CESC Index Report for February 2019

中華交易服務 CHINA EXCHANGES SERVICES

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Highlights

- Single day turnover in Shanghai and Shenzhen exceeded RMB1 trillion amid bullish market sentiment, lifting CES China A80 Index (CESA80) by 11.6 per cent
- Interest in 5G concepts raised CES China Semiconductor Index (CESCSC) by 26.6 per cent
- CES HK Biotechnology Index (CESHKB) increased 17.1 per cent amid rising demand for bio-tech stocks
- HKEX proposed to expand Stock Connect eligible products to more stocks, ETFs, listed bonds and primary offerings
- Guangdong and Hong Kong are studying connectivity in wealth management products and expect results by 2020
- PBOC bills offered in Hong Kong were more than 6 times oversubscribed

I. Performance of CESC indices

Table 1	Index Point	Monthly Return	Volatility	Risk-adjusted Return
CES CSC	3,679.76	26.6%	10.7%	2.48
CES iBioTech	7,595.12	17.1%	8.1%	2.12
CES 280	5,853.67	14.5%	6.5%	2.23
CES OBOR	1,627.83	13.9%	5.9%	2.36
CES AIT	3,933.21	13.3%	7.1%	1.87
CES A80	7,436.16	11.6%	7.8%	1.50
CESHKB	5,541.87	9.8%	5.5%	1.80
CES 300	4,391.19	7.0%	4.8%	1.45
CES 120	6,477.61	6.7%	5.7%	1.18
CES G10	5,386.35	6.3%	8.0%	0.79
CES MOT	3,489.58	6.2%	5.9%	1.05
CES CPE	5,568.07	4.1%	4.4%	0.93
CES SCHK E&L	3,610.36	4.1%	6.0%	0.68
CES SCHK 100	5,675.07	3.2%	3.5%	0.90
CES High Yield	3,877.84	3.1%	4.9%	0.64
CES VAL	4,420.72	2.8%	5.2%	0.54
CES SCHK 50	3,130.13	2.5%	3.5%	0.73
CES SCHK HYLV	3,293.86	2.4%	2.3%	1.03
CES REIT	3,818.07	2.1%	2.3%	0.92
CES HKMI	7,738.04	2.1%	4.2%	0.50

Source: CESC and Wind; data as of 28 Feb 2019

Mainland media reports said the Ministry of Human Resources and Social Security is encouraging local governments to enlarge the scale and range of their pension fund investments. Meanwhile, single day turnover in Shanghai and Shenzhen exceeded RMB1 trillion amid strong market sentiment, as the MSCI was expected to increase the weighting of A-shares in its indices. **CES China A80 Index (CESA80) rose 11.6 per cent.**

Speculation on the 5G concept continued, resulting in optimism for chip stocks. CESCSC's heavy weight stock Unigroup Guoxin reported a full-year net profit increase of more than 20 per cent. **CESCSC surged 26.6 per cent.**

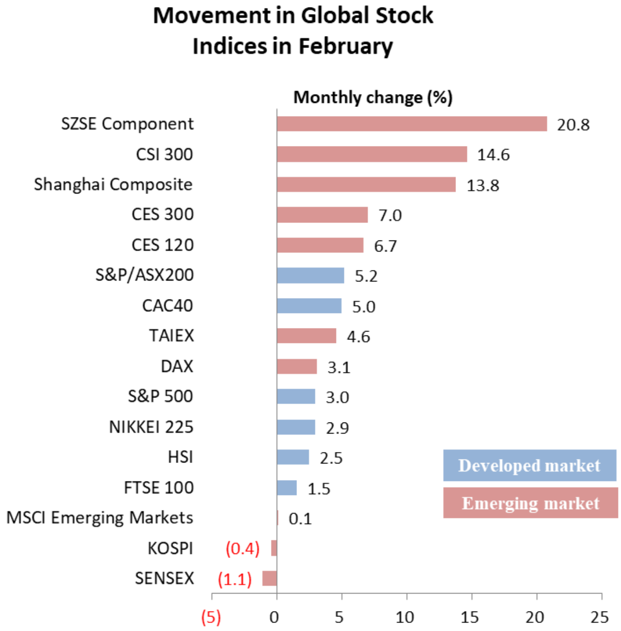
Hong Kong welcomed the sixth pre-revenue biotech company, CStone Pharmaceuticals, which listed at the end of the month with its shares so far staying above the offering price. Interest in bio-tech shares drove CESHKB up 17.1 per cent.

The National Bureau of Statistics published the “2018 Statistical Bulletin on National Economic and Social Development", which stated that in 2018, China recorded RMB8.3657 trillion in import and export volumes with "Belt and Road" countries, up 13.3 per cent year-on-year. **CESBNR rose 13.9 per cent for the month.**

II. Other stock indices

With accelerating overseas fund flows into A shares, favourable policies and the easing of Sino-US trade tensions, Shanghai and Shenzhen stock markets rallied, significantly outperforming the global market.

Iron ore prices surged as Vale, the world's largest iron ore producer, planned to cut production. Analysts said consumers in need of Brazilian iron ore may turn to Australian producers. As a result, Australian resources stocks such as BHP, a heavyweight of the S&P/ASX 200 index, may benefit. The Australian stock market rose 5.2 per cent.



Source: CESC and Bloomberg, as of 28 February 2019

The development of 5G and related technology continued to attract global attention. TSMC (Taiwan Semiconductor Manufacturing Company), a semiconductor leader and a heavyweight stock of the Taiwan weighted index, was highly sought after. The market expected TSMC’s business to stabilise in the second quarter. TSMC’s announcement of quarterly rather than annual dividend distribution is expected to increase the company’s appeal to funds. The Taiwan Weighted Index rose 4.6 per cent and returned to above the 10,000 mark.

The FOMC minutes published by the US Federal Reserve indicated that the Fed planned to call an early end to the reduction of the balance sheet this year. However, there was still no consensus on whether to raise interest rates this year. US stocks continued to rise, with the S&P 500 index closing at 2,784.49 at the end of February, up nearly 3 per cent.

III. China-related investment activities offshore

HKEX proposed to expand Stock Connect eligible products to more stocks, ETFs, listed bonds and primary offerings

On 28 February, HKEX announced its Strategic Plan 2019-2021 (“Strategic Plan”), which set out its vision and strategic objectives for the next three years. HKEX will focus its efforts in three themes: China Anchored, Globally Connected and Technology Empowered. The enhancement of Stock Connect, launch of A-share futures and the enhancement of Bond Connect will be closely related to the offshore Mainland market.

First, the initiatives called for enhancing Stock Connect by gradually expanding product coverage across more stocks (including international companies), ETFs, listed bonds (including convertible bonds) and primary issuance (Primary Connect), introducing market microstructure improvements, and working with onshore regulators to introduce stock borrowing and lending for Southbound holdings and to allow short-selling by Northbound capital under existing mechanism on the onshore markets.

The Strategic Plan also proposed to launch A-share futures products to support hedging of China A-shares by international investors, thereby enabling an increase in China A-shares’ weighting in international benchmark indices.

As for Bond Connect, HKEX is hoping to achieve structural improvements by adding a wider range of access platforms and Southbound trading.

HKEX is already a leading venue for investing into and out of Mainland China. It aims to further increase its international relevance to China and Asia, and its Asia relevance to the global markets, serving as the venue of choice for investors and issuers in the Asian time zone.

Guangdong and Hong Kong are studying connectivity in wealth management products and expect results by 2020

The "Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area" was issued in February. It proposed expanding the scope of cross-boundary investment products between Guangdong and Hong Kong. James Lau, Secretary for Financial Services and the Treasury, said in an interview that Hong Kong and Guangdong are discussing mutual market access to each other’s wealth management products. Results are expected by 2022.

Lau said he hopes there will be broader product types under the new programme, covering basic products, derivatives, or funds and ETFs, etc.

He said Greater Bay Area is important as it has a population of 70 million with a GDP of

US$1.5 trillion. Its economy is almost comparable to all of Australia and is the 13th largest in the world. Cooperation between Hong Kong and the Mainland in the Greater Bay Area will enhance Hong Kong's role as an international financial centre, and its importance in offshore RMB, asset management and risk management.

PBOC bills offered in Hong Kong were more than 6 times oversubscribed

According to media reports, PBOC successfully issued RMB20 billion in bills in Hong Kong on 13 February. The value of each of the three-month and one-year PBOC bills was RMB10 billion. The winning rates were 2.45 per cent and 2.80 per cent respectively. This marked the second time PBOC issued RMB bills through the HKMA's Central Moneymarkets Unit (CMU) bond bidding platform since November last year.

It was reported that the issuance has attracted many offshore investors, including commercial banks, funds, investment banks, central banks, international financial organisations, etc. Total bids for the exercise exceeded RMB120 billion. Each of the two tranches of bills was oversubscribed more than six times.

The issuance of PBOC bills in Hong Kong to manage offshore RMB liquidity is said to be an innovative attempt. Such management was mainly achieved through HKMA in the past. PBOC’s direct participation will provide better guidance for offshore RMB interest rates.

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