

CESC Index Report for October



China Exchanges Services Co., Ltd (CESC)



Highlights

- Stock markets in Hong Kong and the Mainland generally rallied in October. Mainland A shares performed well, with CES A80 up 6.5 per cent from the previous month
- Mainland-based blue chips were chased. CES 120, which tracks cross-border large-cap stocks, jumped 5.8 per cent. CES 280, which represents smaller stocks, surged 2.1 per cent
- CES G10 fell 3.8 per cent as brokers became cautious in their outlook on Asian gaming stocks
- Ministry of Finance's US dollar sovereign bonds sold in Hong Kong were 10 times oversubscribed, with yields rivalling those of AAA-rated sovereign bonds
- MSCI announced launch of "MSCI China A Inclusion Indexes" and said "MSCI China A Indexes" will be renamed "MSCI China A Onshore Indexes" next year
- ADV of A-share index futures traded in Singapore fell 7 per cent from the previous month

I. Performance of CESC Indices

Stock markets in Hong Kong and the Mainland generally rallied in October. Mainland A shares performed well as they continued to rise. The rally of some A shares was driven by gains in Q3.

Economic data was also encouraging, with the Mainland's Manufacturing Purchasing Manager's Index (PMI) for October at 51.6, slightly down from the previous month but still indicating expansion. The PMI had been above 51 for a year. **Mainland-based blue-chips CES A80 surged 6.5 per cent during the month.** (See Table 1)

Mainland-based blue chips were chased. **CES 120 which tracks cross-border large-cap stocks jumped 5.8 per cent.** **CES 280 which represents smaller stocks also surged 2.1 per cent.**

Table 1	Index Point	Monthly Return	Volatility	Risk-adjusted Return
FTSE A50	12,788.87	6.9%	2.5%	2.79
CES A80	7,615.29	6.5%	2.3%	2.75
CES 120	6,594.10	5.8%	2.7%	2.16
HSCEI	11,507.72	5.5%	5.4%	1.01
CES HKMI	7,714.28	5.1%	5.3%	0.96
CSI 300	4,006.72	4.4%	1.8%	2.46
CES 300	4,542.62	3.9%	2.1%	1.82
CES CPE	6,266.79	3.9%	4.9%	0.79
SZSE Component	11,367.62	2.5%	2.9%	0.86
HSI	28,245.54	2.5%	3.8%	0.66
CES 280	6,760.21	2.1%	2.3%	0.94
CES SCHK 100	5,690.80	1.6%	3.2%	0.52
SSE Composite	3,393.34	1.3%	1.4%	0.93
CES G10	5,446.56	-3.8%	6.6%	-0.57

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

Brokers were cautious in their outlook on Asian gaming stocks. Some were pessimistic about any benefit the Mainland’s week-long National Day holiday might have had on October’s gaming revenue. They believed all favourable factors had been priced in. They also concerned Sands China’s planned capital expenditure might hurt the casino firm’s dividend payout. **CES G10 fell 3.8 per cent in October.**

II. Other Indices

Global market sentiment was generally upbeat in October. Japan’s economic data continued to improve, with exports in September up 14.1 per cent year on year. Expectations that Abenomics’ easy monetary policy will continue pushed the Nikkei up a significant 8.1 per cent. (See Chart 1)

As geopolitical tensions in North Korea faded, South Korean stocks surged to their record high. Kospi gained 5.4 per cent. The end of the Chinese Communist Party’s 19th National Congress gave rise to hopes for a new round of economic growth, sparking the CSI 300 to surge 4.4 per cent.

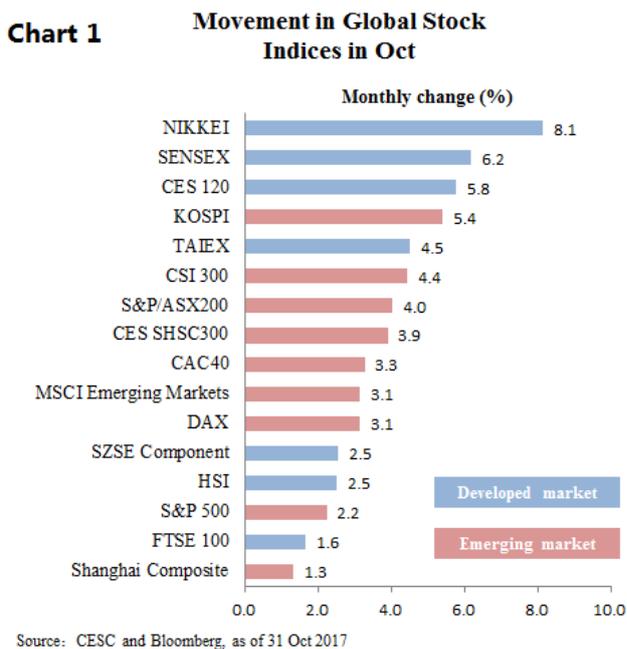
US stocks continued to rally, with the S&P 500 up 2.2 per cent. It was the seventh month in a row the index had an advance, though half of the gain was from technology stocks, including Facebook, Amazon, Apple, Alphabet and Microsoft. It was widely expected the US Fed would shrink its balance sheet slowly to boost stock market confidence.

The UK’s consumer price index for September rose 3 per cent year on year, the largest surge in five and a half years and above the 2 per cent targetted by the central bank. There were forecasts the central bank would raise interest rates for the first time in 10 years in November. FTSE 100 rose a mere 1.6 per cent, making the UK one of the worst performing major markets in October.

III. China-related Investment Activities Offshore

Ministry of Finance’s US dollar sovereign bonds sold in Hong Kong were 10 times oversubscribed, with yields rivalling those of AAA-rated sovereign bonds

The Ministry of Finance successfully launched US\$2 billion in US dollar sovereign bonds in Hong Kong including US\$1 billion of five-year bonds and US\$1 billion of ten-year bonds. Data



showed subscriptions for the issuance totalled US\$22 billion, 10 times the size of the offering.

Market demand for the Mainland bonds was huge, and the offering yield was much lower than what the market had expected. The five-year bonds yielded 2.196 per cent (Coupon-rate: 2.125 per cent) and the ten-year bonds yielded 2.687 per cent (Coupon-rate: 2.625 per cent). The five-year bonds and ten-year bonds yielded only 15 basis points and 25 basis points over US Treasuries respectively, which is close to those of US dollar sovereign bonds of developed countries, and their yields were similar to those of AAA-rated sovereign bonds.

The Ministry of Finance said over 300 institutional investors from a diversified range of sectors including funds, banks, monetary authorities, sovereign funds, insurance funds and pension funds subscribed for the bonds; and geographically, they came not only from Europe, America and Asia but also from the Middle East. It demonstrated world confidence from all sectors in China's economic development.

Currently, investors are exempted from income tax levied on interest or gains from RMB-denominated state bonds issued in Hong Kong. Such preferential policy does not apply to non-RMB (including US dollar) national debt issued in Hong Kong.

MSCI announced launch of “MSCI China A Inclusion Indexes” and said “MSCI China A Indexes” will be renamed “MSCI China A Onshore Indexes” next year

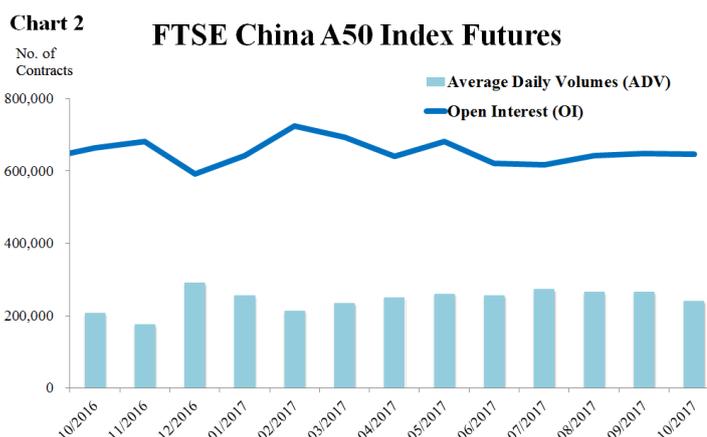
MSCI announced the launch of “MSCI China A Inclusion Indexes”, which it said would comprise A shares to be included in the “MSCI Emerging Market Index”, and plans to change the name of the existing “MSCI China A Indexes” to “MSCI China A Onshore Indexes” in March 2018. MSCI said a new set of “MSCI China A Indexes” would be launched to track only A shares accessible through Stock Connect.

MSCI has proposed to include A shares in two stages next year, the first in June and the second in September. About US\$15 billion to US\$20 billion of funds are expected to flow into the A-share market next year, predominantly under Stock Connect. CES 300, which tracks the performance of Stock Connect blue chips, can be used for investment products on the mutual market access theme.

ADV of A-share index futures traded in Singapore fell 7 per cent from the previous month

Trading in A-share index futures outside the Mainland was thin in October. The average daily volume (ADV) of FTSE China A50 Index Futures traded on the Singapore Exchange was down 7 per cent from the previous month to around 220,000 contracts. (See Chart 2)

For three months in a row, month-end open interest of the A-share index futures was around 640,000 contracts, or a notional value of around RMB55 billion.



Source: SGX statistics as of 31 October 2017

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