

CESC Index Report for September



China Exchanges Services Co Ltd (CESC)

19 October 2015

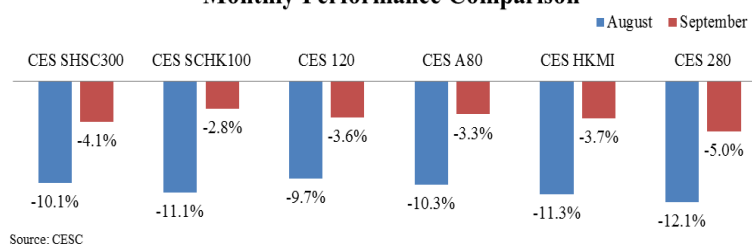
Highlights

- The valuation and dividend yield of CES 120 outperformed indices tracking A shares by a wide margin. CES A80 demonstrated strong resilience. CES SCHK100 recorded the best risk adjusted rate of return.
- Impacted by increasing concerns about the economic outlook, global stock markets generally trended downward.
- The open interest of Singapore's A50 futures decreased significantly, reflecting receding overseas' demand for A share risk aversion.
- In view of the significant decline in the trading volume and open interest of domestic stock index futures, the CME launched FTSE China 50 Index Futures.
- The asset size of Hong Kong-listed A-share ETFs remained stable, reflecting foreign capital's cautious attitude towards A shares.
- Recent depreciation of the RMB slightly reduced the size of RMB deposits in Hong Kong in September.

1. Performance of CESC Indices

Having fluctuated sharply in August, Mainland and Hong Kong stocks saw significantly less downward movement in mid-September (Chart 1). CES 120 Index, representing China stocks in Hong Kong, Shanghai and Shenzhen, outperformed indices which tracked A shares only and resembled the performance of Hong Kong shares this month. Despite the lingering market concerns about China's economic outlook, the world's second largest economy, maintained a growth rate that exceeded that of developed markets. CES 120, with a dividend yield of 3.2 per cent and a P/E ratio of merely 9.5, is attractive to long term investors who are interested in China.

Chart 1 Monthly Performance Comparison



Source: CESC

CESC Indices

	Latest Index Level	Change in past month	P/E ratio
CES SHSC300	3,359.02	-4.07%	10.23
CES SCHK100	4,070.33	-2.77%	10.23
CES 120 Index	4,530.49	-3.64%	9.47
CES A80 Index	5,483.10	-3.31%	10.18
CES HKMI	5,182.26	-3.72%	8.35
CES 280 Index	5,793.57	-5.00%	20.32

Data source: CESC, as of 30 September 2015

With the Central Government's efforts to clean up margin lending, curb short selling and investigate market irregularities in September, the A-share market rebounded on 22 September. Nevertheless, the Caixin China Manufacturing PMI reading released on 23 September was a new low in six-and-a-half years. The financial market reacted negatively. The Shanghai Composite Index dropped over 2 per cent that day. In terms of risk adjusted rate of return, CES A80 Index beat all other major A-share indices, demonstrating strong resistance to downward pressure. It performed far better than FTSE A50, a similar index of large cap stocks (chart 2).

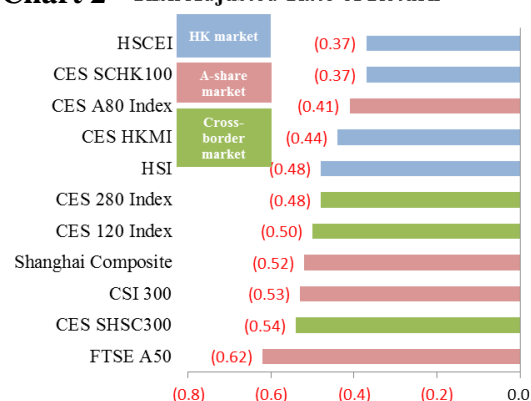
The Hong Kong market saw large capital inflow in September. Bank balances reached \$344.3 billion on 23 September. Hong Kong stocks also performed better than A shares. In particular, CES SCHK100, representing blue chips eligible for Southbound trading through Stock Connect, had a risk adjusted rate of return of -0.37, better than the Hang Seng Index's -0.48.

2. Global Stock Index Trends

In September, global economic data was weak, and the global economic outlook remained a concern, although pressure on emerging market stock and currencies, such as the RMB, eased after the US decided against a rate hike. The Caixin China Manufacturing PMI for September edged down to 47.2¹, representing a contraction for the seventh straight month. The Caixin China Services PMI also slipped. It fell to a 14-month low of 50.5, indicating the downward pressure on China's economy lingered.

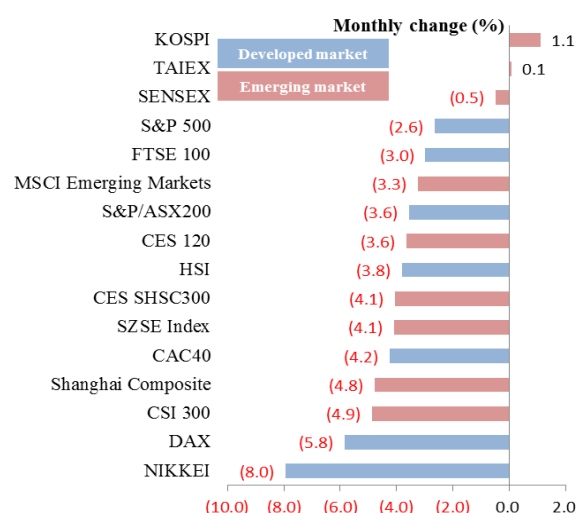
Amid uncertainties about the economic outlook, global stock markets generally trended downward in September (Chart 3). Stock markets in the US and Europe dropped between 2.6 and 5.8 per cent. Hong Kong stocks dropped 3.8 per cent. The worst-performing large markets were Japan and Germany. With latest price indices suggesting Japan's economy may be on the brink of deflation again, Tokyo's stock market plummeted 8 per cent. Affected by Volkswagen's emissions scandal, the German stock market declined over 5.8 per cent.

Chart 2 Risk Adjusted Rate of Return



Source: CESC and Bloomberg, as of 30 September 2015

Chart 3 Movement in Global Stock Indices in September



Source: CESC and Bloomberg, as of 30 September 2015

¹ A PMI of over 50 represents an expansion of the sector while a reading under 50 represents a contraction.

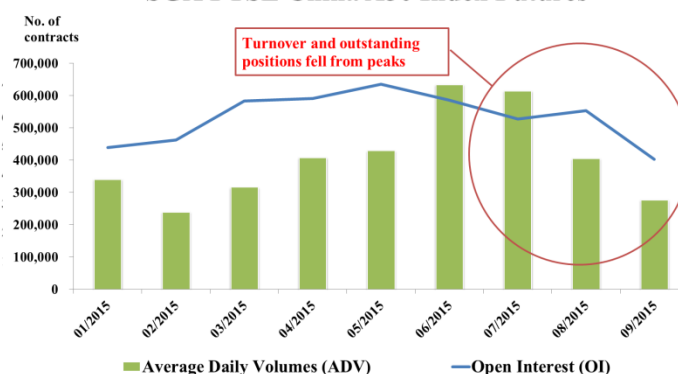
In September, the best performing large markets were Korea, Taiwan and India, with Korea up 1.1 per cent and Taiwan and India remaining unchanged. China's stock market was still at an adjustment stage. Major A-share indices fell 3.6 per cent to 4.9 per cent. The CES 120 Index had the best defensive performance, as it was down 3.6 per cent. The Shanghai Composite Index and CSI 300 Index dropped nearly 5 per cent.

3. Offshore A-share market movement

As the world's only offshore futures product tracking the China A-share market, Singapore Exchange's FTSE China A50 futures could be indicative of offshore demand for A-share risk aversion. In September, trading in A50 futures fell to a four-month low of 280,000 contracts, with average daily volume, or ADV, (notional) decreasing to RMB16.7 billion, and outstanding positions falling by 27 per cent from the previous month to 400,000 contracts. These suggested a retreat in offshore demand for A-share exposure for risk management purposes (Chart 4).

Chart 4

SGX FTSE China A50 Index Futures

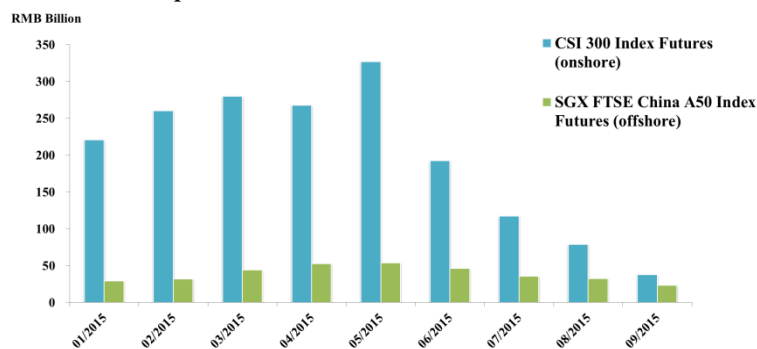


Source: SGX statistics as of 30 September 2015

CSI 300 index futures had an ADV of 73,000 contracts for September, a slump of 95 per cent from 1.581 million contracts for the first half. Outstanding positions in CSI 300 index futures stood at RMB38 billion (nominal), marginally higher than the RMB24 billion of Singapore's A50 futures (Chart 5).

Chart 5

Open Interests of A-shares Index Futures



Source: Cffex & SGX statistics as of 30 September 2015

While the Mainland imposed restrictions on stock index futures, overseas exchanges have been proactive in their development of A-share futures. CME has announced it will launch futures on the FTSE China 50 index in the fourth quarter of this year. The index consists of 50 of the largest and most liquid Chinese stocks (H shares, red chips and P chips) listed and trading on HKEx.

i. **Little change in asset size of HK-listed A share ETFs**

In September, total assets of offshore A-share ETFs listed in Hong Kong fell by about 1 per cent from August, to RMB65.8 billion, although A-share indices had fallen by almost 5 per cent on average. Some A-share ETFs saw net subscriptions. The number of units of iShares FTSE A50 China Index ETF and CSOP FTSE China A50 ETF, the largest A-share ETFs by assets under management, or AUM, increased by 0.4 per cent and 13 per cent respectively, indicating offshore investors were buying A shares on lows.

Most A-share ETFs were trading at discounts, while E Fund CES China 120 Index ETF, whose underlying consists of A shares, H shares, red chips and P chips, was trading at a slight premium (Table 1).

ii. **Foreign funds were cautious about A shares**

In September, the Northbound Trading Link of Stock Connect had an average daily turnover (ADT) of RMB4.5 billion, a 21 per cent fall from the previous month, and a monthly net outflow of RMB2 billion (Table 2), indicating offshore funds were cautious about A shares. For the Southbound Trading Link, ADT shrank to \$1.7 billion, a 30 per cent drop month on month but with a monthly net inflow of RMB1.2 billion.

As of 30 September, the Northbound Trading Link had a quota balance of RMB158.8 billion, 53 per cent of an aggregate of RMB300 billion, while the Southbound Trading Link had RMB159.5 billion, 64 per cent of an aggregate of RMB250 billion.

iii. **CNH deposits shrank slightly in September on devaluation of the RMB**

The Hong Kong Monetary Authority's latest data shows there was a 1.5 per cent month-on-month decrease in

Table 1

Certain A-shares ETFs listed in Hong Kong

A-shares ETFs	Underlying Index	Mainland stocks covered	YTD (%)	Premium / Discount (%)
X iShares A50	FTSE A50	A-shares	-21.3	-7.6
CSOP A50	FTSE A50	A-shares	-17.7	-0.9
CAM CSI 300	CSI 300	A-shares	-9.2	-1.2
X WISE CSI 300	CSI 300	A-shares	-10.9	-8.3
E Fund CSI 100	CSI 100	A-shares	-13.3	-1.5
CAM CES A80	CES A80	A-shares	-15.8	-2.6
CSOP CES A80	CES A80	A-shares	-17.1	-1.3
E FUND CES 120	CES 120	A-shares, H-shares, red chips, P chips	-17.2	1.2

Source: HKEx statistics as of 30 September 2015

Table 2

	Average Daily Turnover*	% of the relevant market's total turnover	Quota balance and % of aggregate quota	Monthly net inflows / (months net outflows)
Northbound Trading Link	RMB 4.5 billion	0.8%	RMB 158.8 billion 53%	(RMB 2.0 billion)
Southbound Trading Link	HKD 1.7 billion	1.0%	RMB 159.5 billion 64%	RMB 1.2 billion

1. 1/9/2015 - 30/9/2015

* buy and sell

2. Northbound Trading Link's aggregate quota: RMB300 billion

3. Southbound Trading Link's aggregate quota: RMB250 billion

Sources: SSE, HKEx

Table 3

Balance of CNH deposits

Month (2015)	Balance of deposits (RMB billion)	Monthly change (%)
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

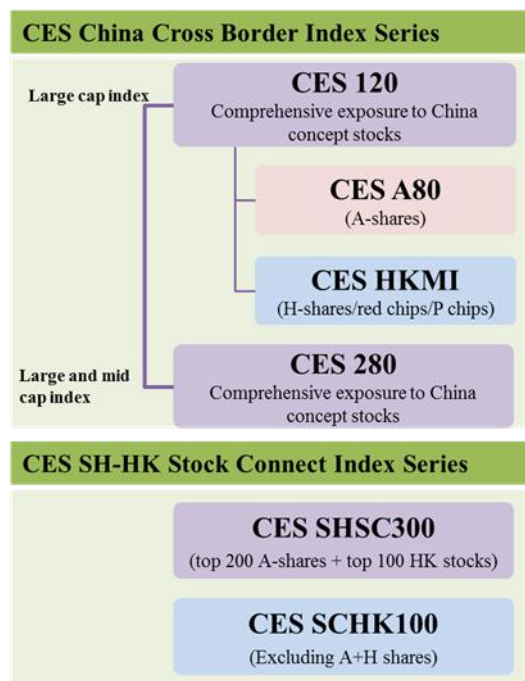
Source: HKMA as of 30 September 2015

CNH deposits in August to RMB979 billion (Table 3), the first retreat in five months. It is widely believed the retreat in CNH deposits was caused by the RMB's devaluation.

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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