

HSBC: broker-linked note demand rises on China

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By Regina Tan, Bloomberg

Investors are seeking more structured notes tied to brokerages and exchanges after China said it will link the Shanghai and Hong Kong bourses, according to HSBC Holdings Plc, the biggest foreign bank in China.

China will this year allow investors to buy shares listed in Hong Kong through its counterpart in Shanghai, and vice versa, it announced last week. HSBC is already seeing more client demand for products that bet on the stock of securities companies and exchanges rising, said Gordon Ho, the bank's head of equity-derivative structuring for the Asia-Pacific region.

"The subsequent enhancement of liquidity and access to the onshore market is certainly going to speed up the development of the derivative and structured product market" based on shares listed in China, Hong Kong-based Ho said in an e-mailed response to questions from Bloomberg News.

The exchange plan will allow a combined 23.5 billion yuan (RM12.1 billion) of daily cross-border trading and is a step toward the world's second-largest economy opening up its financial markets and removing capital controls. There's been no free flow of investments between the mainland and Hong Kong, even after the UK returned the territory to China in 1997.

As access improves for yuan-denominated stocks, demand for structured products in the Chinese currency such as equity-linked deposits and notes will rise, Nathan Chow, an economist at DBS Group Holdings Ltd in Hong Kong, said in an April 15, 2014 report.

Chinese investors, who could previously buy securities overseas only through asset managers, will have access to 241 stocks in both the Hang Seng Composite Large Cap Index and the Hang Seng Composite Mid Cap Index, along with companies traded on both the Hong Kong and Shanghai exchanges.

Citic Securities Co and Haitong Securities Co are listed in both Hong Kong and Shanghai.

Overseas institutions and investors can buy and sell shares on the Shanghai exchange's SSE 180 and SSE 380 indexes, as well as dual-listed equities through Hong Kong brokerages.

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