

## CHAPTER 4 : THE FINANCIAL SECTOR<sup>#</sup>

### *Summary*

- *The low interest rate environment in Hong Kong continued in the third quarter of 2016 amid the accommodative monetary policy in the United States. The Hong Kong dollar interbank interest rates stayed at low levels.*
- *The Hong Kong dollar spot exchange rate moved within a narrow range against the US dollar during the third quarter. Meanwhile, both the trade-weighted Hong Kong dollar Nominal and Real Effective Exchange Rate Indices edged up.*
- *Total loans and advances grew steadily, by 1.6% during the third quarter, with loans for use in Hong Kong expanding by 1.5% and loans for use outside Hong Kong by 1.9%.*
- *The local stock market staged a rally in the third quarter, amid easing concerns about an imminent interest rate hike in the US and the near-term impact of Brexit on the global economy. The in-principle approval of the structure of the Shenzhen-Hong Kong Stock Connect also rendered support to market sentiment. The Hang Seng Index reached its highest level this year in early September, and closed the third quarter at 23 297, up by 12.0% from end-June. Trading activities rebounded, and fund raising activities turned livelier.*

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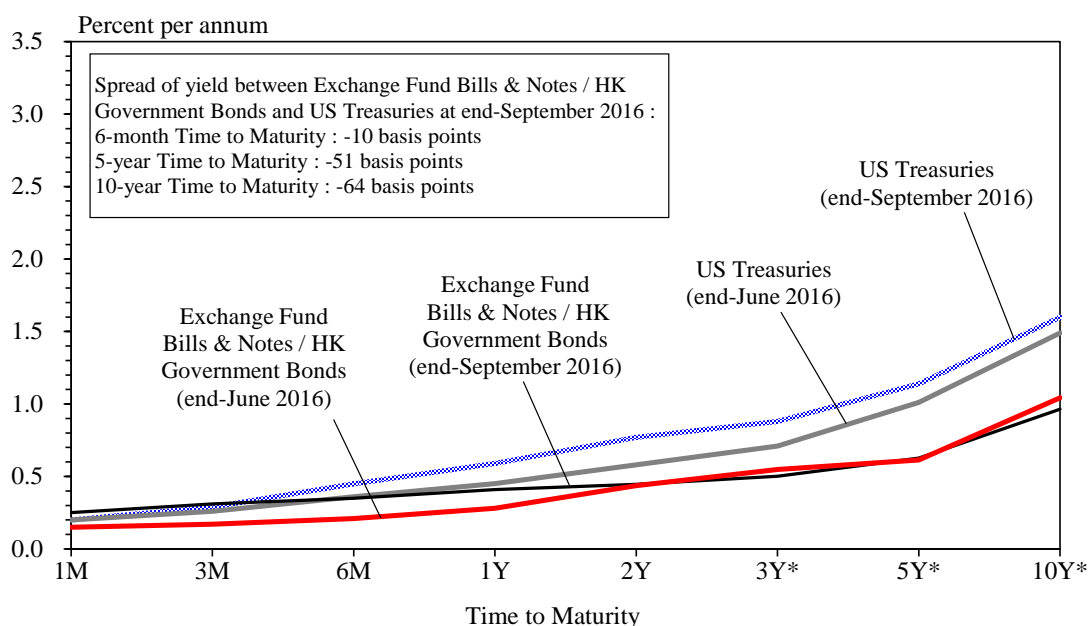
(#) *This chapter is jointly prepared by the Hong Kong Monetary Authority (HKMA) and the Economic Analysis Division.*

## Interest rates and exchange rates

4.1 The low interest rate environment in Hong Kong continued in the third quarter of 2016 amid the ongoing accommodative monetary policy in the United States. With the target range for the Federal Funds Rate staying at 0.25-0.50%, the *Base Rate* under the Discount Window operated by the HKMA held unchanged at 0.75% during the quarter<sup>(1)</sup>. As for the *Hong Kong dollar interbank interest rates* (HIBORs), the overnight HIBOR went up from 0.12% at end-June to 0.22% at end-September, and the three-month HIBOR from 0.57% to 0.59%, but these were still low levels by historical standards.

4.2 *Hong Kong dollar yields* rose at the short tenor but edged down at the long tenor in the third quarter, while the *US dollar yield curve* steepened. Reflecting these movements, the negative yield spread between 6-month Exchange Fund Bills and 6-month US Treasury Bills declined from 15 basis points at end-June to 10 basis points at end-September, while the negative yield spread between 10-year Hong Kong Government Bonds and 10-year US Treasury Notes widened from 45 basis points to 64 basis points.

**Diagram 4.1 : Hong Kong dollar yields rose at the short tenor but edged down at the long tenor, while the US dollar yield curve steepened**

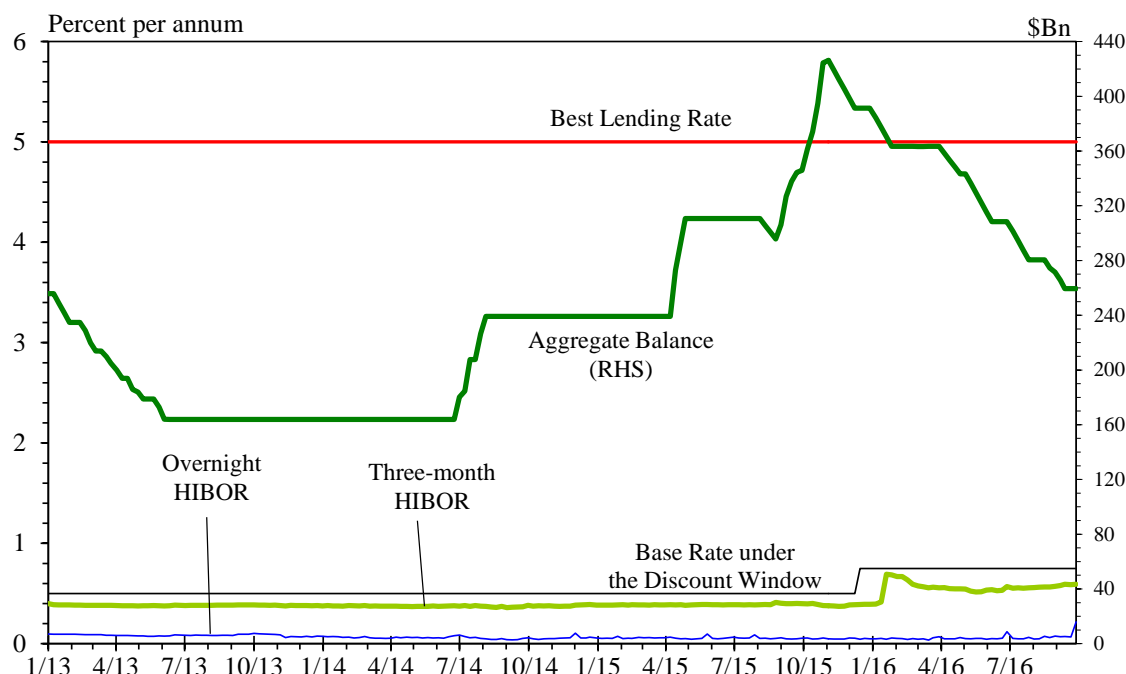


Note : (\*) With the HKMA stopping new issuance of Exchange Fund Notes of tenors of three years or above since January 2015, the Hong Kong dollar yields for tenor of 3 years and above refer to those for Hong Kong Government Bonds.

4.3 Interest rates on the retail front continued to stay at low levels. The *Best Lending Rates* stayed unchanged at 5.00% or 5.25% during the third quarter. The *average savings deposit rate* and the *one-year time deposit rate* (for deposits of less than \$100,000) quoted by the major banks remained unchanged at 0.01% and 0.15% respectively at end-September. Meanwhile,

the *composite interest rate*<sup>(2)</sup>, which indicates the average cost of funds for retail banks, edged down from 0.26% at end-June to 0.25% at end-September.

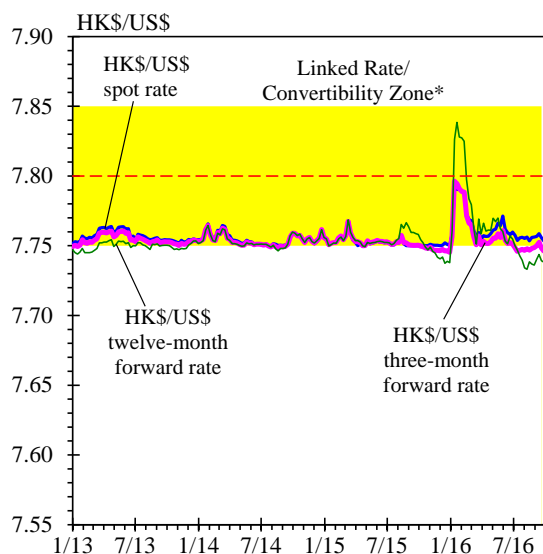
**Diagram 4.2 : Hong Kong dollar interest rates remained low  
(end for the week)**



4.4 The *Hong Kong dollar spot exchange rate* moved within a narrow range of 7.752-7.760 against the US dollar during the third quarter. It closed at 7.755 at end-September, compared with 7.759 at end-June. As regards the *Hong Kong dollar forward rates*, the 12-month forward rate discount expanded from 50 pips (each pip equivalent to HK\$0.0001) at end-June to 150 pips at end-September along with the widening of the negative Hong Kong dollar-US dollar interest rate spread, while the 3-month Hong Kong dollar forward discount narrowed from 85 pips to 71 pips.

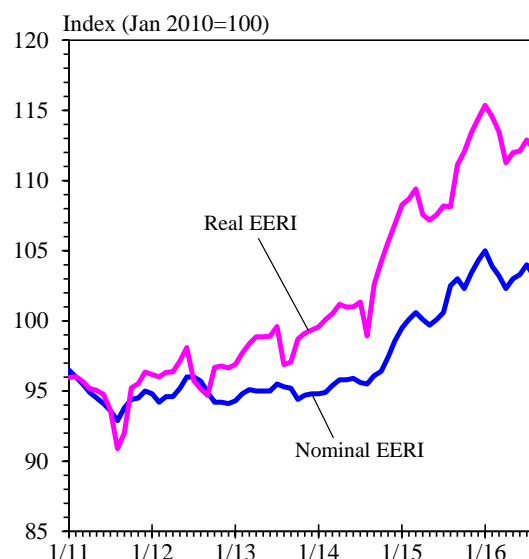
4.5 Under the Linked Exchange Rate System, movements in the Hong Kong dollar exchange rate against other currencies closely followed those of the US dollar. During the third quarter, the US dollar strengthened against pound sterling and renminbi, though weakening against euro and Japanese yen. Overall, the *trade-weighted Hong Kong dollar Nominal and Real Effective Exchange Rate Indices*<sup>(3)</sup> edged up by 0.2% and 0.7% respectively during the third quarter.

**Diagram 4.3 : Hong Kong dollar moved within a narrow range against the US dollar (end for the week)**



Note : (\*) The shaded area represents the Convertibility Zone that was introduced in May 2005 as part of the three refinements to the Linked Exchange Rate System.

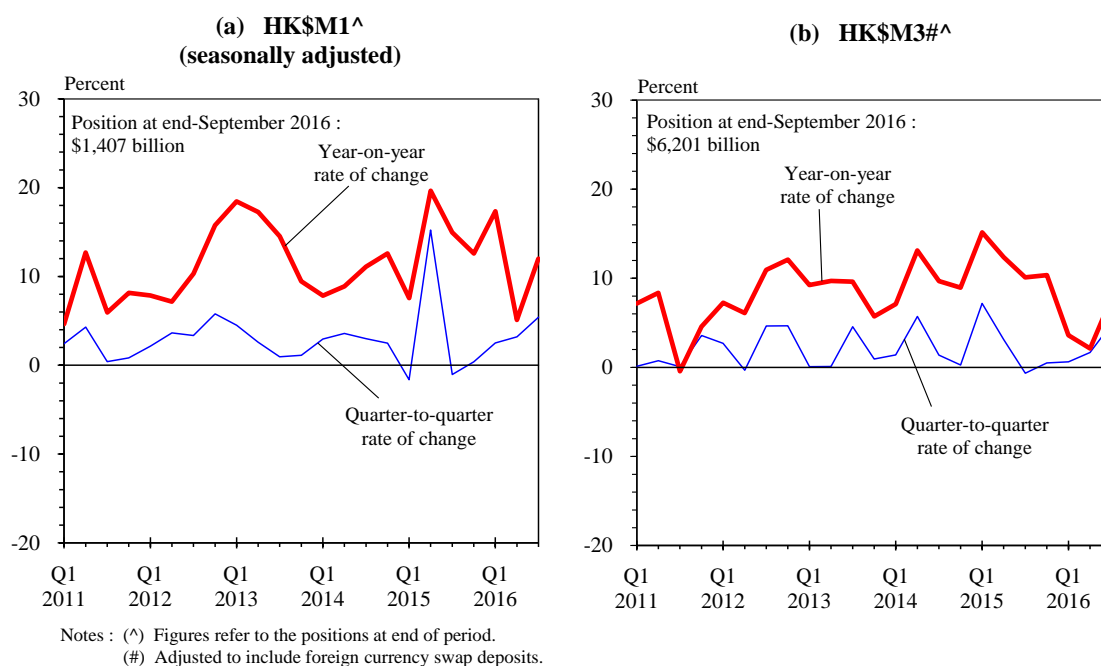
**Diagram 4.4 : The trade-weighted nominal and real EERIs edged up (average for the month)**



## Money supply and banking sector

4.6 The monetary aggregates expanded at an accelerated pace in the third quarter. The Hong Kong dollar broad *money supply* (HK\$M3) rose by 4.9% over end-June to \$6,201 billion<sup>(4)</sup> at end-September, and the seasonally adjusted Hong Kong dollar narrow money supply (HK\$M1) by 5.4% to \$1,407 billion. Meanwhile, *total deposits* with authorized institutions (AIs)<sup>(5)</sup> grew by 5.2% to \$11,628 billion, within which Hong Kong dollar deposits and foreign currency deposits increased by 5.2% and 5.3% respectively.

**Diagram 4.5 : The monetary aggregates expanded at an accelerated pace in the third quarter**



**Table 4.1 : Hong Kong dollar money supply and total money supply**

		<u>M1</u>		<u>M2</u>		<u>M3</u>	
% change during the quarter		<u>HK\$<sup>^</sup></u>	<u>Total</u>	<u>HK\$<sup>(a)</sup></u>	<u>Total</u>	<u>HK\$<sup>(a)</sup></u>	<u>Total</u>
2015	Q1	-1.6	13.6	7.2	3.0	7.2	3.0
	Q2	15.2	-1.3	3.1	0.8	3.1	0.8
	Q3	-1.1	5.3	-0.6	0.1	-0.7	0.1
	Q4	0.4	-2.4	0.5	1.5	0.5	1.5
2016	Q1	2.5	5.4	0.6	1.1	0.6	1.1
	Q2	3.2	0.6	1.7	0.4	1.7	0.4
	Q3	5.4	6.9	4.9	5.1	4.9	5.1
Total amount at end-September 2016 (\$Bn)		1,407	2,234	6,188	12,390	6,201	12,432
% change over a year earlier		12.0	10.7	7.8	8.3	7.8	8.3

Notes : (<sup>^</sup>) Seasonally adjusted.

(a) Adjusted to include foreign currency swap deposits.

4.7 *Total loans and advances* grew steadily, by 1.6% over end-June to \$7,824 billion at end-September, with Hong Kong dollar loans and foreign currency loans increasing by 1.6% and 1.7% respectively. Reflecting the relative movements in deposits and loans, the Hong Kong dollar loan-to-deposit ratio declined from 78.2% at end-June to 75.6% at end-September, and that for foreign currencies from 61.4% to 59.3%.

4.8 Loans for use in Hong Kong (including trade finance) increased moderately by 1.5% over end-June to \$5,503 billion at end-September, while loans for use outside Hong Kong expanded by 1.9% to \$2,321 billion. Within loans for use in Hong Kong, loans to financial concerns and loans to wholesale and retail trade grew further by 4.7% and 0.9% respectively. Yet loans to stockbrokers, loans to manufacturing and trade finance retreated by 6.9%, 4.4% and 1.1% respectively. As for property-related lending, amid a brisk performance of the property market, loans for purchase of residential property and loans to building, construction, property development and investment rose further, by 1.0% and 1.4% respectively.

**Table 4.2 : Loans and advances**

All loans and advances for use in Hong Kong

		Loans to :									
		Trade finance	Manu- facturing	Whole- sale and retail trade	Building, construction, property development and investment	Purchase of residential property <sup>(a)</sup>	Financial concerns	Stock- brokers	Total <sup>(b)</sup>	All loans and advances for use outside Hong Kong <sup>(c)</sup>	Total loans and advances
% change during the quarter											
2015	Q1	4.2	-3.8	1.0	1.3	2.7	-0.5	338.7	5.6	3.2	4.8
	Q2	0.7	-0.2	-1.5	4.1	1.7	4.8	-55.2	-0.5	3.4	0.6
	Q3	-11.6	0.0	-2.1	2.5	3.0	0.3	-53.3	-1.3	-2.0	-1.5
	Q4	-9.8	-4.3	-3.6	-0.6	1.0	11.5	17.8	0.2	-1.6	-0.3
2016	Q1	-1.5	-2.9	-6.3	2.7	0.5	-3.6	7.8	0.1	-0.8	-0.2
	Q2	5.7	8.8	0.7	1.5	0.5	13.7	6.8	3.1	0.7	2.4
	Q3	-1.1	-4.4	0.9	1.4	1.0	4.7	-6.9	1.5	1.9	1.6
Total amount at end-September 2016 (\$Bn)		468	247	423	1,204	1,141	519	59	5,503	2,321	7,824
% change over a year earlier		-7.1	-3.3	-8.2	5.1	3.0	27.9	26.2	5.0	0.1	3.5

Notes : Some loans have been reclassified. As such, the figures are not strictly comparable with those of previous quarters.

(a) Figures also include loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme, in addition to those for the purchase of private residential flats.

(b) Loans to individual sectors may not add up to all loans and advances for use in Hong Kong, as some sectors are not included.

(c) Also include loans where the place of use is not known.

4.9 The Hong Kong banking sector remains resilient. The Hong Kong incorporated AIs were well capitalised, with the total capital adequacy ratio staying high at 19.4% at end-June 2016. Asset quality of the local banking sector remained healthy. The ratio of classified loans to total loans stayed low at 0.80% at end-June, though edging up from 0.78% at end-March, while the

delinquency ratio for credit card lending remained unchanged at 0.27%. The delinquency ratio for residential mortgage loans also remained low at 0.04% at end-September.

**Table 4.3 : Asset quality of retail banks\***

(as % of total loans)

<u>As at end of period</u>		<u>Pass loans</u>	<u>Special mention loans</u>	<u>Classified loans</u> (gross)
2015	Q1	98.39	1.14	0.46
	Q2	98.23	1.28	0.49
	Q3	98.08	1.36	0.56
	Q4 <sup>^</sup>	97.87	1.44	0.69
2016	Q1	97.77	1.45	0.78
	Q2	97.80	1.40	0.80

Notes : Due to rounding, figures may not add up to 100.

(\*) Period-end figures relate to Hong Kong offices and overseas branches. Loans and advances are classified into the following categories: Pass, Special Mention, Substandard, Doubtful and Loss. Loans in the substandard, doubtful and loss categories are collectively known as “classified loans”.

(<sup>^</sup>) Figures prior to December 2015 cover retail banks’ Hong Kong offices and overseas branches. Starting from December 2015, the coverage was expanded to include the banks’ major overseas subsidiaries.

4.10 *Offshore renminbi (RMB) business* remained generally lacklustre in the third quarter. Total RMB deposits (including customer deposits and outstanding certificates of deposit) shrank further by 6.7% from end-June to RMB743.2 billion at end-September. RMB trade settlement transactions handled by banks in Hong Kong fell by a sharp 42.0% from a year earlier or by 3.7% from the preceding quarter to RMB1,189.2 billion in the third quarter. Nonetheless, RMB-related financing showed some expansion. RMB bank lending grew by 7.0% over end-June to RMB307.4 billion at end-September, while bond issuance (not including the issuance by the Ministry of Finance of China) expanded from RMB6.7 billion in the preceding quarter to RMB8.5 billion in the third quarter.

**Table 4.4 : Renminbi deposits and cross-border renminbi trade settlement in Hong Kong**

<u>As at end of period</u>		<u>Interest rates on<sup>(a)</sup></u>					<u>Number of AIs engaged in RMB business</u>	<u>Amount of cross-border RMB trade settlement<sup>(c)</sup></u> (RMB Mn)
		<u>Demand and savings deposits</u> (RMB Mn)	<u>Time deposits</u> (RMB Mn)	<u>Total deposits</u> (RMB Mn)	<u>Savings deposits<sup>(b)</sup></u> (%)	<u>Three-month time deposits<sup>(b)</sup></u> (%)		
2015	Q1	157,444	794,550	951,994	0.25	0.53	147	1,626,122
	Q2	180,445	812,479	992,924	0.25	0.53	146	1,569,670
	Q3	165,849	729,516	895,365	0.25	0.53	145	2,050,107
	Q4	160,908	690,198	851,106	0.25	0.53	145	1,587,184
2016	Q1	187,124	572,302	759,425	0.25	0.53	145	1,130,645
	Q2	204,282	507,266	711,549	0.25	0.53	146	1,234,587
	Q3	201,829	463,671	665,500	0.25	0.53	145	1,189,244
% change in 2016 Q3 over 2015 Q3		21.7%	-36.4%	-25.7%	N.A.	N.A.	N.A.	-42.0%
% change in 2016 Q3 over 2016 Q2		-1.2%	-8.6%	-6.5%	N.A.	N.A.	N.A.	-3.7%

Notes : (a) The interest rates are based on a survey conducted by the HKMA.

(b) Period average figures.

(c) Figures during the period.

N.A. Not available.

## The debt market

4.11 In the *debt market*, total gross issuance of Hong Kong dollar debt securities declined by 7.0% from the preceding quarter to \$744.8 billion in the third quarter. Specifically, public sector debt issuance decreased by 3.5% to \$682.8 billion, mainly due to a plunge in new debts issued by statutory bodies/government-owned corporations and the Government. Private sector debt issuance<sup>(6)</sup> fell by a sharp 33.4% to \$60.1 billion, due entirely to the plunge in AIs' and non-Multilateral Development Banks (MDBs) overseas borrowers' issuance. Nonetheless, with more debt issued than debt maturing, the total outstanding balance of Hong Kong dollar debt securities expanded by 4.3% over end-June to \$1,725.6 billion at end-September, equivalent to 27.8% of HK\$M3 or 24.0% of Hong Kong dollar-denominated assets of the banking sector<sup>(7)</sup>.

4.12 As to the Government Bond ("GB") Programme, a total of \$1.8 billion institutional GBs were issued through tenders in the third quarter. Meanwhile, the inaugural Silver Bond (iBonds for residents aged 65 or above), with an issue



size of \$3 billion, was issued on 12 August. It was greeted with favourable responses, receiving over 76 000 valid applications for around \$8.9 billion of subscription. At end-September, the total outstanding Hong Kong dollar bonds under the GB Programme amounted to \$105.3 billion, comprising 13 institutional issues totaling \$72.3 billion and four retail issues (three iBonds and one Silver Bond) totaling \$33.0 billion. In addition, two US dollar sukuks, each with an issue size of US\$1 billion, were outstanding under the Programme.

**Table 4.5 : New issuance and outstanding value of  
Hong Kong dollar debt securities (\$Bn)**

		Exchange Fund paper	Statutory bodies/govern- ment-owned corporations	Govern- ment	Public sector total	AIs <sup>(a)</sup>	Local corporations	Non-MDBs overseas borrowers <sup>(b)</sup>	Private sector total	MDBs <sup>(b)</sup>	Total
<b>New Issuance</b>											
2015	Annual	2,242.2	12.0	30.4	2,284.6	136.4	14.2	58.9	209.4	0.0	2,494.0
	Q1	491.9	4.3	7.9	504.1	54.4	4.4	10.6	69.4	0.0	573.5
	Q2	541.2	4.0	4.7	550.0	23.2	2.1	15.5	40.8	0.0	590.7
	Q3	599.9	0.8	10.6	611.3	14.8	2.8	12.0	29.6	0.0	641.0
	Q4	609.1	2.9	7.2	619.2	44.0	4.9	20.7	69.6	0.0	688.8
2016	Q1	622.4	4.4	1.6	628.4	53.8	4.7	21.4	79.9	0.8	709.1
	Q2	677.3	14.1	16.5	707.8	56.1	3.3	30.8	90.3	2.8	800.9
	Q3	677.7	0.3	4.8	682.8	29.0	9.3	21.7	60.1	1.9	744.8
	% change in 2016 Q3 over 2015 Q3	13.0	-63.4	-54.7	11.7	96.4	228.8	80.9	102.8	N.A.	16.2
	% change in 2016 Q3 over 2016 Q2	0.1	-97.9	-70.9	-3.5	-48.3	181.9	-29.5	-33.4	-33.5	-7.0
<b>Outstanding (as at end of period)</b>											
2015	Q1	752.8	43.5	105.9	902.2	249.7	140.3	142.4	532.4	6.1	1,440.7
	Q2	753.0	43.2	94.1	890.3	245.9	140.1	148.5	534.5	5.3	1,430.1
	Q3	773.2	43.2	104.7	921.1	230.7	141.1	149.8	521.6	5.3	1,448.1
	Q4	828.4	43.4	100.4	972.2	240.0	141.7	157.9	539.6	5.3	1,517.0
2016	Q1	856.9	46.6	102.0	1,005.5	226.1	142.6	165.1	533.8	6.0	1,545.2
	Q2	912.4	56.3	102.0	1,070.6	256.7	143.2	175.0	574.9	8.8	1,654.4
	Q3	962.1	53.1	106.8	1,121.9	264.7	150.6	177.8	593.1	10.5	1,725.6
	% change in 2016 Q3 over 2015 Q3	24.4	22.8	2.0	21.8	14.7	6.7	18.7	13.7	99.0	19.2
	% change in 2016 Q3 over 2016 Q2	5.4	-5.7	4.7	4.8	3.1	5.1	1.6	3.2	19.8	4.3

Notes : Figures may not add up to the corresponding totals due to rounding and may be subject to revisions.

N.A. Not available.

(a) AIs : Authorized institutions.

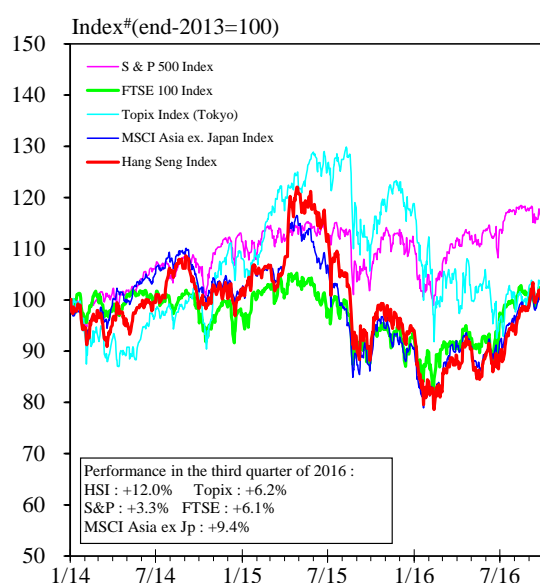
(b) MDBs : Multilateral Development Banks.

## The stock and derivatives markets

4.13 The *local stock market* staged a rally in the third quarter of 2016, amid easing concerns about an imminent interest rate hike in the US and the near-term impact of Brexit on the global economy. The in-principle approval of the structure of the Shenzhen-Hong Kong Stock Connect also rendered support to market sentiment. The Hang Seng Index (HSI) reached its highest level this year in early September, and closed the third quarter at 23 297, up by 12.0% from end-June. The *market capitalisation* of the Hong Kong stock market also increased by 11.0% to \$25.6 trillion over the period. The local stock market was the seventh largest in the world and third largest in Asia<sup>(8)</sup>.

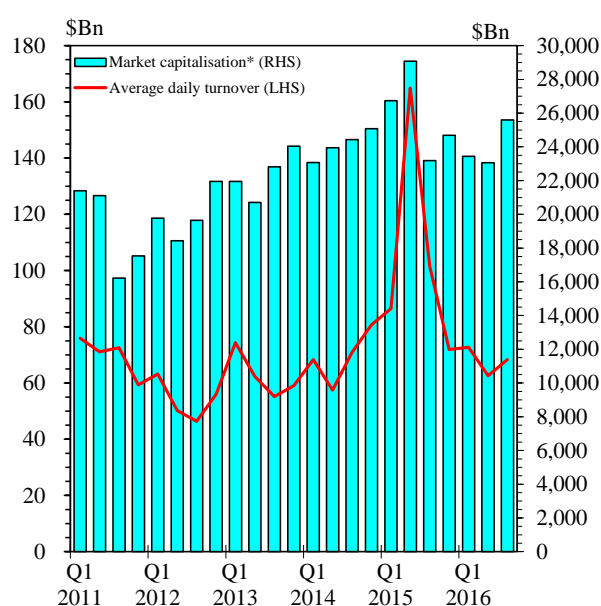
4.14 Trading activities also rebounded in parallel. *Average daily turnover* in the securities market increased by 9.1% over the second quarter to \$68.3 billion in the third quarter, though still representing a plunge of 32.7% from a year earlier. Within the total, the average daily trading value of equities, unit trusts (including Exchange-Traded Funds) and callable bull/bear contracts rose by 14.7%, 13.8% and 1.5% respectively over the preceding quarter, while that of derivative warrants<sup>(9)</sup> declined by 10.2%. As to futures and options<sup>(10)</sup>, the average daily trading volume edged down by 1.4% from the preceding quarter. Within the total, trading of H-shares Index futures, HSI futures and HSI options recorded respective declines of 11.5%, 5.7% and 4.2%, while that of stock options rose by 4.1%.

**Diagram 4.6 : The local stock market staged a rally in the third quarter**



Note : (#) Position at end of month.

**Diagram 4.7 : Market capitalisation and trading activities both increased**



Note : (\*) Position at end of quarter.

**Table 4.6 : Average daily turnover of futures and options of the Hong Kong market**

		Hang Seng Index futures	Hang Seng Index options	H-shares Index futures	Stock options	Total futures and options traded*
2015	Annual	85 991	30 427	135 139	374 346	768 520
	Q1	64 351	27 727	108 774	363 322	672 678
	Q2	81 541	35 129	154 553	523 860	946 336
	Q3	82 743	33 238	152 006	375 780	819 085
	Q4	114 430	25 752	125 310	241 192	641 404
2016	Q1	141 439	38 235	154 053	293 047	805 276
	Q2	135 572	38 802	138 127	292 684	758 733
	Q3	127 885	37 186	122 196	304 828	748 269
% change in 2016 Q3 over 2015 Q3		54.6	11.9	-19.6	-18.9	-8.6
% change in 2016 Q3 over 2016 Q2		-5.7	-4.2	-11.5	4.1	-1.4

Note : (\*) Turnover figures for individual futures and options are in number of contracts, and may not add up to the total futures and options traded as some products are not included.

4.15 Fund raising activities also turned livelier in the third quarter. *Total equity capital raised*, comprising new share floatation and post-listing arrangements on the Main Board and the Growth Enterprise Market (GEM)<sup>(11)</sup>, soared by 212.5% over the preceding quarter or 20.5% over a year earlier to \$168.6 billion in the third quarter. Within the total, the amount of funds raised through Initial Public Offerings (IPOs) jumped by 582.9% over the low base in the preceding quarter to \$90.8 billion. Yet taking the first three quarters together, total equity capital raised plunged by 63.2% from a year earlier to \$313.5 billion, and funds raised through IPOs by a lesser 14.1% to \$134.3 billion, mainly reflecting the subdued fund raising activities in the first half. Still, Hong Kong ranked the first globally in terms of the amount of funds raised through IPOs in the first three quarters of 2016.

4.16 Mainland enterprises continued to play a dominant role in the Hong Kong stock market. At end-September 2016, a total of 982 Mainland enterprises (including 235 H-share companies, 152 “Red Chip” companies and 595 private enterprises) were listed on the Main Board and GEM, accounting for 51% of the total number of listed companies and 63% of total market capitalisation. In the third quarter, Mainland-related stocks accounted for 72% of equity turnover and 88% of total equity fund raised in the Hong Kong stock exchange.

## **Fund management and investment funds**

4.17 Supported by the buoyant equity market, the fund management business generally showed solid performance in the third quarter. The monthly average gross retail sales of *mutual funds* expanded by 34.7% over the preceding quarter or 32.0% over a year earlier to US\$7.2 billion in July – August<sup>(12)</sup>. The aggregate net asset value of the approved constituent funds under the *Mandatory Provident Fund (MPF) schemes*<sup>(13)</sup> rose by 7.9% over end-June to \$655.5 billion at end-September. Meanwhile, the amount of net assets managed by *retail hedge funds* fell further<sup>(14)</sup>.

4.18 In July, the HKMA and the Securities and Futures Commission (SFC) published further conclusions on proposals for introducing the first phase of mandatory clearing and the second phase of mandatory reporting under the over-the-counter derivatives regulatory regime. The paper sets out the revised proposals on various technical aspects of the regime in light of market feedback and comments. The first phase of mandatory clearing subsequently commenced on 1 September 2016, and the second phase of mandatory reporting will commence on 1 July 2017.

## **Insurance sector**

4.19 The *insurance sector*<sup>(15)</sup> recorded an accelerated growth in the second quarter of 2016. Gross premium income from long-term business surged by 33.5% over a year earlier, mainly driven by a noticeable increase in premium income from non-investment linked plans. As to general business, gross premium and net premium edged down by 0.1% and 1.6% respectively.

**Table 4.7 : Insurance business in Hong Kong\* (\$Mn)**

	General business			Premium for long-term business <sup>^</sup>					Gross premium from long-term business and general business
	Gross premium	Net premium	Underwriting profit	Individual life and annuity (non-linked)	Individual life and annuity (linked)	Other individual business	Non-retirement scheme group business	All long-term business	
2015 Annual	45,961	32,085	1,697	120,435	10,243	178	417	131,273	177,234
Q1	12,939	9,053	645	32,060	4,249	52	121	36,482	49,421
Q2	10,943	7,888	58	28,909	3,210	42	80	32,241	43,184
Q3	11,592	7,900	803	27,356	1,328	43	145	28,872	40,464
Q4	10,487	7,244	191	32,110	1,456	41	71	33,678	44,165
2016 Q1	13,078	8,864	574	37,256	1,239	50	92	38,637	51,715
Q2	10,937	7,762	501	42,058	853	68	78	43,057	53,994
% change in 2016 Q2 over 2015 Q2	-0.1	-1.6	763.8	45.5	-73.4	61.9	-2.5	33.5	25.0

Notes : (\*) Figures are based on provisional statistics of the Hong Kong insurance industry.

(^) Figures refer to new business only. Retirement scheme business is excluded.

### Highlights of policy and market developments

4.20 In August, the SFC and the China Securities Regulatory Commission jointly announced the approval, in principle, of the structure of Shenzhen-Hong Kong Stock Connect. Similar to the Shanghai-Hong Kong Stock Connect, the Shenzhen-Hong Kong Stock Connect allows investors in Hong Kong and the Mainland to trade and settle eligible shares listed on the other market via local brokerages, exchanges and clearing houses. The Shenzhen-Hong Kong Stock Connect will provide an additional channel for mutual access to stock markets of the two places. It will further facilitate two-way investment flows and consolidate Hong Kong's development as the global offshore RMB business hub. Subject to the finalisation of all necessary regulatory approvals, market readiness and relevant operational arrangements, the Shenzhen-Hong Kong Stock Connect would be launched in due course.

## Notes :

- (1) Prior to 9 October 2008, the Base Rate was set at either 150 basis points above the prevailing US Federal Funds Target Rate (FFTR) or the average of the five-day moving averages of the overnight and one-month HIBORs, whichever was higher. Between 9 October 2008 and 31 March 2009, this formula for determination of the Base Rate was temporarily changed by reducing the spread of 150 basis points above the prevailing FFTR to 50 basis points and by removing the other leg relating to the moving averages of the relevant interbank interest rates. After a review of the appropriateness of the new Base Rate formula, the narrower 50 basis point spread over the FFTR was retained while the HIBOR leg was re-instated in the calculation of the Base Rate after 31 March 2009.
- (2) In December 2005, the HKMA published a new data series on composite interest rate, reflecting movement in various deposit rates, interbank and other interest rates to closely track the average cost of funds for banks. The published data enable the banks to keep track of changes in funding cost and thus help improve interest rate risk management in the banking sector.
- (3) The trade-weighted Nominal Effective Exchange Rate Index (EERI) is an indicator of the overall exchange value of the Hong Kong dollar against a fixed basket of other currencies. Specifically, it is a weighted average of the exchange rates of the Hong Kong dollar against some 15 currencies of its major trading partners, with the weights adopted being the respective shares of these trading partners in the total value of merchandise trade for Hong Kong during 2009 and 2010.

The Real EERI of the Hong Kong dollar is obtained by adjusting the Nominal EERI for relative movements in the seasonally adjusted consumer price indices of the respective trading partners.

- (4) The various definitions of the money supply are as follows:

M1 : Notes and coins with the public, plus customers' demand deposits with licensed banks.

M2 : M1 plus customers' savings and time deposits with licensed banks, plus negotiable certificates of deposit (NCDs) issued by licensed banks, held outside the monetary sector as well as short-term Exchange Fund placements of less than one month.

M3 : M2 plus customers' deposits with restricted licence banks and deposit-taking companies, plus NCDs issued by such institutions and held outside the monetary sector.

Among the various monetary aggregates, more apparent seasonal patterns are found in HK\$M1, currency held by the public, and demand deposits.

- (5) AIs include licensed banks, restricted licence banks and deposit-taking companies. At end-September 2016, there were 156 licensed banks, 23 restricted licence banks and 18 deposit-taking companies in Hong Kong. Altogether, 197 AIs (excluding representative offices) from 30 countries and territories (including Hong Kong) had a presence in Hong Kong.

- (6) The figures for private sector debt may not represent a full coverage of all the Hong Kong dollar debt paper issued.
- (7) Assets of the banking sector include notes and coins, amount due from AIs in Hong Kong as well as from banks abroad, loans and advances to customers, negotiable certificates of deposit (NCDs) held, negotiable debt instruments other than NCDs held, and other assets. Certificates of indebtedness issued by Exchange Fund and the counterpart bank notes issued are nevertheless excluded.
- (8) The ranking is based on the figures compiled by the World Federation of Exchanges and the London Stock Exchanges Group.
- (9) Given the relatively small share (less than 0.5% of the daily turnover in the securities market), trading of debt securities and its movements were not analysed.
- (10) At end-September 2016, there were 84 classes of stock options contracts and 74 classes of stock futures contracts.
- (11) At end-September 2016, there were 1 687 and 243 companies listed on the Main Board and GEM respectively.
- (12) These figures are obtained from the Sales and Redemptions Survey conducted by the Hong Kong Investment Funds Association on their members, and cover only the active authorised funds that have responded to the survey. At end-August 2016, the survey covered a total of 1 142 active authorised funds.
- (13) At end-September 2016, there were 18 approved trustees. On MPF products, 35 master trust schemes, two industry schemes and one employer sponsored scheme, comprising altogether 462 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. A total of 275 000 employers, 2.58 million employees and 203 000 self-employed persons have participated in MPF schemes.
- (14) At end-September 2016, there were two SFC-authorised retail hedge funds with combined net asset size of US\$38 million. The amount of net assets under management represented a 22.4% decrease from the end-June 2016 level, and a 76.3% decrease from end-2002, the year when the hedge funds guidelines were first issued.
- (15) At end-September 2016, there were 157 authorised insurers in Hong Kong. Within this total, 44 were engaged in long-term insurance business, 94 in general insurance business, and 19 in composite insurance business. These authorised insurers came from 23 countries and territories (including Hong Kong).