

**Box 5.1**

**Hong Kong’s derivatives market in 2009/10**

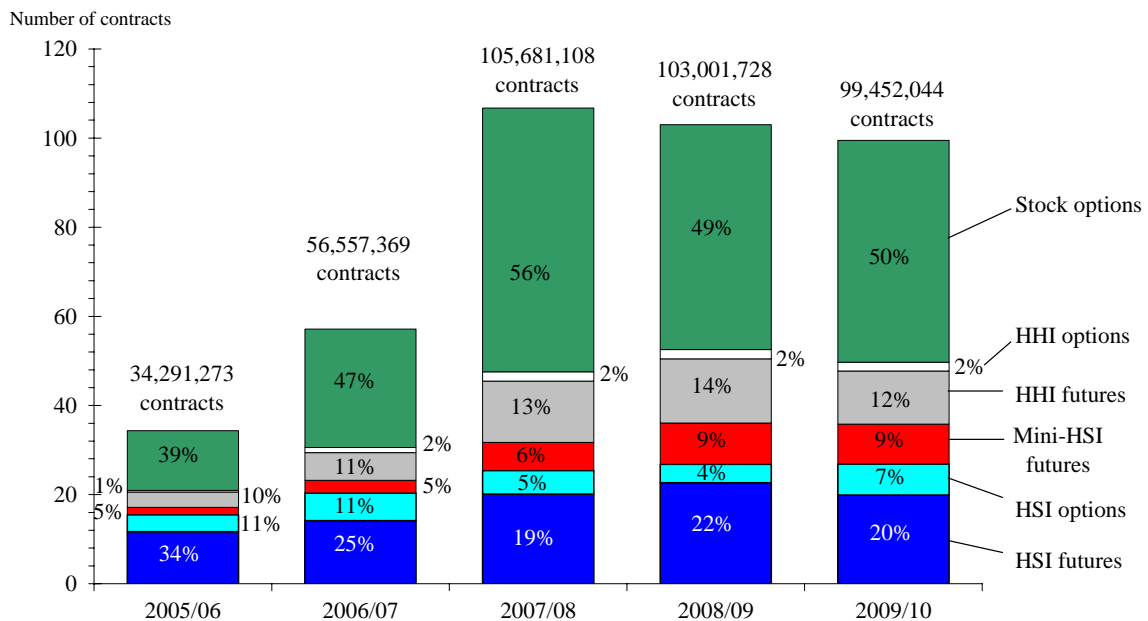
The derivatives market is an indispensable part of Hong Kong’s financial market. In order to understand the trading composition in terms of investor type and trading purpose, the Hong Kong Exchanges and Clearing Limited (HKEx) has been conducting an annual survey on the derivatives market since 1994. The latest issue, “The Derivatives Market Transaction Survey 2009/10”, covered derivatives transactions for major futures and options products during July 2009 to June 2010 and was published in November 2010<sup>(1)</sup>.

Total market turnover for the covered derivatives products declined by 3% over the preceding year to 99 million contracts in 2009/10, as the decline in trading of index futures and stock options more than offset the gain in trading of index options. Over the past five years, there was a sharp average growth of 38% per annum, though the latest figure was still 6% below the peak in 2007/08.

*Transaction purpose*

In 2009/10, hedging was the main purpose of derivatives transactions, for the first time since the survey commenced. It accounted for 45% of the turnover, significantly up from 32% in 2005/06. Pure trading remained an important purpose, though its share of 39% represented a cumulative decline of ten percentage points from 2005/06. Meanwhile, the share of transactions for arbitrage purpose moved within a narrow range of 16% to 21% over the years.

**Total market contract turnover and distribution by product (2005/06-2009/10)**



Note : Numbers may not add up to 100% due to rounding.

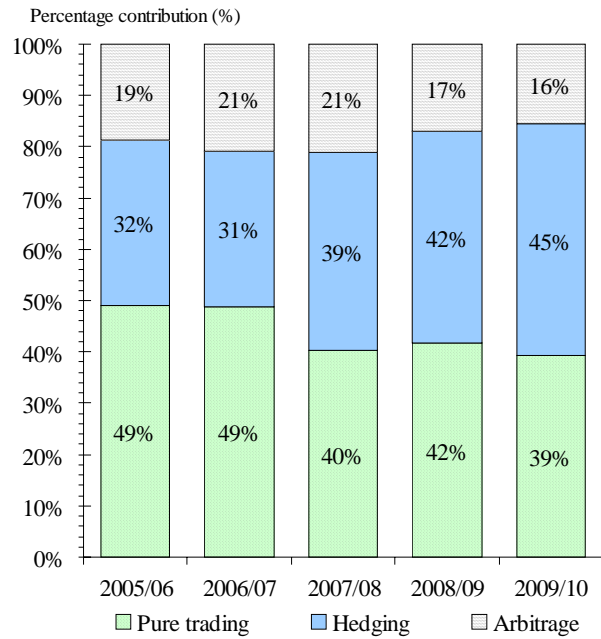
(1) The covered products included Hang Seng Index (HSI) futures, HSI options, Mini-HSI futures, H-shares Index (HHI) futures, HHI options and stock options, which together contributed about 99% of the total turnover volume of the HKEx derivatives market during the period.

**Box 5.1 (Cont'd)**

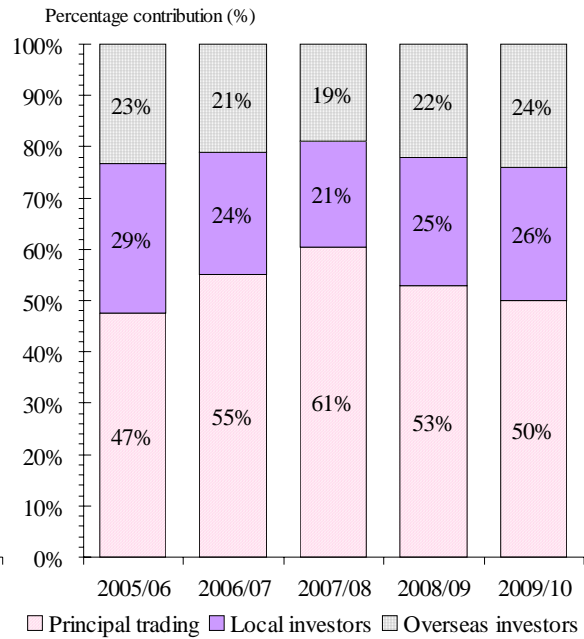
*Trading by investor type*

Major market participants in the derivatives market included principal trading (comprising market-maker trading and proprietary trading of exchange participants), and local/overseas investors with retail/ institutional background. In 2009/10, principal trading continued to be the largest contributor to derivatives trading, accounting for 50% of the total. Local and overseas investors each accounted for about 25%.

**Distribution of trading by transaction purpose**



**Distribution of trading by investor type**



Note : Numbers may not add up to 100% due to rounding.