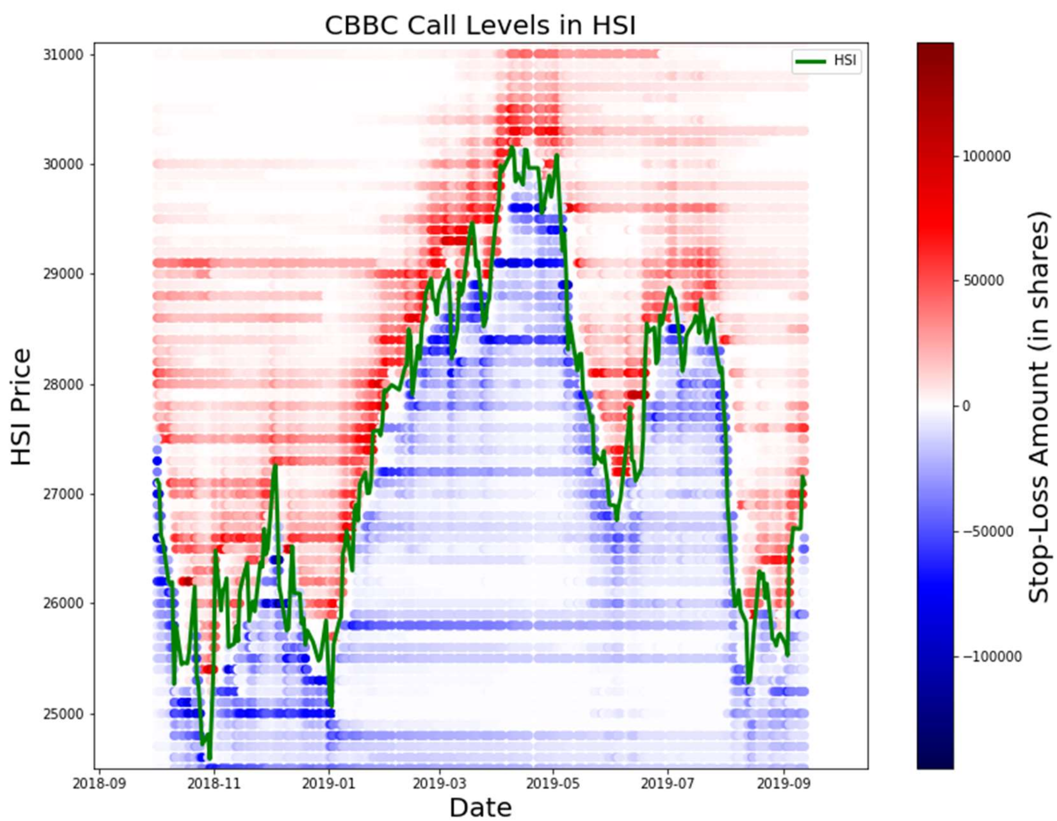
Callable Bull Bear Contracts and Their Impact Upon HK Equity Markets

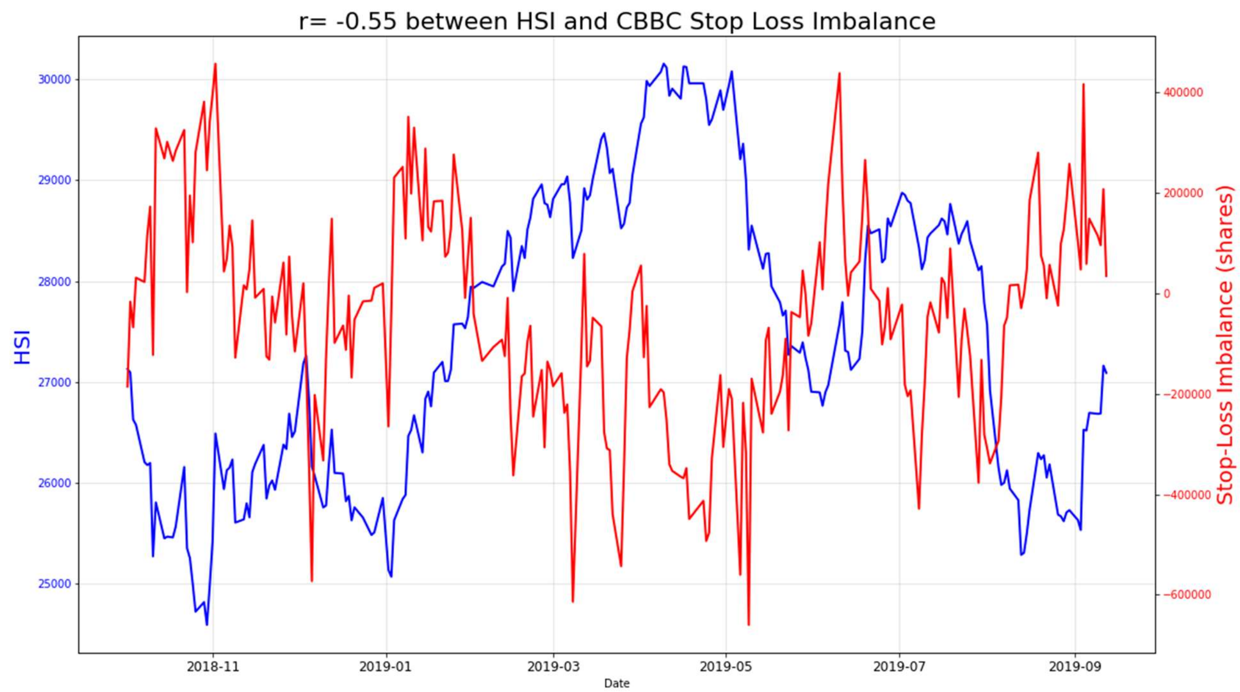
Structured retail product is having a growing impact upon Asian equity and vol markets. This paper explores one such product, Callable Bull Bear Contracts (CBBC's), and their influence on HK's Hang Seng Index.

CBBC's products give retail investors delta 1 exposure to the Hang Seng Index (HSI) and Hong Kong stocks without having to pay the stamp tax. The caveat is these contracts have automatic stop-loss levels ("Call Levels") which are often set close to the market. By sifting through the data available from HKEX, you can see where the current stops are and gauge their correlation with HSI.

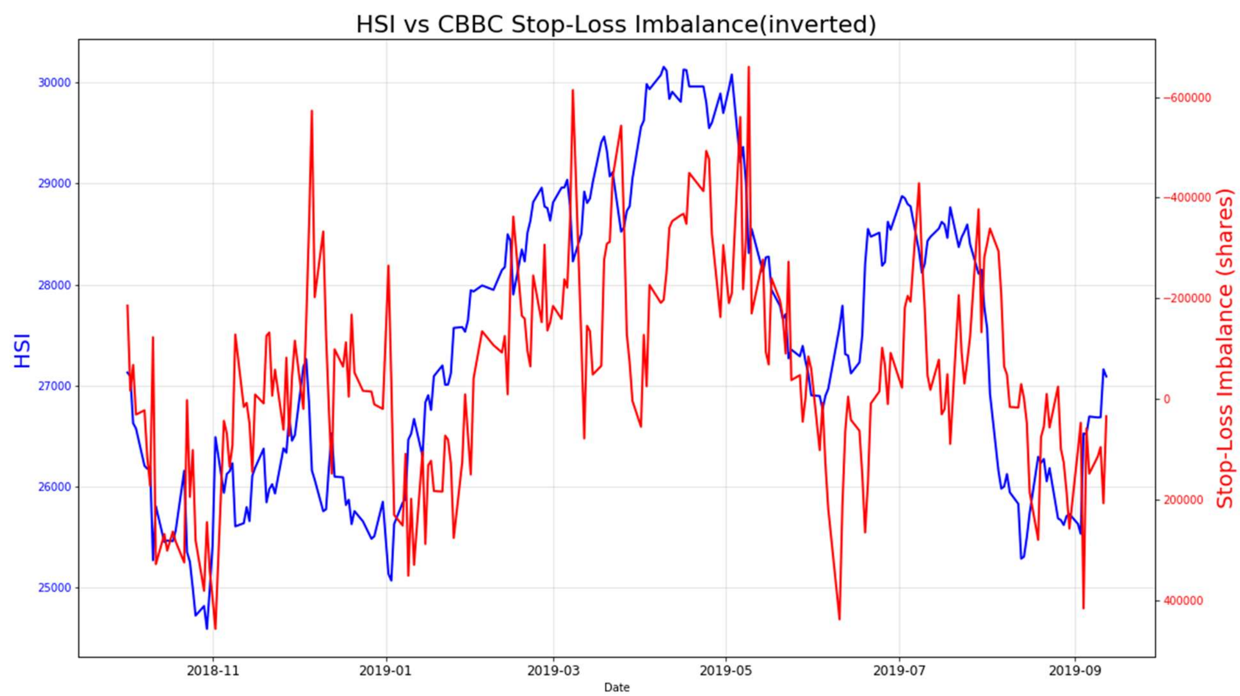
Here's a heat-map of recent Call Level history. The red dots represent buy-stops while the blue dots represent sell-stops. The color of the dots indicate how large the stops are. This can be broken down to a more granular level using data from HKEX.



Over the last year, the data shows a negative correlation of -0.55 between HSI and the stop-loss imbalance. i.e. HSI tends to trough when there is a high stop-loss imbalance to buy and HSI tends to peak when there is a high stop-loss imbalance to sell. In this regard, January and May of this year stand out in the below chart.



The inverted chart shows the correlation between the stop-loss imbalance and HSI more clearly.



I believe these stops have an impact on HSI and at the very least are a good indicator of retail sentiment. There's much more data to investigate given the growing importance of retail product in Asian equity and vol markets.

Appendix

Data collected from https://www.hkex.com.hk/?sc_lang=en

Data complied, cleaned and charted with Python. Python script, inputs and outputs can be found on: https://github.com/woodfin8/EconFin