

CESC Index Report for March



China Exchanges Services Co., Ltd. (CESC)



Highlights

- Hong Kong's stock market continued to perform well in March. CES SCHK100, a Hong Kong blue chip index, surged 2.9 per cent, while CES HKMI, which tracks Hong Kong-listed Mainland stocks, rose 2.2 per cent
- CES P Elite, which tracks overseas-listed private Mainland enterprises, climbed 3.0 per cent
- Macau's gaming industry continued to pick up during the month. CES G10 jumped 10.6 per cent
- The world's major markets continued to rally in March, with Europe as the leader. German and French markets went up by 4.0 per cent and 5.4 per cent respectively
- MSCI updated its plan to include A shares into its key indices, with number of A shares to be covered reduced to 169 and their weighting more than halved
- The State Council's green light on Bond Connect between Hong Kong and the Mainland will facilitate foreign participation in the Mainland bond market
- HKEX launched the first offshore futures on Chinese treasury bonds to help foreign investors manage interest rate risk

I. Performance of CESC Indices

The Mainland and Hong Kong markets diverged in performance in March. Mainland capital kept flowing into Hong Kong stocks, with the net buy in March exceeding RMB36 billion under the Southbound link of the Stock Connect programme. **CES SCHK100, a Hong Kong blue chip index, surged 2.9 per cent** while CES A80 was flat. (See table 1)

Table 1	Index Point	Monthly Return	Volatility	Risk-adjusted Return
CES G10	4,498.43	10.6%	7.1%	1.50
CES CPE	4,305.34	3.0%	3.4%	0.87
CES SCHK 100	4,736.88	2.9%	2.8%	1.03
CES HKMI	6,108.52	2.2%	4.6%	0.49
HSI	24,111.59	1.6%	3.5%	0.45
CES 300	3,885.91	1.5%	2.5%	0.62
CES 120	5,411.31	1.3%	2.8%	0.46
CES 280	6,166.13	0.5%	2.9%	0.18
SZSE Component	10,428.72	0.4%	3.3%	0.11
CES A80	6,211.25	0.4%	2.3%	0.15
CSI 300	3,456.05	0.1%	2.5%	0.04
HSCEI	10,273.67	-0.2%	4.8%	-0.05
FTSE A50	10,407.13	-0.3%	2.3%	-0.14
SSE Composite	3,222.51	-0.6%	2.5%	-0.24

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

The business environment in the Mainland continued to improve. The Mainland’s official PMI was 51.8 per cent in March, the second straight month the index surged. Due to investors’ interest in Mainland enterprises, **CES HKMI, which tracks Hong Kong-listed Mainland stocks, rose 2.2 per cent. CES P Elite, which tracks overseas-listed private Mainland enterprises, climbed 3.0 per cent. Both outperformed the blue chip and H-share indices in Hong Kong.**

Macau’s gaming revenue in March exceeded expectations and reached MOP21.2 billion, up 18 per cent year on year. It was the largest year on year gaming revenue increase in the enclave over the past three years. March was also the eighth straight month Macau saw an increase in gaming revenue. **The statistics showed Macau’s gaming industry continued during the month. CES G10 jumped 10.6 per cent.**

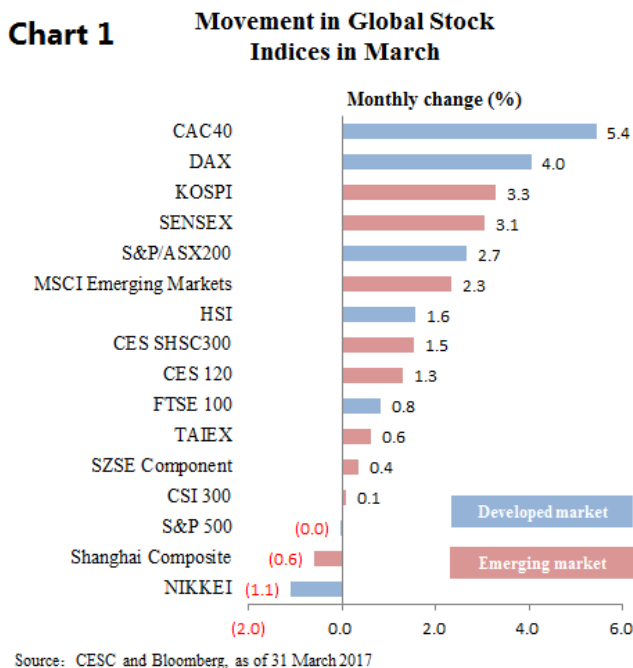
II. Other stock indices

The world’s markets had a generally upbeat performance in March, led by Europe. German and French markets went up by 4.0 per cent and 5.4 per cent respectively. (See Chart 1)

The initial value of the Composite PMI in France unexpectedly hit a 70-month high in March. Retail sales in Germany increased 1.8 per cent in February from the previous month, beating market expectations. ECB lifted its GDP forecast for the Eurozone by a tenth of a percentage point for each of 2017 and 2018. The change reflected better economic data in the area and eased investors’ concerns over Brexit and the coming elections in Germany, France and other places.

In the US, the Federal Reserve announced the country’s third interest rate hike since December 2015. The move was in line with market expectation. However, Donald Trump’s unsuccessful attempt to abolish the 2010 healthcare act aroused market fears that he may not be able to honour his election promises, including his pledge to invest a trillion US dollars in infrastructure. US stocks’ performance for the month was flat.

Investors were cautious about Japanese stocks due to a strengthening Japanese Yen. Japanese stocks fell 1.1 per cent in March, trailing the global market. (See Chart 1)



III. Offshore A-share-related activities

MSCI updated its plan to include A shares into its key indices, with number of A shares to be covered reduced to 169 and their weighting more than halved.

Under the new plan, the number of A-share companies to be included is greatly reduced from the originally proposed 448 to 169. In addition, A shares' weighting in MSCI's China Index is reduced from the proposed 3.7 per cent to 1.8 per cent, and their weighting in MSCI's Emerging Markets Index from 1 per cent to 0.5 per cent. All mid-caps, small caps, A shares with corresponding H shares in MSCI's China Index, stocks suspended from trading for over 50 days and stocks not among those eligible for trading under the Northbound channel of Stock Connect are excluded under the new plan.

MSCI rejected adding A shares to its key indices last year, citing Mainland exchanges' requiring of pre-approval of financial products on A shares and the redemption quota on QFIIs as key impediments. Nevertheless, with the abolition of the aggregate quota under the Stock Connect programme, the issue of capital flows has been resolved. This together with an enhanced trade suspension regime for A shares will increase the chance of A shares being included in key MSCI indices this year. A decision is expected in June the soonest after the market is consulted.

The State Council's green light on Bond Connect between Hong Kong and the Mainland will facilitate foreign participation in Mainland bond market

The Mainland capital market saw a breakthrough when the State Council approved the launch of Bond Connect between Hong Kong and the Mainland this year. The programme will enable foreign liquidity to have access to domestic Mainland bonds from outside the Mainland.

Foreigners have strong interest in domestic Mainland bonds, whose outstanding value stands at RMB66 trillion, but lack investment channels. The Bond Connect programme will not only facilitate overseas investors' access to the Mainland bond market but also help Hong Kong's development of its own bond market, creating a win-win situation.

To facilitate participation in its debt securities market, HKEX announced to waive trading fees payable to its Stock Exchange in respect of off-exchange debt securities transactions reported, and extend the time limit to report debt securities traded off-exchange. Both moves took effect in April and will last three three years.

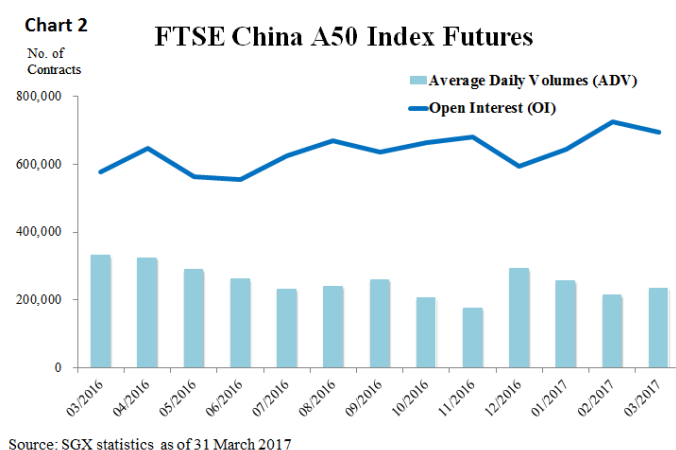
HKEX launched first offshore futures on Chinese treasury bonds to help foreign investors manage interest rate risk

HKEX launched a five-year China Ministry of Finance (MOF) Treasury Bond (T-Bond) Futures contract on 10 April. It's the first cash settled T-Bond futures contract traded offshore. The contract is based on a basket of five-year T-Bonds with a coupon rate of 3 per cent issued by the MOF. The futures are traded in RMB and settled in cash with a contract size of RMB500,000 and the two nearest quarter months (March, June, September and December) as contract months. The product is expected to satisfy foreign investors' demand for risk management in relation to T-bonds.

Foreign institutions were holding RMB423.6 billion worth of Chinese treasury bonds as of the end of 2016, up 70 per cent from the previous year. Nevertheless, it still accounted for less than 4 per cent of Chinese treasury bonds in aggregate, well below corresponding ratios in developed countries (the US: 38 per cent; Japan: 10 per cent), so the room for growth is huge.

Volume of A share index futures traded in Singapore keeps climbing

Thanks to increased activity in the A share cash market, trading in FTSE China A50 Index Futures on Singapore Exchange continued to increase in March. The futures' ADT amounted to 249,000 lots (see Chart 2), up 6.5 per cent from the previous month. Open interest at the end of March was down 4.2 per cent from the previous month at 693,000 lots, but up more than 20 per cent from a year ago.



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