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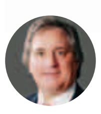

THE VIEW
RICHARD HARRIS

Markets that never sleep

Round-the-clock trading on a few big exchanges is inevitable – and Hong Kong could be a hub

The last month saw a surge of buying on our stock markets.

The Shanghai Composite Index is creeping towards what the market defines as a bull market, being 20 per cent up since Golden Week in October.

It is clear that China's underpinning of the stock market with government money and increasingly desperate protestations of support put a floor to a collapse that had seen prices down 45 per cent in just 10 weeks.

Markets had priced in desperation; and when a sugar daddy confirms that there will be no further falls, prices immediately recover. Add to this the effect of the usual "dead cat bounce" that typically follows a major fall, and it has been a good month.

But investors were particularly happy about the rumour of the start of the Shenzhen-Hong Kong Stock Connect that would combine trading between the two markets. Shenzhen has leapt by 28 per cent since Golden Week. The rumour was quickly denied but, as the wags said, so were the Shanghai-Hong Kong Stock Connect, and the Mutual Recognition of Funds before they It were announced. doesn't take a futurist to see that by the end of China's 13th five-year plan in 2020 – when even the RMB is scheduled by no less than the People's Bank of China itself to be "fully convertible" – that the trading of securities between Hong Kong and China will become quite easy.

> **Asian markets on a Monday are as much fun as a night out in Pyongyang**

The implication is that Hong Kong becomes a conduit to the world for the trading of Chinese securities. We already have the infrastructure, personnel, technology, the legal system to resolve disputes, the knowledge of both East and West, and (most important in this day and age) the compliance mechanisms to discourage market misconduct, like insider trading and market manipulation.

Chinese securities might not be the flavour of the month today but there will be a time when they will be; and the trading ecosystem in Hong Kong will be open to the world. However, mere connectivity between Hong Kong and China is just a taste of things to come.

Asian financial markets on a Monday morning are about as much fun as a night out in Pyongyang. They typically follow Wall Street's close on Friday, trading off stale after-market news, only to reverse at the first sign of encouragement from Europe. The first real leadership for the day comes from the deep and mature London market with Asian markets providing little direction.

In an era of 24/7 communications, it is an anachronism for trading to be so limited. If big global companies like Daimler-Benz, GE, HSBC, Microsoft, Royal Dutch Shell and Siemens have 24-hour global business operations, why should their shares only be traded within the working hours of a stock exchange?

It doesn't take much to see that with current technology, 24/5¾ trading on just a few big exchanges around the world is inevitable. Imagine the strength of a China Hong Kong connect, also connecting London, Frankfurt, New York and San Francisco, which would provide continuous market liquidity for 22 hours a day – with an hour's break for Hong Kong to have lunch!

If we can get away from the notion that stock markets are national champions, like national airlines were in the 1970s, a few Super Exchanges will develop, handling continuous weekday trading. Mega exchanges could stabilise big and flash stock market crashes by encouraging liquidity, and give an important service to investors by providing timely prices on breaking news.

One Mega Exchange could trade global titan stocks on a continuous basis, one could trade derivatives (sorely needed), and one for commodities; all supervised by appropriate regulators for global securities. A global securities supervisor is likely to develop, together with an international court to settle disputes, while global scale compliance would develop.

On the surface, that's a worrying thing – although it would better coordinate market misconduct dispute resolution for the global banks.

There will still be an important role for regional or national stock exchanges to cover local stocks in a very similar way as we manage other international events like sport; football has developed its Champions League, and each country has its structure of a Premier League and lower leagues.

Hong Kong could become one of the, perhaps three, Mega Exchange hubs – not because of our inventive people, our financial power, or our history, but simply because we are a geographical location in a time zone that is not London or New York. The key players are our government, and the Hong Kong stock exchange and their chief executive Charles Li Xiaojia. Charles, your legacy awaits!

Hong Kong could be a conduit for the trading of Chinese securities

20%

The amount by Shanghai Composite Index is up since eek in October which the

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