

CESC Index Report for November



China Exchanges Services Co Ltd (CESC)



Highlights

- Mainland A shares outperformed Hong Kong stocks in November. The CES A80 surged 7.4 per cent.
- The CES 300 surged 3.7 per cent ahead of the launch of Shenzhen Connect in December.
- The CES G10, on which futures have been trading at HKEX, surged 20.3 per cent, demonstrating Macau's economic recovery.
- Shenzhen Connect started on 5 December. Southbound trading under the scheme covers 417 eligible Hong Kong stocks, including 388 constituents of Hang Seng Composite LargeCap, MidCap and SmallCap Indices and 29 A+H share companies. Northbound trading covers 881 eligible Shenzhen stocks, including 267 Main Board, 411 SME Board and 203 ChiNext stocks.
- The index universe for CES 300 changed and the weighting of ChiNext stocks increased following the latest periodic review.
- RMB deposits in Hong Kong at the end of October decreased to RMB662.5 billion, down 0.4 per cent from the previous month.
- Open interest in offshore Mainland A-share index futures traded in Singapore hit an all-time high of RMB49.6 billion. Market demand for hedging against A shares continued to increase.

1. Performance of CESC Indices

The CSRC and SFC announced on 25 November that Shenzhen Connect would be launched on 5 December. One hundred and two stocks were added to the list of eligible Hong Kong stocks under Shenzhen Connect, bringing the total number in that list to 417. Eight hundred and eighty one Shenzhen stocks are eligible for trading under the scheme. There is no aggregate quota for both Northbound and Southbound trading, a decision that is expected to improve the two-way opening of the Mainland capital market. **Amid market anticipation of Shenzhen Connect, the CES 300, which tracks stock performance under the Connect programme, surged 3.8 per cent in November** (see table 1).

According to the Southbound trading data for the past three months, a sharp increase in Southbound funds in September was followed by an adjustment and a net outflow in October. After the US presidential election on 8 November, there was a small net inflow of Southbound capital. **In November, the performance of Mainland and Hong Kong stocks diverged. The CES A80, which tracks A shares, rose 7.4 per cent while the CES SCHK100,** which tracks Hong Kong stocks, fell 1.1 per cent. It was the third straight month of diverging performance between Mainland and Hong Kong stocks since the announcement of the launch of Shenzhen Connect in August. It reflects a difference in risk appetite for A shares and Hong Kong stocks.

Table 1	Index Point	Monthly Return	Volatility	Risk-adjusted Return
CES G10	4,455.15	20.28%	6.70%	3.03
CES A80	6,319.71	7.40%	2.81%	2.64
FTSE A50	10,537.38	6.96%	3.14%	2.22
CSI 300	3,538.00	6.05%	2.58%	2.34
SSE Composite	3,250.03	4.82%	2.68%	1.80
CES 120	5,276.87	4.45%	3.30%	1.35
CES 280	6,185.54	4.40%	2.70%	1.63
CES 300	3,793.28	3.82%	3.04%	1.26
HSCEI	9,838.06	2.92%	5.39%	0.54
SZSE Component	11,012.19	2.88%	2.39%	1.20
HSI	22,789.77	-0.63%	4.28%	-0.15
CES HKMI	5,646.51	-0.74%	5.30%	-0.14
CES SCHK 100	4,437.03	-1.07%	3.89%	-0.28

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

In November, the RMB fell through 6.9 to the US dollar, rising expectations of substantial Mainland capital pouring into Hong Kong stocks. Mainland investors started to look for opportunities in unique sectors in the Hong Kong stock market. According to Macau's Gaming Inspection and Coordination Bureau, Macau posted the fourth straight month of a year-on-year increase in gaming revenue in November, increasing to MOP18.79 billion during the month, up 14.4 per cent from the same period last year and outperforming market expectations. As service exports and investment driven by the gaming industry rebounded, Macau's Q3 GDP rose 4 per cent compared with the same period last year. **The CES G10 surged 20.3 per cent in November, outperforming the general market.** CES G10 Futures are now available for trading on HKEX.

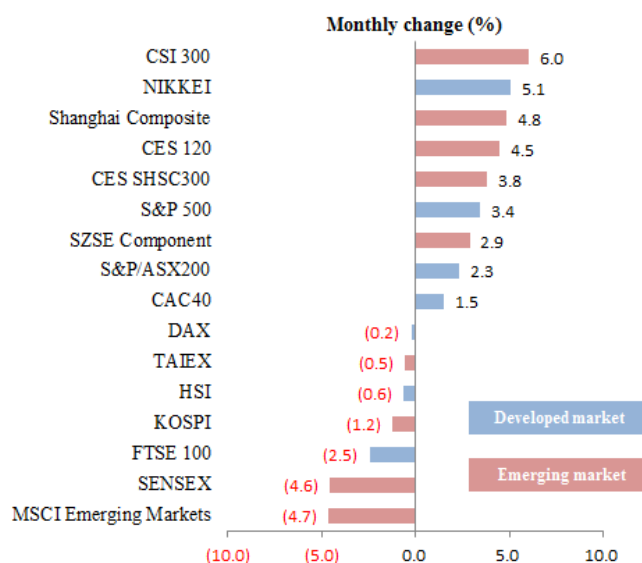
2. Other stock indices

Major stock markets in the world had varied performance in November with the Mainland, Japanese and US stocks taking the lead. The CSI 300, which rose six per cent, had the best performance. Emerging markets recorded significant falls (see chart 1).

The market became volatile immediately

Chart 1

Movement in Global Stock Indices in November



Source: CESC and Bloomberg, as of 30 November 2016

after the election of Donald Trump as US President. Panic selling drove S&P 500 futures down 5 per cent in Asian trading, triggering the circuit breaker and a trading suspension. The market changed course during US trading resulting in US stocks closing more than 1 per cent up and the VIX index registering a change of 20 per cent in a single day. US Federal Funds futures movements indicated a 90 per cent likelihood of a rate hike in December. Expectations of an accelerated pace of Fed rate hikes sped up capital flows into US dollar assets. The S&P 500 rose 3.4 per cent in November, while expectations of a rate hike drove the US dollar index up 3.3 per cent. The Yen, Euro and Pound slumped 8.5 per cent, 3.8 per cent and 2.2 per cent respectively.

Japanese stocks reacted positively to the depreciation of the Japanese yen and rallied 5.1 per cent. European stock markets had varied performance. France's CAC index rose 1.5 per cent, Germany's DAX index was flat, and the UK's FTSE index plunged 2.5 per cent ending four straight months of rally since the Brexit vote.

As a result of Donald Trump's opposition to the North American Free Trade Agreement and immigration, the Mexican currency plunged 8 per cent and the Mexican stock market dropped 5 per cent. The Indian and Indonesian stock markets fell 4.6 per cent and 5 per cent respectively, while the MSCI emerging market index recorded a drop of 4.7 per cent.

3. Offshore A-share related activities

Shenzhen Connect started on 5 December. Southbound trading under Shenzhen Connect covers 417 eligible Hong Kong stocks, including 388 constituents of Hang Seng Composite LargeCap, MidCap and SmallCap Indices and 29 A+H share companies. Northbound trading under Shenzhen Connect covers 881 eligible Shenzhen stocks, including 267 main board, 411 SME board and 203 ChiNext stocks.

Shenzhen Connect was launched on 5 December 2016 with 881 eligible Shenzhen stocks and 102 newly added Hong Kong stocks. The eligible Shenzhen stocks include 267 Main Board, 411 SME board and 203 ChiNext stocks, representing 71 per cent of the total market cap of Shenzhen and 66 per cent of its average daily turnover. The eligible Hong Kong stocks include 388 constituents of the Hang Seng Composite LargeCap, MidCap and SmallCap Indices (100 large cap, 193 mid cap and 95 small cap stocks), and 29 A+H stocks which are not constituents of the indices. They represent 87 per cent of the total market cap of Hong Kong and 91 per cent of its average daily turnover.

The CES 300 index universe changed and the weighting of ChiNext stocks increased following the latest periodic review.

Prior to the launch of Shenzhen Connect, CESC announced changes to the index CES 300 on 29 November. Instead of covering all stocks listed on the Shenzhen Stock Exchange, the universe was

fine-tuned to cover only 881 Shenzhen listed stocks. The number of Hong Kong stocks covered was expanded to 417.

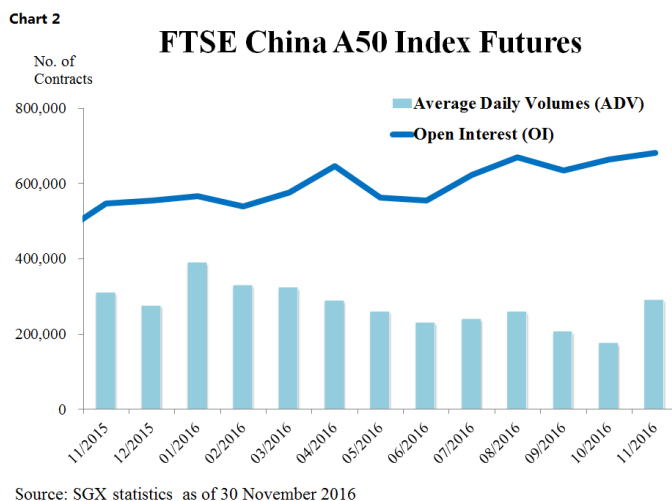
After the change, the adjustment of constituents for the next half year was announced by CESC in a periodic review. Two ChiNext companies were added, increasing the number of SME board and ChiNext stocks in the index to 55. Most Shenzhen-listed stocks are from emerging sectors such as IT, high-end consumption, new materials and energy purification. The inclusion of these Mainland growth companies increases the weighting of the Mainland’s new economy in CES 300.

RMB deposits in Hong Kong fell to RMB662.5 billion at the end of October, down 0.4 per cent from the previous month

In November, the CNH depreciated 2 per cent against the US dollar. The CNH spot rate fell at one time to 6.9654, the lowest seen since the introduction of CNH. Due to expectations of a depreciation in the RMB and fall in deposit rates, RMB deposits in Hong Kong fell to RMB662.5 billion at the end of October, down 0.4 per cent from the previous month.

Open interest in the offshore Mainland A-share index futures traded in Singapore hit an all-time high of RMB49.6 billion with market demand for hedging against A shares continuing to increase.

Open interest in Singapore’s FTSE A50 Index futures ended the month with a record high of 680,000 board lots (see chart 2), or a notional value of RMB49.6 billion, up 24 per cent year-on-year. Trading in the A-share index futures was active on the eve of the start of Shenzhen Connect with average daily turnover increasing to 290,000 board lots, up 66 per cent from the previous month. It indicates foreign investors’ demand for hedging against A shares continued to strengthen.



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