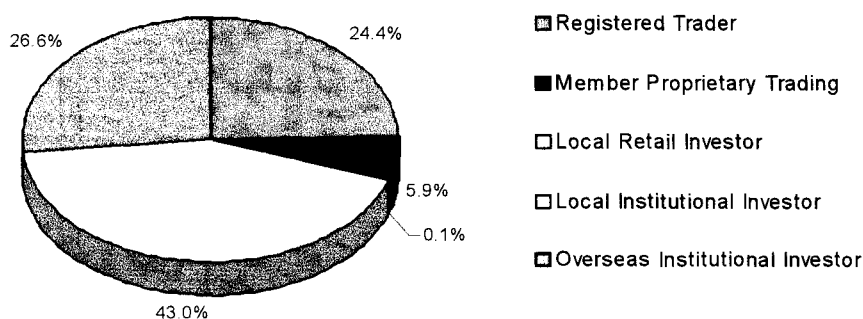
	HSI Futures			HSI Options			Red-Chip Futures and Options			Stock Futures		
	<u>97/98</u>	<u>96/97</u>	<u>95/96</u>	<u>97/98</u>	<u>96/97</u>	<u>95/96</u>	<u>97/98</u>	<u>96/97</u>	<u>95/96</u>	<u>97/98</u>	<u>96/97</u>	<u>95/96</u>
Hedging	20.1	18.6	20.8	22.3	22.7	31.4	12.7	27.5	13.6	29.3		
Trading	66.6	69.7	67.1	66.8	59.0	58.2	74.9	71.5	85.8	55.0		
Arbitrage	13.3	11.7	12.1	10.9	18.3	10.4	12.4	1.0	0.6	15.7		
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0		
	3-Month HIBOR Futures			Rolling Forex			Total					
	<u>97/98</u>	<u>96/97</u>	<u>95/96</u>	<u>97/98</u>	<u>96/97</u>	<u>95/96</u>	<u>97/98</u>	<u>96/97</u>	<u>95/96</u>			
Hedging	16.3			35.8	37.4	6.4	20.1	20.2	22.0			
Trading	68.9			64.0	61.6	55.5	66.9	67.3	65.6			
Arbitrage	14.8			0.2	1.0	38.1	13.0	12.5	12.4			
Total	100.0			100.0	100.0	100.0	100.0	100.0	100.0			



## DISTRIBUTION OF TRADING FUTURES AND OPTIONS

- There is no remarkable change in the overall investor mix. Local retail investors continue to be the principal market players, accounting for 38.8% of total trades in 97/98 (Table 2).
- Interest from overseas investors on HSI futures increased. The proportion of their transactions edged up to 30.8% in 97/98.
- Local institutional investors played less of a dominant role in HSI options due to increased overseas institutional participation, with the overseas institutional investors' proportion increasing to 36.0% in 97/98.
- Interestingly, 46.6% of the 97/98 volume in Red-Chip futures and options came from overseas institutional investors while the percentage of local retail investors was 28.0%.
- Institutional investors are the major players in the three-month HIBOR futures market. They accounted for 69.6% of total trades in 97/98 and registered traders' share to all trades was 24.4%.

**Chart 5: Distribution of Trading in Three-Month HIBOR Futures by Investors**



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

	HSI Futures			HSI Options			Red-Chip Futures and Options			Stock Futures		
	97/98	96/97	95/96	97/98	96/97	95/96	97/98	96/97	95/96	97/98	96/97	95/96
Registered Trader	n.a.	n.a.	n.a.	29.2	18.8	25.5	3.5			49.3	39.8	n.a.
Member Proprietary Trading	9.0	9.7	12.0	3.4	8.5	10.9	1.4			1.0	1.3	1.4
Local Retail Investor	43.7	46.9	43.6	18.1	18.2	16.1	28.0			35.4	44.2	26.0
Local Institutional Investor	16.5	18.5	16.6	12.3	35.3	26.8	20.1			12.9	14.7	43.6
Overseas Institutional Investor	26.3	23.1	25.1	36.0	18.4	20.3	46.6			1.3	0.0	28.8
Overseas Retail Investor	4.5	1.8	2.7	1.0	0.8	0.4	0.4			0.1	0.0	0.2
<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>	<b>100.0</b>			<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
	3-Month HIBOR Futures			Rolling Forex			Total					
	97/98	96/97	95/96	97/98	96/97	95/96	97/98	96/97	95/96			
Registered Trader	24.4			48.5	57.8	86.8	4.5	6.3	6.9			
Member Proprietary Trading	5.9			0.7	1.8	1.3	8.0	9.1	10.2			
Local Retail Investor	0.1			27.3	7.2	10.2	38.8	39.5	38.9			
Local Institutional Investor	43.0			20.6	15.4	1.1	17.2	21.6	17.8			
Overseas Institutional Investor	26.6			0.1	16.6	0.0	27.6	21.9	23.9			
Overseas Retail Investor	0.0			2.8	1.2	0.6	3.9	1.6	2.3			
<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>			

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

	HSI Futures	HSI Options	Red-Chip Futures and Options	Stock Futures	Three-Month HIBOR Futures	Rolling Forex	97/98 Overall	96/97 Overall
<b>ALL TRADING</b>								
Principal	9.0	32.6	4.9	50.3	30.2	49.2	<b>12.5</b>	15.4
Agency	91.0	67.4	95.1	49.7	69.8	50.8	<b>87.5</b>	84.6
	100.0	100.0	100.0	100.0	100.0	100.0	<b>100.0</b>	100.0
<i>Agency Trading</i>								
Local	66.2	45.0	50.6	97.1	61.7	94.2	<b>64.1</b>	<b>72.3</b>
Overseas	33.8	55.0	49.4	2.9	38.3	5.8	<b>35.9</b>	<b>27.7</b>
	100.0	100.0	100.0	100.0	100.0	100.0	<b>100.0</b>	<b>100.0</b>
<i>Agency Trading</i>								
Retail	53.0	28.4	29.8	71.6	0.1	59.2	<b>48.8</b>	<b>48.6</b>
Institutional	47.0	71.6	70.2	28.4	99.9	40.8	<b>51.2</b>	<b>51.4</b>
	100.0	100.0	100.0	100.0	100.0	100.0	<b>100.0</b>	<b>100.0</b>
<i>Retail Investor Trading</i>								
Local	90.6	94.2	98.9	99.5	87.3	90.6	<b>91.0</b>	<b>96.2</b>
Overseas	9.4	5.8	1.1	0.5	12.7	9.4	<b>9.0</b>	<b>3.8</b>
	100.0	100.0	100.0	100.0	100.0	100.0	<b>100.0</b>	<b>100.0</b>
<i>Institutional Investor Trading</i>								
Local	38.6	25.4	30.2	91.0	61.7	99.4	<b>38.4</b>	<b>49.7</b>
Overseas	61.4	74.6	69.8	9.0	38.3	0.6	<b>61.6</b>	<b>50.3</b>
	100.0	100.0	100.0	100.0	100.0	100.0	<b>100.0</b>	<b>100.0</b>
<i>Local Investor Trading</i>								
Retail	72.6	59.5	58.2	73.4	0.2	56.9	<b>69.2</b>	<b>64.6</b>
Institutional	27.4	40.5	41.8	26.6	99.8	43.1	<b>30.8</b>	<b>35.4</b>
	100.0	100.0	100.0	100.0	100.0	100.0	<b>100.0</b>	<b>100.0</b>
<i>Overseas Investor Trading</i>								
Retail	14.7	3.0	0.7	12.2	0.1	95.6	<b>12.3</b>	<b>6.7</b>
Institutional	85.3	97.0	99.3	87.8	99.9	4.4	<b>87.7</b>	<b>93.3</b>
	100.0	100.0	100.0	100.0	100.0	100.0	<b>100.0</b>	<b>100.0</b>

Report released on 18 August 1998.

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