

CESC Index Report for July



China Exchanges Services Co Ltd (CESC)



Highlights

- Both Hong Kong and Mainland stocks rose, but Hong Kong stocks outperformed A shares with CES SCHK100 up 5.4 per cent
- CES G10 rallied 11.6 per cent as declines in Macau's gaming revenue narrowed
- Developed markets surged, with German, French and Japanese stocks up 5 - 7 per cent
- Stock Connect turnover grew, and the outstanding quota under Southbound trading fell to about RMB49 billion
- Hong Kong A-share ETFs saw capital outflows
- Open interest in Singapore's FTSE China A50 Index futures almost reached its record high set in April

1. Performance of CESC indices

After six months of adjustment, Hong Kong and Mainland stock markets recovered, with most of their indices reporting gains. Due to expectations Shenzhen Connect would be launched soon and the US Fed may slow its rate hikes, Hong Kong stocks outperformed A shares in July. CES SCHK100, which represents large cap stocks eligible for Southbound trading under Stock Connect, rose 5.4 per cent (see table 1) and became the best-performing broad-based index that tracks Mainland and Hong Kong stocks. Consumer discretionary, finance and IT stocks led the rally.

Table 1	Index Point	Monthly Return	Volatility	Risk-adjusted Return
CES G10	3,277.92	11.55%	9.72%	1.19
CES SCHK 100	4,299.86	5.44%	4.21%	1.29
HSI	21,891.37	5.28%	4.33%	1.22
CES HKMI	5,400.15	3.53%	4.75%	0.74
CES 300	3,443.69	2.94%	3.27%	0.90
CES 280	5,689.35	2.83%	3.95%	0.72
HSCEI	8,958.97	2.82%	4.87%	0.58
CES 120	4,759.76	1.95%	3.21%	0.61
SSE Composite	2,979.34	1.70%	3.85%	0.44
CSI 300	3,203.93	1.59%	3.67%	0.43
FTSE A50	9,457.03	1.51%	3.17%	0.48
CES A80	5,590.53	0.55%	3.17%	0.17
SZSE Component	10,329.43	-1.53%	5.05%	-0.30

Source: CESC and Wind; data as of 31 July 2016

Mainland authorities released a consultation paper in July which proposes new rules for wealth management by banks. Market people believe Mainland regulators' clear intention to deleverage the

economy and to avoid asset bubbles may have stabilised the Mainland capital market. CES A80 rose 0.6 per cent in July.

Macau’s gaming revenue in July was MOP17.8 billion, statistics from Macau’s Gaming Inspection and Coordination Bureau showed. The decline in the year-to-date cumulative gaming revenue contracted to 10.5 per cent, which was better than forecasts and compared to the 26.8 per cent decline in the first half of last year. As the opening of new resorts in the second half of the year is expected to attract more leisure travellers and give the industry a boost, CES G10 rose 11.6 per cent in July (see chart 1) outperforming the broad-based index. All constituents reported gains.

Chart 1 Performance & Trading Volume of CES G10 in July



2. Other stock indices’ movements

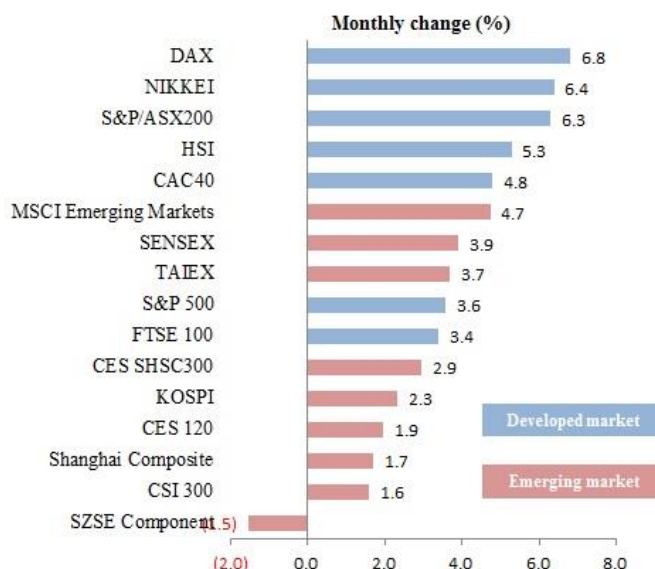
As the world’s market recovered in July from the shock brought by the June Brexit vote in the UK, investors returned their focus to central bank policies. Developed economies including the US, Europe, Australia and Japan kept interest rates unchanged.

Global stock markets, especially European markets, resumed their growth momentum in July. German and French markets surged 6.8 per cent and 4.8 per cent (see chart 2), returning to their levels before the Brexit vote.

Asian markets also rose. Japan was expected to increase monetary easing, and the Bank of Japan undertook to increase purchases of ETFs on Japanese stocks while maintaining its monthly purchase of JPY80 trillion in bonds. Japanese stocks were Asia’s best performers in July, advancing 6.4 per cent. Hong Kong stocks gained more than 5.3 per cent. Mainland A shares rose 1.6 per cent.

Chart 2

Movement in Global Stock Indices in July



Source: CESC and Bloomberg, as of 29 July 2016

MSCI’s Emerging Markets Index climbed 4.7 per cent, while its Emerging Markets Latin

America Index and Emerging Markets Asia Index surged 5.4 per cent and 6.2 per cent respectively, both new highs in 2016. The Emerging Markets Index's surge for two straight months reflects improved investor sentiment.

3. Offshore A share-related activities

Stock Connect turnover grew month on month as it continued to attract interest

In July, both Northbound and Southbound trading under Stock Connect reported RMB10 billion in net buying, demonstrating sustained interest in the scheme in both the Mainland and Hong Kong. According to HKEX data, Stock Connect turnover grew 9 per cent month-on-month in July. Investors continued to prefer blue chips with low valuations in the sectors that are more resilient in times of volatility. These include the consumer, financial and industrial sectors. Southbound turnover fell almost 20 per cent from June.

With Mainland investors rebalancing their portfolios towards foreign assets, Stock Connect became a major channel for their buying of Hong Kong stocks. At the end of July, only RMB49 billion remained of the aggregate Southbound quota of RMB250 billion. Quotas approved for the Qualified Domestic Institutional Investor, or QDII, scheme were unusually small this year, due to regulators' caution in permitting new foreign investment.

Hong Kong A-share ETFs saw capital outflow

Interest in Hong Kong A-share ETFs began to fall in June and there was a capital outflow in the past two months. According to HKEX data for July, the three largest A-share ETFs, CSOP A50 ETF recorded almost 160 million units in net redemption totalling more than RMB1.7 billion, while iShares A50 ETF and ChinaAMC CSI 300 ETF had net outflows of RMB200 million and RMB86 million respectively. Outflows from Hong Kong A-share ETFs contrasted with the increase in net buying under Stock Connect.

Open interest in Singapore’s FTSE China A50 Index futures rebounded in July and almost reached its record high set in April

Data from the Singapore Exchange showed open interest in Singapore’s FTSE China A50 Index futures rebounded in July to 620,000 contracts, almost reaching its record high set in April. The futures’ average daily turnover stabilised and was 240,000 contracts in July (see chart 3).



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