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Opinion | Benefits of Buying Stocks Directly in RMB through Stock Connect

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On June 19, 2024, Christopher Hui, the Secretary for Financial Services and the Treasury Bureau, stated in Shanghai that the initiative is currently underway with mainland regulatory bodies to allow mainland investors to purchase Hong Kong-listed RMB stocks directly using RMB counters to Stock Connect. We express strong support for this initiative and consider it a significant move.

Enhancing Stock Market Liquidity

As a bridge, Stock Connect facilitates the interconnection between the capital markets of the two regions. Conducting RMB clearing through Stock Connect not only complies with mainland financial regulations but also effectively reduces exchange risks. This greatly stimulates mainland investors' interest in Hong Kong stocks, further increasing the liquidity of the Hong Kong stock market. It often enhances a market's attractiveness and competitiveness, drawing more international investors to focus on the Hong Kong market.

Helping Narrow the AH Stock Price Gap

Currently, there is a certain price gap for the same stock between A shares and H shares due to various market factors. By implementing Stock Connect, this price gap is expected to narrow to some extent, improving the price disparity between the two markets. This will help enhance transparency and efficiency, further promoting the linkage between the two markets.

Future Expansion to Other Listed Stocks and Development of Other Products

Currently, dual-counter trading in HKD and RMB is limited to Hong Kong and covers only 24 stocks. However, as the pilot program expands to the RMB counter gradually covering all Hang Seng Index and H-share index constituent stocks, and eventually all stocks listed on the Hong Kong Stock Exchange, the benefits of Stock Connect will be further realized.

Stock Exchange. This will not only increase the internationalization of the Hong Kong market but also provide a good opportunity for other financial products such as IPOs, thereby contributing to the further development and growth of the Hong Kong securities market.

Expanding the Closed-Loop Trading Model to Hong Kong Brokers

To allow more mainland investors to easily access Hong Kong stocks, we suggest extending the same closed-loop trading model to Hong Kong brokers. With the gradual maturity of financial technology and certification systems, Hong Kong-licensed companies are capable of handling the capital flow and processing fund flows from mainland investors and processing fund flows through the existing closed-loop model. This measure will allow the model to be completed within the mainland, reducing transaction costs and improving transaction efficiency. With the implementation of the model, mainland investors will be able to participate more conveniently in the Hong Kong stock market, thereby expanding the market and risk management strategies. This will not only attract more mainland capital into the Hong Kong market but also further promote Hong Kong's status as an international financial centre.

Additionally, the promotion of this model will help boost investor confidence. Mainland investors will be better able to manage associated risks when choosing Hong Kong stocks, further promoting healthy market development. As market participants increase, competition will become more intense, helping drive market innovation and the development of more financial products that meet investor needs.

In this process, the support of the government and regulatory bodies is crucial. They need to maintain close communication with market participants to ensure the smooth implementation of new measures. For investors, enhancing their understanding and knowledge of the Hong Kong market is also vital. Through various seminars, workshops, and promotional activities, mainland investors' interest and participation in Hong Kong stocks will be effectively increased.

Overall, the policy of buying stocks directly in RMB through Stock Connect will bring new opportunities to the capital markets, promoting capital flow and market integration. We look forward to the successful implementation of this policy, creating a more favorable investment environment for investors in Hong Kong and the mainland, and driving the common development of the economies.

By Steven Wong

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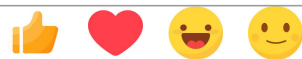
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