

ABSTRACT

Many studies have documented significant price inflation for interest-sensitive assets with the compressed interest rates under the unconventional monetary regime when the United States (US) Federal Reserve undertook quantitative easing measures and reduced the Fed Fund's rate to 0%-0.25%. During the period of time the savings deposit rate in Hong Kong was reduced to practically zero level (0.01% p.a. specifically). This research examines to what extent the zero savings deposit rate during that period of time affects public subscribers' returns from investing in the initial public offerings (IPO) issued at the Stock Exchange of Hong Kong (SEHK) under the auspices of the Hong Kong Exchanges (HKEX).

The exchange adopts a dual-tranche allocation mechanism which consists of a placing tranche for professional or institutional investors and a public subscription tranche where the public can apply for new issues via a non-discretionary allocation system. Public subscriptions requiring advance payment is a feature that makes IPOs a highly interest-sensitive asset. Using a complete dataset of the Mainboard IPO listings from the year 2000 through to 2016, the study finds that (1) public subscription rates increased during the post-Lehman period; (2) headline initial day returns dropped; (3) all-in-cost initial day return also dropped per share subscribed; and (5) short-term returns after the listing days exhibit a reversal pattern.

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