

# CESC Index Report for October



China Exchanges Services Co Ltd (CESC)



## Highlights

- In October, the manufacturing PMI in China hit its highest level since July 2014. CES A80 surged 2.7 per cent.
- Hong Kong stocks lagged behind Mainland A shares. CES SCHK100 plunged 1.5 per cent.
- CES G10 had a cumulative surge of 20 per cent in the first 10 months of this year, reflecting the fact that non-gaming activities of Macau casinos have performed well.
- The connectivity test for Shenzhen Connect has been completed.
- Hong Kong-registered mutual funds marketed on the Mainland beat Mainland funds aimed at Hong Kong investors in attracting capital.
- RMB liquidity in Hong Kong, the leading offshore centre for the currency, increased from September
- Open interest in the offshore Mainland A-share index futures traded in Singapore rose 41 per cent year-on-year

## 1. Performance of CESC Indices

Benchmark indices rebounded during the month. With the property sector under adjustment, corporate profits up and a key economic indicator on the rise, risk appetite for A shares increased. A number of Mainland A-share companies announced Q3 results in October. According to the data from Wind, overall profits of A-share companies rose 18.1 per cent year-on-year. The profits of the non-finance sector increased 48.5 per cent. In October, the manufacturing PMI in China hit 51.2, hit its highest level since July 2014. **CES A80 surged 2.7 per cent** (see table 1).

**Hong Kong shares lagged behind Mainland A shares,** suggesting favourable factors such as Shenzhen Connect and the participation of insurance funds seemed were priced in already. Affected by a new six-year low in the RMB's exchange rate, **CES SCHK100 plunged 1.5 per cent.** CES HKMI, which represents Mainland stocks in the Hong Kong market, dropped 2.6 per cent, led by CES SCHK100 heavyweight stocks Tencent

(accounting for 11 per cent) and AIA (accounting for 8 per cent). AIA saw a significant fall in the month as Union pay for Mainlanders' insurance purchase in Hong Kong came under tighter regulation.

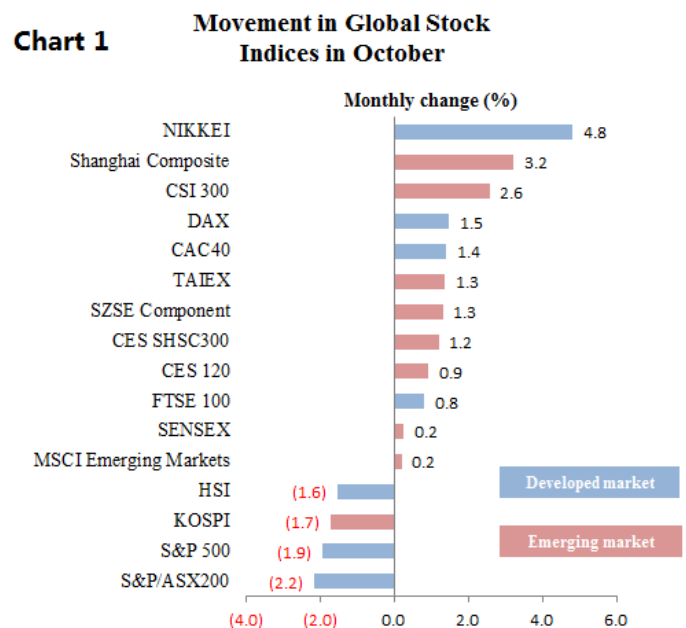
**CES G10 fell slightly, losing 0.3 per cent, amid a general slide in Hong Kong stocks in October. The index had a cumulative surge of 20 per cent during the first 10 months of the year, reflecting the fact that non-gaming activities of Macau casinos have performed well.** Non-gaming elements constitute 95 per cent of the Parisian project which was opened in September by heavyweight constituent Sands China. Analysts believe hotel and leisure entertainment will become a new driver for the Macau gaming business.

## 2. Other stock indices' movements

Global funds flowed into emerging markets in October. Except for Korea, all other major emerging markets saw gains, with Mainland A shares performing exceptionally well. The Shanghai Composite Index surged 3.2 per cent (see figure 1). Among developed stock markets, Japan and Europe outperformed the US. In October, the Japanese yen depreciated 3.4 per cent against the US dollar, benefitting Japanese exports stocks. The UK's Q3 GDP was better than expected. Growth was 2.3 per cent year-on-year, indicating the Brexit vote is having little impact for the time being. Germany and

<b>Table 1</b>	Index Point	Monthly Return	Volatility	Risk-adjusted Return
SSE Composite	3,100.49	3.19%	2.52%	1.26
CES A80	5,884.46	2.69%	2.30%	1.17
FTSE A50	9,851.94	2.64%	2.33%	1.13
CSI 300	3,336.28	2.55%	2.40%	1.06
CES 280	5,924.57	1.87%	2.65%	0.71
SZSE Component	10,704.30	1.29%	2.81%	0.46
CES 300	3,653.55	1.18%	2.88%	0.41
CES 120	5,051.91	0.91%	2.93%	0.31
HSCEI	9,559.39	-0.24%	5.29%	-0.04
CES G10	3,703.93	-0.31%	7.17%	-0.04
CES SCHK 100	4,485.07	-1.46%	3.69%	-0.39
HSI	22,934.54	-1.56%	4.18%	-0.37
CES HKMI	5,688.48	-2.57%	4.58%	-0.56

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



Source: CESC and Bloomberg, as of 31 October 2016

France had a strong recovery, with both seeing their manufacturing PMI hit a three-year high in October.

The US's Q3 GDP announced in October showed growth of 2.9 per cent. Expectations of a rate hike by the US Federal Reserve increased. The US dollar index broke through 98 and reached a new high since the first quarter. With differences among OPEC members, WTI crude oil plunged below US\$50 once again. Furthermore, investors preferred caution ahead of the US presidential election. The S&P 500 fell 1.9 per cent. The CBOE Volatility Index rose 31 per cent in the last week of the month.

### **3. Offshore A-share related activities**

#### **The connectivity test for Shenzhen Connect has been completed.**

The connectivity test for Shenzhen Connect on 22 and 23 October has been completed. Initially, Northbound trading in Shenzhen stocks will be subject to a daily quota of RMB13 billion. Shenzhen stocks eligible for trading account for 70 per cent of the Shenzhen market cap. They include emerging industry stocks that are supported by government policies and have good growth potential.

As Asia's SiliconValley, Shenzhen has been commended as China's most innovative city for three straight years by China Institute of City Competitiveness. Many companies listed in Shenzhen are small and medium-sized start-ups in industries ranging from IT, pharmaceuticals and biotechnology to high-end manufacturing and media. They reflect the transformation in the Mainland economy as the combination of industries changes.

#### **Hong Kong-registered mutual funds marketed on the Mainland beat Mainland funds aimed at Hong Kong investors in attracting capital.**

As more than half of QDIIs investing overseas have stopped accepting applications for their units, Mainland investors have resorted to investing in Hong Kong-registered funds under the mutual fund recognition programme. According to SAFE, as of the end of September, net sales of Hong Kong- registered funds on the Mainland had reached RMB8.39 billion, whereas net sales in Hong Kong of Mainland-registered funds were only RMB96.82 million. The figures reflected strong interest in southbound investment.

While the SFC has approved 43 Mainland-registered organisations to sell investment funds in Hong Kong, the CSRC has only approved 6 Hong Kong-registered funds and has not granted any new approvals since February. Nevertheless, sales of the six Hong Kong funds have been better than the sales of the Mainland funds.

#### **RMB liquidity in Hong Kong, the leading offshore centre for the currency, increased from September**

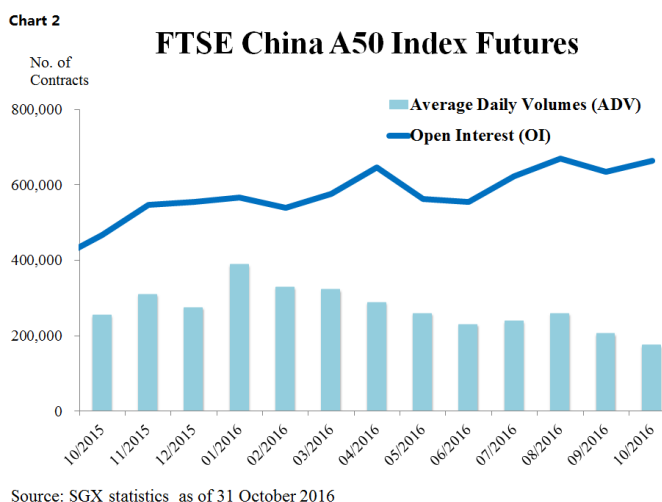
Since early October, RMB has depreciated more than 1.5 per cent against the US dollar. The spot rate touched a new six-year low of 6.78 at one point. Due to a fall in the deposit rate for RMB funds and anticipation of depreciation in the currency, Hong Kong's RMB liquidity pool at the end of September was RMB743.5 billion, up 1 per cent from the previous month but still down one-third from its peak in Dec 2014.

Hong Kong has the world's largest offshore RMB liquidity pool. With the mutual fund recognition programme, Shanghai Connect and the impending Shenzhen Connect, Hong Kong is set to become the dominant offshore market where Mainland investors allocate their assets.

### **Open interest in the offshore Mainland A-share index futures traded in Singapore rose 41 per cent year-on-year**

Open interest in Singapore's FTSE A50 Index futures ended the month with a record high of 663,000 board lots (see figure 2), or a notional value of RMB44.2 billion, up 41 per cent year-on-year.

In contrast, due to restrictions on trading in stock index futures on the Mainland, the average daily turnover of futures on the CSI 300 Index was around 13,000 board lots in the same period. Open interest was 42,000 board lots, or a nominal value of RMB42.4 billion.



**China Exchanges Services Company Limited**  
 Suites 906-908, 9/F, Two Exchange Square, 8 Connaught Place, Central, Hong Kong  
<http://www.cesc.com>

**Prepared by: Index Development**  
 Tel: +852 2803 8200  
 Email: [cescinfo@cesc.com](mailto:cescinfo@cesc.com)

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