中華交易服務
CHINA EXCHANGES SERVICES

CESC Index Report for June 2018

Highlights

- CES A80 down 6.5 per cent in June as Renminbi weakened
- CES G10 plummeted 13.7 percent in June on rumours banks are withdrawing Union Pay point-of-sale terminals from casinos
- Emerging markets indices under pressure as trade war escalated
- QFII's and RQFII's capital repatriation restrictions and lockup periods removed to facilitate cross border investments
- Meituan Dianping applied to launch second IPO of WVR shares in Hong Kong
- PBC reported to be considering permission for onshore bonds repos under Bond Connect

I. Performance of CESC Indices

Both Mainland and Hong Kong equities tumbled against erratic US-China trade talks and a weakening Renminbi. Despite PBC's announcement in late June of a reserve cut of half a percentage point to support debt-to-equity swaps and SMEs, equity indexes failed to recover lost ground. **CES China A80 Index (CES A80), which tracks major blue chips in the A-share market, was down 6.5 per cent at the end of June.** (Table 1)

Table 1	Index Point	Monthly Return	Volatility	Risk-adjusted Return
CES CPE	6,334.74	-2.8%	7.4%	-0.38
CES 300	4,343.12	-4.3%	5.1%	-0.84
CES 120	6,328.16	-4.5%	5.7%	-0.79
CES SCHK 100	5,833.92	-4.8%	5.6%	-0.85
HSI	28,955.11	-5.0%	5.3%	-0.94
CES SCHK 50	3,181.34	-5.2%	5.4%	-0.96
CES OBOR	1,640.23	-5.8%	6.0%	-0.97
CES HKMI	7,947.32	-5.9%	6.5%	-0.90
FTSE A50	11,585.03	-6.1%	5.9%	-1.03
CES A80	6,912.95	-6.5%	5.8%	-1.13
CES iBioTech	10,056.74	-7.3%	10.1%	-0.73
HSCEI	11,073.00	-7.6%	5.7%	-1.33
CSI 300	3,510.98	-7.7%	5.9%	-1.30
SSE Composite	2,847.42	-8.0%	5.3%	-1.50
CES 280	5,933.20	-8.1%	6.3%	-1.28
CES High Yield	3,920.43	-8.9%	6.6%	-1.34
SZSE Component	9,379.47	-8.9%	7.9%	-1.12
CES G10	5,868.11	-13.7%	9.0%	-1.52

Source: CESC and Wind; data as of 30 June 2018

The interest of Mainland capital in buying Hong Kong stocks subsided, with only HK$3.4 billion and HK$2.5 billion of average daily buy trades under Shanghai Connect and Shenzhen Connect respectively, down 6.1 per cent and 0.28 per cent from the previous month. Such average daily buy trades have been declining since February this year. **CES Stock Connect Hong Kong Select 100 Index (CES SCHK100) fell 4.8 per cent in June.**

Local money supply in Hong Kong tightened in June, as the impact of the USD-HKD interest rate differential under a pegged-rate system started to be visible. One month HIBOR broke through

2 per cent in the month. **CES Forecast High Dividend Yield Index (CES FHY) that tracks stocks for high dividend portfolios shed 8.9 per cent in the month.**

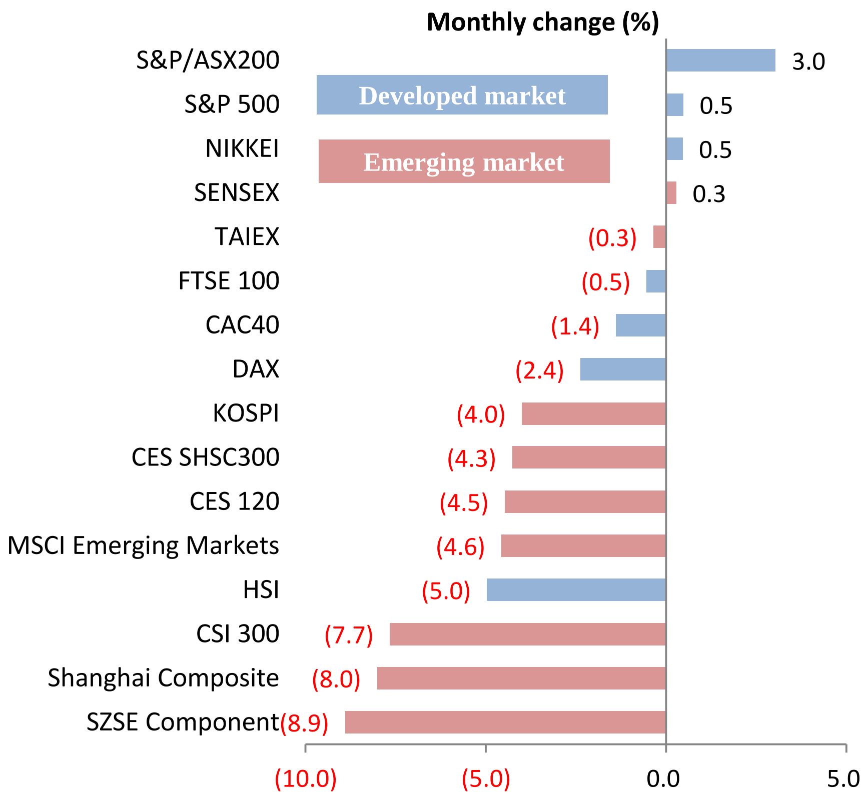
Rumour has it that Macau is working on new measures to crack down on cash withdrawals by UnionPay card swiping in casinos, resulting in the removal of UnionPay point-of-sale terminals from some casinos. With the World Cup in full swing, there were concern about the growth rate of Macau's gaming revenue in June. **CES Gaming Top 10 Index (CES G10), which tracks gaming stocks in the Hong Kong market, dropped 13.7 per cent.**

II. Other stock indices

Global stock markets, emerging markets in particular, tumbled as trade conflict escalated. Both Shanghai and Shenzhen were over 8 per cent lower. Australian stocks bucked the trend by rising 3 per cent and emerged as the month's best performer. (Chart 1)

The US maintained its plan to subject US$50 billion worth of imports from China to a 25 per cent tariff, and announced in mid-June a detailed list of goods, mainly high tech products, on which the tariff would be imposed from 6 July. The list of products was identified as products to benefit under the "Made in China 2025" plan. The State Council of China responded by immediately announcing a 25 per cent tariff on US$50 billion worth of imports from the US, focusing on agricultural products and automobiles.

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



Source: CESC and Bloomberg, as of 29 June 2018

Apart from its action against imports from China, the US also scrapped tariff exemptions for steel and aluminium imported from the EU, Canada and Mexico, and started an investigation of automobile imports from the EU on grounds of national security. Tariffs were also proposed on imported cars and car parts, leading to widespread opposition from the EU countries and Japan.

Major global stock markets plummeted as trade war fears intensified.

The US Fed raised interest rates by a quarter of a percentage point as expected. Instead of expecting three rate hikes this year, it is now forecasting four in 2018 and three in 2019. Continuing rate hikes in the US together with risk aversion in the market dragged down both equities and forex in a number of emerging markets. MSCI's emerging markets index plunged 4.6 per cent in June and 8.7 per cent for Q2. Faster rate hikes in the US have impacted emerging market currencies. Argentina's peso crashed 13.7 per cent against the US dollar in June despite US$50 billion of financing from the IMF. The currency was down by more than 35 per cent compared to the end of last year. Investors are worried Argentina, with official inflation of 24.8 per cent for 2017, is heading for another debt crisis as its currency has kept falling.

III. China-related investment activities offshore

QFII's and RQFII's capital repatriation restrictions and lockup periods removed to facilitate cross border investments

PBC and SAFE recently announced a new round of forex control reforms for QFIIs and RQFIIs to further facilitate cross border investments. They mainly include: (1) lifting the 20 per cent cap on capital repatriation by QFIIs; (2) removing the lockup period required for the principal of QFIIs and RQFIIs; and (3) allowing QFIIs and RQFIIs to hedge the currency risk of their onshore investments. The measures are expected to ignite overseas investors' interest in China and speeding up the two-way opening up of the Chinese financial markets further.

Besides, both QFIIs and RQFIIs are now allowed to invest in the Mainland's New Third Board. That will pump new liquidity into the board in the long term and has expanded the channels through which overseas investors can access the Chinese domestic markets.

Meituan Dianping applied to launch second IPO of WVR shares in Hong Kong

Meituan Dianping, an online platform for ordering food on the Mainland, submitted an IPO application to HKEX in June. It became the second unicorn company after Xiaomi to apply for a listing in the city with a Weighted Voting Rights (WVR) structure.

According to its listing documents, Meituan Dianping earned RMB33.9 billion gross in 2017, RMB16.12 billion more than in 2016. Adjusted losses narrowed for the last three years and were RMB2.85 billion for 2017.

As disclosed in the listing documents, Tencent is the largest shareholder of Meituan Dianping before the latter's planned listing, holding about 20 per cent of the food takeout app. Meituan's founder and chairman, Wang Xing, is holding about 11 per cent. Meituan Dianping has adopted a WVR structure with two classes of shares (Class A and Class B). The group has a total capital of about 5.22 billion shares, of which 736 million are Class A shares and 4,484 million are Class B shares. Each Class A share has 10 votes and each Class B share has one vote. Wang Xing, who holds 573 million A shares, is therefore entitled to 48.4 per cent of effective voting rights, whereas Tencent, whose shareholding mainly consists of Class B shares, has effective voting rights of 8.5 per cent.

Meituan Dianping, with a possible valuation of US$60 billion, is expected to raise US$6 billion (RMB39.2 billion) in its Hong Kong IPO for technology upgrades and R&D, development of new services and products, selective acquisitions or investments, and operating capital and general purposes, according to foreign news organisations.

PBC reported to be considering permission for onshore bond repos under Bond Connect

PBC is looking into allowing overseas investors to arrange for bond repos under Bond Connect, according to sources cited by the Hong Kong media. That would enable the investors to secure liquidity using their bond holdings as collateral when necessary. If there is a repo arrangement, it may only be on the Mainland. As changes to HKMA's Central Moneymarkets Unit may be required, there is no timetable for implementation of the arrangement being considered.

Currently, overseas investors interested in trading bonds under Bond Connect deal with market makers through a trading platform called Tradeweb. If repos are allowed, investors can only do so through such market makers, and proceeds will be deposited directly into their Hong Kong accounts.

As many institutional investors are trading bonds with short term liquidity, repo arrangements could help them in times of tight liquidity, according to analysts. Some market practitioners believe the absence of liquidity management tools is a major reason why some investors are reluctant to invest in Mainland bonds under Bond Connect. They may not like the idea of having to sell their bonds to address short term liquidity needs where repos are not permitted. Permission for repos will increase the appeal of Bond Connect to investors.

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