

# CESC Index Report for June



China Exchanges Services Co, Ltd (CESC)



## Highlights

- Mainland A shares outperformed Hong Kong stocks in June, with CES A80 up 4.7 per cent, and CES SCHK100 up 1.7 per cent
- Overseas-listed Mainland tech stocks were highly sought after. CES P Elite rose 3.2 per cent
- Macau's gaming sector expanded at the fastest rate since February 2014. CES G10 surged 2.7 per cent
- HKEX appointed CESC to explore a tradable cross-border Belt & Road Index with good representativeness
- With help from the Connect programme, Mainland A shares were accepted by MSCI for one of its key indices
- Ministry of Finance announced plans to issue RMB-denominated and USD-denominated bonds by year-end

## I. Performance of CESC Indices

Mainland A shares outperformed Hong Kong stocks in June following MSCI's announcement that it would include the shares in its emerging market index. **CES A80**, which tracks the top 80 A-share companies by market cap, **rose 4.7 per cent**. The barometer of Hong Kong stocks, **CES SCHK100**, **went up 1.7 per cent**. (See table 1)

Overseas-listed Mainland tech stocks were highly sought after. **CES P Elite rose 3.2 per cent** led by

<b>Table 1</b>	Index Point	Monthly Return	Volatility	Risk-adjusted Return
<b>SZSE Component</b>	10,529.61	6.7%	3.9%	1.73
<b>CSI 300</b>	3,666.80	5.0%	3.2%	1.57
<b>CES A80</b>	6,835.37	4.7%	3.8%	1.26
<b>FTSE A50</b>	11,460.25	3.9%	3.8%	1.03
<b>CES 280</b>	6,221.44	3.7%	2.7%	1.37
<b>CES CPE</b>	5,015.35	3.2%	5.6%	0.58
<b>CES G10</b>	5,136.99	2.7%	7.3%	0.37
<b>SSE Composite</b>	3,192.43	2.4%	2.4%	1.01
<b>CES 300</b>	4,141.78	2.2%	2.7%	0.82
<b>CES 120</b>	5,832.13	1.8%	3.0%	0.62
<b>CES SCHK 100</b>	5,141.07	1.7%	2.9%	0.57
<b>HSI</b>	25,764.58	0.4%	3.1%	0.13
<b>CES HKMI</b>	6,564.38	-0.4%	3.5%	-0.12
<b>HSCEI</b>	10,365.22	-2.2%	3.2%	-0.71

Source: CESC and Wind; data as of 30 June 2017

heavyweight constituents Alibaba (17 per cent) and Tencent (15 per cent).

Macau’s gaming sector expanded in May at the fastest rate since February 2014, according to the enclave’s Gaming Inspection and Coordination Bureau. Gaming revenue increased 23.7 per cent year on year to MOP22.742 billion, **CES G10 surged 2.7 per cent.**

## II. Other Stock Indices

The performance of emerging and developed markets diverged in June. While Asia stocks continued to advance, European stocks retreated.

Stimulated by MSCI’s decision to include A shares in a key MSCI index, Mainland shares rallied. SZSE Component Index led global mainstream indices by rocketing 6.7 per cent. CSI 300 gained 5 per cent.

As expected, the US Federal Reserve (Fed) raised its benchmark interest rate by 25 basis points to 1.25 per cent. The market is now more concerned about the Fed’s move to reduce its US\$4.5 trillion balance sheet within the year. As investors stayed on the sidelines, S&P 500 climbed a modest 0.5 per cent.

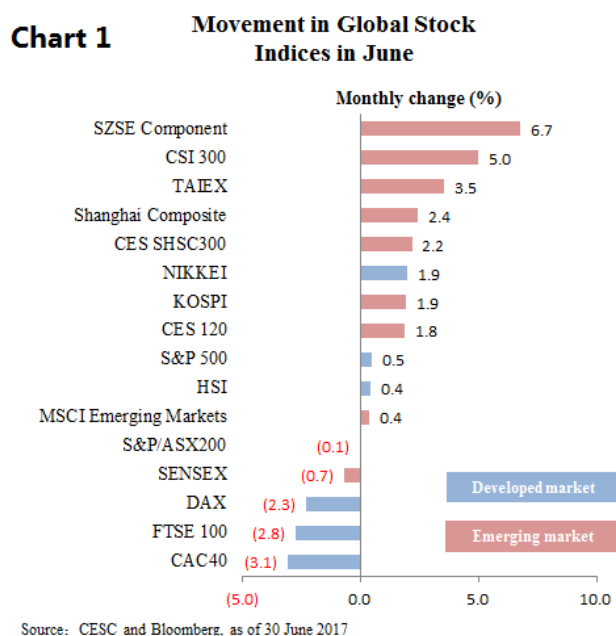
The European Central Bank is inclined to gradually cut back on quantitative easing, according to participants at the bank’s annual conference. Market fears about tighter monetary policies drove German and French stocks down 2.3 per cent and 3.1 per cent respectively.

## III. China’s Offshore Investment Activities

### HKEX appointed CESC to explore a tradable cross-border Belt & Road Index with good representativeness

HKEX has appointed CESC, a joint venture of HKEX, Shanghai Stock Exchange and Shenzhen Stock Exchange, to explore a stock index as a barometer for the Mainland’s Belt & Road Initiative.

"The Belt & Road Initiative brings significant opportunities for global economic development by connecting over 60 countries and matching their needs and interests. As an international financial centre and the most mature offshore RMB market, Hong Kong will play an important role in the Belt



& Road Initiative," said HKEX Chief Executive Charles Li.

"The index being explored will capture the stock performance of companies active in investment and business in Belt & Road countries," said CESC Chief Executive Mao Zhirong. "We aim to develop a tradable index that will be an objective and credible indicator tracking the development of the Belt & Road Initiative and facilitate investors in identifying investment opportunities."

The index would be the first cross-border Belt & Road Index in the offshore market. Its constituents would be securities eligible for trading under the Stock Connect programme. Aided by state policies, the index would help investors seek out new investment opportunities.

### **With help from the Connect programme, Mainland A shares were accepted by MSCI for one of its key indices**

MSCI said it would add 222 Mainland A shares to the MSCI Emerging Markets Index starting around mid-2018. At a 5 per cent Inclusion Factor, the shares would represent about 0.73 per cent of the weight of the index. It marked A shares' ultimate success in entering the key index after failing to clear all the hurdles three previous times.

The Stock Connect programme between the Mainland and Hong Kong was a factor in the decision. MSCI said there have been positive changes in the accessibility of the A-share market and greater alignment of A shares with international standards over the past few years. Enhancement of the Connect mechanism has revolutionised the opening of A shares to overseas investors. The majority of institutional investors support the MSCI decision. If its possible additions from the A-share market are made, A shares' representation in the MSCI Emerging Market Index will rise to 1.4 per cent, according to the index company.

A two-step inclusion process will be used to account for Stock Connect's existing daily trading limits. The first step will coincide MSCI's May 2018 Semi-Annual Index Review. The second step will be part of the August 2018 Quarterly Index review.

More investment opportunities are expected to emerge under Stock Connect due to the MSCI decision. CES SCHK100 and CES 300, which track the performance of stocks eligible for trading under Stock Connect, will be handy tools of investment in the Stock Connect theme.

### **Ministry of Finance announced plans to issue RMB-denominated and USD-denominated bonds by year-end**

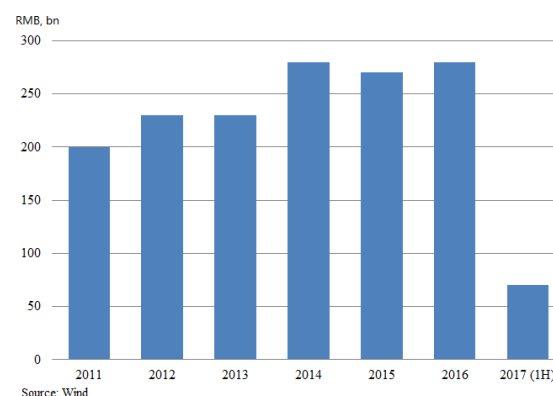
The Ministry of Finance (MOF) announced plans to issue RMB14 billion worth of treasury bonds (T-bonds) in Hong Kong this year. It is the ninth year of MFO T-bond sales in Hong Kong. The MOF also said it planned to issue USD2 billion worth of sovereign bonds in an offshore market

before the end of the year. The Mainland has not issued US dollar bonds offshore since 2004.

Market practitioners believe the USD-denominated bonds will benefit from the low cost of USD funds and the convenience of USD-denominated bond issues, and will help attract USD capital into the Mainland, and help fill the Mainland's forex reserve. To investors, USD-denominated bonds issued by Asian

governments are rare. With the MOF's USD-denominated bonds expected to offer a higher return than the US government's T-bonds and given Asian investors' greater familiarity with the Mainland market, the MOF's bond offer is expected to be popular.

**Chart 2 Offshore RMB China Government Bond**



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