中華交易服務
CHINA EXCHANGES SERVICES

CESC Index Report for May 2018

Highlights

- CES iBioTech rocketed 14.1 per cent with the rising popularity of medical and pharmaceutical stocks
- CES P Elite rose 2.1 per cent as equity transactions increased among overseas listed Mainland private enterprises
- Stocks and currencies of emerging markets came under pressure
- PBC moved to stimulate cross-border fund flows
- Xiaomi said to be first company to use CDR
- Commodity connectivity would give China more influence in metals pricing

I. Performance of CESC Indices

Mainland and Hong Kong stock markets diverged in performance. CES A80, which tracks major A shares, rose 1.7 per cent from April, while **CES HKMI, which tracks Hong Kong listed large China concept stocks, fell 1.5 per cent.** (Table 1)

Table 1	Index Point	Monthly Return	Volatility	Risk-adjusted Return
CES iBioTech	10,852.62	14.1%	7.7%	1.82
CES G10	6,798.66	2.9%	7.5%	0.39
CES CPE	6,518.99	2.1%	4.0%	0.52
CES 280	6,452.85	2.0%	4.0%	0.51
CES A80	7,394.33	1.7%	5.2%	0.33
FTSE A50	12,343.42	1.2%	5.4%	0.23
CSI 300	3,802.38	1.2%	4.6%	0.26
CES 300	4,536.36	1.0%	4.0%	0.26
CES 120	6,624.50	0.8%	4.3%	0.19
CES SCHK 100	6,126.74	0.8%	4.3%	0.19
SSE Composite	3,095.47	0.4%	4.4%	0.10
CES High Yield	4,302.91	-0.3%	4.5%	-0.06
SZSE Component	10,295.73	-0.3%	4.8%	-0.06
CES OBOR	1,741.31	-0.9%	4.0%	-0.23
HSI	30,468.56	-1.1%	4.6%	-0.24
CES HKMI	8,446.19	-1.5%	4.8%	-0.32
CES SCHK 50	3,354.96	-1.6%	4.7%	-0.33
HSCEI	11,978.30	-2.9%	5.2%	-0.55

Source: CESC and Wind; data as of 31 May 2018

The Mainland has accelerated registration and approval procedures for innovative drugs. CCTV reported that policies for generic drugs may be launched sooner than expected and hospital drugs may be nationalised. Some drug companies (such as Sino Biopharmaceutical and CSPC) reported double-digit profit growth in Q1 compared with the same period last year. **CES iBioTech surged 14.1 per cent from previous month.**

There were a number of equity transactions among overseas listed Mainland private enterprises. Alibaba, a constituent of the CES P Elite, and its subsidiary Cainiao announced an acquisition of about a 10 per cent interest in the CES P Elite constituent and logistics giant ZTO Express for US$1.38 billion. **CES P Elite rose 2.1 per cent from April.**

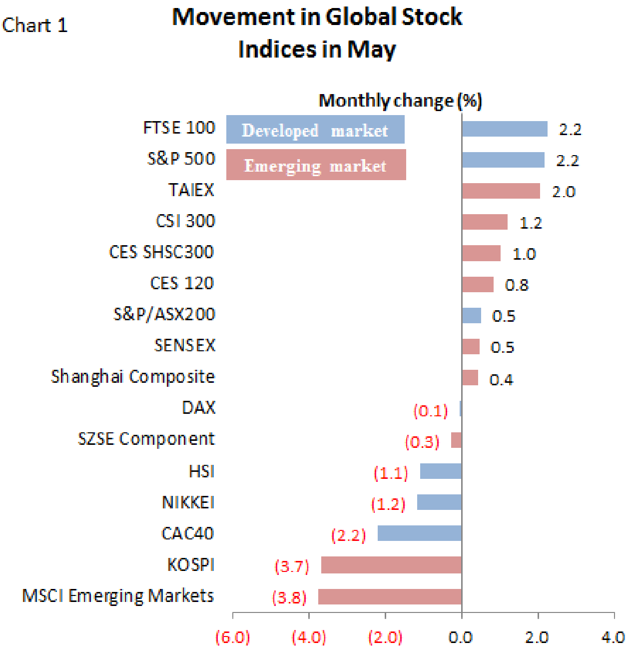
Several investment banks issued upbeat reports on the gaming sector of Macau. JPMorgan Chase expected an annual increase of 15 per cent in the SAR's gaming revenue. Nomura and Credit

Suisse predicted growth would reach 20 per cent. **CES G10 extended its April rally and surged 2.9 per cent.**

II. Other stock indices

The US dollar index posted a strong performance and touched 95 in the middle of the month. Emerging market currencies were under pressure from a strong US dollar and high oil prices. MSCI Emerging Markets Currency Index fell 1.39 per cent, prompting actions by some central banks to prop up their currencies. Argentina raised its benchmark interest rate thrice within a week. There were reports the country had even sought help from the IMF. In face of sharp plunges in the lira, Turkey's central bank raised interest rates by 300 basis points mid-month, pushing the lending rate to 16.5 per cent. MSCI Emerging Markets Index underperformed developed markets by falling 3.8 per cent. (See Chart 1)

Chart 1



Source: CESC and Bloomberg, as of 31 May 2018

European stocks were generally weak due to concerns about the political situation in Italy. Germany's DAX fell slightly, dropping by 0.1 per cent. France's CAC40 plummeted 2.2 per cent.

However, British stocks rallied. The Bank of England maintained its interest rate unchanged. Despite a weak GBP, the FTSE 100 outperformed global stock indices by gaining 2.2 per cent. Bloomberg said over 60 per cent of revenue of FTSE 100 constituents was derived from overseas.

III. China-related investment activities offshore

PBC moved to stimulate cross-border capital flow

Demand for offshore RMB (CNH) funds was closely watched as the day on which MSCI began including A shares in its key benchmarks neared. Three administrative measures were announced by the PBC to improve the management of cross-border fund flows.

Firstly, offshore RMB business clearing banks and participating banks can tap RMB liquidity from the onshore market through interbank lending, cross-border account financing and bond repurchases in the China Interbank Bond Market (CIBM). Secondly, the required reserve ratio of the RMB deposits placed by Hong Kong and Macau's RMB business clearing banks in the settlement accounts in the PBC was reduced to 0 per cent. Lastly, overseas investors can directly acquire CNY (onshore RMB) in place of CNH to buy A shares through Stock Connect. These investors can also hedge their forex exposure in the Mainland interbank market through brokerages under Stock Connect.

Analysts said the measures would facilitate overseas investors' access to onshore liquidity, reduce offshore market volatility and narrow gaps between CNY and CNH exchange rates and interest rates. With the imminent inclusion of A shares in key MSCI indices, such measures would also lessen the cost of A-share investment by providing overseas investors with ready access to RMB funds, they said.

The HKMA said in a press release that as RMB internationalisation continues to progress and mutual access between the capital markets of the two places further deepens, market demand for offshore RMB liquidity will increase. The release said the HKMA has all along maintained close dialogue with the PBC to study measures to facilitate cross-border RMB fund flows. The HKMA believes the new measures will help ensure the offshore market remains orderly, functions efficiently and supports Hong Kong's development as the world's offshore RMB business hub.

Xiaomi said to be first company to use CDR

According to banking sources cited by Mainland media on 31 May, Xiaomi is set to become the first company to use China Depository Receipts (CDR) when it debuts in Shanghai on 16 July.

Xiaomi's listing materials are now available on the HKEX website. Mainland media noted Xiaomi has postponed its Hong Kong listing by one or two weeks to coincide with its CDR deal. It will reportedly price its CDR and Hong Kong IPO on 9 July 2018, start trading on the Shanghai Stock Exchange on 16 July 2018 and list on the stock exchange in Hong Kong on 17 July 2018.

Xiaomi's dual listing and listing timetable were not confirmed when this index report was finalised. HKEX Chief Executive Charles Li said dual listings are not something new. He believes many companies will seek to dually list through CDR and H shares after the first CDR is launched. There are no operational difficulties, he said.

Commodity connectivity would give China more influence in metals pricing

LME Asia Week 2018 hosted by HKEX and the London Metal Exchange (LME) was held on 17 May at the Hong Kong Convention and Exhibition Centre. LME has become a major part of HKEX after its acquisition by the latter in 2012.

In a keynote speech, HKEX's Charles Li spoke of three LME and HKEX objectives in the years ahead. Firstly, the feasibility of a commodity connectivity programme will be considered. Secondly, LME will seek to set up bonded warehouses in Mainland China. Thirdly, through Qianhai Mercantile Exchange, the onshore spot commodity market will be leveraged to boost the commodity futures market of HKEX.

Li said China, as the world's largest consumer, producer and importer of commodities, has been a price taker. He believes the above three strategies can help China influence global commodity prices. Hong Kong can play a part in helping Mainland commodity market participants go out of the Mainland and overseas investors enter the Mainland commodity market through programmes similar to Stock Connect and Bond Connect. But whether a commodity connectivity scheme can be launched in the end depends on the need and will of commodity exchanges on the Mainland.

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