中華交易服務
CHINA EXCHANGES SERVICES

CESC Index Report for March 2018

Highlights

- CES 120 slumped 4.1 per cent as Hong Kong stock prices changed direction
- Macau's gaming revenue growth slowed in February. CES G10 lost 5.2 per cent
- Global stock indices came under pressure following US' introduction of new tariffs
- Mainland considers introduction of CDR to attract new economy companies
- China's first crude oil futures saw good overseas participation
- Mainland bonds to join Bloomberg Barclays Index next year

I. Performance of CESC Indices

March was a month in which many listed companies announced their results. Blue chip heavyweight Tencent's earnings increased by 70 per cent last year, but its revenue from online games slid in the fourth quarter and its major shareholder reduced its holding in the company. Share prices started to slump in the middle of the month on unfavourable news which coupled with fears of a trade war triggered some index falls (see table 1). Cross-border blue chip benchmark index CES 120, in which Tencent has a 10 per cent weighting fell 4.1 per cent.

Table 1	Index Point	Monthly Return	Volatility	Risk-adjusted Return
SZSE Component	10,868.65	0.4%	6.4%	0.06
CES 280	6,466.03	-1.1%	5.5%	-0.20
CES HKMI	8,457.71	-1.7%	6.9%	-0.24
CES SCHK 100	5,976.66	-2.2%	6.2%	-0.36
CES SCHK 50	3,330.86	-2.3%	6.3%	-0.37
HSI	30,093.38	-2.4%	6.1%	-0.40
SSE Composite	3,168.90	-2.8%	4.6%	-0.60
HSCEI	11,998.34	-3.1%	6.1%	-0.51
CSI 300	3,898.50	-3.1%	4.9%	-0.64
CES 300	4,499.69	-3.7%	5.4%	-0.70
CES 120	6,644.10	-4.1%	5.6%	-0.73
CES CPE	6,521.02	-4.7%	8.0%	-0.58
CES A80	7,529.93	-4.7%	5.0%	-0.94
CES G10	6,282.66	-5.2%	8.8%	-0.59
FTSE A50	12,637.81	-5.3%	5.2%	-1.01

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

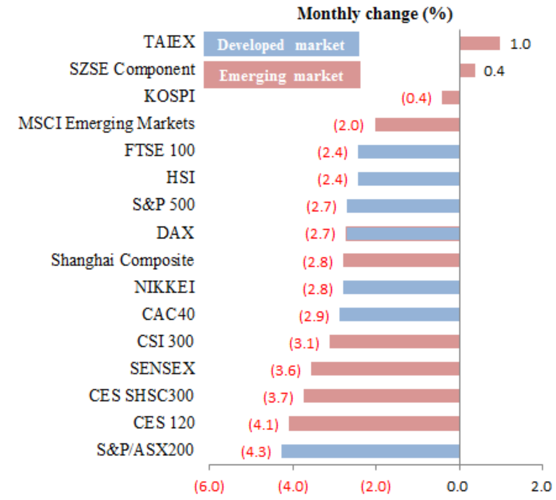
The Hong Kong dollar weakened to the weak side of the HKMA's Convertibility Undertakings (7.85). Bank of America Merrill Lynch sees a potential outflow of capital and a hike in the best lending rate in the fourth quarter. CES SCHK 100, which tracks Hong Kong stocks, fell 2.2 per cent.

Macau announced a 5.7 per cent increase in gaming revenue in February, down 7.5 per cent from the previous month, and lower than market expectations. **CES G10 slid 5.2 per cent.**

II. Other Stock Indices

With market sentiment affected by the fears of trade war, stock market indices around the world fell. Australia, a major exporter of raw materials, saw its stock market plunge 4.3 per cent (see chart 1).

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



Source: CESC and Bloomberg, as of 30 Mar 2018

Early in the month, the US imposed a tariff of 25 per cent on steel imports and 10 per cent on aluminum imports. Almost immediately, China retaliated by announcing a tariff of up to 25 per cent on 128 agricultural products imported from the US. In mid-March, US President Donald Trump announced his intent to impose US$60 billion worth of tariffs on Chinese imports and restrict Chinese investment in US technology. Fears of an escalating Sino-US trade war brought pressure on both US and Chinese stocks. S&P 500 and CSI 300 lost 2.7 per cent and 3.1 per cent respectively.

China now accounts for more than 30 per cent of Australia's total exports. As China's major commodity supplier, Australia will be affected in no time should the Sino-US trade war persist, hurting corporate results and triggering a sell-off of Australian stocks.

III. China-Related Investment Activities Offshore

Mainland considers introduction of CDR to attract new economy companies

China will soon allow companies, preferably new economy and unicorn companies, to issue China Depository Receipts (CDR), according to CSRC Vice Chairman Yan Qingmin. Yan considers CDR a practical solution to legal differences and challenges in cross-border regulations faced by overseas listed companies planning a secondary listing on the Mainland or an A-share listing after delisting from an offshore exchange.

China concept stocks preferred listing in the US in the past to circumvent Mainland restrictions on variable interest entities and weighted voting rights. However, with rapid technological development and the rise of new economy and unicorn companies in the Mainland, there is increasing expectation of Mainland tech giants returning to the Mainland to list their shares.

Unicorn is a term coined by venture capitalist Aileen Lee for tech start-ups with a history of less than 10 years but a value of over US$1 billion. The CSRC's list of unicorn companies is drawn up by ministries and commissions working together, Yan said. Such companies have to meet technical parameters set by the Ministry of Science and Technology and the Ministry of Industry and

Information Technology because internet and artificial intelligence are involved.

A few tech giants plan to list on the Mainland by way of CDR, according to media reports. They include Alibaba, Baidu, Weibo, Ctrip and NetEase. Even Hong Kong listed Tencent is interested. Investors who want to take advantage of these developments should study CES CPE, which tracks giant overseas listed private Mainland enterprises and whose constituents include a number of potential CDR issuers. As of December 2017, IT companies made up half of the index's constituents. The group's shares surged 78 per cent last year. CES CPE is a good opportunity for investors to gain exposure to potential CDR issuers early.

China's first crude oil futures saw good overseas participation

China's first RMB-denominated crude oil futures product made its trading debut on the Shanghai International Energy Exchange on 26 March. As China's first internationalised futures product, it was highly sought after by overseas investors right from the start of its trading and at one time triggered a significant surge in the USD-CNH exchange rate. On 26 March, China's crude oil futures price outperformed the international price after currency translation. The futures attracted European interest soon after the European market opened and boosted the RMB's exchange rate substantially.

It took 17 years for crude oil futures to be officially available for trading on an exchange in China. Analysts believe the futures will better reflect oil supply and demand in China and the Asia Pacific region, expand China's influence in the global crude oil market and advance the RMB's internationalisation.

Mainland bonds to join a Bloomberg Barclays index next year

Mainland bonds' international influence increased after the Northbound channel of Bond Connect opened in 2017. On 23 March, Bloomberg announced RMB-denominated bonds issued by the Chinese government and its policy banks will be included in the Bloomberg Barclays Global Aggregate Index starting next year.

Bloomberg said in a statement that under the current schedule, the addition of RMB-denominated Chinese bonds to the index will be phased-in over a 20-month period from April 2019. Based on the data of January 2018, the index will include 386 Chinese bonds, representing 5.49 per cent of the index's market cap. Upon completion of their inclusion, RMB-denominated Chinese bonds will become the fourth largest group of bonds in the index after those denominated in USD, the euro and JPY.

Bloomberg indices, Citi World Government Bond Index and JPMorgan Emerging Market Bond Index are the mainstream indices in the overseas bond market. Bloomberg's inclusion of Chinese bonds in one of its indices is significant. Its founder Michael Bloomberg believes Chinese bonds have become the world's third largest bond market. Their inclusion in a Bloomberg index is recognition of recent efforts made by China to enhance access to its bond market and another important step for China's integration with global financial markets.

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