Derivatives

FTSE Russell considers revamping China index after launch of Hong Kong rival

Number of stocks included in Singapore futures contract to hedge mainland exposure could be doubled

Disruptions to China's economy from coal shortages and a liquidity crunch for property developers have added to volatility of mainland stocks © FT montage; Bloomberg

Mercedes Ruehl in Singapore and **Hudson Lockett** in Hong Kong YESTERDAY

FTSE Russell is considering major changes to the index underpinning a widely used China futures contract in Singapore, including potentially doubling the benchmark's constituents, after Hong Kong's stock exchange broke its rival's monopoly on the highly popular trade.

Arne Staal, chief executive of FTSE Russell, said the company may tweak its FTSE China A50 index — a critical tool for international traders seeking to hedge their exposure to Chinese shares — in response to investor feedback.

Traded volumes on the Singapore Exchange's (SGX's) A50 index futures have risen 20 per cent year-on-year to 9.3m contracts, according to FTSE Russell and SGX.

Recent disruptions to China's economy from coal shortages and a liquidity crunch for property developers have compounded volatility in Chinese stocks, underscoring the growing need for hedging tools among global investors who have poured tens of billions of dollars into the country's equity markets this year.

The FTSE Russell index offers coverage of the 50 largest companies listed in Shanghai and Shenzhen including Kweichow Moutai, the world's most valuable liquor group, and Ping An Insurance, China's biggest private insurer.

Staal said consultation with investors had recently ended and that changes under capitalisation-based approach to weighting stocks, and which channels they preferred to use for accessing companies listed in Shanghai and Shenzhen.

"Markets change, economies change, and indices need to be updated to reflect the transparency of the investment opportunity that investors are looking for today," Staal said, adding he wanted the index to remain as "relevant as possible".

The potential changes to the index, which serves as the basis for SGX's popular futures contract, comes after the Hong Kong stock exchange broke the Singaporean bourse's monopoly by launching its own product for mainland Chinese shares last month.

HKEX also snatched a key derivatives licensing agreement held by SGX for more than two decades in May last year, allowing it to offer futures and options contracts based on 37 of index provider MSCI's equities indices, mostly in Asia.

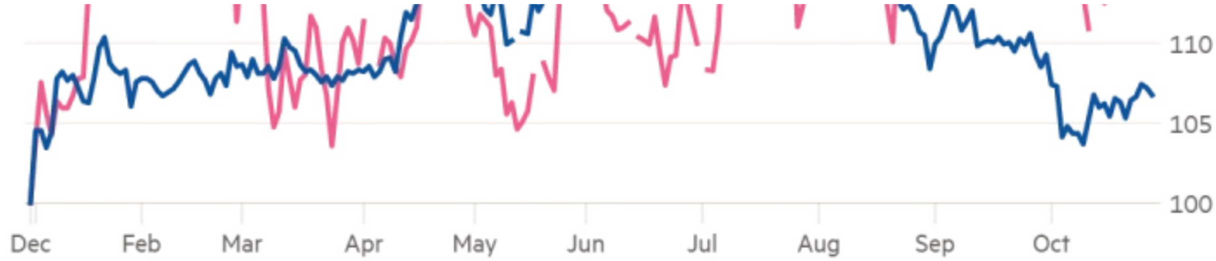
Staal said the composition of the MSCI China A50 Connect index, upon which the Hong Kong exchange-traded futures contracts were based, offered "very different exposure than ours".

Boon-Chye Loh, chief executive of SGX, added that FTSE China A50 futures were a "hyper liquid" contract that would remain vital for international investors as China's market continued to open up.

SGX and FTSE Russell had secured more than 90 per cent of SGX's index futures trading volumes from migrating to HKEX with the new MSCI products, they said.

Even so, SGX's derivatives business has taken a hit in the past year. Derivatives revenue for its equities business declined 20 per cent to S$288.4m (US$213m) during the 12 months to the end of June.

SGX's share price has plunged almost 20 per cent since its August results, when it revealed net profit had fallen 7 per cent to S$447m. Shares are up about 7 per cent this year, while HKEX's stock price has risen 12 per cent over the same period.



Source: Bloomberg
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Michael Wu, senior equity analyst at Morningstar, said adjustments to the FTSE index "would help with better alignment and overall reflection of the Chinese economy".

"There are concerns about the substitution or replacement of SGX [by HKEX] . . . but they do have the ecosystem effect", he added, referring to the deep liquidity of the China A50 futures market and strong demand from existing investors. "SGX has been very innovative on derivatives generally."

Others were less sanguine about the Singapore exchange's prospects. Analysts at Citi said they expected a limited boost to earnings at HKEX from the new futures in the near term, as trading volumes would take time to match those of the SGX contract. But they added that "longer term, HKEX looks better positioned than SGX in [Chinese onshore equity] derivatives".