CESC Index Report for February

中華交易服務
CHINA EXCHANGES SERVICES

China Exchanges Services Company Limited

Highlights

- Mainland and Hong Kong markets retreated along with Europe and the US. Broad-based equity indices in both markets fell by 3 per cent to 8.7 per cent.
- CES G10 outperformed the market by falling 2 per cent.
- Global equity indices plunged across the board in anticipation of further rate hikes.
- Reports said HKEX is working to launch ETF Connect this year, while expanding its listing regime to accommodate new economy companies.
- White paper issued by Bank of China points to optimism about RMB's internationalisation.
- PBC adviser expects volatility in RMB to narrow and suggests less currency intervention.

I. Performance of CESC Indices

Mainland and Hong Kong equities retreated in early February in tandem with the US and European markets. They fell by over 13 per cent at one point, and only started to gain some lost ground in mid-February. Broad-based equity indices in both markets lost 3 per cent to 8.7 per cent during the month, with larger declines in large-cap stocks (see Table 1).

Table 1	Index Point	Monthly Return	Volatility	Risk-adjusted Return
CES G10	6,629.39	-2.0%	10.0%	-0.21
SZSE Component	10,828.73	-3.0%	8.0%	-0.37
CES 280	6,538.18	-4.0%	7.7%	-0.52
CES CPE	6,840.23	-4.6%	7.5%	-0.61
CES SCHK 100	6,112.42	-4.6%	7.2%	-0.64
CSI 300	4,023.64	-5.9%	6.9%	-0.85
CES 300	4,674.40	-5.9%	7.0%	-0.85
HSI	30,844.72	-6.2%	7.8%	-0.80
SSE Composite	3,259.41	-6.4%	6.8%	-0.94
CES SCHK 50	3,410.01	-6.6%	8.1%	-0.82
CES A80	7,905.43	-7.2%	7.1%	-1.00
CES 120	6,927.86	-7.2%	7.5%	-0.96
CES HKMI	8,601.82	-7.7%	9.3%	-0.83
FTSE A50	13,343.01	-7.8%	7.4%	-1.05
HSCEI	12,382.08	-8.7%	9.2%	-0.95

Source: CESC and Wind; data as of 28 Feb 2018

CES G10 outperformed the market by falling 2 per cent. Macau's gross revenue from gaming rose by 5.7 per cent year on year in February, which was slightly below expectations. Momentum remained strong, with growth in accumulated gross gaming revenue in the first two months of the year at 19.7 per cent.

A number of Macau casino stocks announced their financial results in February. CES G10 constituents Wynn Macau, Melco International, Galaxy Entertainment and Sands China saw 157 per cent, 97 per cent, 67 per cent and 31 per cent growth in profits attributable to shareholders respectively (see Table 2).

Table 2 The 2017 annual results and stock price performances of major Macau gaming enterprises

	Stock Code	Revenue*	YoY	Profit*	YoY	1 year Return
Galaxy Ent	27.HK	62.5 Bn	18%	10.5 Bn	67%	86.00%
Sands China	1928.HK	60.3 Bn	16%	12.5 Bn	31%	43.00%
Wynn Macau#	1128.HK	USD 46 Bn#	62%	USD 475 Mn#	157%	106.00%
MGM China	2282.HK	15.4 Bn	3%	2.3 Bn	-24%	21.00%
SJM Holdings	880.HK	41.9 Bn	0.1%	1.9 Bn	-16%	66.00%
Melco Int'l	200.HK	~41.3 Bn	17%	~2.7 Bn	97%	85.00%

Source: CESC & HKEX News

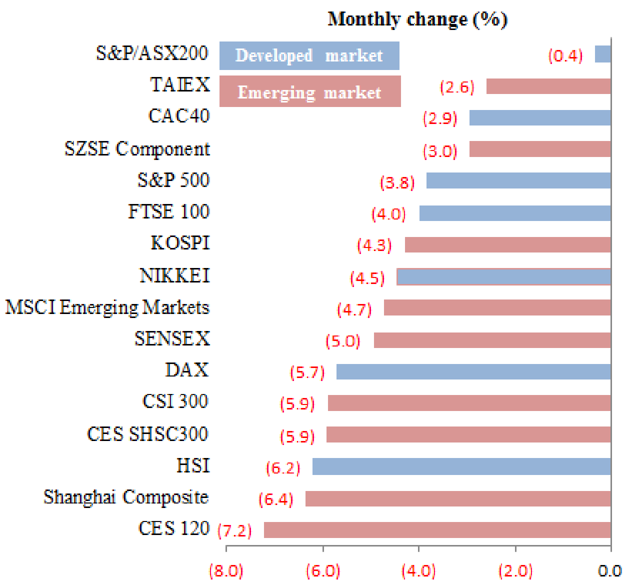
* Currency Unit: HKD (Unless specified)

Calculated from HKEX News announced figures

II. Other Stock Indices

A new cycle of rate hikes looks imminent as the new Fed chair, Jerome Powell, said in his first appearance on Capitol Hill that the Fed will forge ahead with gradual increases in interest rates. With heightened concerns over further rate hikes, the dollar index broke through 90. The yield on 10-year US Treasuries touched 2.95 per cent at one point and the 30-year Treasury yield moved above 3 per cent. All major stock indices fell between 0.4 per cent and 7.2 per cent (see Chart 1).

Chart 1 Movement in Global Stock Indices in Feb



Source: CESC and Bloomberg, as of 28 Feb 2018

CBOE's VIX, or the fear gauge, surged to around 50 in February. With market panic appearing to be looming, some inverse products on VIX were "discontinued" in the US. Although the index stabilised later, US equites did not recover lost ground at the end of the month. S&P 500 was down 3.8 per cent in February.

Oil became less appealing to investors on a stronger dollar. Brent crude fell to about US$65 from US$70 a barrel. MSCI Emerging Markets Index was down by 4.7 per cent compared to the previous month as capital flowed out from the emerging markets.

Economic data of developed regions was generally weak in February. Germany's Services PMI stood at 55.3, down from 57.3 in January and lower than market expectations. Housing starts in Japan fell sharply in January as they suffered a 13.2 per cent year on year decline. The German DAX and the Japanese Nikkei fell 5.7 per cent and 4.5 per cent respectively in February.

III. China-related Investment Activities Offshore

Reports said HKEX is working to launch ETF Connect this year, while expanding its listing regime to accommodate new economy companies

Trading under Stock Connect remained active in 2017 with substantial increases in both Southbound and Northbound trading, according to HKEX's 2017 Consolidated Financial Statements. As of the end of 2017, net money inflow into the Mainland and into Hong Kong had reached RMB348 billion and HK$726 billion respectively since the launch of Stock Connect.

Reports said HKEX is working with regulators and its Mainland counterparts on further enhancements to the Stock Connect operating model such as holiday trading arrangements and an investor identification regime for Northbound trading. ETF Connect is expected by some people in the market to be launched in 2018, according to various media reports. Meanwhile, HKEX has been actively seeking to broaden its listing regime. In late February, it proposed new rules to facilitate listings of companies from emerging and innovative sectors. They include new chapters of the Listing Rules for: listings of biotech issuers that do not meet any of the financial eligibility tests of the Main Board; listings of companies with weighted voting right structures; and a new concessionary secondary listing route for Greater China and international companies that wish to secondary list in Hong Kong.

White paper issued by Bank of China points to optimism about RMB's internationalisation

Bank of China has published a white paper on the internationalisation of RMB (White Paper), reporting new progress in the currency's globalisation as domestic and overseas market entities envisage a greater international role for RMB.

The 2017 White Paper was reportedly the fifth by the bank on its clients' engagement in the globalisation of RMB. Covering 3,134 industrial and commercial enterprises and 118 financial institutions from 25 countries and regions around the world, the paper reflects the changes in the internationalisation of the currency over the 12 months of last year.

According to the White Paper, a record high of 76 per cent of market entities (including industrial and commercial enterprises and financial institutions) believed RMB could potentially attain an international standing comparable to that of the US dollar, euro, British pound and Japanese yen. In addition, over 60 per cent of overseas market entities interviewed said they would make more use of RMB as a settlement currency in the future.

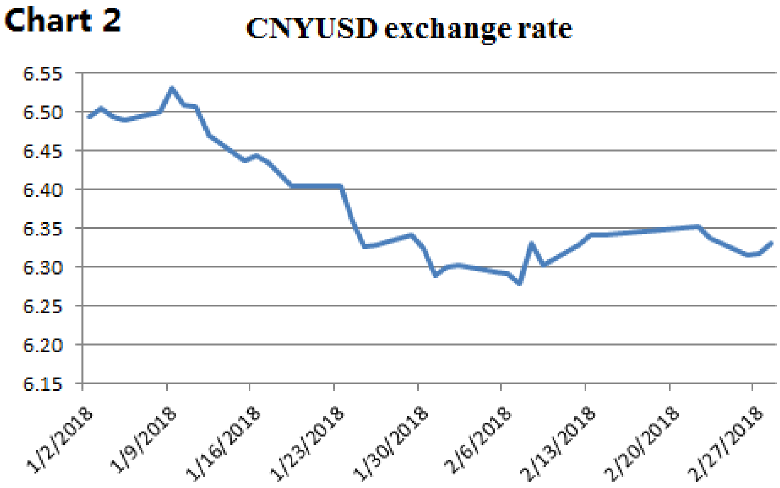
The study also indicated that the RMB's function as an international currency has taken a step forward. Nineteen per cent of Mainland enterprises interviewed said they continued to conduct transactions in RMB despite exchange rate fluctuations, up 1 per cent from 2016. It was the fifth year in a row this ratio has risen. Nearly 80 per cent of overseas commodities trading houses expressed interest in China's domestic commodities trading; and about 73 per cent of interviewees considered RMB as a significant currency of replenishment for their international liquidity during a liquidity squeeze.

It is worth noting that about 60 per cent of financial institutions contemplating greater asset allocation in RMB were considering RMB bonds. RMB stocks and equity assets have yet to attract the attention of banking institutions. Only 21 per cent of securities firms, investment banks and fund managers were thinking of increasing their exposure to such assets. Of those financial institutions considering greater exposure to cross border RMB assets, approximately 60 per cent were adding to their portfolios RMB assets of a percentage lower than 5 per cent of assets available for investment. All in all, the room for RMB asset allocation remains substantial.

PBC adviser expects volatility in RMB to narrow and suggests less currency intervention

RMB has been off to a strong start in the first two months of 2018 (see Chart 2). Against this background, regulatory moves were closely watched by the market.

Chart 2



Fan Gang, a PBC Monetary Policy Committee member, told Bloomberg in an interview that steady growth of the Mainland economy helped support a stronger RMB, though risk aversion and deleveraging limited further appreciation of the currency. He did not expect big movements in the price of the currency in 2018. So long as RMB remains relatively stable in 2018, decision makers are not expected to intervene in the FX market, and the central bank would not need to introduce the counter-cyclical measures to guide the currency's exchange rate.

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