

CESC Index Report for March 2019



China Exchanges Services Company limited
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Highlights

- Businesses expected to benefit from proposed tax reduction in the Mainland. CES China A80 Index (CESA80) rose 4.2 per cent
- Semiconductor manufacturers' expected listing on Technology Innovation Board lifted CESCSC by 15.3 per cent
- Capital flows into emerging markets after US put interest rate hikes on hold
- Dacheng CES Stock Connect 300 Index Fund saw net subscription of almost RMB2 billion upon launch
- Inclusion of Chinese bonds into three major global bond indexes expected to bring capital inflow of US\$250 billion to US\$300 billion
- Single-day net capital outflow under Stock Connect's Northbound Trading set second highest record

I. Performance of CESC indices

Mainland stocks performed well in March. The National People's Congress and Chinese Peoples' Political Consultative Conference held their plenary sessions and considered the annual government work report during the month. The proposed tax reduction of RMB2 trillion attracted the most attention in the market and was expected to benefit businesses. **CES China A80 Index (CESA80), which tracks the performance of major blue chips listed on Shanghai Stock Exchange and Shenzhen Stock Exchange, rose 4.2 per cent.**

| Table 1 | Index Point | Monthly Return | Volatility | Risk-adjusted Return |
|----------------|-------------|----------------|------------|----------------------|
| CES CSC | 4,244.04 | 15.3% | 14.1% | 1.09 |
| CES VAL | 4,951.36 | 12.0% | 8.7% | 1.38 |
| CES High Yield | 4,335.66 | 11.8% | 7.8% | 1.51 |
| CES iBioTech | 8,452.04 | 11.3% | 9.0% | 1.25 |
| CESHKB | 5,920.50 | 6.8% | 9.1% | 0.75 |
| CES AIT | 4,152.39 | 5.6% | 8.3% | 0.67 |
| CES 280 | 6,176.45 | 5.5% | 7.9% | 0.70 |
| CES CPE | 5,831.84 | 4.7% | 6.2% | 0.76 |
| CES OBOR | 1,696.24 | 4.2% | 7.6% | 0.56 |
| CES A80 | 7,748.20 | 4.2% | 8.2% | 0.51 |
| CES 300 | 4,561.92 | 3.9% | 6.1% | 0.64 |
| CES REIT | 3,964.99 | 3.8% | 1.9% | 2.07 |
| CES 120 | 6,725.97 | 3.8% | 6.8% | 0.57 |
| CES SCHK E&L | 3,742.00 | 3.6% | 6.4% | 0.57 |
| CES SCHK 100 | 5,828.17 | 2.7% | 4.6% | 0.59 |
| CES HKMI | 7,924.61 | 2.4% | 5.5% | 0.44 |
| CES MOT | 3,569.91 | 2.3% | 6.5% | 0.36 |
| CES SCHK 50 | 3,179.19 | 1.6% | 4.5% | 0.35 |
| CES SCHK HYLIV | 3,306.11 | 0.4% | 2.5% | 0.15 |
| CES G10 | 5,289.45 | -1.8% | 7.0% | -0.26 |

Source: CESC and Wind; data as of 31 Mar 2019

On 22 March, the Shanghai Stock Exchange unveiled the first batch of applicants for

the New Technology Innovation Board. Since semiconductor manufacturers were also among the applicants, the launch of the Technology Innovation Board is expected to boost the valuations of the semiconductor industry. **CESCSC surged 15.3 per cent.**

Many listed companies announced their results during the month. Companies with low valuation recorded strong gains. **CESVAL surged 12.0 per cent.**

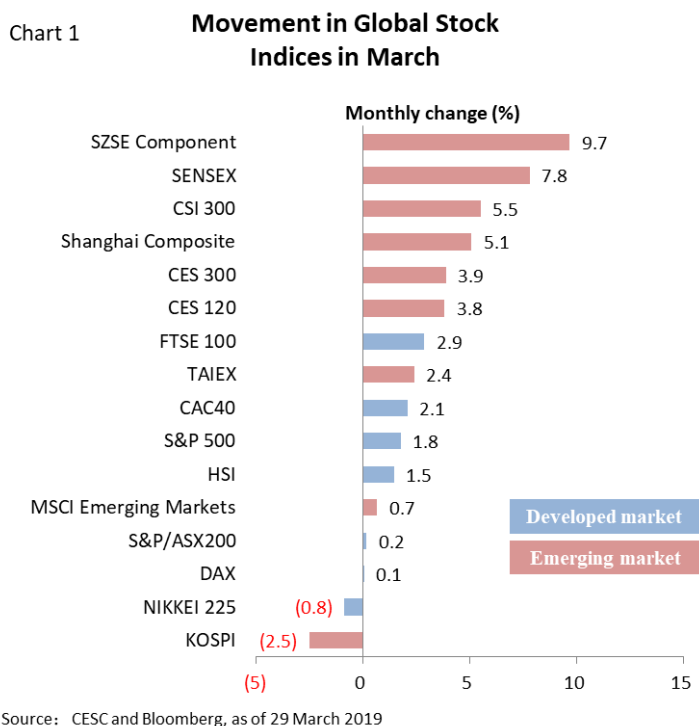
High dividend stocks became popular after the Federal Reserve put interest rate hikes on hold. **CESFHY advanced 11.8 per cent.**

II. Other stock indices

Mainland China and India substantially outperformed other major markets. SZSE Component Index, which jumped 9.7 per cent, was the best-performing, followed by India Sensex Index, which surged 7.8 per cent.

The Federal Reserve put interest rates on hold and does not expect to raise them for the rest of 2019. Furthermore, the Federal Reserve will slow the drawdown of the US central bank’s bond holdings starting in May and end the drawdown in September. The Federal Reserve’s statement was more dovish than expected. An inverted yield curve between 3-month and 10-year Treasury bonds (short-term coupon rates higher than long-term rates) raised market concerns about slower economic growth.

Capital continued to flow into Indian stocks and bonds since the beginning of the year. According to Bloomberg, global funds added US\$8.4 billion in Indian stocks to their holdings in the first quarter. India was expected to cut interest rates further to drive economic growth. Sensex Index gained 7.8 per cent to a level close to its record high reached in August 2018.



III. China-related investment activities offshore

Dacheng CES Stock Connect 300 Index Fund saw net subscription of almost RMB2 billion upon launch

Dacheng Shanghai and Shenzhen 300 Index Fund, licensed by China Exchanges Services Company Limited (CESC), was set up on 20 March. According to Dacheng Fund's announcement on 21 March, net subscription for Dacheng CES Stock Connect 300 Index Fund amounted to RMB1.968 billion, reflecting strong interest from fund managers.

Inclusion of Chinese bonds into three major global bond indexes expected to bring capital inflow of US\$250 billion to US\$300 billion

RMB-denominated treasury bonds and policy bank bonds will be included to the Bloomberg Barclays Global Aggregate Index (Global AGG) starting from April 2019. The inclusion will be completed in phases over a 20-month period. When fully accounted for in the Global Aggregate Index, local currency Chinese bonds will become the fourth largest currency bond after USD, EUR and JPY currency bonds. JP Morgan predicted the inclusion of Chinese bonds in the three major global fixed income indexes (GBI-EM GD, Global AGG and WGBI) will result in capital inflow of up to US\$250 billion to US\$300 billion.

Single-day net capital outflow under Stock Connect's Northbound Trading set second highest record

On 25 March, single-day net capital outflow of Northbound funds hit RMB10.774 billion, the highest amount since July 2015. Foreign investors withdrew a net RMB7.516 billion from Shanghai stocks and a net RMB3.258 billion from Shenzhen stocks. Short-term flow of foreign capital is expected to remain volatile, but capital inflow in the medium and long-term is expected to remain unchanged. MSCI announced its plan to increase the weight of China A Shares in MSCI Emerging Market Index from 5 per cent to 20 per cent over three tranches. This is expected to add US\$67 billion worth of capital to China's stock market, of which 20 per cent will be passive index funds.

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