

CESC Index Report for December 2018



China Exchanges Services Company Limited Published on 18 January, 2019



Highlights

- Cross-border China concept stocks blue chip index (CES120) was down 16.8 per cent in 2018, but still fared better than the performance of the A-share large cap index
- Semiconductor industry was hit by the Sino-US trade dispute. CES China Semiconductor Index (CESCSC) plunged over 40 per cent during the year
- Defensive stocks demonstrated resilience with CES SCHK High Yield Low Volatility Index (CESYLTV) registering a single-digit fall only during the entire year, significantly outperforming major large-cap Hong Kong indices
- The US Fed rate hikes hit global stock, bond, commodities and FX markets
- WVR companies were proposed for inclusion in Stock Connect's Southbound Trading in mid-2019
- CSRC and SFC entered into agreement to enhance exchange of information under Stock Connect
- CESC Launched CES SCA Industry Top Index, CES SCHK Moat Index and CES SCHK Value Index

I. Performance of CESC indices

A number of stock indices dropped in 2018 along with global stock markets in a rate-hike cycle and the Sino-US trade dispute. **Cross-border China concept stocks blue chip index (CES120) was down 16.8 per cent during the year**, but still fared better than the A-share large cap index which lost over 20 per cent.

Under Shanghai Connect and Shenzhen Connect, as of market close on 28 December 2018, total net inflow of RMB294.2 billion was recorded for Northbound Trading and total net inflow of HK\$82.7 billion was recorded for

	Index Point	Monthly Return	Volatility	Risk-adjusted Return	Yearly return
CES REIT	3,462.09	1.4%	1.8%	0.74	-3.4%
CES SCHK HYL	2,994.95	-2.4%	3.1%	-0.76	-6.8%
CES SCHK 50	2,818.81	-3.1%	4.7%	-0.65	-14.5%
CES SCHK 100	5,110.46	-2.6%	4.7%	-0.56	-14.7%
CES HKMI	6,961.30	-4.6%	5.0%	-0.92	-15.0%
CES VAL	3,802.89	-3.6%	6.6%	-0.55	-15.2%
CES High Yield	3,319.32	-3.0%	5.4%	-0.56	-15.9%
CES 120	5,659.03	-5.1%	4.0%	-1.28	-16.8%
CES 300	3,870.34	-4.4%	3.8%	-1.15	-16.8%
CES A80	6,066.59	-6.5%	4.1%	-1.60	-22.1%
CES HKB	4,599.82	-12.1%	11.6%	-1.04	-22.4%
CES MOT	3,018.89	-5.9%	6.4%	-0.91	-22.7%
CES AIT	3,197.55	-3.8%	5.5%	-0.68	-24.1%
CES 280	4,920.55	-5.3%	4.2%	-1.26	-26.2%
CES G10	4,565.97	0.1%	6.9%	0.01	-26.3%
CES CPE	4,835.64	-7.0%	5.2%	-1.34	-26.4%
CES OBOR	1,382.38	-3.5%	4.1%	-0.84	-26.5%
CES iBioTech	6,140.34	-16.4%	10.5%	-1.56	-26.7%
CES SCHK E&L	3,156.55	-0.3%	6.4%	-0.05	-27.6%
CES CSC	2,848.27	-7.7%	6.5%	-1.18	-41.7%

Source: CESC and Wind; data as of 31 Dec 2018

Southbound Trading. Worth noting is that this was the first year that Northbound net inflows exceeded Southbound net inflows.

Performance of different industries diverged. Semiconductor was the first to be hit by the Sino-US trade dispute. **CES China Semiconductor Index (CESCSC)**, the benchmark index of the Mainland’s semiconductor industry, **plunged over 40 per cent in 2018** and became the worst performer among industry indices. Valuations in the medical and pharmaceutical industry fell amid the vaccine crisis and price cut concerns, driving **CES HK Biotech Index (CESHKB) to a decline of 22.4 per cent in 2018**.

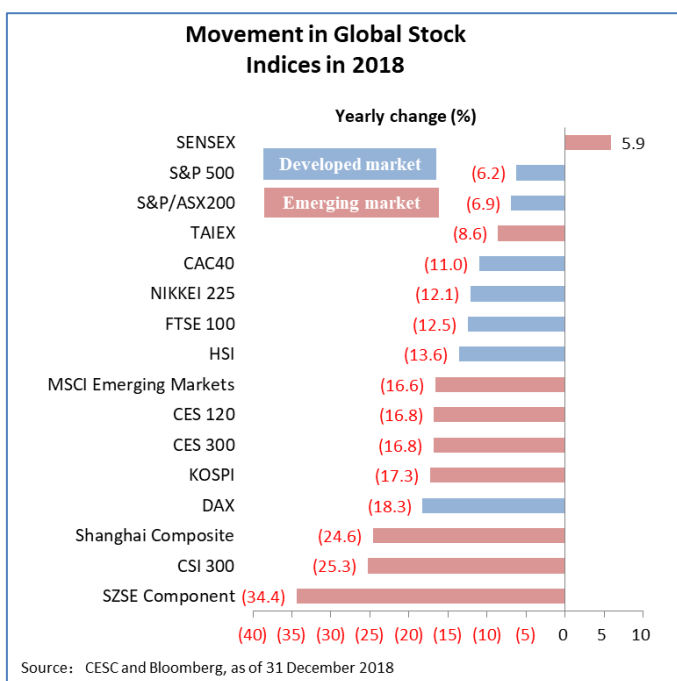
Despite bearish market performance as a whole, **CES SCHK High Yield Low Volatility Index (CESYLV)**, which reflects the performance of the defensive sector, **recorded only a single-digit decrease in 2018**, significantly outperforming major large-cap Hong Kong indices. This demonstrated the importance of diversified investment and risk management.

II. Other stock indices

Market sentiment was overshadowed by the Sino-US trade dispute in 2018. Global stock, bond, commodities and FX markets were all hit. Both the Mainland and US stock markets were weighed down. In 2018, CSI 300 Index fell 25.3 per cent, while S&P 500 Index plunged 16 per cent from its record high in September, closing down 6.2 per cent from a year earlier. Investors were concerned over the global economic slowdown as the trade dispute spread.

Continuous rate hikes by the US Fed and the strong US Dollar Index triggered capital outflow from emerging markets and led to poor stock performances. SZSE Component Index plunged 34.4 per cent and became the worst performer among major stock markets. India’s SENSEX however rose 5.9 per cent and was the best performer, thanks to the country’s rapid economic growth.

The rate hikes also drove emerging market currencies down, setting off a foreign exchange crisis in several emerging markets. MSCI Emerging Markets Currency Index fell 3.8 per cent. Currencies of Argentina, Turkey, Russia, Brazil and India posted the largest drops at 51 per cent, 28 per cent, 17 per cent, 15 per cent and 8.5 per cent respectively.



Capital outflow from emerging markets dragged their stock markets lower. MSCI Emerging Markets Index dropped 16.6 per cent in 2018.

III. China-related investment activities offshore

Proposed inclusion of WVR companies in Stock Connect’s Southbound Trading in mid-2019

HKEX, SSE and SZSE jointly announced that they have reached a consensus on the arrangement for the inclusion of companies with weighted voting rights (WVR) to the Southbound Trading of Stock Connect. The three exchanges will announce the new rules, which are expected to take effect in mid-2019, in due course. The market believes the proposed inclusion would attract more companies with WVR structures to list in Hong Kong.

Country	G20 Economic Growth Forecasts	
	2018	2019
India	7.3	7.4
China	6.6	6.2
Indonesia	5.1	5.1
Turkey	3.5	0.4
Australia	3.2	2.8
USA	2.9	2.5
South Korea	2.8	2.6
Mexico	2.2	2.5
Saudi Arabia	2.2	2.4
European Union	2.2	2
Canada	2.1	2
Germany	1.9	1.9
Russia	1.7	1.8
France	1.6	1.6
UK	1.4	1.5
Brazil	1.4	2.4
Italy	1.2	1
Japan	1.1	0.9
South Africa	0.8	1.4
Argentina	-2.6	-1.6

Source: IMF, World Economic Outlook (October 2018)

CSRC and SFC entered into agreement to enhance exchange of information under Stock Connect

The CSRC and the SFC entered into an agreement to enhance the exchange of information under Stock Connect. An investor identification regime for Northbound Trading was launched on 26 September 2018 and the investor identification regime for Southbound Trading is planned to be introduced by the end of the first quarter of 2019. The regime helps enhance market surveillance and combat cross-boundary market misconduct under Stock Connect.

CESC Launched CES SCA Industry Top Index, CES SCHK Moat Index and CES SCHK Value Index

CESC launched three new indices in December 2018, namely CES SCA Industry Top Index, CES SCHK Moat Index and CES SCHK Value Index.

CES SCA Industry Top Index includes 50 stocks eligible for Northbound Trading under Stock Connect and is designed to track the most representative leader from the respective industry groups in the A-share market. CES SCHK Moat Index is designed to track the performance of stocks of companies that have a unique competitive advantage over other companies that creates value for shareholders like a moat. CES SCHK Value Index is a

strategic index which is designed to track the performance of low valuation stocks eligible for Southbound Trading under Stock Connect based on the forecast P/E ratio.

CESC will continue to work closely with its business partners to satisfy the need of asset management product providers and offer more diversified investment products.

China Exchanges Services Company Limited

Development

Suites 906-908, 9/F, Two Exchange Square, 8 Connaught Place, Hong Kong

8200

<http://www.cesc.com>

cescinfo@cesc.com

Author: Index

Tel: 852 2803

E-mail

Disclaimer

All information contained herein (the "Information") is provided for reference only. China Exchanges Services Company Limited endeavours to ensure the accuracy and reliability of the information but makes no warranty or representation as to its accuracy, completeness, reliability or suitability for any particular purpose. CESC accepts no liability (whether in tort or contract or otherwise) whatsoever to any person for any loss or damage arising from any inaccuracy or omission in the Information and/or from any decision, action or non-action based or in reliance upon the Information. None of the Information is intended to constitute investment advice and/or a recommendation to make (or refrain from making) any kind of investment decision. Any person intending to use the Information and/or any part thereof should seek independent professional advice. Distribution, redistribution, reproduction, modification, transmission, use, reuse and/or storage of the Information in whole or in part, in any form or by any means are strictly prohibited without the prior written permission of CESC. The Information is provided without warranties of any kind, either expressed or implied, including (but not limited to) warranties of merchantability, merchantable quality, title, fitness for a particular purpose, security and non-infringement. China Securities Index Co, Ltd will make its commercially reasonable endeavours to ensure the accuracy and reliability of the Information provided, but does not guarantee its accuracy and reliability and accepts no liability (whether in tort or in contract or otherwise) for any loss or damage suffered by any person arising from any inaccuracies or omissions and/or for any reliance placed on such Information.

© 2018 China Exchanges Services Company Limited. All rights reserved.