

CESC Index Report for November



China Exchanges Services Co, Ltd (CESC)



Highlights

- As Mainland funds continued to flow into Hong Kong, CES HKMI, which tracks large China concept stocks listed in Hong Kong, rose 3.6 per cent during the month
- The Mainland's Manufacturing Purchasing Manager's Index (PMI) continued to indicate expansion in October. CES A80, which reflects the performance of A-share blue chips, jumped 1.5 per cent
- The research reports of several investment banks noted continuing growth in Macau's gaming sector. CES G10 gained 5 per cent
- The real-name investor identification regime for Stock Connect Northbound trading is scheduled for implementation in the third quarter of 2018
- Shenzhen-Hong Kong Gold Connect kicked off to achieve increased gold market connectivity
- Foreigners continued to increase investment in Mainland debt through Bond Connect

I. Performance of CESC Indices

Many Hong Kong listed companies announced their latest results in November. Tencent, a heavyweight CES HKMI constituent, performed brilliantly in Q3 with a more than 60 per cent year on year increase in both income and profit. As Mainland capital continued to flow into Hong Kong, Shenzhen Connect Southbound trading rose to a new high in single day volume. Some blue chips such as Ping An Insurance and Geely Automobile were highly sought after by Mainland funds. **CES HKMI, which tracks large China concept stocks listed in Hong Kong, rose 3.6 per cent during the month** (see table 1).

The Mainland's Manufacturing Purchasing Manager's Index (PMI) dropped to 51.6 in October, which was worse than expected. It still pointed to an expansion trend, according to the National Bureau of Statistics. **CES A80, which reflects the performance of A-share**

blue chips, jumped 1.5 per cent from the previous month.

Several investment banks published optimistic reports on the outlook for Macau-based gaming stocks. Goldman, citing its own data, noted the robust performance of VIP rooms at Macau casinos. Eleven VIP rooms are expected to open in the next few months amid forecasts of continuing market growth. **CES G10 gained 5 per cent**, topping all CESC indices.

II. Other stock indices

Hong Kong, Japan and US outperformed other stock markets in November by rising 3.3 per cent, 3.2 per cent and 2.8 per cent respectively. European and emerging markets were weak.

Japan's PMI stood at 53.8 in November, its highest value since March 2014. It was the 15th straight month of expansion, reflecting the optimism of Japanese businesses. The country's CPI climbed 0.8 per cent year on year in October, which was better than expected. Stock prices advanced on the back of sustained economic recovery. The Nikkei gained 3.2 per cent in November and 15.7 per cent in the past three months.

The US Fed was scheduled to consider its key interest rate in mid-December. Prices of Fed funds interest rate futures showed a 100 per cent probability there will be a rate hike in the final month of the year. In early December, the market generally expected one more rate hike in 2017. Fed chair Janet Yellen said the US economy has gained strength and that will keep the Fed on track to gradually increase its key policy rate. Her successor Jerome Powell also made it clear that the basis for a rate hike was strong. The US Department of Commerce revised its Q3 economic growth figure to 3.3 per cent, the fastest rate since the third quarter of 2014. Thanks to the strength of the labour market and the economy, S&P 500 closed at a record high of 2647.58, up 2.8 per cent from the previous month.

The Eurozone economy grew 2.5 per cent year on year in Q3, its fastest growth in a decade. Expectations that the European Central Bank will stop its monthly bond purchasing in September 2018 drove share prices in the UK, France and Germany down 2.2 per cent, 2.4 per cent and 1.6 per cent respectively.

III. China-related Investment Activities Offshore

The real-name investor identification (ID) regime for Stock Connect Northbound trading is scheduled for implementation in the third quarter of 2018

An investor ID model will be adopted for Stock Connect Northbound trading in Q3 of 2018 at the earliest, according to details announced by HKEX.

Under the model, Exchange Participants (EPs) have to assign a Broker-to-Client Assigned Number, or BCAN, in a standard format to each of their clients in Stock Connect's Northbound trading and provide Client Identification Data, or CID, to HKEX, which will forward the information to Mainland exchanges. It is understood that BCANs and CID are for regulators' market monitoring and surveillance only. They will neither be used in clearing and settlement nor available for public viewing.

As a matter of fact, both the European Securities and Markets Authority and the US Securities and Exchange Commission have been in the process of implementing investor ID regimes as part of their Markets in Financial Instruments Directive II, or MiFID II, and Consolidated Audit Trail plans respectively. Implementation of the investor ID regime will result in more efficient Hong Kong-Mainland cross-border market surveillance and alignment with international regulatory trends.

Shenzhen-Hong Kong Gold Connect kicked off to achieve increased gold market connectivity

The Chinese Gold and Silver Exchange Society of Hong Kong and the city of Shenzhen kicked off their Shenzhen-HK Gold Connect programme in early November following launch of Shanghai-HK Gold Connect in 2015. Trading under the scheme is subject to a daily quota of RMB10 billion.

Whereas Shanghai-HK Gold Connect allows only northbound trading, Shenzhen-HK Gold Connect allows southbound trading only. Implementation of Shenzhen-HK Gold Connect enabled more cross-border gold market interaction. It is believed greater connectivity with the Shanghai and Shenzhen gold markets will stimulate gold trading in Hong Kong.

The Mainland is the world's largest producers and consumers of gold, and its spot gold trading tops the world in terms of volume. However, international spot gold trading is largely influenced by the London gold market which trades in US dollars. Mainland demand has no objective and logical way to exert its influence. Shenzhen-HK Gold Connect enables Hong Kong to develop further into a major gold trading hub that promotes Renminbi-denominated gold products to countries along the routes of the Belt and Road initiative to facilitate the internationalisation of the Renminbi.

Foreigners continued to increase investment in Mainland debt through Bond Connect

Moody's Investors Service said the launch of Bond Connect and simplification of cross-market bond issuance procedures are the primary reasons for increasing investment by international investors in the Mainland's onshore bond market and more offshore USD bond offers by Mainland issuers.

Five months after the launch of Bond Connect in July, BOCHK said about 30 per cent of the increased foreign investment in Mainland bonds in Q3 was made through Bond Connect, reflecting a continuing increase in foreign investors' use of the scheme to invest in Mainland bonds.

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