

# CESC Index Report for August



China Exchanges Services Co Ltd (CESC)



## Highlights

- Trading under Shanghai Connect increased after approval was given for Shenzhen Connect. Northbound trading had a single-day net inflow of RMB5 billion on 16 August, a new high in 2016. Ten most actively traded stocks were all CES 300 constituents.
- CES 300 rose by 5.2 per cent in August, with a risk-adjusted return of 1.7, the highest among benchmark indices
- A shares trailed Hong Kong stocks in August, with CES A80 up 4.4 per cent. CES HKMI rose 6.9 per cent, the best performer among benchmark indices
- CES 120 surged by 5.7 per cent, outperforming many other stock market indices by a wide margin
- Open interest in Singapore's FTSE China A50 Index futures reached a record high, with a nominal contract value of RMB44 billion

## 1. Performance of CESC indices

The upward momentum of the Mainland and Hong Kong stock markets in July continued in August.

**CES HKMI, which represents Hong Kong-listed Mainland enterprises, rose 6.9 per cent in August, outperforming other benchmark indices**

and recording its largest monthly gain since March (see Table 1).

Table 1	Index Point	Monthly Return	Volatility	Risk-adjusted Return
CES HKMI	5,770.21	6.85%	4.38%	1.57
HSCEI	9,541.80	6.51%	4.39%	1.48
CES 120	5,029.89	5.68%	3.47%	1.63
CES 300	3,623.77	5.23%	3.06%	1.71
HSI	22,976.88	4.96%	3.65%	1.36
CES SCHK 100	4,487.67	4.37%	3.40%	1.29
CES A80	5,834.69	4.37%	4.01%	1.09
SZSE Component	10,757.88	4.15%	4.20%	0.99
CES 280	5,919.93	4.05%	3.49%	1.16
CSI 300	3,327.79	3.87%	3.91%	0.99
FTSE A50	9,811.09	3.74%	3.73%	1.00
SSE Composite	3,085.49	3.56%	3.40%	1.05
CES G10	3,225.78	-1.59%	8.09%	-0.20

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

**A shares trailed Hong Kong stocks, with CES A80 up 4.4 per cent in August.**

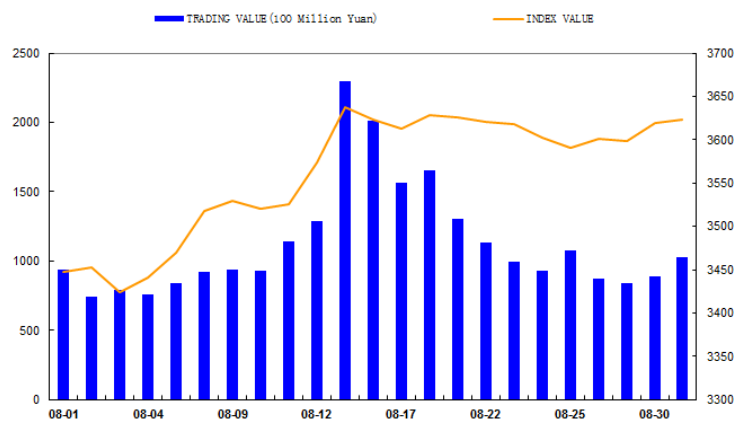
On 16 August, the CSRC and SFC jointly announced their approval for the establishment of Shenzhen Connect. Hang Seng Composite SmallCap Index, SZSE Component Index and SZSE Small/Mid Cap Innovation Index constituents are eligible stocks for trading under Shenzhen Connect

when it is launched.

After the announcement, Mainland and Hong Kong stock markets soared between 3.6 per cent and 5 per cent during the remainder of the month. **CES 120, a cross-border index covering the Mainland and Hong Kong, and CES 300, which reflects the general performance under Stock Connect, surged 5.7 per cent and 5.2 per cent respectively, substantially beating many other stock market indices. CES 300 started to rally in early August (see Chart 1) and its risk-adjusted return of 1.7 was the highest among all benchmark indices.** The finance, information technology and industrial sectors saw the greatest gains. The three best performing stocks were all Shenzhen-listed A shares, namely China Vanke - A (000002, +45 per cent), CITIC Guoan (000839, +30 per cent) and GZ Bailing (002424, +26 per cent). It was announced that upon the start of Shenzhen Connect, the universe of securities for the “Shenzhen A shares” segment of CES 300 will be changed to include all eligible stocks for Northbound Trading under Shenzhen Connect.

Chart 1

Performance & Trading Volume of CES 300 in Aug



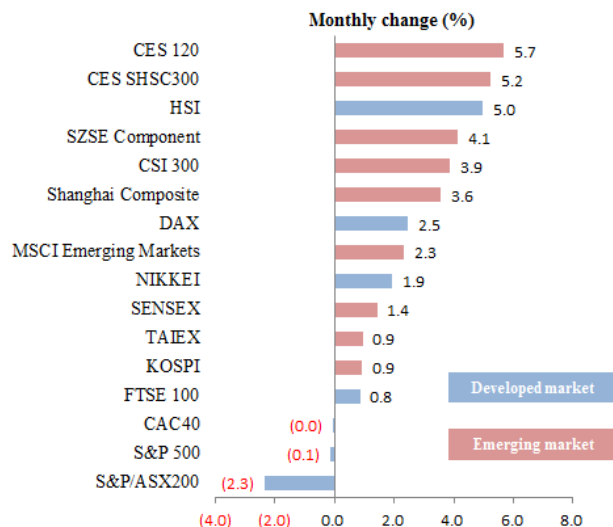
## 2. Other stock indices’ movements

The world’s major stock markets generally trended upward in August, with several overseas markets up 0.8 to 2.5 per cent (see Chart 2).

The Bank of England announced for the first time since 2009 a rate cut of 25 basis points. The central bank also expanded its bond purchase scheme by GBP60 billion to GBP435 billion to stabilize the UK economy. FTSE 100 had a slight gain of 0.8 per cent. The central banks of Australia and New Zealand also announced a rate cut of 25 basis

Chart 2

Movement in Global Stock Indices in August



Source: CESC and Bloomberg, as of 31 August 2016

points during the month, but the performance of the two markets varied. NZX 50 was up 0.7 per cent while ASX 200 Index plunged 2.3 per cent.

In the face of sputtering economies at home, central banks in Japan and Europe did not rule out more quantitative monetary measures. Stock markets in Japan and Germany performed stably, with Nikkei and DAX up 1.9 per cent and 2.5 per cent respectively.

Federal Reserve (Fed) chair Janet Yellen said at a global central banking conference at the end of August that with the US economy now nearing the Fed's goals of maximum employment and price stability, the case for an increase in the federal funds rate has strengthened in recent months and gradual increases in the federal funds rate will be appropriate over time. Investors adopted a wait-and-see attitude. S&P 500 continued to trade around record high levels, closing at 2170.95 on 31 August and ending the month down by 0.1 per cent.

Emerging markets rallied to their highest point in the year in early August but fell on hawkish remarks by some Fed officials and former Fed chair Alan Greenspan, who said in mid-August that US interest rates are likely move higher soon. Less developed markets still ended with a gain of 2.3 per cent in August. The Fed's moves are being closely watched.

### **3. Offshore A share-related activities**

#### **Shenzhen Connect to open this year and aggregate quota for Stock Connect has been abolished**

There are as many as 880 stocks eligible for Northbound trading under Shenzhen Connect, which is expected to begin in the fourth quarter of this year. They include all the constituent stocks of the SZSE Component Index and the SZSE Small/Mid Cap Innovation Index<sup>1</sup>, and all the SZSE-listed A shares that have corresponding H shares listed in Hong Kong. Stocks from the technology, medical and military sectors will offer Northbound traders rare investment opportunities. Eligible stocks for Southbound trading are expanded to be the constituent stocks of the Hang Seng Composite SmallCap Index<sup>2</sup> and all the H shares of Hong Kong-listed companies with A shares listed in Shenzhen, which should appeal to retail investors in the Mainland.

Moreover, there is no longer an aggregate quota for Stock Connect, but daily quotas remain. Shenzhen Connect will be subject to the same daily quotas as Shanghai Connect (RMB13 billion for Northbound trading and RMB10.5 billion for Southbound trading).

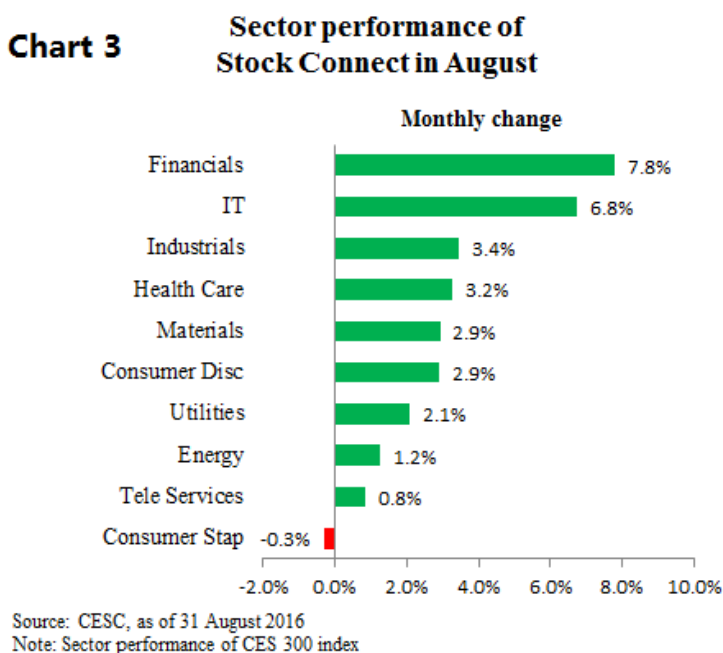
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<sup>1</sup> Average daily market capitalization of the constituent stock in the 6 months prior to the periodic review of the relevant index (if the stock is listed within the 6 months prior to the periodic review, its average daily market capitalization in the period since it was listed) is not less than RMB6 billion

<sup>2</sup> The average month-end market capitalization of the constituent stock in the 12 months prior to the periodic review of the relevant index (if the stock is listed within the 12 months prior to the periodic review, its average month-end market capitalization in the period since it was listed) is not less than HKD5 billion

**Trading under Shanghai Connect increased, with Northbound Trading recording a single-day net inflow of RMB5 billion on 16 August, a new high in 2016**

Boosted by the approval for Shenzhen Connect, Northbound trading under Shanghai Connect saw net inflows for 20 consecutive trading days in August and had a 2016 high of RMB5.02 billion in single-day net buying. Total net buying reached RMB21.4 billion in August. Southbound trading had 21 consecutive trading days of net inflows and total net buying of RMB26.9 billion in August. Average daily net buying under Northbound and Southbound trading was about RMB1 billion and RMB1.2 billion respectively, up 87 per cent and 80 per cent from July.

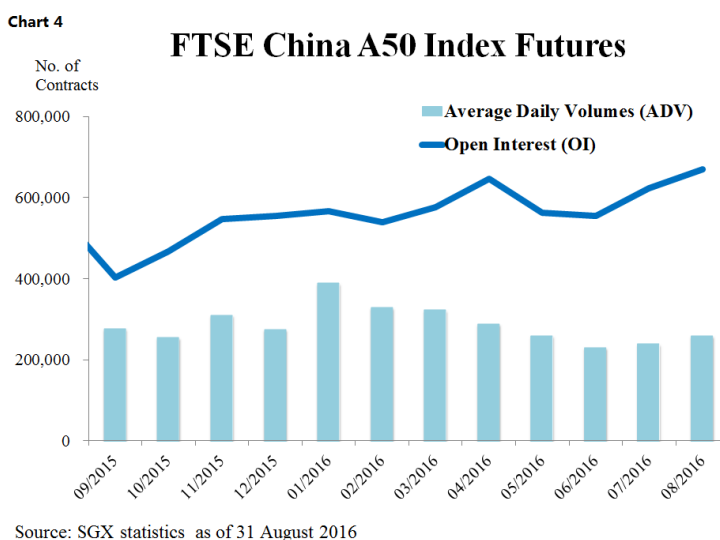


CES 300, an index representing the Shanghai, Shenzhen and Hong Kong markets, saw rallies in most industries in August. The top performing industry was finance, with a surge of 7.8 per cent. IT soared more than 6.8 per cent. Only consumables had a decline, and it was slight (see Graph 3).

**Ten most active stocks under Northbound trading in August were all CES 300 constituents,** including CN Ping An, Moutai, SAIC Motor and Yili Company, indicating high quality blue chips in the A-share market appealed to investors outside the Mainland.

**Open interest in Singapore’s FTSE China A50 Index futures hit a record high**

Open interest in Singapore’s FTSE China A50 Index futures ended August at a new high of 670,000 contracts (see Graph 4), up 21 per cent, with the notional contract value reaching RMB44 billion. The figures show the contract has become a major tool for overseas investors to hedge their A-share positions. For example, among A-share ETFs listed in Hong Kong, assets tracking FTSE China A50 Index account



for 70 per cent of the market share.

In contrast, due to restrictions on index futures trading in the Mainland, CSI 300 Index futures only had an average daily turnover of 15,000 contracts and open interest of 48,000 contracts in August.

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