

# CESC Index Report for December



## Highlights

- CES SCHK100 closed at a record high, up 3 per cent from the previous month and 40.8 per cent the whole year
- CES P Elite surged 78.4 per cent the whole year, driven by the higher valuation of private enterprises, including tech companies and domestic real estate developers
- The gaming sector was one of the year's leading sectors in terms of price gain. CES G10 rose 8.3 per cent in December, and 57.2 per cent the whole year.
- Blue chips in both the Mainland and Hong Kong gave a strong performance. CES SCHK100, CES 120 and CES 300 surged 40.8 per cent, 34.6 per cent and 28.4 per cent the whole year respectively, ranking among the world's top five major stock indices.
- CSRC announced H share "full circulation" pilot scheme
- Shenzhen Stock Exchange expressed interest in ETF Connect
- China Development Bank issued First Belt and Road bond in HK

## I. Performance of CESC Indices

The Hong Kong stock market remained bullish on the last trading day in 2017. **CES SCHK 100 closed at a record high, up 3 per cent from the previous month and 40.8 per cent the whole year.** (See table 1)

Mainland funds are now a significant force in the Hong Kong

<b>Table1</b>	Index Point	Monthly Return	Volatility	Risk-adjusted Return	Yearly return
CES CPE	6,567.84	1.9%	5.0%	0.31	78.4%
CES G10	6,192.42	8.3%	7.5%	1.29	57.2%
CES HKMI	8,188.08	2.4%	5.3%	0.44	48.4%
CES SCHK 100	5,989.97	3.0%	3.8%	0.85	40.8%
HSI	29,919.15	2.5%	3.9%	0.67	36.0%
CES 120	6,801.41	0.9%	4.5%	0.17	34.6%
FTSE A50	13,195.72	0.8%	5.1%	0.16	32.4%
CES A80	7,792.42	0.8%	4.8%	0.17	31.8%
CES 300	4,654.34	1.1%	3.8%	0.27	28.4%
HSCEI	11,709.30	2.0%	4.7%	0.37	24.6%
CSI 300	4,030.85	0.6%	4.0%	0.14	21.8%
CES 280	6,667.56	0.6%	3.6%	0.14	14.9%
SZSE Component	11,040.45	0.9%	4.2%	0.15	8.5%
SSE Composite	3,307.17	-0.3%	2.9%	-0.09	6.6%

Source: CESC and Wind; data as of 29 Dec 2017

stock market. The turnover of Southbound trading under Shanghai Connect and Shenzhen Connect surpassed HK\$1.7 trillion and HK\$530 billion respectively in 2017. Northbound trading brought a total net inflow of approximately HK\$340 billion to the Hong Kong stock market, 1.4 times that of 2016 (approximately HK\$246 billion).

**CES P Elite saw a remarkable full year surge of 78.4 per cent.** Of the 30 constituents, 28 had double-digit percentage returns and 11 surged more than 100 per cent. The rally was driven by the higher valuation of private enterprises, including tech companies and domestic real estate developers.

The gaming sector was one of this year’s leading sectors in terms of price gain. Macau’s gaming industry recovered with an aggregate full-year revenue of more than MOP260 billion, up 19 per cent from the previous year. Bankers are optimistic about the outlook for Macau-based gaming stocks this year. **CES G10 rose 8.3 per cent in December, and 57.2 per cent the whole year.**

## II. Other stock indices

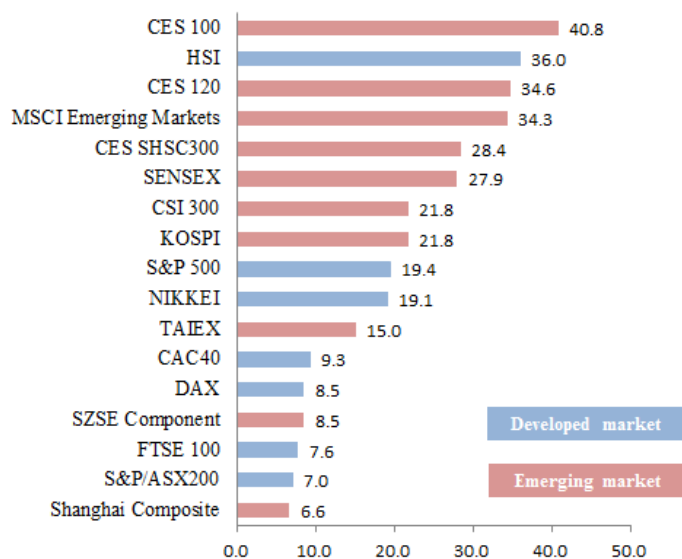
In 2017, global stock market performed well in general, Hong Kong stocks, in particular. They reversed a decline in 2016 and outperformed their European and American counterparts. **Blue chips in both the Mainland and Hong Kong gave a strong performance. CES SCHK100, CES 120 and CES 300 surged 40.8 per cent, 34.6 per cent and 28.4 per cent the whole year respectively, ranking among the world’s top five major stock indices.** (see chart 1)

Generally, emerging markets recorded higher returns than developed markets last year. According to the latest forecasts of IMF, issued in October 2017, emerging and developing economies will grow 4.6 in per cent 2018, 0.1 per cent higher than previously predicted, and outperform global economic growth.

Looking forward, various macro factors may continue to bring uncertainties to the world’s economies. They include the interest rate hike cycle, tax reforms in the US, development of the North Korean situation and commodity prices. Micro factors like corporate growth and valuations may also drive market movements and capital flows. Choice of appropriate indices for asset allocation will help in risk management and help increase returns. CESC will continue to launch

**Chart 1**

**Movement in Global Stock Indices in 2017**  
Yearly change (%)



Source: CESC and Bloomberg, as of 29 Dec 2017

indices of various themes and strategies this year to keep investors abreast of developments and positioned to seize growth opportunities.

### **III. China-related Investment Activities Offshore**

#### **CSRC announced H share “full circulation” pilot scheme**

The CSRC announced a pilot scheme for the “full circulation” of H shares. Not more than three companies will be selected initially to participate based on four criteria: (1) companies that are compliant with legal and policy requirements for foreign investment, management of state assets, and national security and industry policies; (2) quality companies that are good representatives of industries that adopt the concepts of innovation, harmony, being green, openness and sharing; and companies in line with the direction of national policies for industries and the national strategies of serving the real economy and supporting the Belt and Road initiative; (3) companies with depository shares that have a simple equity structure and a market cap of no less than HK\$1 billion; (4) companies that have good corporate governance practices and internal decision making processes that are able to safeguard shareholders’ rights to know, participate and vote.

H shares refer to the shares of Chinese domestic companies listed in Hong Kong. There are currently 228 of them, including most of the state enterprises and some private enterprises. Except for China Construction Bank (0939), listed in 2005, holders of domestic shares of H-share companies cannot trade their shares in the market.

With the full circulation of H shares, holders of domestic shares will be able to buy or sell shares in the market. This will improve valuations and expand the market cap of Hong Kong. At present, unlisted domestic shares have a total value of more than HK\$2.5 trillion, or around 8 per cent of Hong Kong’s total market cap.

#### **Shenzhen Stock Exchange Expressed interest in ETF Connect**

On the first anniversary of Shenzhen Connect, the Shenzhen Stock Exchange said the next steps would be the study of including ETFs as instruments eligible for trading under the Connect programmes, enhancement of trade arrangements and improvement of systems serving cross-border fund flows.

The Hong Kong ETF market is expected to expand further upon the introduction of ETF Connect, with increased investment from social security funds and Mainland insurers.

#### **China Development Bank issued First Belt and Road bond in HK**

China Development Bank (CDB) issued for the first time a US\$350 million five-year Belt and Road bond in Hong Kong via private placement. The proceeds will be used to support projects along the Belt and Road. CDB said it would grant up to RMB250 billion equivalent of loans and loan facilities to support the initiative.

Hong Kong is well positioned to be a major service and financing hub that satisfies the project investment, capital and financing requirements of the Belt and Road initiative. CDB's bond issuance will encourage Belt and Road projects to raise funds in Hong Kong, allowing Hong Kong to capture opportunities from its strategy to reinforce its position as an international financial hub and a primary fundraising centre.

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