CESC Index Report for January

中華交易服務
CHINA EXCHANGES SERVICES

Highlights

- Hong Kong stocks saw strong trading with CES HKMI rising 13.8 per cent from the previous month
- Southbound capital under Stock Connect pushed CES SCHK50 up 10.7 per cent from the previous month
- Macau's gaming revenue exceeded expectations and CES G10 was up 9.3 per cent in January
- RMB from onshore for Stock Connect said to be under HKMA consideration
- Increased Sino-British financial strategic cooperation expected to facilitate launch of Shanghai-London Connect in 2018
- SZSE launched first Belt and Road panda bonds

I. Performance of CESC Indices

2018 began with a strong rally in Hong Kong stocks, with turnover approaching $200 billion on a number of trading days. China's GDP beat market expectations by rising 6.9 per cent year on year, boosting both Mainland and Hong Kong stocks. **CES HKMI rose 13.8 per cent from the previous month.**(See Table 1) The one-month surge was second only to the surge in May 2015 since the index's launch.

Table 1	Index Point	Monthly Return	Volatility	Risk-adjusted Return
HSCEI	13,561.65	15.8%	5.8%	2.73
CES HKMI	9,316.54	13.8%	5.3%	2.60
CES SCHK 50	3,651.02	10.7%	3.9%	2.75
HSI	32,887.27	9.9%	3.7%	2.69
CES 120	7,466.84	9.8%	4.4%	2.23
FTSE A50	14,470.60	9.7%	4.5%	2.14
CES A80	8,516.28	9.3%	4.2%	2.23
CES G10	6,767.62	9.3%	7.6%	1.22
CES CPE	7,168.01	9.1%	5.8%	1.57
CES SCHK 100	6,409.40	7.0%	3.2%	2.21
CES 300	4,968.43	6.7%	3.6%	1.89
CSI 300	4,275.90	6.1%	3.3%	1.84
SSE Composite	3,480.83	5.3%	2.7%	1.94
CES 280	6,810.62	2.1%	3.8%	0.56
SZSE Component	11,159.68	1.1%	3.9%	0.28

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

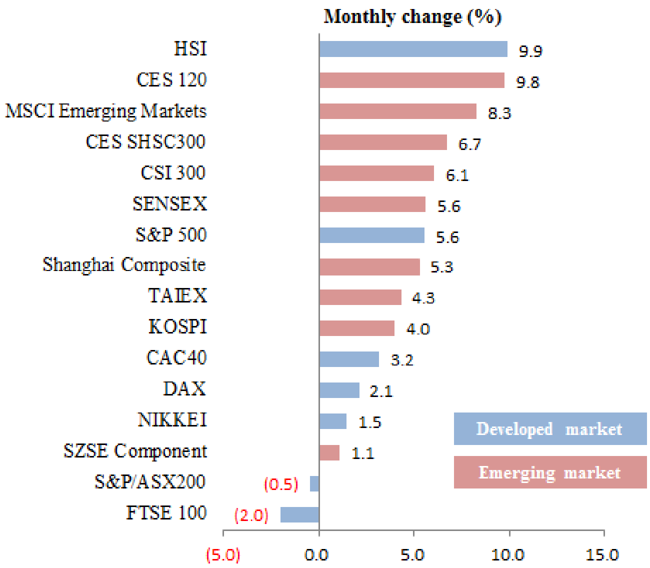
Southbound investors under Stock Connect continued to be major buyers in the Hong Kong stock market. Data showed Southbound average daily turnover, or ADT, accounted for almost 5 per cent of total market turnover. The newly launched **CES SCHK50 gained a 10.7 per cent.**

Macau posted MOP26.26 billion in gaming revenue for the month, up 36.4 per cent from last year, exceeding market expectations. **CES G10 surged 9.3 per cent.** It was the third straight month the index advanced.

II. Other Stock Indices

Indices worldwide performed well in January, with emerging markets generally ahead of developed markets. The cross-border markets of Hong Kong and the Mainland saw good returns. Both **CES 120 and CES 300 had** high single-digit percentage point gains. (See Chart 1)

Chart 1 **Movement in Global Stock Indices in Jan**



Source: CESC and Bloomberg, as of 31 Jan 2018

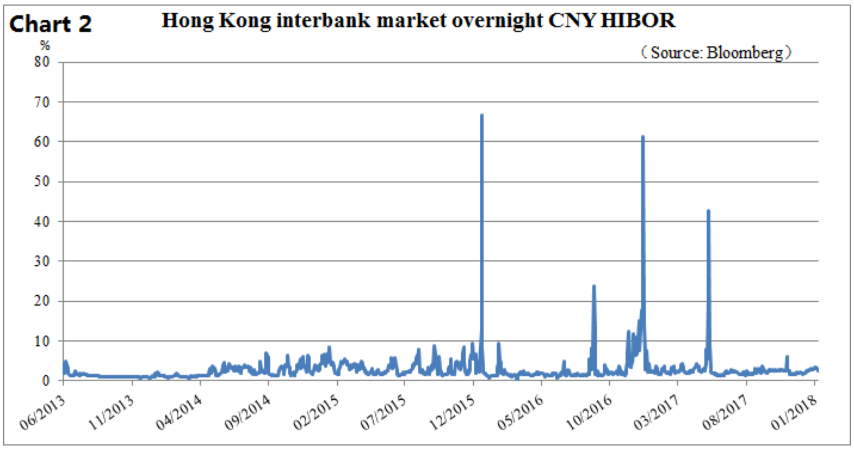
As expected, the US Fed ended its first interest rates meeting in 2018 by leaving short-term rates unchanged in a range of 1.25 per cent to 1.5 per cent. S&P 500 rose 5.6 per cent during the month. However, post-meeting interest rate futures prices showed the chance of a rate hike in March had risen to 99 per cent. The yield on US 10-year bonds surged to 2.73 per cent from 2 per cent last year. The pace of the US rate hikes is expected to be the focus of market concern this year.

The US dollar continued to be weak, with the dollar index falling through 90. This together with stronger crude oil prices resulted in a barrel of Brent crude shooting past US$70 in mid-January. Thanks to capital inflows, emerging markets extended last year's gains. MSCI Emerging Markets Index rose 8.3 per cent.

The outlook on other emerging markets in Asia is good. India eased restrictions on foreign investment by allowing 100 per cent foreign direct investment in single brand retail trading under the automatic approval route. In the World Bank's global economic outlook for 2018, the bank said the Indian economy was expected to grow by 7.3 per cent. Backed by favourable factors, India's SENSEX spiked up 5.6 per cent during the month.

III. China-related Investment Activities Offshore

RMB from onshore for Stock Connect said to be under HKMA consideration



With the impending inclusion of A shares in some key MSCI indices, concerns are growing about whether there will be adequate offshore renminbi (CNH) liquidity to satisfy demand. According to some local media reports, the Hong Kong Monetary Authority (HKMA) is working on various solutions, including drawing on the experience of Bond Connect to permit the conversion and settlement of onshore renminbi (CNY) by 20 banks for use in Hong Kong.

Index funds tracking MSCI indices are expected to increase their exposure to A shares. Funds investing in A shares via Stock Connect have been common in the past few years. However, concern has been increasing among investors over the availability of CNH around the MSCI inclusions dates. The CNH Hong Kong Interbank Offered Rate (HIBOR) has at times seen unusual fluctuations. For example, in early 2016, overnight CNH HIBOR hit 60 per cent (See Chart 2), reflecting inadequate CNH liquidity.

Sources said the HKMA understood the concern and was working with Mainland authorities on opening up CNY conversion and settlement. The market believes easing cross-border currency conversion will help onshore and offshore market integration and facilitate the renminbi's (RMB) internationalisation.

Increased Sino-British financial strategic cooperation expected to facilitate launch of Shanghai-London Connect in 2018

Chinese Premier Li Keqiang and British Premier Theresa May agreed at their annual meeting to strengthen strategic ties and work on the Shanghai-London Connect project, the Belt and Road Initiative, cross-border renminbi activities and other areas to gradually expand the two-way opening of their markets.

The London Stock Exchange confirmed a feasibility study on the stock connect programme between London and Shanghai to link their stock markets had been completed. China and Britain agreed to step up preparatory work. They are now working to resolve technical issues, including the gap between trading hours and market making arrangements.

According to market practitioners, China and Britain are actively working on launching their connect programme this year. Unlike the Mainland-Hong Kong Stock Connect scheme, the Shanghai-London model may allow Mainland investors to trade London stocks during Mainland trading hours, and vice versa. Each side is also considering allowing listed companies of the other side to float on its market by way of depository receipts to achieve mutual market access.

SZSE launches first Belt and Road panda bonds

The Shenzhen Stock Exchange (SZSE) said the first Belt and Road panda bonds to be sold in a public offer have been vetted by SZSE and received CSRC approval for a public offering.

The bonds' value does not exceed RMB12 billion. They are reportedly being offered by GLP Iowa China Offshore Holdings (Hong Kong) Limited and have issuer and debt ratings that are both AAA. The proceeds will be used to acquire logistics infrastructure along the European part of the Belt and Road routes. The acquisitions will facilitate infrastructure connectivity and smooth trade in the Belt and Road area and reinforce Sino-European cooperation.

Going forward, SZSE will continue to support RMB bond fundraising by quality issuers of countries and regions along the Belt and Road routes for use in Belt and Road development.

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