

CESC Index Report for July 2018



China Exchanges Services Company Limited

Published on 6 August 2018



Highlights

- CES China A80 Index (CES A80) up 0.9 per cent, as market expects leverage levels of Mainland economy to stabilise
- Pharmaceutical stocks slumped due to Mainland vaccine scandal, with CES Innovative Biotech Index (CES IBT) down 9.1 per cent
- European stocks generally rallied, outperforming shares in the emerging markets
- Ascleitis debuted in August as first HK-listed pre-revenue biotech company
- CESC launched Pan-Entertainment and Leisure Index
- MOF sovereign bonds in RMB5 billion offer were oversubscribed

I. Performance of CESC Indices

Mainland and Hong Kong equities diverged in performance—broad-based Mainland stock indices largely went up as broad-based Hong Kong stock indices tumbled. (Table 1)

In its executive meeting on 23 July, the State Council called for a more proactive fiscal policy and a monetary policy that is neither too tight nor too loose. On the same day, the PBC offered a RMB502 billion under the Medium-Term Lending Facility (MLF) to increase market liquidity, a record amount since the MLF was introduced in 2014. Banking and infrastructure shares rose as the market expects the leverage levels of the Mainland economy to stabilise. **CES China A80 Index (CES A80), which tracks the performance of A shares, was up 0.9 per cent at the end of July.**

Gaming stocks in Hong Kong started to stabilise in July following a correction in June. The adjusted EBITDA of Melco Resorts & Entertainment, a subsidiary of Melco International, increased 8 per cent to US\$356 million in Q2. The quarterly adjusted EBITDA of Sands China had a year-on-year increase of 25.4 per cent. **CES Gaming Top 10 Index (CES G10), which gauges the performance of the gaming industry in the Hong Kong market, jumped 0.9 per cent in the month.**

In the wake of the vaccine scandal on the Mainland, Premier Li Keqiang called for thorough investigation of vaccine production and sales. Pharmaceutical stocks slumped. **CES Innovative Biotech Index (CES IBT), which tracks leading biotech companies listed in Hong Kong or the Mainland, dropped 9.1 per cent.**

II. Other stock indices

Concerns over heightened trade tensions between China and the US led to stock price fluctuation in the Mainland and Hong Kong in July. **CES Stock Connect 300 Index (CES 300) and CES China 120 Index (CES 120) were slightly up, gaining 0.8 per cent and 0.1 per cent respectively.** European stocks rallied generally, outperforming shares in the emerging markets. The major stock indices of Germany, France and the UK were up 4.1 per cent, 3.5 per cent and 1.5 per cent respectively. (See Chart 1)

The emerging markets crisis(slump?) persisted. Argentina, Brazil, Indonesia and Turkey suffered from capital outflow as the US Treasury bond yield rose. Emerging market indices saw significant corrections from the beginning of the year. Although the MSCI Emerging Markets Index rebounded 1.7 per cent in July, it was still almost 15 per cent lower than the year's high.

Despite worries over trade tension and a strong US dollar, US stocks still closed 3.6 per cent higher in July. Statistics showed the US' annualised GDP in Q2 grew by 4.1 per cent quarter-on-quarter, the fastest rate in the past four years. US Treasury Secretary Steven Mnuchin said the US is well on the way to four or five years of sustained annual growth of 3 per cent.

III. China-related investment activities offshore

Ascleitis debuted in August as first HK-listed pre-revenue biotech company

Ascleitis Pharma was the first pre-revenue biotech firm to seek a Hong Kong listing after HKEX amended Main Board Listing Rules in late April to accept such companies. Scheduled to list on 1 August, Ascleitis issued 224 million shares at \$14 per share and raised approximately \$3.1 billion. Its public offering tranche was said to be more than eight times oversubscribed. Each board lot of 1,000 shares cost \$14,000 (excluding handling fees).

According to its IPO prospectus, Ascleitis focuses on developing and commercialising innovative, best-in-class drugs against HCV (hepatitis C virus), HIV (human immunodeficiency virus) and HBV (hepatitis B virus). Its core products consist of Ganovo®, ravidasvir, ASC09 and ASC06. The funds raised will be used for research and development and commercialisation of its core products.

In the footsteps of Ascleitis, pre-revenue biotech firms such as Hua Medicine and MicuRx Pharmaceuticals are also seeking listings in Hong Kong. Due to the long R&D cycle of biotech products as compared to other businesses, and the paramount importance of clinical trials for such products, significant funding is required before a new biotech drug can be commercialised. As an international financial centre, Hong Kong hopes that with its experience and advantages in the capital market, it can support industries which promote social progress, and embrace the new era of

biotech development.

CESC launched Pan-Entertainment and Leisure Index

CESC launched three new indices in July: CES SCHK Pan-Entertainment and Leisure Index (CES SCHK E&L), CES REIT Index (CES REIT) and CES SCHK High Yield Low Volatility Index (CES SCHK HYLX).

CES SCHK E&L aims to capture the performance of the 30 leading Hong Kong-listed entertainment companies eligible for Southbound Trading under Stock Connect. This index covers various sectors including casinos and gaming facilities, digital games and sport goods manufacturers, online social platforms, broadcasting services, cinemas, movies and scenic spots operators. Its constituents include Galaxy Entertainment, Sands China, Tencent, Anta Sports and online spending platforms like China Literature and Meituan. As of June 2018, Macau's gaming revenue had a year-on-year increase for 23 straight months. Benefiting from the recovery of the gaming industry, CES SCHK E&L managed to achieve gain of 3.94 per cent despite volatility over the past 12 months.

CESC will continue to work closely with business partners to satisfy the needs of asset management product issuers and help provide the market with more diversified investment options.

MOF sovereign bonds in RMB 5 billion offer were oversubscribed

The Ministry of Finance (MOF) of China successfully issued sovereign bonds worth RMB5 billion on 5 July.

A batch valued at RMB4.5 billion was issued to institutional investors by tender, including RMB3 billion in two-year bonds and RMB1.5 billion in five-year bonds with coupon rates at 3.65 per cent and 3.8 per cent respectively after tendering. The remaining RMB500 million, which included RMB300 million in two-year bonds and RMB200 million in five-year bonds at the above coupon rates, was issued to overseas central banks and regional monetary authorities.

According to the Hong Kong Monetary Authority's tender results, the largest batch, RMB3 billion in two-year bonds, saw applications reach RMB8.49 billion, which represented an oversubscription of 1.83 times. Applications for the RMB1.5 billion in five-year bonds amounted to RMB4.04 billion, or an oversubscription of 1.7 times.

Bank of Communications (Hong Kong), which helped to offer the sovereign bonds, said the coupon rates were at the low end, reflecting unexpectedly large investor demand. Demand for two-year bonds and five-year bonds were balanced. The bank also said offshore investors increased their holdings in domestic RMB bonds by RMB300 billion, or more than 50 per cent, in the first half of the year. A record single-month increase of nearly RMB80 billion was recorded in June alone. Together with the unexpected popularity of offshore sovereign bonds, it shows international

investors' demand for RMB sovereign bonds continues to grow.

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