

CESC Index Report for October



China Exchanges Services Co Ltd (CESC)



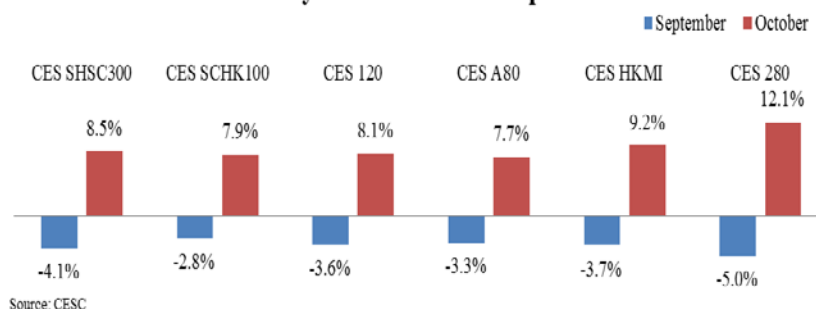
Highlights

- CES SHSC300 and CES 120 had better risk adjusted rates of return than their peers.
- The world's stock markets generally went up in October, with SZSE Index and Shanghai Composite Index rebounding 17.4 per cent and 10.8 per cent respectively. Major markets in the US and Europe rose 5 – 12 per cent on average.
- Hong Kong-listed A-share ETFs saw notable net capital inflows.
- Rise in open interest of Singapore's FTSE China A50 Futures reflected a revival of A-share risk aversion offshore.
- CES 120 Index Futures are a good indicator of the performance of China-related stocks listed in Shanghai, Shenzhen and Hong Kong.
- CNH deposits fell 8.5 per cent in September, as pressure for more RMB depreciation persisted.

1. Performance of CESC Indices

After hovering at low levels in September, A shares and Hong Kong stocks rebounded slightly in early October. On 23 October, China's central bank announced lower RMB benchmark lending and deposit rates as well as a lower reserve requirement ratio for financial institutions. It was seen as a sign that China's economy remains in a downward trend. As a result, market sentiment remained cautious in late October, with stock markets in both the Mainland and Hong Kong

Chart 1 Monthly Performance Comparison



retreating mildly. Throughout October, CES 280, which consists of large and mid-cap Mainland enterprises listed in both markets, outperformed other major large-cap indices, with a gain of 12.1 per cent (Chart 1). In terms of risk adjusted rate of return, CES SHSC 300 and CES 120 beat other benchmark indices in both the Mainland and Hong Kong markets in October (Chart 2).

Compared with FTSE A50, CES SHSC 300 and CES 120 have a more balanced industry mix. For example, the information technology sector has weightings of 6.6 per cent and 8.6 per cent respectively in CES SHSC 300 and CES 120, compared to a weighting of 0.1 per cent in FTSE A50. This sector had returns of 13 – 15 per cent in CES SHSC 300 and CES 120 in October, the highest among all industries covered in both indices. The financial sector has a weighting of 52 per cent in both indices, compared to its weighting of 63 per cent in FTSE A50. A more balanced industry mix lowers the risk of over-concentration in certain industries.

Stocks with high weightings in CES SHSC 300 and CES 120 encompass leading companies from various industries. For example, over the past three years, leading private IT company Tencent (700HK) surged 354 per cent; leading military enterprise Avic Aviation Engine (600893SH) surged 446 per cent and HKEx (388HK) surged 258 per cent. Other leading stocks include those in the gaming and telecommunication industries.

2. Global stock index movements

Global economic developments were mixed in October. The Caixin China Manufacturing PMI reading in October rebounded to 48.3 from 47.2 in September, although it was the eighth straight month the PMI signalled contraction. In October, manufacturing in the US and major countries in the Eurozone were expanding. US interest rate remained the same, easing pressure on emerging market currencies such as the RMB. The outlook for the world's stock markets, especially the emerging markets, is positive.

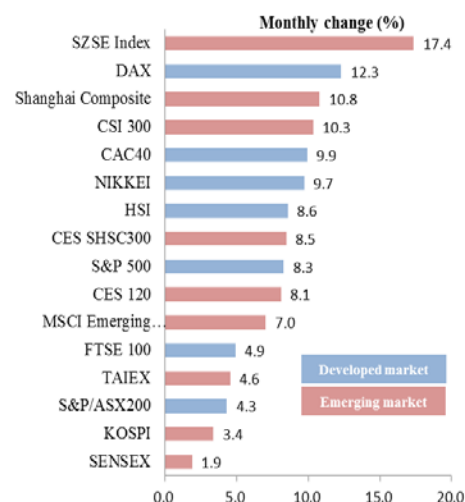
Stock markets generally rose in October (Chart 3).

Chart 2

	Index Point	Monthly Change	Volatility	Risk-adjusted Return
SZSE Composite	2,014.86	15.60%	10.25%	1.52
CES 280	6,495.15	12.11%	7.78%	1.56
SSE Composite	3,382.56	10.80%	6.63%	1.63
HSCEI	10,396.58	10.54%	7.03%	1.50
CSI 300	3,534.08	10.34%	6.67%	1.55
CES HKMI	5,657.42	9.17%	5.76%	1.59
HSI	22,640.04	8.60%	5.68%	1.52
CES SHSC 300	3,643.33	8.46%	4.61%	1.84
CES 120	4,897.19	8.09%	4.62%	1.75
CES SCHK 100	4,393.68	7.94%	4.68%	1.70
FTSE A50	10,048.23	7.71%	4.87%	1.58
CES A80	5,904.39	7.68%	4.90%	1.57

Source: CESC and Bloomberg; monthly statistics as of 31 Oct 2015

Chart 3 Movement in Global Stock Indices in October



Source: CESC and Bloomberg, as of 31 October 2015

Major US and European markets gained 5-12 per cent. Germany's DAX Index jumped 12.3 per cent and the S&P 500 Index was up 8.3 per cent. Emerging markets led by the Mainland had unexpected performances, with the SZSE Index climbing 17.4 per cent and the Shanghai Composite Index rallying 10.8 per cent. Those two outperformed most of other markets, reflecting a restoration of confidence among A-share investors. CES SHSC300, which represents stocks eligible for trading under Shanghai-Hong Kong Stock Connect, surged 8.5 per cent.

Stock markets in other parts of the Asia Pacific region also rebounded in October. Japan and Hong Kong's stock markets performed better, with the NIKKEI Index up more than 9.7 per cent and the HSI up 8.6 per cent, following the same trend as in the A-share market. Other good performers in October included Korea, Taiwan and Indonesia which had gains of 2-5 per cent.

3. Offshore A-share product movements

i. Hong Kong-listed A-share ETFs saw notable net capital inflows.

As the A-share market picked up steadily, several Hong Kong-listed physical A-share ETFs attracted a lot of buying interest. CSOP FTSE China A50 ETF, ChinaAMC CSI 300 Index ETF and E Fund CSI 100 A-Share Index ETF, which use RQFII¹ investment quotas, had net capital inflows of \$2.9 billion, \$1.3 billion and \$1.1 billion respectively.

Despite an increase in size, most A-share ETFs were still traded at a discount (Table 1), reflecting foreigners' mixed attitudes towards the recovery of the A-share market.

Table 1

Certain A-shares ETFs listed in Hong Kong

A-shares ETFs	Underlying Index	Mainland stocks covered	October's Capital Inflow/Outflow	Premium / Discount (%)
X iShares A50	FTSE A50	A-shares	No Change	-6.9
CSOP A50	FTSE A50	A-shares	+ RMB 2.9 bn.	-0.2
CAM CSI 300	CSI 300	A-shares	+ RMB 1.3 bn.	-1.2
X WISE CSI 300	CSI 300	A-shares	+ RMB 0.3 bn.	-7.9
E Fund CSI 100	CSI 100	A-shares	+ RMB 1.1 bn.	-0.5
CAM CES A80	CES A80	A-shares	No Change	-1.4
CSOP CES A80	CES A80	A-shares	No Change	-0.4
E FUND CES 120	CES 120	A-shares, H-shares, red chips, P chips	No Change	-1.3

Source: HKEx statistics as of 31 October 2015

¹ RMB Qualified Foreign Institutional Investor

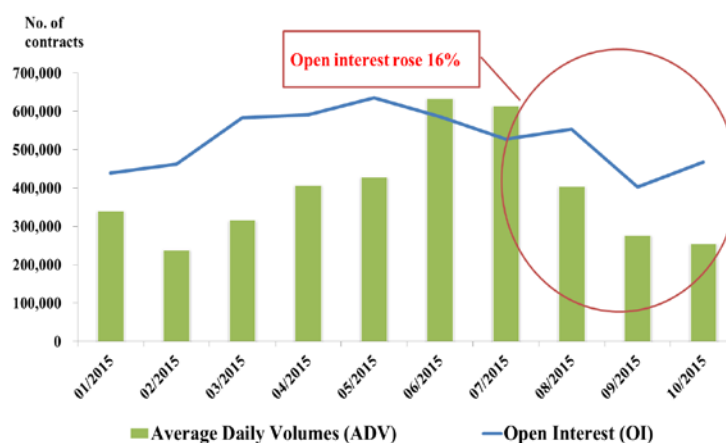
ii. **Rise in open interest of Singapore' s FTSE China A50 Futures reflected a revival of A-share risk aversion offshore.**

An indicator of offshore demand for A-share risk aversion, trading in Singapore's FTSE China A50 stock index futures dropped in October to an eight-month low of 250,000 contracts, equivalent to a notional value of RMB16.2 billion. Nevertheless, open interest increased by 16 per cent to more than 460,000 contracts, an equivalent of a notional

value of \$30 billion. This showed offshore demand for A-share exposure for risk management purposes (Chart 4) picked up.

Chart 4

SGX FTSE China A50 Index Futures



Source: SGX statistics as of 31 October 2015

iii. **CES 120 Index Futures are a good indicator of the performance of China-related stocks listed in Shanghai, Shenzhen and Hong Kong.**

In the past five years, the correlation coefficients between CSI 300 Index and FTSE A50 Index; and between CSI 300 Index and CES 120 Index were 0.94 and 0.88 respectively. For the same period, the coefficient between CSI 300 Index and H-shares Index Futures was merely 0.58. As CES 120 Index covers stocks in both A-share and Hong Kong markets, it's not surprising its correlation with H-share Index Futures was better. That shows CES 120 is a good indicator of the performance of China-related stocks in Shanghai, Shenzhen and Hong Kong (Table 2).

Correlation Coefficients between China-Concept Indices

Table 2

	CES 120	CSI 300	FTSE A50	HSCEI
CES 120	1.00	0.88	0.90	0.86
CSI 300	0.88	1.00	0.94	0.58
FTSE A50	0.90	0.94	1.00	0.59
HSCEI	0.86	0.58	0.59	1.00

Source: Wind; Oct 2010 - Sep 2015

iv. **Interest in Shanghai Connect remained relatively low.**

In October, the average daily volume of Northbound trading under Shanghai-Hong Kong Stock Connect was stable at RMB4.7 billion, but a net outflow of \$4 billion (Table 3) indicated less interest from overseas investors in trading A shares. The average daily volume of Southbound trading was also stable, as it turned out to be \$1.7 billion, but there was also a net capital outflow, which totalled \$1.4 billion. Hong Kong-listed Mainland stocks remained the most actively traded stocks in Southbound trading.

At the end of October, the aggregate quota balance of Northbound trading was RMB162.8 billion, representing 54 per cent of the RMB 300 billion aggregate quota.

The aggregate quota balance of Southbound trading was \$160.9 billion, representing 64 per cent of the \$250 billion aggregate quota.

Table 3

	Average Daily Turnover*	% of the relevant market's total turnover	Quota balance and % of aggregate quota	Monthly net inflows / (months net outflows)
Northbound Trading	RMB 4.7 billion	0.6%	RMB 162.8 billion 54%	(RMB 4.0 billion)
Southbound Trading	HKD 1.7 billion	1.1%	RMB 160.9 billion 64%	(RMB 1.4 billion)

1. 1/10/2015 - 31/10/2015 * buy and sell
2. Northbound Trading Link's aggregate quota: RMB300 billion
3. Southbound Trading Link's aggregate quota: RMB250 billion

Sources: SSE, HKEx

v. **CNH deposits dropped by 8.5 per cent in September as pressure for more RMB depreciation persisted.**

According to Hong Kong Monetary Authority data, CNH deposits dropped by 8.5 per cent to RMB895.4 billion in September (Table 4), reflecting lingering concerns about further devaluation of the RMB.

A series of measures launched by China's central bank in late October to improve the forex market successfully eased the pressure on the RMB devaluation. At the end of October, the CNH-USD exchange rate saw a month-on-month increase of 417 basis points to 6.3219, a new high since the forex reform in August. The mid-point reference rate of CNY against USD was 6.3495.

It is expected the RMB will be included in the IMF's SDRs and that will encourage greater use of the currency among countries for reserve and investment purposes and boost investors' confidence in the Mainland stock market.

Table 4

Balance of CNH deposits

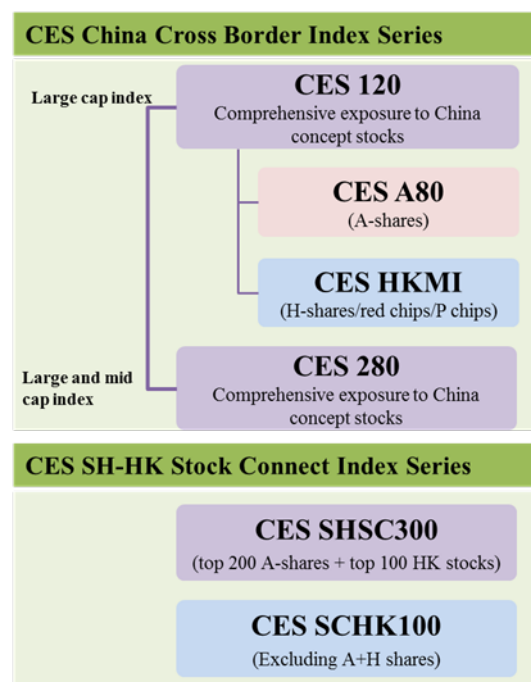
Month (2015)	Balance of deposits (RMB billion)	Monthly change (%)
September	895.4	-8.5
August	979.0	-1.5
July	994.1	0.1
June	992.9	2.1
May	972.4	1.8
April	955.2	0.3
March	952.0	-2.2
February	973.0	-0.9
January	981.4	-2.2

Source: HKMA as of 31 October 2015

About CESC

CESC's CES 120 is the first index to cover China stocks from Shanghai, Shenzhen and Hong Kong. It has 80 Shanghai and Shenzhen-listed A shares and 40 H shares, red chips and P chips listed in Hong Kong. CES 280 is an index covering large and mid-cap stocks, providing a more comprehensive choice for investments on the Mainland.

CES SHSC300 is the first index with a focus on the Shanghai-Hong Kong Stock Connect scheme. It consists of the 200 most representative stocks of China and 100 big Chinese enterprises listed in Hong Kong. It offers domestic and offshore investors a convenient way to invest in both the Shanghai and Hong Kong markets.



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