

CESC Index Report for July



China Exchanges Services Co, Ltd (CESC)



Highlights

- Hong Kong stocks gave a strong performance, with CES HKMI up 7.5 per cent and CES SCHK100 up more than 6.5 per cent
- Hong Kong-Mainland cross border indices outperformed A-share indices. CES 120 and CES 300 rose 4.2 per cent and 4 per cent respectively; CES A80 gained 2.1 per cent
- Overseas-listed China concept technology shares rose sharply, driving CES P Elite up 13.4 per cent
- Bond Connect operated smoothly
- MPFA reportedly considering including SSE and SZSE in its “list of approved stock exchanges established in a place outside Hong Kong”
- ADV of offshore A-share index futures increased by 10 per cent year-on-year

I. Performance of CESC Indices

Hong Kong stocks gave a strong performance, with the flagship index of Hong Kong listed China concept shares CES HKMI up 7.5 per cent and Stock Connect Hong Kong blue chip index CES SCHK100 up more than 6.5 per cent (see table 1). The P/Es of CES HKMI and CES SCHK100 are 12x and 14x respectively.

Hong Kong-Mainland cross border indices outperformed A-share indices. CES 120 and CES 300 rose 4.2 per cent and 4 per cent respectively; CES A80 rose 2.1 per cent.

Overseas-listed China concept technology shares rose sharply, with Baidu and

Table 1	Index Point	Monthly Return	Volatility	Risk-adjusted Return
CES CPE	5,689.41	13.4%	3.6%	3.72
CES HKMI	7,054.20	7.5%	4.3%	1.74
CES SCHK 100	5,476.24	6.5%	3.0%	2.21
HSI	27,323.99	6.1%	3.1%	1.97
HSCEI	10,827.84	4.5%	3.7%	1.22
CES 120	6,074.62	4.2%	3.2%	1.30
CES 300	4,309.45	4.0%	2.6%	1.56
FTSE A50	11,806.51	3.0%	3.4%	0.88
CES 280	6,407.74	3.0%	3.6%	0.83
SSE Composite	3,273.03	2.5%	2.5%	1.01
CES A80	6,976.86	2.1%	3.1%	0.66
CSI 300	3,737.87	1.9%	3.0%	0.64
SZSE Component	10,505.04	-0.2%	4.7%	-0.05
CES G10	4,994.83	-2.8%	6.8%	-0.41

Source: CESC and Wind; data as of 31 July 2017

JD.com up 26.6 per cent and 15.2 per cent respectively, driving CES P Elite up a significant 13.4 per cent. In late July, CES P Elite's top five performers year to date were Alibaba, Tencent, Baidu, JD.com and Ping An Insurance. From the beginning of the year to the end of July, their share prices surged 76.5 per cent, 65.7 per cent, 37.7 per cent, 77.6 per cent and 51.8 per cent respectively (see table 2).

	Stock Code	Listing Place	Stock Price	Market Cap (US\$ Billion)	1 Month Return	YTD Return
Alibaba	BABA	USA	USD 154.95	396	9.97%	76.46%
Tencent	BIDU	HK	HKD 313.40	383	12.25%	65.74%
Baidu	700.HK	USA	USD 226.35	78	26.55%	37.67%
JD.com	JD	USA	USD 45.17	65	15.17%	77.56%
Ping An	2318.HK	HK	HKD 57.95	140	14.03%	51.82%

Source: CESC and Bloomberg, as of 31 July 2017

II. Other Stock Indices

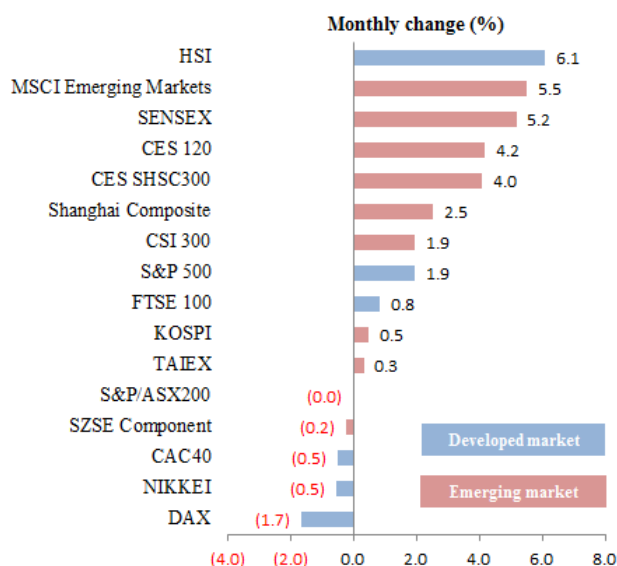
Emerging markets led the global market in July. China concept shares drove Hong Kong stocks up 6.1 per cent. Emerging markets as a whole and Indian stocks rose 5.5 per cent and 5.2 per cent respectively. Mainland stock markets also performed well. CSI 300 gained 1.9 per cent. Europe gave a weak performance, with German stocks down 1.7 per cent (see figure 1).

MSCI Emerging Market (EM) Index advanced to a five-year high, with the Latin America Index and the Asia Index in the EM series up 8.2 per cent and more than 5 per cent respectively. According to EPFR, which monitors international fund flows, emerging market equity funds had 19 straight weeks of net fund inflows, reflecting investors' enthusiasm about high-growth markets despite impending rate hikes in the US.

The US Fed left its key interest rate unchanged, and if the economy stabilises might shrink its balance sheet within the year. Its decision, which was in line with market expectations, spurred the Dow Jones Industrial Average to a new high. S&P 500 VIX touched a new low of 8.84, reflecting investor optimism about the US economy. S&P 500

Chart 1

Movement in Global Stock Indices in July



Source: CESC and Bloomberg, as of 31 July 2017

gained 1.9 per cent.

III. China-related Investment Activity Offshore

Bond Connect operated smoothly.

Bond Connect has been operating smoothly since its launch on 3 July. Official trading volume under the scheme has not been announced, but some institutional investors indicated they need more time to observe and understand the new link before deciding whether to use it.

Foreigners' concerns about trading Mainland bonds are mainly in the areas of settlement, taxation, currency exchange and credit ratings. Investors are most concerned about settlement as delivery vs payment is not available for some Mainland bonds. Hence, the feasibility of payment and bond delivery and the pros and cons of the options have to be studied.

Judging by the experience of Shanghai Connect, regulators such as those in Luxembourg and Ireland are likely to take three to six months to observe the workings of a new scheme before allowing funds regulated by them to invest through the scheme.

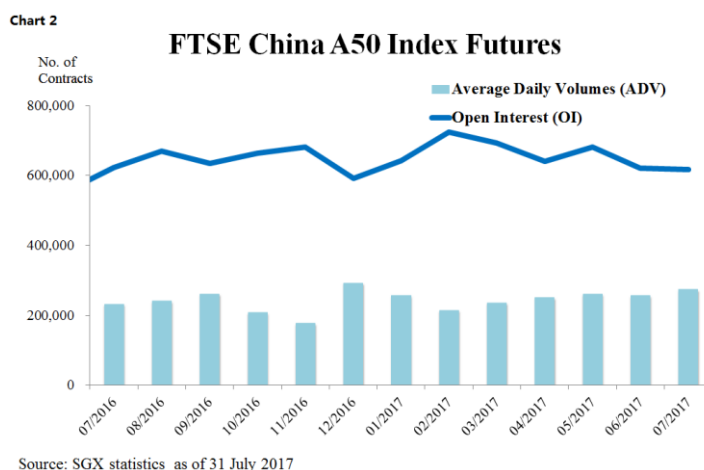
MPFA reportedly considering including SSE and SZSE in its “list of approved stock exchanges established in a place outside Hong Kong”

Under Hong Kong's MPF retirement scheme, citizens' savings may be put into funds investing in European, US and Japanese stocks, but no funds investing in Mainland A shares are on offer. According to media reports, MPFA is considering whether to include SSE and SZSE in its “list of approved stock exchanges established in a place outside Hong Kong”. The reports added MPFA approval would be subject to a stringent process which ensures disclosure, corporate governance, information flow, fund flow and other requirements are satisfied.

There are currently 33 countries and regions on MPFA's list of approved stock exchanges, including Taiwan and Greece, which are small economies. While investment in A shares is allowed, the percentage must not exceed 10 per cent. Market participants believe the restriction has impeded the launch of A-share MPF products.

ADV of offshore A-share index futures increased by 10 per cent year-on-year

With continuing overseas investor interest in Mainland A shares, the ADV of FTSE China A50 Index futures trading in Singapore increased to 264,000 contracts in July, up 10 per cent year on year (see figure 2). Open interest, at 616,000 contracts, was flat compared to the same time last year.



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