

CESC Index Report for May



China Exchanges Services Co Ltd (CESC)



Highlights

- CES 120 and CES Gaming Index generally outperformed Mainland and Hong Kong stocks.
- A shares rallied on a new guideline on trade suspension and resumption, and inflow of foreign capital
- MSCI Emerging Markets Index plunged 3.9 per cent
- Stock Connect's Southbound quota looks set to be exhausted in the third quarter
- A shares continue to trade at a high premium to H shares

1. Performance of CESC indices

Large-cap A shares outperformed Hong Kong stocks in May, with the CES A80 up 0.6 per cent (table 1) and the CES SCHK100 down 1.1 per cent. The cross-border CES280, which covers large and mid-cap, stocks, was also slightly up.

Market sentiment turned cautious in May, dampening Hong Kong stocks after minutes of the US central bank's April meeting pointed to a possible rate hike in the coming months. On the positive side, expectations on the possibility of the inclusion of A shares in the MSCI Emerging Markets Index rose after the two Mainland exchanges issued a guideline in the evening of 27 May on trade suspension and resumption for listed stocks. Both Northbound trading under Stock Connect and RQFII A share ETFs saw net capital inflows demonstrating growing offshore interest in A shares. A shares rose significantly on 31 May, with the CES A80 up 3 per cent (chart 1), the largest single-day gain in nearly three months. The rally ended a period of trading in a narrow range. Financial brokers and consumption stocks led the surge.

Table 1	Index Point	Monthly Return	Volatility	Risk-adjusted Return
CES G10	3,275.01	1.99%	6.00%	0.33
FTSE A50	9,670.95	1.06%	3.92%	0.27
CES 120	4,654.90	0.72%	3.70%	0.19
CES A80	5,608.35	0.59%	4.24%	0.14
CSI 300	3,169.56	0.41%	5.29%	0.08
CES 300	3,345.12	0.22%	3.86%	0.06
SZSE Component	10,159.93	0.18%	7.61%	0.02
CES 280	5,519.13	-0.12%	5.44%	-0.02
CES HKMI	5,177.76	-0.52%	5.39%	-0.10
SSE Composite	2,916.62	-0.74%	5.87%	-0.13
CES SCHK 100	4,117.22	-1.11%	4.61%	-0.24
HSI	20,815.09	-1.20%	5.07%	-0.24
HSCEI	8,704.90	-2.62%	5.17%	-0.51

Source: CESC and Wind; data as of 31 May 2016

The cross-border CES120 rose 0.7 per cent, outperforming peer indices. The CSI 300 rose 0.4 per cent while the Shanghai Composite Index and the Hang Seng Index fell 0.7 per cent and 1.2 per cent respectively.

The CES Gaming Index futures contract is one of the seven sector futures contracts that were listed on HKEX on 9 May. The CES Gaming Index rose almost 2 per cent in May

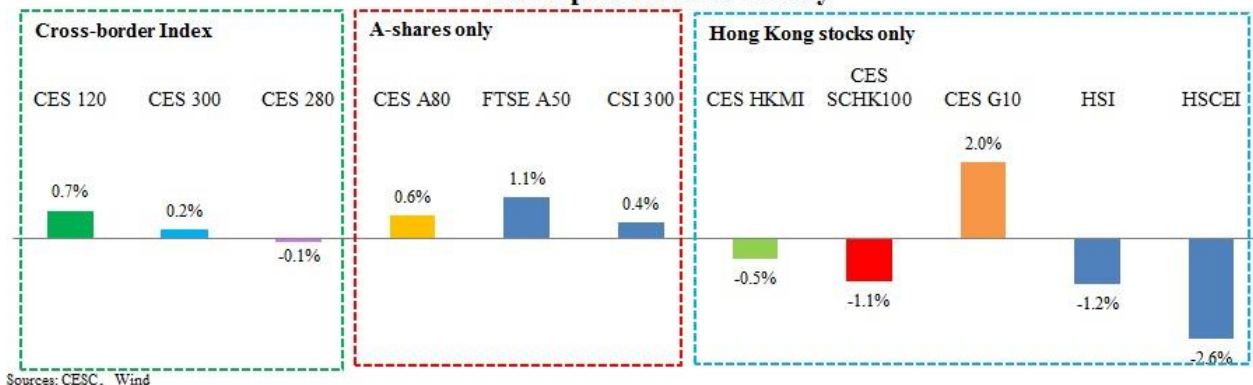
(chart 2), beating broad gauges of Mainland and Hong Kong stocks. According to data released by Macau’s Statistics and Census Service in May, the number of overnight visitors to Macau increased 5.6 per cent year on year in April. The outlook on the mass market of the Macau gaming industry improved. Wynn Macau (1128.HK) and Sands China (1928.HK), both heavily weighted stocks on the CES Gaming Index, led the index’s surge by rising 10 per cent and 7 per cent in the month. Wynn Macau’s latest quarterly results announced in May showed its mass market gaming gross profit grew 8 per cent in the first quarter from the previous quarter, far exceeding the industry average (2 per cent).

Chart 1 Performance & Trading Volume of CES A80



Chart 2

Index performance in May



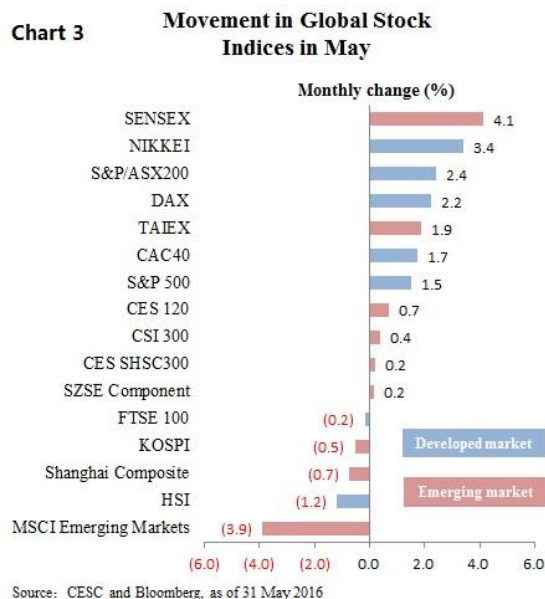
2. Key stock indices’ movements

In May, some members of the US Federal Reserve (Fed), the country’s central bank, expressed support for an interest rate hike in June and July. At the end of the month, Fed Chair Janet Yellen said a modest rate hike may be appropriate in the coming months if the US economy continues to strengthen. The US dollar index rose 3 per cent while gold prices retreated 6 per cent, reflecting rising expectations of a US rate hike.

As May is traditionally a month to close positions, key markets were generally suppressed in the first half of the month, but they rebounded rapidly at month-end, recovering losses or surpassing

prior levels. Some developed markets performed well, posting rises of 1.5 to 3.4 percent. Among emerging markets, India had the best performance, up 4.1 per cent, while other markets saw varied movements (chart 3).

Weighed down by Eastern Europe and Latin America, the MSCI Emerging Markets Index plunged 3.9 per cent in May. The Emerging Markets Eastern Europe Index and the Emerging Markets Latin America Index plummeted 6.4 per cent and 11 per cent. The Emerging Markets Asia Index fell slightly, losing 1.4 per cent.



3. A share-related activities offshore

Stock Connect’s Southbound quota looks set to be exhausted in the third quarter

Some overseas investors have been actively investing in A shares through the RQFII and Stock Connect programs. HKEX data shows net inflow into A shares under Stock Connect in May amounted to RMB5.2 billion. The CSOP A50 ETF saw approximately RMB460 million in net subscriptions during the month. While A shares were chased by foreigners, Hong Kong stocks were popular with Mainlanders. According to Stock Connect data, net buying of Hong Kong stocks, mainly China-concept stocks, by Mainland investors reached RMB23 billion in May, reflecting strong Mainland interest in Hong Kong equities.

At present, 62 per cent of the Stock Connect quota for Southbound trading has been used up. The available quota now stands at about RMB95 billion. If the current trend continues, it is expected the Southbound quota will be completely exhausted in the third quarter this year.

A shares continue to trade at a high premium to H shares

Recent overseas interest in A shares has been attributed to expectations of greater fund allocations to A shares by offshore entities after the inclusion of A shares in key MSCI indices. At the end of May, the Hang Seng China AH Premium Index, which covers major AH shares, showed A shares were valued 35 per cent higher than H shares. If A shares are included in MSCI’s key indices, investors may sell H shares to buy A shares, widening the AH share price difference.

It is noteworthy that even if A shares are included in MSCI’s key indices, changes will not take effect until 12 months after the announcement in mid-June, meaning there will be sufficient time for the

market to digest the news. It therefore remains uncertain whether the AH share price gap will widen due to increased demand for A shares after MSCI's decision or narrow because H shares are cheaper.

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