Box 5.2

Futures and options markets in Hong Kong

The Hong Kong Exchanges and Clearing Limited (HKEx) published its Derivatives Market Transaction Survey 2007/08 in November 2008. The main objective of the annual survey is to track trading composition by trading purpose and by investor type in HKEx’s futures and options markets. The latest 2007/08 survey covered transactions during July 2007 to June 2008 (refer to as the year 2007/08 below).

Pure trading and hedging were the main purposes of transactions

During 2007/08, pure trading and hedging were the two main purposes of futures and options trading, accounting for 40% and 39% respectively of the total turnover. Arbitrage turnover accounted for the remainder, or 21%, of the market turnover in the period. Compared with the 2003/04 survey, the share of transactions for both hedging and arbitrage has increased by about seven percentage points each, while the proportion of pure trading has dropped by 14 percentage points. Moreover, increased share of hedging in transactions was observed in most HKEx’s major products – Hang Seng Index (HSI) futures, HSI options and H-shares Index (HHI) futures.

Transaction purposes for overall futures and options markets

![Graph showing percentage contribution of pure trading, hedging, and arbitrage from 2003/04 to 2007/08]
Box 5.2 (Cont’d)

Trading by investor type varied across different derivative products

Exchange participants (EPs)’ principal trading accounted for 61% of the trading volume for futures and options in 2007/08. However, this was mainly due to the very high share of principal trading in the stock options market, at about 80% consistently (mostly for market making purpose). The split of futures and options turnover among EPs’ principal trading, local investors and overseas investors varied significantly across the different products. For instance, overseas institutional investors made up almost half of the trading in HHI futures in 2007/08, whereas about 60% of the trading in mini-HSI futures was attributable to local retail investors.

Distribution of futures and options trading by investor type

![Graph showing percentage contribution by investor type for different years](image-url)