

**Discussion of “Are Foreign Investors Informed?
Trading Experiences of Foreign Investors in China”
by Christian Lundblad, Donghui Shi, Xiaoyan Zhang,
and Zijian Zhang**



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Summary of the Paper

- Research question: Are foreign investors informed (in China)?
- Setting: account-level daily trading and holding data from 2016/1/1 to 2019/6/30, Shanghai Stock Exchange
- Findings: Foreign order flows predict stock returns next day/next 12 weeks; market liberalizations make foreign investors more informed
- Contribution: **Unconventional** new results from China; useful reference for foreign institutional trading and reforms in China

Who Are Those Foreign Investors?



http://www.csrc.gov.cn/csrc_en/c102049/c1371657/content.shtml

List of QFIIs (Until Oct. 2019)

Dec.23.2019

序号	QFII中文全称	QFII外文全称	国别/地区	境内托管行	资格批准时间
1	瑞士银行	UBS AG	瑞士	花旗银行	2003-5-23
2	野村证券株式会社	Nomura Securities Co.,Ltd.	日本	农业银行	2003-5-23
3	摩根士丹利国际股份有限公司	Morgan Stanley & Co. International PLC.	英国	汇丰银行	2003-6-5



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306	中泰国际资产管理有限公司	Zhongtai International Asset Management Limited	香港	工商银行	2018-8-15
307	长盛基金（香港）有限公司	Changsheng Fund Management (H.K.) Limited	香港	中国银行	2018-8-22
308	雪湖资本（香港）有限公司	Snow Lake Capital (HK) Limited	香港	交通银行	2018-12-14
309	野村新加坡有限公司	Nomura Singapore Limited	新加坡	汇丰银行	2019-3-12
310	兴元投资管理有限公司	Genesis Investment Management, LLP	英国	建设银行	2019-6-5
311	国际金融公司	International Finance Corporation	国际组织	花旗银行	2019-7-1
312	中信资本投资管理有限公司	CITIC Capital Asset Management Limited	香港	工行银行	2019-7-11
313	马歇尔·伟世有限责任公司	Marshall Wace LLP	英国	汇丰银行	2019-8-22

马自铭

著名投资人
雪湖资本创始人兼首席执行官
加州伯克利大学数学和经济学双学士



Sean Ma

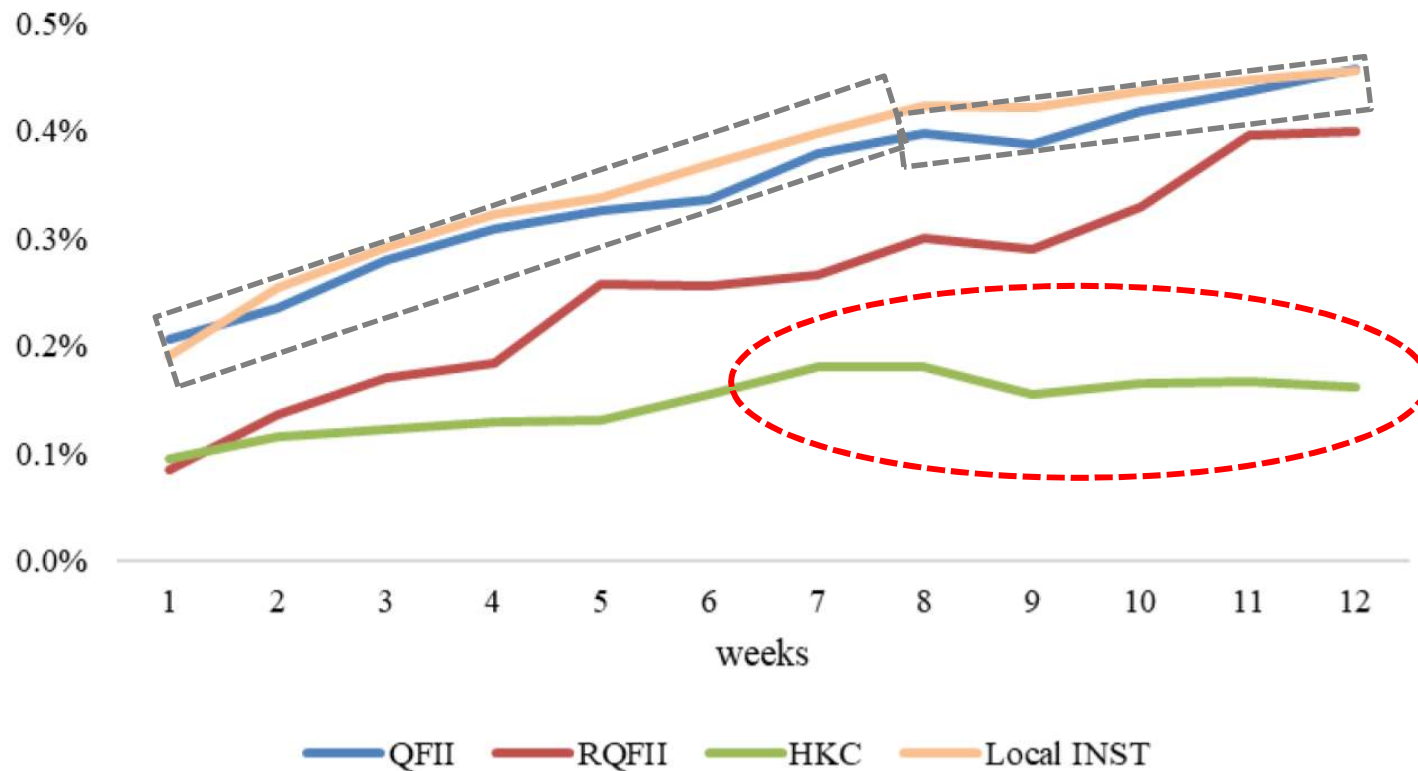
Ziff Brothers, CSFB
Est. Snow Lake 2009
Seeded by Hillhouse
HKEX Listing Committee Member

會指控
瑞幸咖啡造假數
SNOW LAKE CAPITAL
雪湖資本
今大舉持倉

長線可超越
星巴克中國

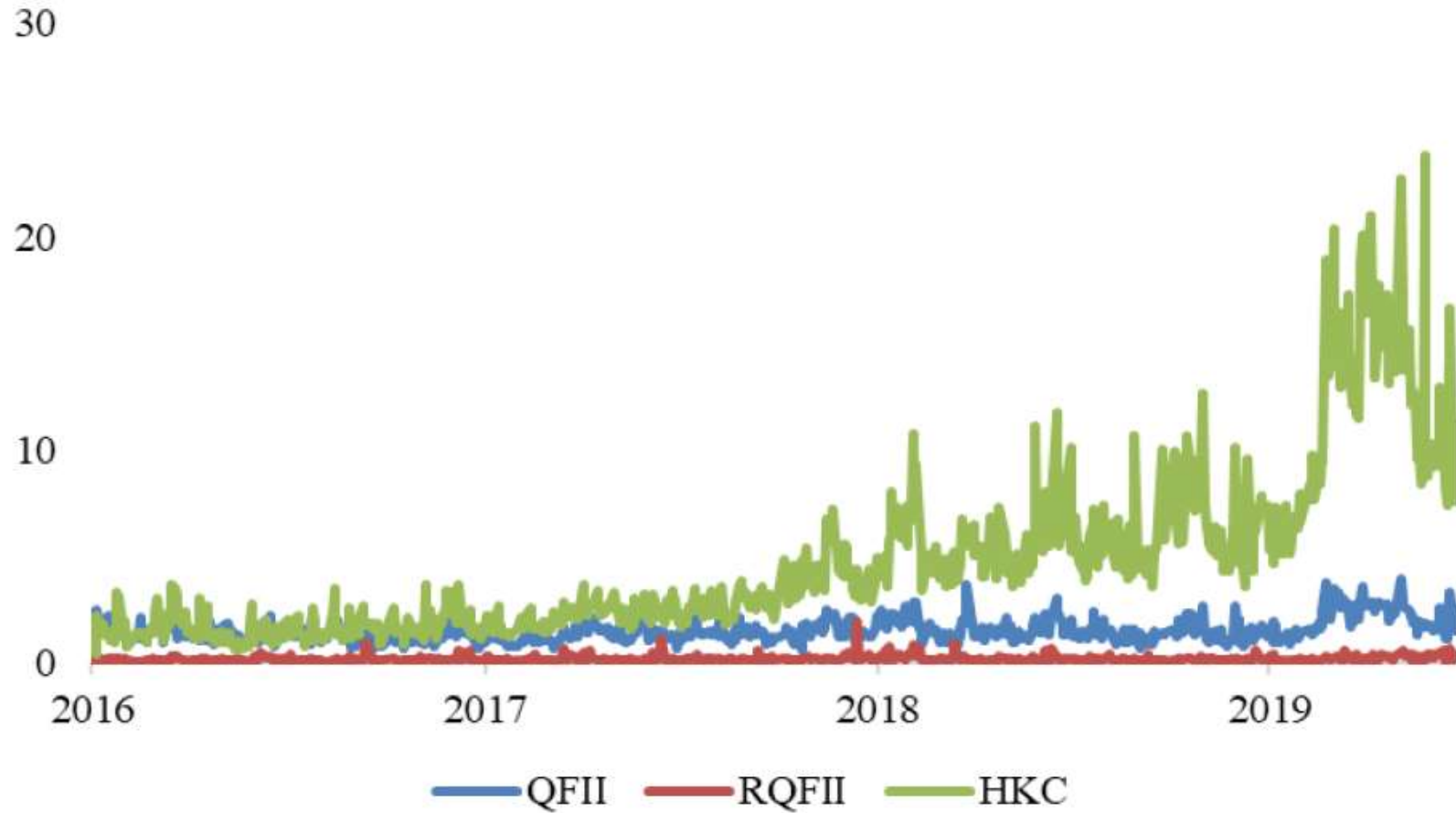
QFII = Local INST?

International Arms of Domestic Institutions (based in Hong Kong)?
Truly Foreign Funds Hiring Princelings/Connected Parties?
Section IV B.3. Page 31: “25% QFIIs locate in HK”



Largest Volume, Least Information

Panel A. Aggregate trading volume in billion RMB



What Are the Sources of Return Predictability of Foreign Investor Trading?

- Public information, better interpretation and use
 - Griffin, Shu, and Topaloglu (2012 *RFS*) Nasdaq 1997-2002
- Private information, but not from insiders
 - Luckin Coffee case
- Insider information

QFIIs should probably be the focus!

Unusual 2015 and after

Google 財經

SHA: 000300

首頁 > 000300 · 指數

滬深300

3,954.89 ↑ 84.77% +1,814.40 最長

12月14日, 下午4:30:00 [UTC+8] · SHA · 免責事項

1天 5天 1個月 6個月 YTD 1年 5年 最長



2015/07: “National Team”

2015/09: CSRC top official Zhang Yujun arrested

2015/10: Guosen Securities CEO Chen Hongqiao **suicide**

2016/02: CSRC chairman Xiao Gang dismissed

USD to CNY Chart +11.34% (10Y)

1 USD = 6.95355 CNY Dec 14, 2022, 23:58 UTC

US Dollar to Chinese Yuan Renminbi



Suggestions

- Separate truly foreign from others such as Hong Kong based institutions
- Trading behavior of American institutions?
- Any firm characteristics (e.g., analyst coverage) associated with the predictability?
 - Table IX: oversea revenues
 - Table IA.IX: dual-listed, SOEs
- Early sample vs. late sample (after 2018/02)
 - Table XII Panel B: results are from buy orders. Related to rising market? US ban?
- Can foreign investors trading predict policy changes (monetary, fiscal, **FX**, ...)?

Other Comments

- Writing: 2nd paragraph on page 5 seems misplaced
- Possible to examine **short selling** activities?
- Is foreign investor trading procyclical? (especially during “important” moments)
- Do foreign investors make more money in China A shares than other (emerging) markets in USD returns?
- Take the liberalization/reform result to the extreme, more predictive power with more foreign access?
- If data is available, can check futures trading
- Direct measure of informed trading (e.g., PIN)?
- Any difference by custodian banks or other intermediaries?
- Mainland and Hong Kong have some different holidays, anything to explore post-holiday trading?
- Some policy implications/**welfare**



Summary



- Useful institutional background, good reference on Chinese financial market
- Important research topic
- Thoughtful research design, unique data
- Rigorous analysis, **unconventional results**
- Suggestions:
 - Discuss who those “foreign investors” in China are
 - Identify the source of predictability
 - Examine the impact of 2015 episode