

Market Bulletin

31 May, 2018

China A-shares finally take their place on the world stage

In June 2017, Modern Index Strategy Indexes (MSCI) formally decided to include China A-shares in its benchmark indices following its latest Market Classification Review, marking an important milestone for China's international markets.

In a slight change from the initial proposal, which covered the inclusion of 169 eligible stocks, MSCI now plans to include around 230 China A-share large-cap stocks at a 5% partial inclusion factor, giving A-shares a weighting of around 0.7% in the MSCI Emerging Markets Index and 0.1% of the MSCI All Country World Index. This increase was due to MSCI's adoption of the recommendation to include large-cap A-shares with H-share equivalents in the MSCI China Index. Incorporation of the new stocks will take place in two phases: the first at the end of May 2018 and the second at the end of August 2018.

The small weighting could be seen as a symbolic gesture, but the prospects for the further development of China's equity market are looking positive. Chinese market sentiment will see a boost at a time when investors are worried about increased regulation, trade wars and the possibility that China's economic activity may have already peaked. Analyst estimates for passive inflows into the A-share market stand at around USD 6billion—relatively small compared to the A-share market cap of USD 8.6trillion. With active flows included, the estimated total flows could be around USD 20billion. The change to the benchmark will also see greater attention focused on China's market, which should help to further improve market accessibility and loosen trading restrictions in the future.

MSCI will now look at raising the 5% inclusion factor, which could increase the current 0.7% weighting of A-shares in the MSCI Emerging Market benchmark to around 15%, and will also consider including mid-cap stocks. These changes could lead to greater inflows in the coming years, with China's growing influence creating new investment opportunities and ramping up demand for local research on Chinese companies. As China's equity market continues to open up, we may also start to see similar developments in the country's bond market.



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