CESC Index Report for October 2018

China Exchanges Services Company Limited
Published on 21 November 2018

Highlights

- CES China 120 Index slumped 8.2 per cent month-on-month as Mainland economic data turned out worse than expected
- Concerns over rumours about spy chips dragged CES China Semiconductor Index down 17.2 per cent
- KOSPI plunged 13.4 per cent, its biggest one-month drop in 10 years, making Korea the world's worst performing stock market
- SSE began to accept brokers' applications for Shanghai-London Stock Connect
- MSCI indices will include weighted voting rights shares
- Qingdao Haier became first company to list D shares in Germany

I. Performance of CESC Indices

Mainland economic data deteriorated as the trade war continued. RMB's exchange rate approached RMB7 per US dollar. These factors together with plunging US stocks and weak market sentiment sent Hong Kong and Mainland stock indices plummeting across the board.

Table 1	Index Point	Monthly Return	Volatility	Risk-adjusted Return
CES REIT	3,305.44	-6.0%	3.1%	-1.93
CES SCHK HYLV	2,925.33	-7.0%	4.6%	-1.51
CES A80	6,516.62	-7.0%	10.1%	-0.70
CES 120	5,789.05	-8.2%	8.4%	-0.97
CES 300	3,899.17	-8.8%	7.6%	-1.15
CES HKMI	6,880.14	-9.5%	7.5%	-1.27
CES OBOR	1,403.37	-9.6%	8.2%	-1.17
CES SCHK 50	2,742.85	-10.1%	7.0%	-1.45
CES 280	5,006.70	-10.2%	9.3%	-1.09
CES SCHK 100	4,904.02	-10.9%	7.2%	-1.52
CES High Yield	3,180.79	-11.1%	7.8%	-1.44
CES CPE	4,863.86	-12.4%	10.6%	-1.17
CES G10	3,948.67	-13.2%	13.1%	-1.01
CES SCHK E&L	2,873.95	-14.2%	11.6%	-1.22
CES iBioTech	6,873.60	-15.3%	13.0%	-1.17
CES CSC	2,918.55	-17.2%	13.3%	-1.30

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

The National Bureau of Statistics' Purchasing Managers Index for the manufacturing was 50.2 in October, lower than market expectations. GDP growth slowed to 6.5 per cent in Q3, the lowest since 2009 and below market expectations. **CES China 120 Index (CES120), which tracks cross-border China-concept stocks, shed 8.2 per cent.**

A cover story in Bloomberg Businessweek that said someone in Mainland China planted spy chips in motherboards sold by US company Super Micro raised concerns about the hardware and chip industries despite clarification and denials by a number of tech companies. **CES China Semiconductor Index (CESCSC) plunged 17.2 per cent.**

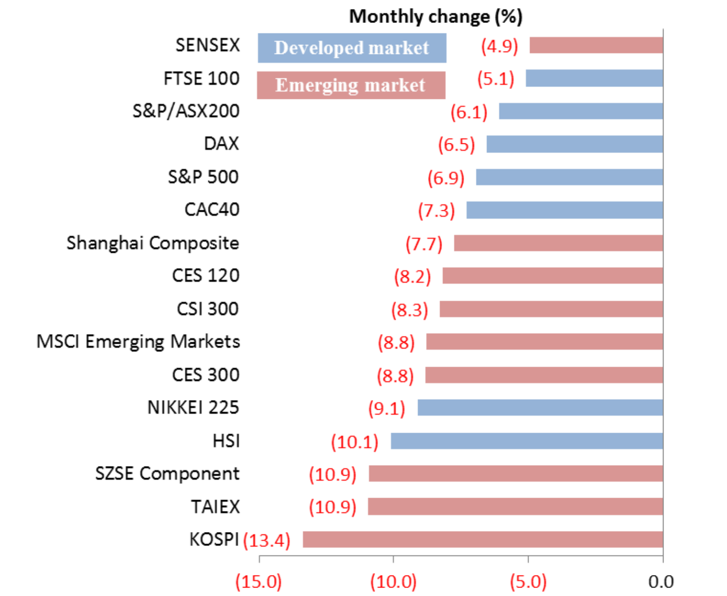
As risk appetite declined, risk aversion became dominant. Hong Kong's real estate investment trusts (REITs) are known for their stable rental income. **CES REIT Index dropped a mere 6 per cent in a show of resilience.**

II. Other stock indices

Interest rate and currency concerns, geopolitical tensions, midterm elections in the US and other uncertainties continued to plague global stocks. Tech stocks came under pressure as the US's tech sector delivered worse than expected Q3 results. The 10-year government bond yield in the US exceeded 3.25 per cent at one point, and the dollar index rose above 97 points.

US's NASDAQ tumbled 9.2 per cent, its largest drop in 10 years. S&P 500 closed almost 7 per cent lower at 2711 point.

Chart 1 Movement in Global Stock Indices in October



Source: CESC and Bloomberg, as of 31 October 2018

Korea's KOSPI was the worst performing index. The country's GDP growth in Q3 was a mere 2 per cent year-on-year, far lower than Q2's 2.8 per cent. Ongoing trade disputes are expected to continue to hurt the country, as its economy is mainly export-diven. Korean blue chips retreated 13.4 per cent to 2029 points in their biggest one-month loss in the past 10 years.

European issues returned to haunt investors. Italy's 2019 budget plan was rejected by the EU due to a high deficit compared with the country's GDP, but Rome declined to make concessions. There were also reports of an EU warning to France that the country's planned debt reduction in 2019 is not in line with a French agreement with the EU. Britain's FTSE 100, Germany's DAX and France's CAC40 slid 5.1 per cent, 6.5 per cent and 7.3 per cent respectively.

III. China-related investment activities offshore

SSE began to accept brokers' applications for Shanghai-London Stock Connect

The Shanghai Stock Exchange (SSE) began to accept applications on 27 October from brokers that want to trade under Shanghai-London Stock Connect. The SSE move came about two weeks after the CSRC issued provisional rules for the issuance of depository receipts under the planned Shanghai-London scheme based on changes to earlier proposals issued for consultation. The rules cover matters relating to the issuing and listing of depository receipts linked to overseas- and Mainland listed-companies.

A qualified overseas enterprise may apply to the CSRC to issue China Depository Receipt (CDRs) on its existing shares if it has a listing history of three years on the London Stock Exchange (LSE), including one year of premium listing on the exchange's main board, and an average market cap not lower than RMB20 billion in the most recent 120 trading days. No fewer than 50 million CDRs with a combined market cap of at least RMB500 million are expected to be issued. Onshore investors trading CDRs must have in their accounts assets with a daily average value of RMB3 million. As reported by *Financial Times*, HSBC could be the first company to issue CDRs under Shanghai-London Stock Connect.

A qualified Mainland-listed company may issue Global Depositary Receipts (GDRs) on its existing or new shares and list them on the LSE. Except for strategic investments, overseas holdings in a Mainland-listed company must not exceed 30 per cent, and a single overseas investor must hold no more than 10 per cent. Huatai Securities could be the first company with GDRs listed in London, according to *Financial Times.*

MSCI indices will include weighted voting rights shares

Weighting voting rights (WVR) shares will be included in MSCI indices and their weightings calculated based on their free float market capitalisation, according to consultation results released by MSCI on 31 October. The decision means US company SNAP as well as Hong Kong-listed Xiaomi and Meituan stand a high chance of becoming MSCI constituents next year.

WVR shares will be included during MSCI's quarterly index review in February 2019. The decision will take effect in March. Given polarised opinions among institutional investors about the inclusion of such shares, MSCI is planning a new series of indices to be launched in 2019 Q1 for investors who want to avoid WVR shares.

Qingdao Haier became first company to list D shares in Germany

Household appliance manufacturer Qingdao Haier debuted on China Europe

International Exchange (CEINEX) in Frankfurt on 24 October as the exchange's first D-share company (stock code 690D). A total 265 million D-shares (4.17 per cent of the company's total issued capital) were issued at an offer price of EUR1.05 per share.

The "D" in D-shares stands for *Deutschland* in German (Germany in English). D shares are launched to attract European investors to Mainland stocks via CEINEX.

Speaking to reporters, CEINEX Co-CEO Chen Han said the exchange chose to set up its base in Frankfurt because finance serves the real economy and Germany has well-developed manufacturing. D shares, he noted, would facilitate Sino-German and Sino-European manufacturing cooperation, and help transform and upgrade the Mainland's manufacturing sector.

As to the choice of Haier, Chen said the company is one of the world's giant in white goods manufacturing and has a clear global strategy. Overseas customers contribute 40 per cent of its revenue, and the company has substantial room for growth in Europe. Its D shares, Chen noted, fit well in Haier's long-term development strategy. Haier's listng of the first D shares was a major milestone in the history of CEINEX, and the latest fruit of cooperation in the development of mutual market access between China and Europe, Chen added.

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