CESC Index Report for June

中華交易服務
CHINA EXCHANGES SERVICES

China Exchanges Services Co Ltd (CESC)

Highlights

- CES HKMI outperformed CES A80
- FTSE 100 Index rose 4.4 per cent after Brexit vote; Japanese stocks slid 9.6 per cent as Japanese yen appreciated
- Shanghai-Hong Kong Stock Connect's Southbound quota was 77 per cent used up at the end of June
- MSCI delayed the inclusion of A shares in its international indices, citing concerns about the Mainland's need to approve A-share financial products
- An issuer listed Hong Kong's first leveraged and inverse (L&I) products, which can only track overseas stock market indices in this initial stage; there are no plans at this time to allow issuers to offer products on A-share indices

1. Performance of CESC indices

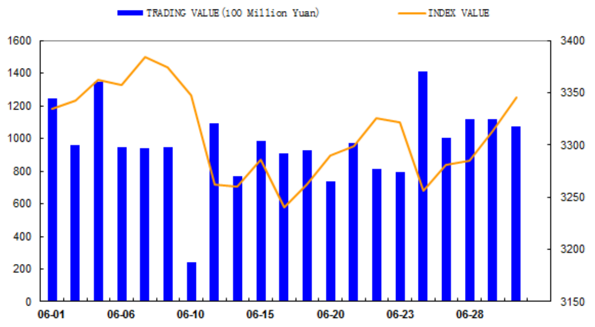
In June, major benchmark indices in the Mainland and Hong Kong markets saw some ups and downs. The movements of CES HKMI, reflecting large-cap Hong Kong-listed Mainland enterprises, and CES A80, representing large-cap A shares, diverged. The Mainland market recorded a 0.7 per cent positive gain with the Hong Kong market was down 0.9 per cent (see table 1). In general, the two markets wobbled within a narrow range.

Table 1	Index Point	Monthly Return	Volatility	Risk-adjusted Return
SZSE Component	10,489.99	3.25%	7.89%	0.41
CES HKMI	5,215.81	0.73%	6.08%	0.12
SSE Composite	2,929.61	0.45%	5.88%	0.08
CES 120	4,668.80	0.30%	4.71%	0.06
CES 280	5,532.63	0.24%	6.26%	0.04
HSCEI	8,712.89	0.09%	6.50%	0.01
CES 300	3,345.29	0.01%	5.09%	0.00
HSI	20,794.37	-0.10%	5.97%	-0.02
CSI 300	3,153.92	-0.49%	5.78%	-0.09
CES A80	5,559.85	-0.86%	4.78%	-0.18
CES SCHK 100	4,078.11	-0.95%	6.44%	-0.15
FTSE A50	9,316.31	-3.67%	4.90%	-0.75
CES G10	2,938.64	-10.27%	6.38%	-1.61

Source: CESC and Wind; data as of 30 June 2016

As restrictions on cross-border capital flow have not been fully eased and the effects of the new trading resumption rules are still being observed, MSCI announced in June it would delay inclusion of A shares in its Emerging Markets Index. Mainland and Hong Kong markets came under pressure after the announcement. CES 300 saw increased volatility in mid-June (see chart 1) and fell to 3240. At the end of June, the UK's vote to leave the EU resulted in the markets being hammered once again. CES 300 plunged on the first day of trading post-Brexit vote and rebounded to 3345 a week later on increased expectations of more quantitative easing by key central banks and growing risk appetite.

Chart 1 **Performance & Trading Volume of CES 300 in June**

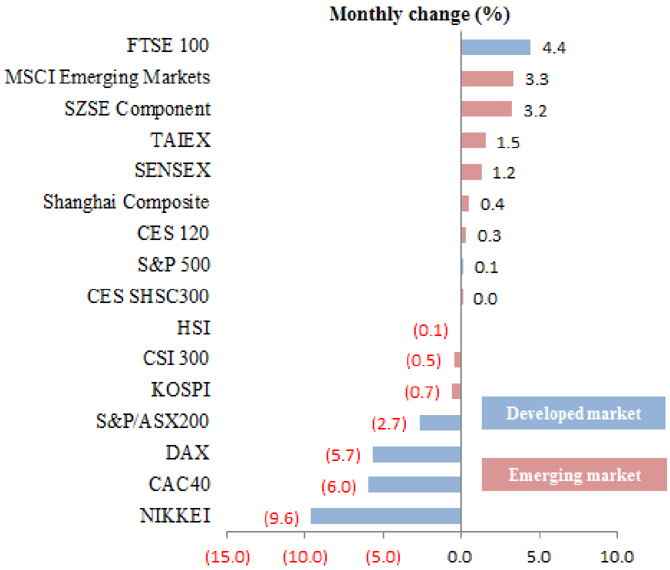


With Shenzhen Connect around the corner, trading under Shanghai Connect became very active in June. Average daily turnover of CES 300 reached RMB96.9 billion and was up 26 per cent year-on-year. The three top performing industries represented in the CES 300 were daily consumables, energy and IT.

2. Other stock indices' movements

The Brexit vote on 23 June sent developed markets plunging. According to Bloomberg data, the British pound tumbled 8 per cent against the US dollar on 24 June, accompanied by a slide of over 3 per cent in the UK's stock market. European stock markets experienced panic sell-offs, with those in Germany and France sinking 6.8 per cent and 8 per cent, Spain and Italy plummeting 12.5 per cent and 11.8 per cent and the US stock market down 3.6 per cent.

Chart 2 **Movement in Global Stock Indices in June**



Source: CESC and Bloomberg, as of 30 June 2016

There was a technical rebound after the Brexit shock. S&P 500 had basically returned to its level before the Brexit vote by the end of June. FTSE 100 surged 4.4 per cent from the start of the month to its end (see Chart 2). Continental European stock markets, another major affected area, fell over 5 per cent, with Ireland, Greece and other PIIGS countries suffering the worst plunges.

Emerging markets in general were less affected. MSCI's Emerging Markets Index recovered from the previous month's lows and had a small gain in June. Emerging Markets Latin America and Emerging Markets Asia both rebounded to levels close to their all-year highs. Emerging Markets Latin America has risen over 20 per cent since the beginning of the year, reflecting an improvement of investor sentiment in emerging markets.

Asian markets, excluding Japan, in general performed steadily with little movement. During the month, the Japanese yen and gold became safe-haven assets, with prices up 7.3 per cent and 8.8 per cent. Sapped by the strengthening yen, Japanese stocks fell 9.6 per cent in June (see Chart 2). They were the worst performers among developed countries under review.

3. A share-related activities offshore

Shanghai-Hong Kong Stock Connect's Southbound quota was 77 per cent used up at the end of June

As seen from the tension on trading quotas, Mainland capital has been flowing into Hong Kong stocks via channels such as the QDII programme and Southbound trading through the Shanghai-Hong Kong Stock Connect scheme. According to HKEX's data, net cash from the Mainland that was invested in Hong Kong stocks totalled RMB37.1 billion in June and was up 70 per cent month-on-month. The stocks targeted by Mainland investors using the Stock Connect scheme in June were mainly Mainland banks such as CCB, ICBC and CITIC Bank, demonstrating Mainlanders' preference for the H-share sector's blue chips with low valuations. In contrast, net buying of A shares through Stock Connect's Northbound trading was RMB2.3 billion in June, far below that for Southbound trading.

The Southbound quota was been 77 per cent used up at the end of June, when it had a balance of around RMB58 billion.

MSCI delayed the inclusion of A shares in its international indices, citing concerns about the Mainland's need to approve A-share financial products

In mid-June, MSCI announced it would delay including A shares into its Emerging Markets Index. Remy Briand, MSCI's managing director and head of research, said in a conference call that Shanghai and Shenzhen exchanges' restrictions on the launching A-share financial products remained unaddressed and may pose risks to MSCI's licensing of index-linked products.

Some anaylsts think MSCI is concerned that products will fall into the scope of pre-approval restrictions upon the inclusion of A shares into its index. Should Shanghai and Shenzhen exchanges not approve MSCI's licensing of related indices for the issue of index derivatives, such as index futures, these products will risk termination, thereby affecting the licensing fees of MSCI.

Market people believe MSCI will continue to exclude A shares from its international indices if it cannot license an index with A shares for products such as stock index without the Mainland's approval.

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In mid-June, Korea's Samsung Asset Management (Hong Kong) announced the launch of Hong Kong's first four L&I products. There is one pair that tracks Korea's KOSPI 200 Index and one that tracks Japan's Tokyo Stock Price Index, or TOPIX). Details of the new products are avaiable on the HKEX website along with general L&I product information.

Currently, L&I products in the Hong Kong market can only track major overseas stock market benchmarks. Issuers may be able to offer L&I products that track indices comprised of A shares and Hong Kong shares in the future, but there are no plans at this time to change the current rules.

L&I products are structured as Exchange Traded Funds (ETFs), and they are gaining a wider presence in Asia. In Korea and Taiwan, they account for 50 to 80 per cent of the turnover of the entire ETF market. Investors can use L&I products for short-term trading as well as risk management.

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