CESC Index Report for August 2018

中華交易服務
CHINA EXCHANGES SERVICES

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Highlights

- CES China HK Mainland Index was down 1.2 per cent as Mainland and Hong Kong markets came under pressure
- CES Innovative Biotech Index dropped 6.3 per cent despite good results of pharmaceutical companies
- US stocks hit new highs amid divergent global stock index performance
- Delivery versus Payment settlement fully implemented in Bond Connect
- Launch of real-name registration system for Northbound trading under Stock Connect set for September
- CSRC has invited public comments on Shanghai-London Stock Connect

I. Performance of CESC Indices

Downward pressure on the Mainland and Hong Kong markets increased. Continuing trade disputes between China and the US, slumps in emerging markets' currencies and an expected hike of the Fed's key rate are some of the external and internal factors that continued to plague the market. (See Table 1)

Table 1	Index Point	Monthly Return	Volatility	Risk-adjusted Return
CES HKMI	7,637.01	-1.2%	6.3%	-0.20
HSCEI	10,875.58	-1.4%	5.4%	-0.25
HSI	27,888.55	-2.4%	5.1%	-0.47
CES SCHK 50	3,060.99	-2.4%	5.2%	-0.47
CES SCHK 100	5,576.69	-2.9%	5.6%	-0.52
CES 120	6,147.01	-3.0%	6.1%	-0.49
CES High Yield	3,651.50	-3.5%	7.0%	-0.50
FTSE A50	11,304.44	-3.8%	7.5%	-0.50
CES 300	4,207.92	-3.9%	5.3%	-0.72
CES A80	6,689.22	-4.1%	7.2%	-0.56
CSI 300	3,334.50	-5.2%	7.3%	-0.72
SSE Composite	2,725.25	-5.3%	6.2%	-0.85
CES CPE	5,750.19	-5.7%	6.9%	-0.82
CES 280	5,556.77	-6.1%	7.1%	-0.86
CES iBioTech	8,560.86	-6.3%	12.8%	-0.50
CES OBOR	1,547.19	-6.4%	5.6%	-1.14
SZSE Component	8,465.47	-7.8%	8.2%	-0.95
CES G10	5,284.78	-10.7%	9.7%	-1.11

Source: CESC and Wind; data as of 31 Aug 2018

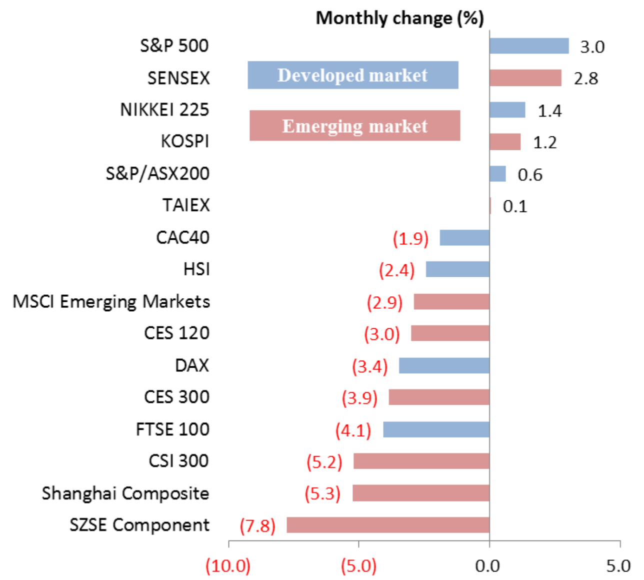
Although the PBC resumed use of the counter-cyclical factor to stabilise the renminbi's value in the FX market, several broad-based indices in the Mainland and Hong Kong continued to suffer from negative sentiment at the end of the month. Nevertheless, **CES China HK Mainland Index, or CES HKM, which tracks the performance of major China-concept stocks listed in Hong Kong, was down just 1.2 per cent, outperforming other indices.**

Pharmaceutical stocks continued to dive in the wake of the vaccine scandal on the Mainland, but rebounded after some bio-pharmaceutical companies announced interim results. Sino Biopharm, CSPC Pharma and Wuxi Bio recorded a year-on-year profit increase of 24 per cent, 41 per cent and 170 per cent respectively in the first half. However, related indices failed to regain lost ground at the end of the month. **CES Innovative Biotech Index, or CES IBT, which tracks the performance of the Hong Kong and Mainland exchanges' biotech and pharmaceutical stocks, dropped 6.3 per cent.**

In July, Macau's gaming revenue rose 10.3 per cent year-on-year, which was below market expectations and lower than the surge in June (12.5 per cent). **CES Gaming Top 10 Index (CES G10) dropped 10.7 per cent in the month.**

II. Other stock indices

Chart 1 Movement in Global Stock Indices in August



Source: CESC and Bloomberg, as of 31 August 2018

While the heavy sell-off in emerging markets led to a decrease of 5.2 per cent in the Shanghai Shenzhen CSI 300 Index, developed markets saw divergent performances. S&P 500 Index was up 3 per cent but FTSE 100 Index was down 4.1 per cent. (See Chart 1)

Emerging markets Turkey and Argentina were hit by a currency crisis. The Turkish lira plunged after the US doubled steel and alumnium tariffs on the country but stabilised when Qatar pledged an investment of US$15 billion. The currency still was down over 20 per cent at the end of the month. Having lost 40 per cent of its value since the beginning of the year, the Turkish lira became the worst performing emerging market currency.

Although interest rates in Argentina increased from 45 per cent to 60 per cent, cash continued to flow out of the country. Argentine's peso plummeted over 20 per cent. The government debt of Argentina, of which 80 per cent is denominated in US dollars, now represents 90 per cent of the country's GDP. According to analysis, Argentina will not be able to repay the principal and interest due this year if there is no financial assistance from IMF. As a consequence of the currency crisis, the MSCI Emerging Markets Index fell 2.9 per cent in August.

Although official Brexit is scheduled for March 2019, no withdrawal agreement has yet been reached between the UK and the EU. Worries over a possible no-deal Brexit resulted in a slump of

4.1 per cent in the FSTE 100 Index.

As capital flowed back from emerging markets to assets denominated in US dollars on expectations of a US interest rate hike, the US dollar stayed strong and is up 3.3 per cent from the beginning of 2018. Dow Jones Industrial Average, Nasdaq and S&P 500 Index recorded new highs. S&P 500 Index was up 3 per cent in August.

III. China-related investment activities offshore

Delivery versus Payment settlement fully implemented in Bond Connect

Delivery versus Payment (DvP) settlement has been fully implemented in Bond Connect since 24 August. All trades under Bond Connect have begun to be settled on a DvP basis. Hong Kong Monetary Authority (HKMA) welcomed this development.

DvP means delivery upon payment. There is no time gap between the transfer of bonds from the seller to the buyer and the buyer's monetary payment to the seller. A trade is final and irrevocable upon settlement.

Previously, DvP was not avaiable in some onshore bond transactions. Payment had to be made before the bond was delivered. Concerned about investor protection, many foreign firms hesitated to invest substantially in the Mainland bond market. DvP settlement in Bond Connect is expected to boost investors' confidence in the scheme. Bloomberg said in March it would add bonds issued by the Chinese government and policy banks to its global index in April 2019 if there was DvP settlement for Bond Connect.

An HKMA spokesperson said there had been strong market demand for DvP settlement since Bond Connect was launched in July 2017. Thanks to the support of the PBC and the efforts of relevant institutions in the Mainland and Hong Kong, DvP settlement is fully implemented in Bond Connect. This increases settlement efficiency and reduces settlement risks, affording greater convenience to international investors trading through Bond Connect.

Launch of real-name registration system for Northbound trading under Stock Connect set for September

The SFC announced that it has reached an agreement with the CSRC to implement an investor identification regime (i.e. real-name registration system) for Northbound trading under Stock Connect on 17 September. The SFC believes that the investor identification regime will facilitate more effective monitoring and surveillance by the CSRC and Mainland stock exchanges to safeguard market integrity.

HKEX published a news release to introduce details of the investor identification model for Northbound trading. Exchange Participants are required to assign a unique number, known as the Broker-to-Client Assigned Number (BCAN), to each of their Northbound trading clients and provide Client Identification Data (CID) to HKEX which will forward the information to Mainland exchanges. BCAN and CID are for regulators' market surveillance only.

CSRC has invited public comments on Shanghai-London Stock Connect

The CSRC is seeking public comments on draft provisions on the administration of depositary receipts (DRs) under the stock trading scheme between Shanghai Stock Exchange (SSE) and London Stock Exchange (LSE), according to its spokesperson Chang Depeng, who announced the consultation during a press conference on 31 August.

Shanghai-London Stock Connect is the mutual market access programme between SSE and LSE. Eligible listed companies of the two markets may issue and cross-list DRs pursuant to their home market rules. Mutual market access can be achieved through cross-border conversion between DRs and underlying securities.

Shanghai-London Stock Connect covers eastbound and westbound business. Under the eastbound business, LSE-listed companies will list Chinese depositary receipts (CDRs) on the SSE. Under the westbound business, SSE-listed A-share companies will list global depositary receipts (GDRs) on the LSE.

Companies have to meet certain criteria to be part of Shanghai-London Stock Connect. For the CDRs under the scheme, the foreign issuers should have a premium listing on the LSE Main Market with a listing history and market capitalisation of a certain standard. The purpose is to limit eligible issuers under the eastbound business to those with higher liquidity and a diversified investor base in the British market to ensure a steady start. For the GDRs under the scheme, the LSE welcomes companies listed on the SSE Main Board with a certain market capitalisation.

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