



CESC Index Report for April 2018

Highlights

- Hong Kong broad-based equity indices rose while those of Mainland fell
- CES G10 outperformed market by rising 5.1 per cent
- As dollar index moved up, emerging market stock indices came under pressure
- CESC introduced CES Belt and Road Index
- HKEX-NEEQ MOU signed
- Stock Connect daily quotas quadrupled

I. Performance of CESC Indices

Mainland and Hong Kong stock markets diverged in performance in April. Hong Kong broad-based equity indices rose while those of Mainland fell in general. (See Table 1)

During the month, the US Department of Commerce banned US companies from selling components and software to Chinese telecom equipment leader ZTE Corp for seven years, resulting in a suspension of trading in ZTE shares and a drop in the value of some telecom hardware exporters.

Table 1	Index Point	Monthly Return	Volatility	Risk-adjusted Return
CES G10	6,605.68	5.1%	6.2%	0.83
CES iBioTech	9,514.91	3.6%	8.1%	0.44
HSCEI	12,331.39	2.8%	6.3%	0.44
HSI	30,808.45	2.4%	5.1%	0.46
CES SCHK 50	3,408.26	2.3%	5.3%	0.43
CES SCHK 100	6,077.68	1.7%	4.6%	0.36
CES HKMI	8,578.63	1.4%	6.5%	0.22
CES 300	4,490.30	-0.2%	4.5%	-0.05
CES High Yield	4,314.56	-1.0%	5.2%	-0.19
CES 120	6,569.14	-1.1%	5.2%	-0.22
CES OBOR	1,757.22	-1.6%	4.1%	-0.39
CES CPE	6,386.40	-2.1%	5.3%	-0.39
CES 280	6,324.57	-2.2%	4.6%	-0.47
SSE Composite	3,082.23	-2.7%	4.4%	-0.62
CES A80	7,272.04	-3.4%	5.4%	-0.64
FTSE A50	12,192.25	-3.5%	5.6%	-0.62
CSI 300	3,756.88	-3.6%	4.8%	-0.76
SZSE Component	10,324.47	-5.0%	5.0%	-1.01

Source: CESC and Wind; data as of 30 Apr 2018

Macau gaming revenue for April increased 27.6 per cent year on year, exceeding market expectations. It was the 21th straight month the index advanced. The SAR's gaming revenue for the first four months of the year increased 22.2 per cent, compared with an increase of 13.8 per cent in the same period last year, reflecting more rapid growth in gaming revenue. **CES G10 outperformed the market by rising 5.1 per cent.**

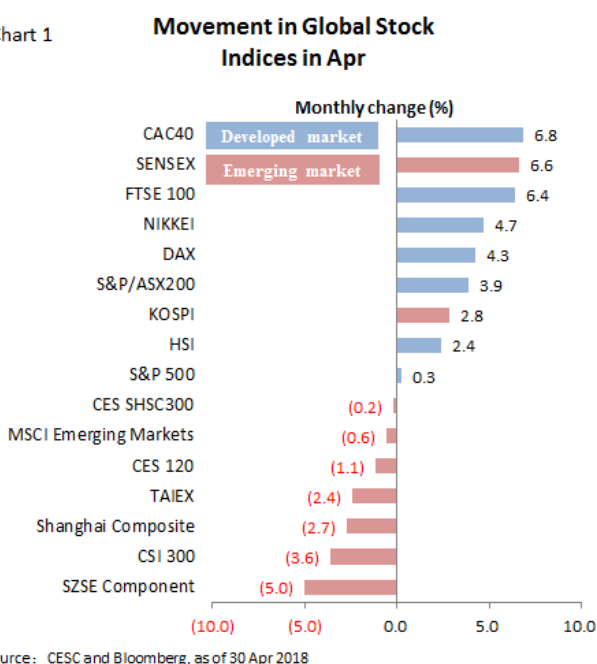
CESC has rolled out a new index compilation system and the first batch of new indices calculated by the new index compilation system, namely CES Forecast High Dividend Yield Index, CES Belt and Road Index and CES Innovative Biotech Index (CES iBioTech). CES iBioTech reflects OR

tracks the performance of leading biotech companies among Stock Connect stocks, in a bid to capture the development potential of the sector for investors. Boosted by HKEX's late April announcement that it would start accepting IPO applications from pre-profit biotech companies from 30 April, CES iBioTech increased 3.6 per cent during the month. It also grew in the first four months of the year, climbing 13.6 per cent.

II. Other Stock Indices

The yield on 10-year US Treasuries moved above 3 per cent in April. As the dollar index moved up, emerging market currencies faced selling pressure. Bloomberg's Emerging Market Currency Index dropped 3 per cent in April. The Central Bank of Argentina unexpectedly lifted its benchmark interest rate by 300 basis points to stabilize the country's currency. The market was concerned that the outflow of emerging market capital would hit high yield arbitrage trading in emerging markets. Emerging market stock indices underperformed developed markets in April. (See Chart 1)

Chart 1



France's Primary Consumer Sentiment Index increased from 100 points in March to 101 points in April, exceeding market expectations. French stocks surged, with CAC 40 Index up 6.8 per cent, making it the world's best performing stock index.

Indian economic data was also positive. According to statistics released by Nikkei, country's Purchasing Managers Index moved above the critical level of 50 to 50.3 in March. Inflation was under control and continued to slow. CPI dropped from 4.44 per cent in February to 4.28 per cent in March. India's SENSEX spiked 6.6 per cent in April, second only to CAC 40 Index gains.

With the thawing of relations between North Korea and South Korea and their leaders working to end their conflict within the year, South Korean stocks moved up. KOSPI closed at 2515.38, up 2.8 per cent.

III. China-Related Investment Activities Offshore

CESC introduced CES Belt and Road Index

CESC, a joint venture of HKEX, SZSE and SSE, recently released its Report on Participation in Belt and Road Initiative by Listed Companies Tradable under Stock Connect and introduced its CES Belt and Road Index.

The index gauges participation in the Belt and Road Initiative of companies listed on the three Stock Connect exchanges by six indicators, including sales and purchases of goods and services in countries along the Belt and Road routes, contracts newly signed and new investment, financing and insurance. The 100 companies with the greatest participation become CES Belt and Road Index constituents. At present, 23 constituents are from Hong Kong, 38 from Shanghai and 39 from Shenzhen. More than half (53) the constituents are state-owned enterprises, and there are 38 companies with a market cap above RMB60 billion.

HKEX-NEEQ MOU signed

HKEX and the National Equities Exchange and Quotations (NEEQ) signed a Memorandum of Understanding (MOU) to establish a long term cooperation framework to help them meet the demands of the market. The MOU also covers information sharing, regulatory collaboration and joint investor education. HKEX said it welcomes all NEEQ companies that meet its requirements for a Hong Kong listing. NEEQ companies can list in Hong Kong without delisting, but they have to delist if they want to list on an A-share market.

NEEQ has been expanding in recent years. At the end of 2017, there were around 11,600 companies trading on the exchange, with RMB400 billion in aggregate funds raised.

Stock Connect daily quotas quadrupled

PBC Governor Yi Gang announced in the Boao Forum for Asia that the daily Stock Connect quota would be quadrupled from 1 May. In other words, the Northbound daily quota for Shanghai Connect would be increased from RMB13 billion to RMB52 billion and the same increase would apply to Northbound trading through Shenzhen Connect, while Southbound daily quotas for the links would each be increased from RMB10.5 billion to RMB42 billion.

HKMA Chief Executive Norman Chan welcomed the expansion, noting that Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect are important mutual access arrangements between the Hong Kong and Mainland capital markets and they have been operating smoothly since launch. He believes the expansion of the daily quotas will further enhance the

smoothness and certainty of trading, and help ensure that the process for the inclusion of A shares in the MSCI Emerging Markets Index this year is orderly.

Gao Li, a CSRC spokeswoman, said the move would facilitate overseas institutional investors' participation in the A-share market and maintain market stability and safety. She also said Shanghai-London Stock Connect is an important measure to deepen Sino-British financial cooperation, expand the two-way opening of China's capital markets, and demonstrate China's confidence. CSRC will work with its British counterparts to introduce the scheme in 2018.

Analysts dismissed concerns that the launch of Shanghai-London Stock Connect will divert Mainland capital into the London market. According to Angus To, Deputy Head of Research at ICBC International, Hong Kong stocks will still be preferred by Mainland investors, as more companies familiar to Mainlanders are listed in Hong Kong, and the London market opens when the Mainland market is about to close.

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