CESC Index Report for January 2019

中華交易服務 CHINA EXCHANGES SERVICES

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Highlights

- Abundant liquidity in Mainland market during Chinese New Year drove CES A80 up 9.8 per cent
- Strong interest in high yield stocks drove CES FHY up 13.3 per cent
- Global stock market indices rose on moderation of tone in FOMC statement
- HKIFA calls for inclusion of A-share market into MPF approved exchanges
- HKEX woos secondary listings of Mainland and overseas companies
- CEINEX studies launch of offshore A-share index derivatives

I. Performance of CESC indices

Benefitted from easing Sino-US trade dispute, stock markets in the Mainland and Hong Kong rebounded in January.

To maintain sufficient liquidity for capital needs before the Chinese New Year, PBOC cut the reserve requirement ratio for RMB deposits by 100 basis points in January, releasing a net RMB800 billion in long-term capital into the market. A net amount of RMB1.16 trillion was injected into the banking system through several reverse repos in mid-January.

Table 1	Index Point	Monthly Return	Volatility	Risk-adjusted Return
CES High Yield	3,759.88	13.3%	6.5%	2.03
CES VAL	4,301.53	13.1%	6.9%	1.90
CES G10	5,066.63	11.0%	8.7%	1.26
CES CPE	5,348.66	10.6%	8.2%	1.29
CES SCHK E&L	3,468.76	9.9%	6.5%	1.53
CES A80	6,660.47	9.8%	4.9%	1.98
CESHKB	5,045.46	9.7%	9.8%	0.99
CES HKMI	7,579.24	8.9%	6.2%	1.43
CES MOT	3,285.64	8.8%	7.5%	1.18
CES AIT	3,470.33	8.5%	5.1%	1.68
CES SCHK 50	3,052.63	8.3%	5.6%	1.47
CES REIT	3,739.11	8.0%	1.7%	4.71
CES SCHK 100	5,499.90	7.6%	5.7%	1.35
CES SCHK HYLV	3,216.84	7.4%	3.5%	2.15
CES 120	6,073.55	7.3%	5.3%	1.39
CES 300	4,103.02	6.0%	4.9%	1.21
CES iBioTech	6,484.43	5.6%	10.2%	0.55
CES 280	5,114.53	3.9%	4.6%	0.85
CES OBOR	1,428.71	3.4%	4.2%	0.81
CES CSC	2,907.53	2.1%	9.1%	0.23

Source: CESC and Wind; data as of 31 Jan 2019

Investors' confidence boomed under the abundant liquidity, driving Shanghai and Shenzhen A shares up 3.6 per cent and 3.3 per cent respectively. **CES China A80 Index (CESA80) rose 9.8 per cent.**

Strong interest in high-yield Hong Kong shares drove **CES Forecast High Dividend**

Yield Index (CESFHY) up 13.3 per cent.

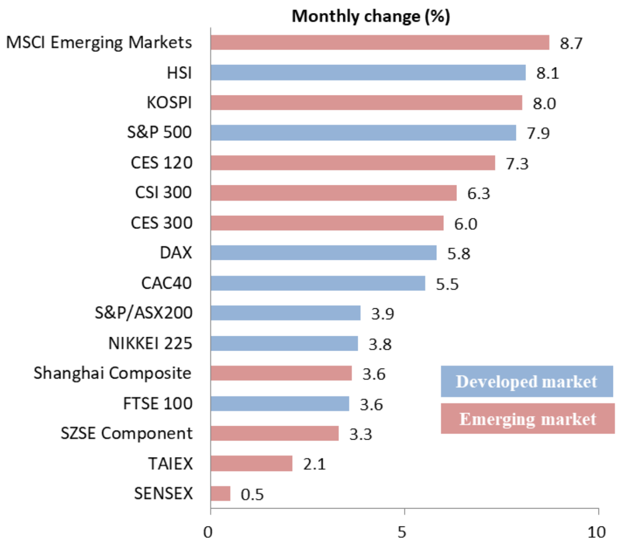
The valuation of Hong Kong shares fell by more than 10 times in Q4 last year. Value investors were attracted to shares of low valuation. **CES SCHK Value Index (CESVAL) soared 13.1 per cent during the month.**

II. Other stock indices

Although the US Fed kept the interest rates unchanged as expected, a more relaxed tone in the FOMC statement triggered market expectation of slower interest rate hikes and an early end to the reduction of the balance sheet. S&P 500 index rose 7.9 per cent during the month.

There was a capital flow into emerging markets. According to analysis, the current PE ratio for emerging markets represents a discount in valuation to developed markets, which, under a weak US dollar, attracts capital inflow. MSCI Emerging Markets Index rose 8.7 per cent during the month, the biggest increase since April 2016.

Chart 1 Movement in Global Stock Indices in January



Source： CESC and Bloomberg, as of 31 January 2019

Korean stocks were chased by international investors. According to data of the Korean Exchange, foreign investors acquired a net KRW4 trillion (approximately US$3.6 billion) in shares in January. Credit Suisse believes potential recovery in profitability of the semiconductor industry in the second half of 2019 and undervaluation of Korean stocks will increase the appeal of the Korean market to investors. The KOSPI index rose 8.0 per cent in the month.

India's huge fiscal deficit on the eve of its general election and budget proposals raised market concerns. The SENSEX index rose 0.5 per cent only, the smallest increase among global indices.

III. China-related investment activities offshore

HKIFA calls for inclusion of A-share market into MPF approved exchanges

According to Hong Kong Investment Funds Association (HKIFA), international index providers are considering the inclusion of Mainland's shares and bonds into their indices, demonstrating internationalisation of the Mainland capital market has advanced to a higher level. MPFA, the MPF regulator in Hong Kong, was urged to include A shares into the list of approved exchanges so that MPF members may participate in the A-share market. In fact, the current list has already included emerging markets such as India and Brazil in addition to the sophisticated European and US markets.

Earlier, a set of “reform and opening up” initiatives were implemented by the Mainland’s regulators in the capital market to facilitate access by overseas institutions to its share and bond markets. On the one hand, reforms were deepened and measures were announced to tighten crackdown on market misconduct. On the other hand, the opening up policy continued, including the launch of Shenzhen Connect and the cancelling of aggregate quota under Stock Connect. Quotation limits for QFII and RQFII were also enhanced, with the scope of investment enlarged.

HKEX woos secondary listings of Mainland and overseas companies

HKEX reformed its listing regime last year, allowing secondary listings of Mainland and overseas companies in Hong Kong. HKEX said greater efforts will be made this year to woo secondary listings, especially those from Southeast Asian and European companies.

CEINEX studies launch of offshore A-share index derivatives

On 18 January 2019, China and Germany held their second High Level Financial Dialog in Beijing and published a joint statement. Both sides acknowledged the important role played by China Europe International Exchange (CEINEX) in the market. A consensus was reached on the issuance of cross-border securities, regulatory cooperation, offshore market development of A-share index derivatives, and mutual capital market access.

Both governments stated in the joint statement their support of the signing by their securities regulators of a bilateral Memorandum of Understanding on cooperation in the supervision of cross-border derivatives, so as to support CEINEX’s launch of China’s A-share index derivatives in Frankfurt.

The joint statement also welcomed the conduct by Deutsche Börse Group and Shanghai Stock Exchange of a feasibility study on the listing of Depository Receipt (DR) products by their respective listed companies on each other’s markets.

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