

CESC Index Report for August



China Exchanges Services Co., Ltd (CESC)



Highlights

- Mainland economic data continued to improve. Mainland funds kept flowing into Hong Kong stocks in Southbound trading under Stock Connect. CES HKMI rose 4.9 per cent
- Mainland tech stocks listed overseas and in Hong Kong remained popular, driving CES P Elite up 2.9 per cent
- CES G10 slipped 1.4 per cent over concerns typhoons would affect the number of travellers to Macau and the SAR's short-term gaming revenue
- CESC commenced a survey on listed companies for its planned Belt & Road Index
- Hong Kong is looking to develop a leading offshore green finance and investment hub
- Stock Connect saw a change in fund flow trends as foreign interest in A shares intensified
- ADV of A-share index futures trading outside the Mainland was down 13 per cent in the first eight months of the year compared to the same period last year

I. Performance of CESC Indices

Mainland economic data continued to improve in August. The official PMI continued its rising trend and hit 51.7 per cent. Major Mainland banks reported improved performance in earnings and asset quality driving Mainland and Hong Kong equities up further.

Meanwhile, Mainland funds kept flowing into Hong Kong stocks, with Southbound trading under Stock Connect reporting a net inflow of RMB7.8 billion. **CES HKMI rose 4.9 per cent** (see Table 1).

Table 1	Index Point	Monthly Return	Volatility	Risk-adjusted Return
CES HKMI	7,400.71	4.9%	4.9%	1.00
HSCEI	11,295.44	4.3%	5.1%	0.85
SZSE Component	10,816.65	3.0%	4.0%	0.74
CES CPE	5,852.91	2.9%	5.2%	0.55
SSE Composite	3,360.81	2.7%	3.2%	0.84
CES 120	6,225.01	2.5%	3.9%	0.64
HSI	27,970.30	2.4%	3.9%	0.60
CES A80	7,140.01	2.3%	3.9%	0.61
FTSE A50	12,081.32	2.3%	4.1%	0.56
CSI 300	3,822.09	2.3%	3.6%	0.62
CES SCHK 100	5,559.20	1.5%	3.7%	0.41
CES 280	6,503.60	1.5%	3.6%	0.42
CES 300	4,358.60	1.1%	3.6%	0.32
CES G10	4,922.48	-1.4%	6.2%	-0.23

Source: CESC and Wind; data as of 31 Aug 2017

Mainland tech stocks listed overseas and in Hong Kong remained popular. **CES P Elite rose 2.9 per cent** led by heavyweights Baidu, Alibaba and Tencent, which rose 3 to 11 per cent.

Macau announced a year-on-year increase of 29.2 per cent in gaming revenue to MOP22.9 billion for July, the largest increase in three and a half years. Nevertheless, concerns that the typhoons in August would affect the number of travellers to Macau and the SAR’s short-term gaming revenue drove **CES G10 down 1.4 per cent**.

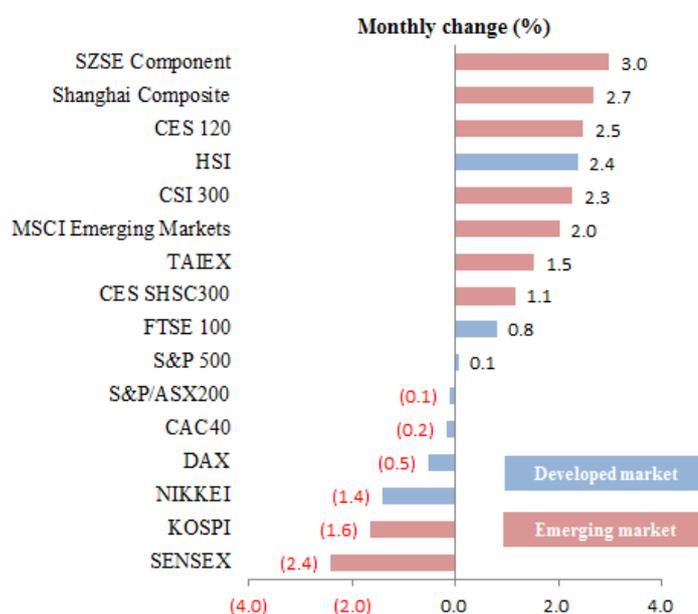
II. Other Indices

Global market performances differed in August. Mainland and Hong Kong stock indices topped the chart while Korea and India were the worst performers as geopolitical risks increased due to the North Korean crisis and the Sino-Indian border standoff.

August saw a large number of results announcements from Mainland and Hong Kong listed companies. Enterprises with good performances saw their market valuations rise, and supply side reforms started to show good results. SSE Composite Index and SZSE Component Index rose 2.7 per cent and 3.0 per cent respectively (see Chart 1).

Chart 1

Movement in Global Stock Indices in Aug



Source: CESC and Bloomberg, as of 31 Aug 2017

Developed markets seemed to stay on the sidelines with little changes to their indices. S&P 500 was up 0.1 per cent. CAC40 slipped 0.2 per cent. The US Fed and the ECB made no further comment on how to shrink their balance sheets at a symposium in late August.

USDx touched 92.2 at one point representing a cumulative loss of over 9 per cent year to date for the US dollar against other major currencies, reflecting dissipating confidence in the US economy.

III. China-related Investment Activities Offshore

CESC commenced a survey on listed companies for its planned Belt & Road Index

CESC’s efforts to develop a cross-border Belt & Road Index are making good progress. A survey of listed companies is under way. Analysis of the results is expected to begin before the end

of the year.

The index would be the first cross-border Belt & Road Index in the offshore market. Its constituents would be securities eligible for trading under Stock Connect, selected because of their active participation in the Belt & Road initiative. CESC wants to provide an index that will help investors capture the stock performance of companies active in investment and business in Belt & Road countries.

Hong Kong is looking to develop a leading offshore green finance and investment hub

Hong Kong's Financial Services and the Treasury Bureau has made green finance one of its key priorities. As an international financial centre and the world's largest offshore RMB business hub, and with a well-established legal system and market infrastructure, Hong Kong is believed to be well placed to develop green bonds and project financing.

Green finance is a broad term that refers to capital raising and financial investments flowing into projects and products that support the development of a sustainable, low-carbon and climate-resilient economy through clean energy, pollution control, and environmentally friendly buildings, transportation, infrastructure, etc. Interest in the development of a green economy has been keen over the world recently, especially in the Mainland, which launched its own market for green bonds in early 2016. Mainland companies led the world in green bond issuance in 2016 with an aggregate of RMB230 billion worth of deals completed domestically and overseas that year.

A report by the People's Bank of China issued last year predicted that Mainland cities could offer investment opportunities worth RMB6.6 trillion in such areas as low-carbon buildings, green transportation, clean energy, etc. before 2020. As governments could only satisfy 10 to 15 per cent of the funding needs, new "green" capital would be required, the report said.

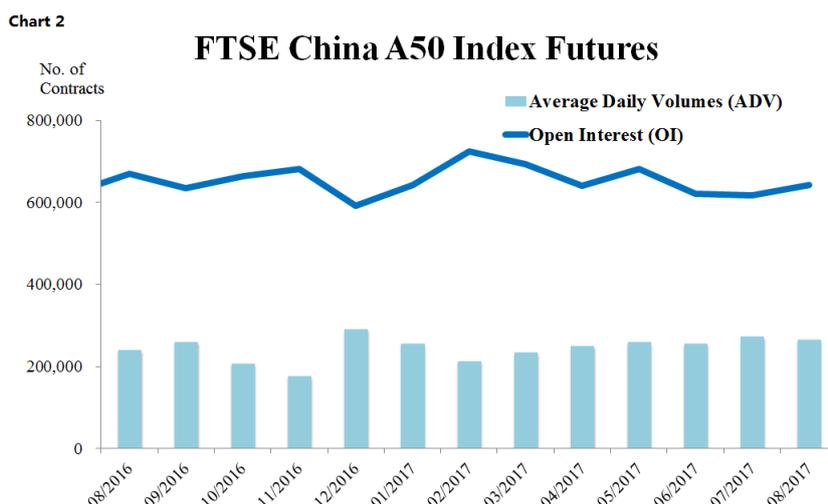
Stock Connect saw a change in fund flow trends as foreign interest in A shares intensified

Data showed that in August, net buying of A shares under Stock Connect amounted to RMB27 billion while net buying of Hong Kong stocks in Southbound trading dropped to RMB7.8 billion. It was the first time Northbound fund flows exceeded Southbound fund flows this year, indicating the recent appreciation of the RMB had helped attract capital to A shares.

ADV of A-share index futures trading outside the Mainland was down 13 per cent in the first eight months of the year compared to the same period last year.

Trading in A-share index futures outside the Mainland has been less active. Average daily volume (ADV) of FTSE China A50 Index Futures traded on Singapore Exchange in the first eight months of this year was down 13 per cent from the same period in 2016 to around 250,000 contracts.

Open interest of the A-share index futures at the end of August was around 643,000 contracts (see Chart 2), or a notional value of around RMB50.7 billion.



Source: SGX statistics as of 31 August 2017

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