

CESC Index Report for May



China Exchanges Services Co., Ltd. (CESC)



Highlights

- The stock markets performed well in May. Cross-border large-cap index CES China 120 Index, or CES 120, rose 4.8 per cent
- Private IT companies were the focus of the market. CES P Elite surged 7.1 per cent
- Macau's Gross Gaming Revenue, or GGR, is expected to return to its peak in 2013. CES Gaming Top 10 Index, or CES G10, surged 4.3 per cent
- Global stock markets continued to have strong performances. KOSPI rose 6.4 per cent. US stocks continued to rise despite expectations of an interest rate hike. S&P 500 Index rose 1.2 per cent
- The Mainland's currency reform and the bottoming of its forex reserves prompted a hike in the RMB exchange rates
- PBC sought comments on Bond Connect, which will allow participation of overseas investors in the Mainland interbank bond market.
- HKEX will introduce physically settled CNH and US dollar gold futures contracts on 10 July
- Average daily turnover of FTSE China A50 Index futures traded in Singapore slipped by 1.8 per cent

I. Performance of CESC Indices

The Mainland and Hong Kong stock markets generally performed well in May but large-cap stocks and mid- and small-cap stocks diverged in performance. Cross-border large-cap index CES China 120 Index, or CES 120, rose 4.8 per cent, while CES China 280 Index, or CES 280, which tracks stocks with smaller market cap dropped 1.8 per cent (see Table 1).

CES P Elite outperformed similar indices by surging 7.1 per cent, led by heavyweight stocks Tencent (accounting for 17 per cent) and JD.com (accounting for 10 per cent). The market cap of JD.com hit an all-time high. The net income of Tencent in the first quarter increased over 50 per cent year-on-year, beating market expectations by a large margin.

Table 1	Index Point	Monthly Return	Volatility	Risk-adjusted Return
CES CPE	4,858.57	7.1%	4.4%	1.63
FTSE A50	11,032.11	6.2%	3.7%	1.67
CES HKMI	6,593.06	5.4%	3.3%	1.66
CES A80	6,526.49	5.2%	3.1%	1.66
CES 120	5,726.47	4.8%	2.6%	1.83
CES G10	5,003.72	4.3%	6.6%	0.65
HSI	25,660.65	4.2%	2.3%	1.87
CES SCHK 100	5,057.54	4.1%	2.0%	2.08
HSCEI	10,602.97	3.7%	3.9%	0.95
CES 300	4,054.02	3.2%	2.0%	1.55
CSI 300	3,492.88	1.5%	2.8%	0.56
SSE Composite	3,117.18	-1.2%	2.6%	-0.46
CES 280	5,997.45	-1.8%	2.7%	-0.67
SZSE Component	9,864.85	-3.6%	4.0%	-0.91

Source: CESC and Wind; data as of 31 May 2017

According to media reports, Macau's gaming concessionaires most probably have to rebid for their licenses when these expire one after another from 2020 onwards, but the industry believes Macau's Gross Gaming Revenue, or GGR, could return to its peak in 2013 in five years. CES Gaming Top 10 Index, or CES G10, surged 4.3 per cent during the month.

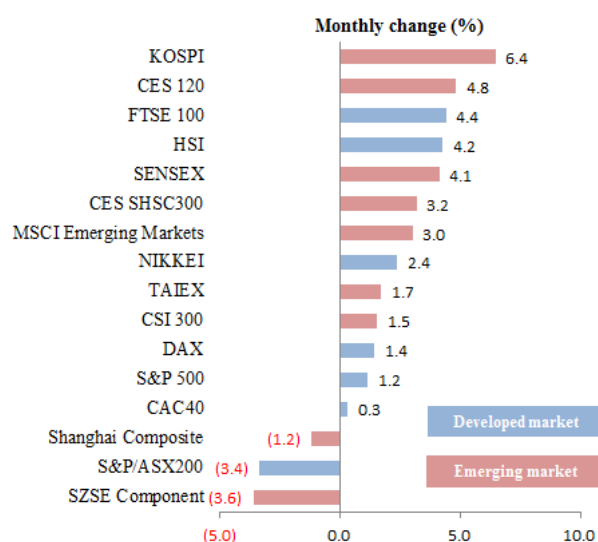
II. Other stock indices

The world's major markets continued to have strong performances in May. A number of Asian indices recorded remarkable growth (see Chart 1).

The central bank of South Korea left its base rate steady at 1.25 per cent for the eleventh consecutive month and said it expected annual economic growth to be slightly above its projection in April. Stocks in South Korea continued to rise. They gained 6.4 per cent, outperforming other global stock indices. FTSE 100 Index jumped 4.4 per cent on a weakening GBP, its highest monthly gain since the beginning of the year.

Chart 1

Movement in Global Stock Indices in May



Source: CESC and Bloomberg, as of 31 May 2017

The Federal Reserve of the US largely agreed at its May meeting on the need for tighter monetary policy in the months ahead. Though the market expects an interest rate hike in June, S&P 500 Index rose 1.2 per cent.

Australian stocks fell 3.4 per cent along with commodity prices, posting one of the

region's worst performances.

III. Offshore A-share-related activities

Forex reserves increase and new currency reform launched to stabilise exchange rates

The PBC was reported to have informed quotation banks about the introduction of “counter-cyclical adjustment factors” into the quotation mechanism for the RMB’s central parity rate against the US dollar to hedge against the pro-cyclical fluctuation in market

sentiment and alleviate the potential for herd behaviour in the foreign exchange market. Under the new formula, the central parity rate is equal to “closing price plus the foreign exchange movements of a basket of currencies plus counter-cyclical adjustment factors”.

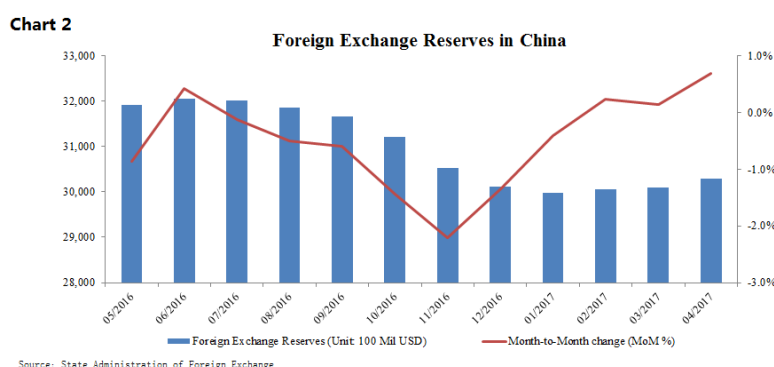
Changes were seen in the global economy recently. The US dollar was generally weak. The Mainland’s major economic indicators improved, with accelerated growth in exports and the economy maintaining a medium to high growth rate. Under the previous “closing price plus movements of a basket of currencies” mechanism, the RMB exchange rate was trending down, resulting in a certain degree of market distortion.

It is believed the new currency reform can increase forex flexibility and effectively improve the transparency of forex policies, and was instrumental in stabilising exchange rate expectations. In addition, the forex reserves have recorded growth for three months in a row, reflecting improvement following the depletion of the reserves. With such developments and under the influence of the new currency reform, offshore RMB regained its growth trend.

PBC seeks comments on draft rules for Bond Connect

The PBC issued draft rules for the Mainland-Hong Kong Bond Connect programme at the end of May to solicit public opinions on the regulation of Bond Connect activity.

Bond Connect will include both northbound trading and southbound trading. The draft rules apply to northbound trading, a mutual access arrangement in trading, custody and settlement between Hong Kong and Mainland infrastructure entities which will allow investors from Hong Kong and other countries or regions outside the Mainland to invest in



bonds tradable in the Mainland interbank bond market. Measures for southbound trading will be arranged separately.

According to the draft rules, northbound investors will be able to use their own RMB or foreign exchange for investment. Market participants using foreign exchange for investment will have to open an RMB account dedicated for capital remittance and settlement under northbound trading at a Hong Kong clearing bank. In principle, when bonds mature or are sold, bondholders will need to convert the RMB into foreign exchange.

Analysts believe the launch of Bond Connect will expand RMB investment channels, facilitate the internationalisation of RMB and accelerate the opening up and reform of the Mainland's capital account. The launch date for the scheme has yet to be announced.

Physically settled CNH and USD gold futures set for launch by HKEX on 10 July

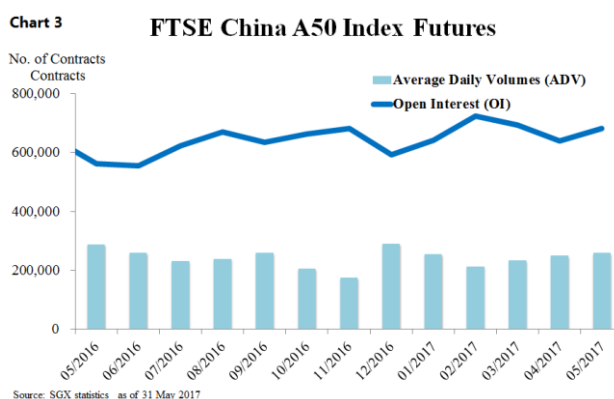
HKEX will introduce physically settled CNH (offshore RMB) and US dollar (USD) gold futures contracts on 10 July.

The new offshore CNH and USD gold futures contracts will reportedly be the first such pairing on the same exchange platform anywhere in Hong Kong. The underlying asset for the planned gold futures, a 1 kilogram gold bar of at least 99.99 per cent fineness, makes them ideal for Asia. The new contracts are expected to be available for nearly 16 hours of trading, covering both day trading and after-hours sessions.

According to HKEX, the new gold futures will be helpful to gold users, from refiners and fabricators to jewellers, who need to hedge gold price risk. They will also be attractive to banks, fund managers and traders in the precious metals market. The new contract will be a valuable addition to the expanding portfolio of RMB products at HKEX, widening the range of investment choices of offshore RMB products. The contract together with HKEX's USD-CNH Futures and other RMB derivatives will provide the market with abundant arbitrage opportunities.

Open interest of A-share index futures traded in Singapore rebounded significantly

Amid continuous volatility in the Mainland's A-share market in May, the average daily turnover of FTSE China A50 Index Futures in Singapore slipped slightly, falling by 1.8 per cent to 255,000 lots (see Chart 3), while open interest



rebounded significantly to 680,000 lots (nominal value: RMB51.2 billion).

For the first five months of 2017, open interest of A50 Index Futures was 680,000 lots on average, up 11 per cent from 610,000 lots in 2016.

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