

CESC Index Report for September



China Exchanges Services Co, Ltd (CESC)



Highlights

- Mainland and regional stock markets diverged in performance. The A share blue chip index, CES A80, increased slightly by 0.2 per cent, while the cross-border large and small cap index, CES 280, surged 1.8 per cent.
- China's P chips continued to be highly sought after by funds. CES CPE rose 3.1 per cent.
- Macau's gambling revenue increased for the 13th straight month in August. CES G10 surged 15 per cent in September.
- "BRICS" called for local currency direct investment to promote international use of RMB
- FTSE Russell further delayed inclusion of A Shares in Russell Emerging Markets Index
- CEINEX encouraged overseas issue of D shares by Belt and Road companies
- ADV of A-share futures traded in Singapore fell 9 per cent from the previous month

I. Performance of CESC Indices

Mainland and Hong Kong stock market performances diverged in September. The A share blue chip index, CES A80, rose 0.2 per cent, while the cross-border large and small cap index, CES 280, surged 1.8 per cent (See Table 1)

In light of the upcoming move by the US Fed to reduce its balance sheet, and impact of the HKMA's issuance of additional notes, HIBOR rose sharply from the middle of September, with one-month HIBOR up from 0.42 per cent to 0.58 per cent. Increased funding costs dragged down key indices tracking Hong Kong shares. Yet CES HKM merely dropped 0.8 per cent from the previous month while CES SCHK100 surged 0.7 per cent.

Table 1	Index Point	Monthly Return	Volatility	Risk-adjusted Return
CES G10	5,662.17	15.0%	6.6%	2.28
CES CPE	6,034.36	3.1%	5.7%	0.54
SZSE Component	11,087.19	2.5%	2.7%	0.92
CES 280	6,619.82	1.8%	2.5%	0.72
CES SCHK 100	5,598.50	0.7%	3.3%	0.22
CSI 300	3,836.50	0.4%	1.3%	0.29
CES 300	4,373.22	0.3%	2.2%	0.16
CES A80	7,153.60	0.2%	1.6%	0.12
CES 120	6,235.31	0.2%	2.3%	0.07
SSE Composite	3,348.94	-0.4%	1.3%	-0.27
CES HKMI	7,339.32	-0.8%	4.0%	-0.21
FTSE A50	11,962.60	-1.0%	1.9%	-0.52
HSI	27,554.30	-1.5%	2.9%	-0.51
HSCEI	10,910.04	-3.4%	3.4%	-1.00

Source: CESC and Wind; data as of 29 Sep 2017

China's P chips continued to be highly sought after by funds. CES CPE rose 3.1 per cent led by a 20-55 per cent surge in heavyweights like BYD, Fosun and ZTE.

According to data from the Gaming Inspection and Coordination Bureau of Macau, Macau's gambling revenue increased for the 13th month in a row in August. It amounted to MOP22.676 billion, up 20.4 per cent year on year. CES G10 soared 15.0 per cent in September, the largest surge among Mainland and Hong Kong market indices.

II. Other Indices

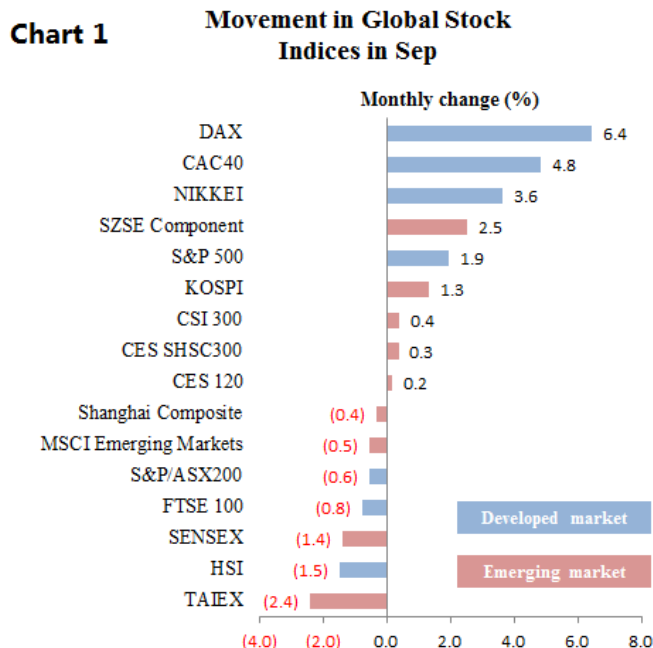
Developed markets outperformed other markets in September with German, French and Japanese stocks up 6.4 per cent, 4.8 per cent and 3.6 per cent respectively. Emerging markets diverged in performance. Chinese and Korean stocks rose 0.4 per cent and 1.3 per cent but the Indian and Taiwan markets were down 1.4 per cent and 2.4 per cent. (See Chart 1)

The US Fed kept interest rates unchanged and announced its decision to reduce its balance sheet in stages. It aims to reduce its assets by US\$10 billion each month from October, and trim an extra

US\$10 billion every three months until the reduction reaches US\$50 billion per month. The goal is to shrink the balance sheet by US\$2 trillion within three to five years. The US Fed is expected to raise its benchmark interest rate one more time this year. The USDX rebounded on the news while the Euro and the Yen dropped 0.9 per cent and 2.3 per cent respectively. The European and Japanese markets were indirectly stimulated. German and Japanese stocks hit their 2017 highs.

Germany's incumbent chancellor Angela Merkel triumphed in the country's election, gaining a fourth term as her nation's leader. With nearly 33 per cent of the votes, her party, the CDU, remains the largest party in Germany. The outcome improved market sentiment. Germany's DAX jumped 6.4 per cent, outperforming other markets.

The depreciation of the Yen and global economic recovery led to a rise in Japan's manufacturing profits. In September, Japanese manufacturing expanded for a 13th consecutive month, according to the final PMI, which was 52.9. Shizo Abe, the prime minister of Japan, announced a snap election in October as well as a JPY2 trillion economic stimulus plan. Political stability and market expectations of the stimulus plan pushed the Nikkei Index up 3.6 per cent.



Source: CESC and Bloomberg, as of 29 Sep 2017

III. China-related Investment Activities Offshore

“BRICS” called for local currency direct investment to promote international use of RMB

Following the 9th BRICS Summit held in Xiamen, the BRICS countries released a declaration, agreeing that subject to each central bank's legal mandate, they would work closely to enhance currency cooperation, including in the areas of currency swaps, local currency settlement, and local currency direct investment, where appropriate, and to explore more models of currency cooperation.

From “One Belt One Road” to the regional trading by the “BRICS”, currency cooperation is of paramount importance. Their foreign exchange reserves may be exhausted if payment is made by US dollar in regional transactions. If trading and settlement is in a local currency such as Reminibi (RMB), such the risk of exhaustion could be reduced. It will also encourage the use of RMB in other countries, thereby broadening the market share and usage of RMB.

The BRICS’ agreement on currency cooperation through local currency direct investment and other channels is seen as a major breakthrough that will help strengthen the position of RMB in international investment.

FTSE Russell further delayed inclusion of A Shares in Russell Emerging Markets Index

FTSE Russell, an index company in the London Stock Exchange Group, announced in its Annual Country Classification Review that China’s A Shares would remain on the “watch list” for possible inclusion in its emerging markets index due to the daily quota limits, the number of trading holidays and the comparatively high level of A-share suspensions in the Stock Connect programme.

FTSE Russell said it will continue to negotiate with the Chinese authorities and index users to address these issues.

CEINEX encouraged the overseas issue of D shares by Belt and Road companies

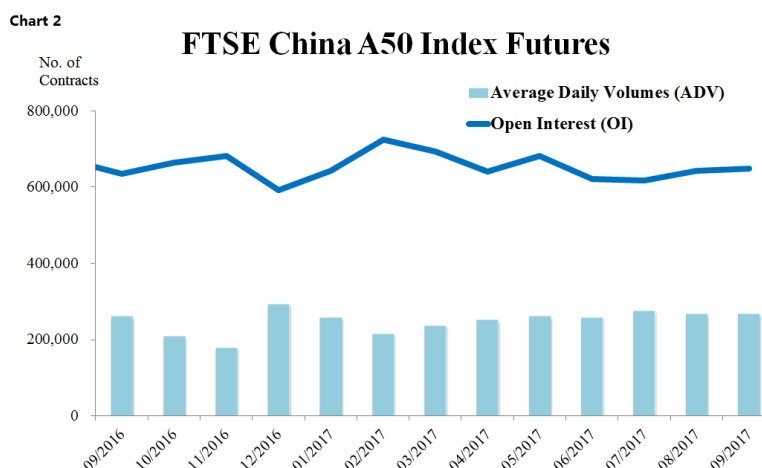
China Europe International Exchange (CEINEX), a JV of Shanghai Stock Exchange, Deutsche Borse and China Financial Futures Exchange, confirmed recently that the first batch of D shares listed in Germany will adopt an “A+D” model to increase the confidence of European investors in China enterprises. Under the model, the blue chips of A shares will offer additional share through a placement and list them in Germany. Such shares issued by Mainland incorporated companies and listed in Germany, called D shares, similar to the H shares in Hong Kong. CEINEX said it will give priority to high-tech manufacturers and Belt and Road companies.

Preparation for the issue of the first batch of D shares is under way. CEINEX aims to make substantial progress by end of next year.

ADV of A-share futures traded in Singapore fell 9 per cent from the previous month

The average daily volume (ADV) of A-share futures traded in Singapore decreased 9 per cent from the previous month.

Open interest of the A-share index futures at the end of September was around 650,000 contracts (see Chart 2), or a notional value of RMB51.8 billion.



Source: SGX statistics as of 29 September 2017

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