



Trading Strategies on Greater China via SGX-listed Futures Contracts

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About Tariq Dennison, CFP^{CM}

- I manage accounts on IBKR
 - US Advisor: GFM Asset Management LLC
 - HK Advisor: GFM Group Limited
- 15 years capital markets experience
 - Commerzbank (NY, London, Frankfurt)
 - Bear Stearns (NY)
 - J.P. Morgan (NY)
 - Canadian Imperial Bank of Commerce
 - Societe Generale (HK)
- Masters in Financial Engineering
 - University of California at Berkeley
- Lecturer at ESSEC Business School
- Prolific Speaker, Writer, and Traveler
- Avid follower of both Asian markets and US politics and tax policy
- CERTIFIED FINANCIAL PLANNER^{CM} professional

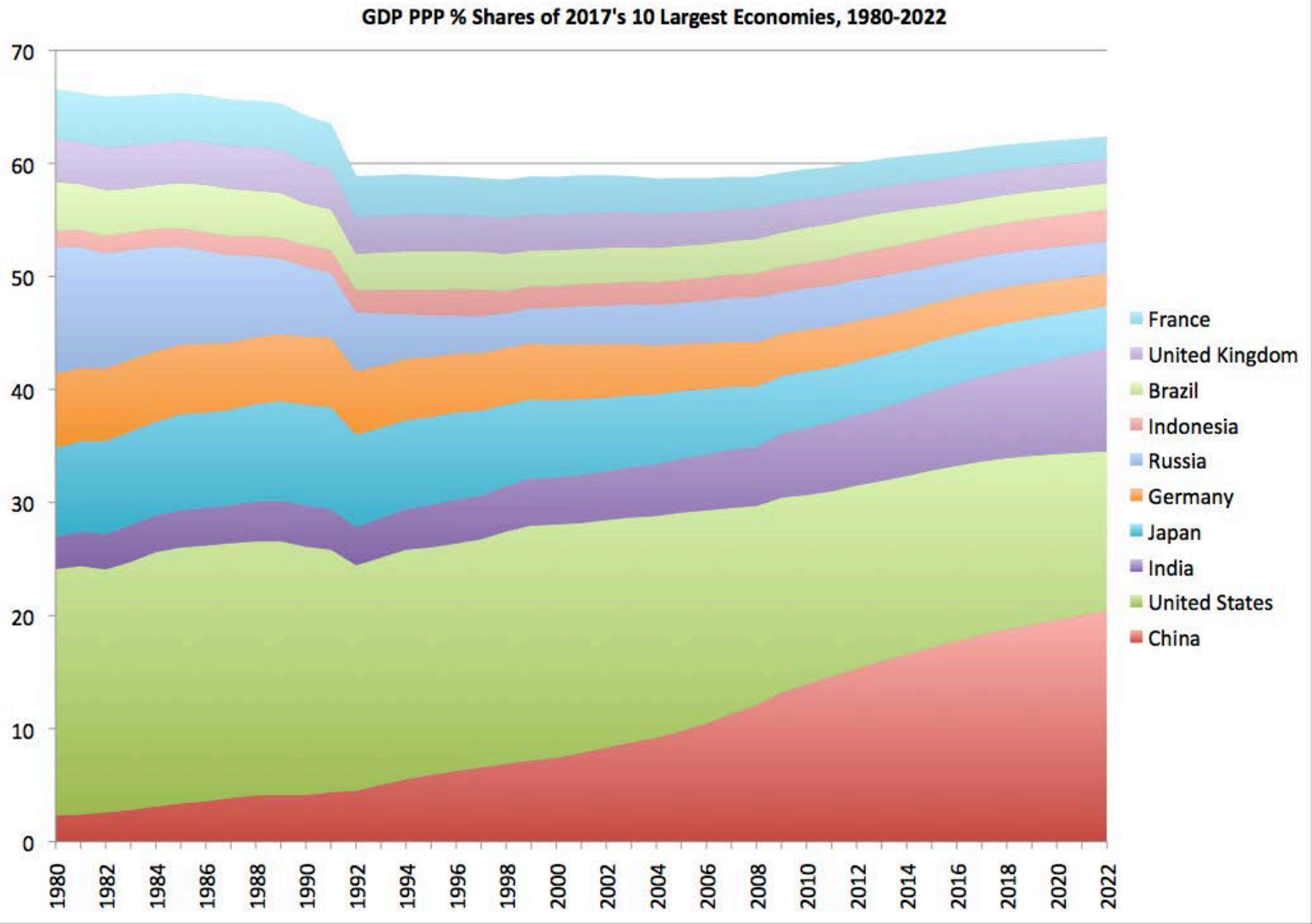


What is Greater China?



Source: https://en.wikipedia.org/wiki/File:Great_China_Map.PNG

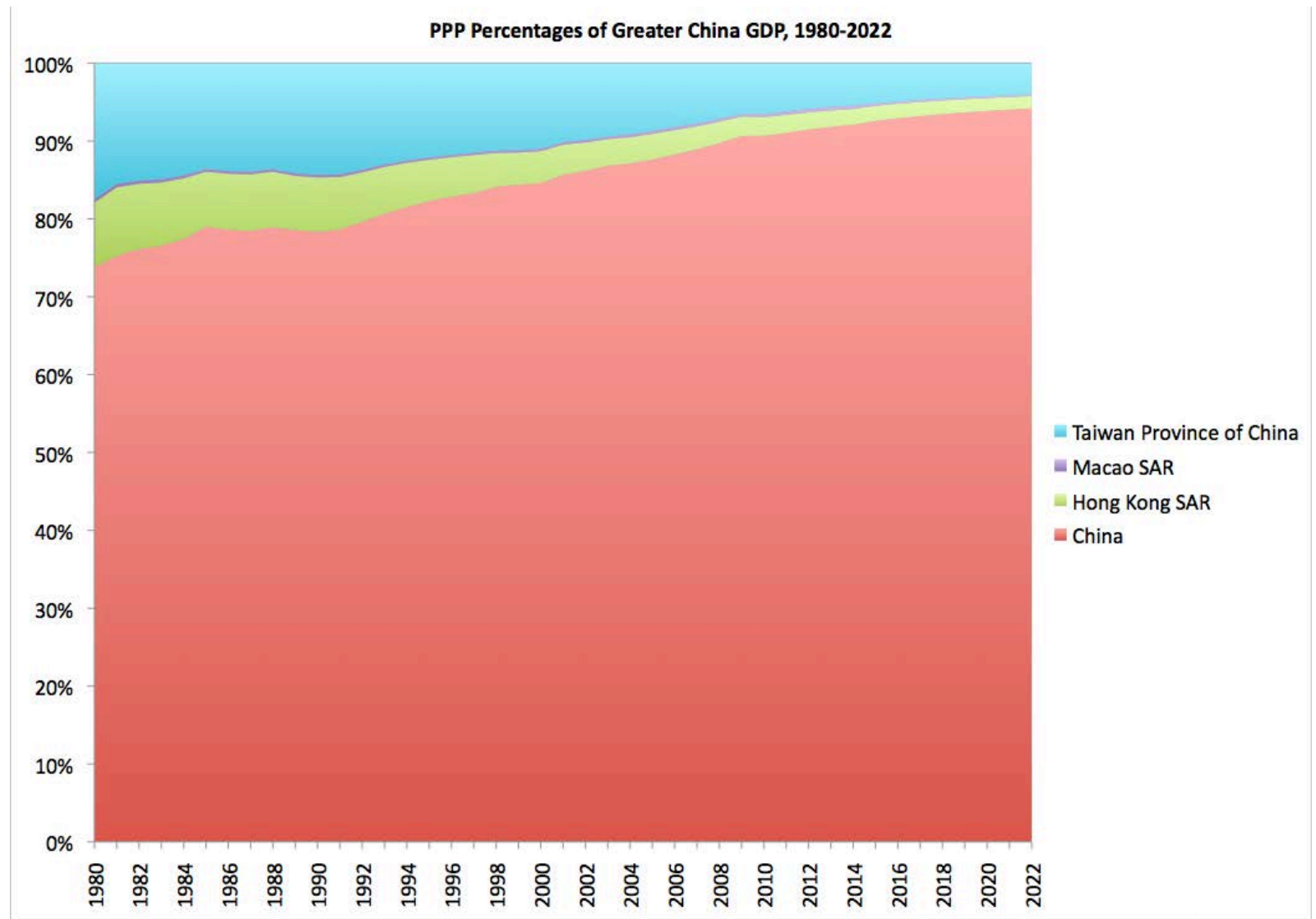
China's Growth into the World's #1 Economy



Source: IMF WEO Database

Russia pre-1993 data extrapolated from CIA estimate of Soviet economy: https://www.cia.gov/library/readingroom/docs/DOC_0000498181.pdf

How PRC Grew to Dominate Greater China's Economy



Source: IMF WEO Database

Some A, B, and H-share statistics

	Hong Kong Exchange (03/08/2017)		Shanghai Stock Exchange (03/08/2017)		Shenzhen Stock Exchange (03/08/2017)	
	Main Board	GEM	A Share	B Share	A Share	B Share
No. of listed companies	1,758	302	1,312	51	2,004	49
No. of listed H shares	224	24	n.a.	n.a.	n.a.	n.a.
No. of listed red-chips stocks	152	6	n.a.	n.a.	n.a.	n.a.
Total no. of listed securities	10,463	303	n.a.	n.a.	n.a.	n.a.
Total market capitalisation (Bil. dollars)	HKD 30,017	HKD 263	RMB 31,621	RMB 100	RMB 22,372	RMB 84
Total negotiable capitalisation (Bil. dollars)	n.a.	n.a.	RMB 26,719	RMB 100	RMB 15,684	RMB 83
Average P/E ratio (Times)	14.79	35.86	17.48	21.95	35.50	11.53
Total turnover (Mil. shares)	152,956	1,925	23,384	32	22,502	22
Total turnover (Mil. dollars)	HKD 85,541	HKD 661	RMB 243,765	RMB 195	RMB 279,335	RMB 126
Total market turnover (Mil. dollars)	HKD 86,202		RMB 245,608		RMB 279,461	

Source: <https://www.hkex.com.hk/eng/csm/highlight.htm>

A-shares

Originally limited to
Mainland investors

Open to QFIIs in 2002

Open via Stock Connect
programs in 2014 (SH)
and 2016 (SZ)

Averaged 15-40%
premium since 2014

H-shares, Red Chips
and P-Chips

25% of HK-listed
names, but 65% of
HK Market Cap

Open to Mainland via
QDII, then Stock
Connect

HANG SENG CHINA AH PREMIUM INDEX

HSCAHI:HKG

PRICE (USD) TODAY'S CHANGE SHARES TRADED 1 YEAR CHANGE 52 WEEK RANGE
126.52 **↓ -0.57 / -0.45%** **0.00** **↓ -0.10%** **113.19 - 129.04**

Data delayed at least 15 minutes, as of Aug 04 2017 09:09 BST.

Summary

Charts

Historical prices

1D

3D

1W

1M

6M

1Y

3Y

5Y

Comparisons >

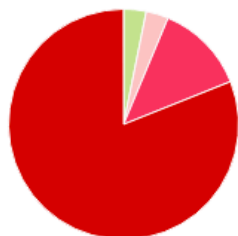


A-H Premium Name by Name on AASStocks

www.aastocks.com/en/stocks/market/ah.aspx

AH Premium distribution chart ?

Show: SH Listed AH share SZ Listed AH share



H Share Premium > 20%	: 0
H Share Premium = 10% to 20%	: 0
H Share Premium = 0 to 10%	: 3
H Share Premium = -10% to 0	: 3
H Share Premium = -10% to -20%	: 12
H Share Premium < -20%	: 77

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	H-shares ¹			A-shares ²			H-shares VS. A-shares
Name	Symbol ▲	Last (HKD)	Change (%) ³	Symbol ▼	Last (RMB)	Change (%) ³	Premium (%) ⁴ ?
FIRST TRACTOR ¹	00038.HK CON	3.730	-0.267%	601038.SH CON	8.74	-0.456%	-63.353%
NE ELECTRIC	00042.HK 52W Lo	1.830	-2.660%	000585.SZ	5.25	+0.191%	-70.069%
SICHUAN EXPRESS	00107.HK CON	3.230	-0.309%	601107.SH CON	4.86	-0.205%	-42.931%
TSINGTAO BREW	00168.HK CON	33.550	-0.297%	600600.SH CON	32.53	-0.092%	-11.439%
JIANGSU EXPRESS	00177.HK CON	11.380	+0.176%	600377.SH CON	9.70	+0.310%	+0.741%
JINGCHENG MAC ¹	00187.HK	2.170	-3.125%	600860.SH	6.55	+0.306%	-71.552%
KUNMING MACHINE ¹	00300.HK	2.490	0.000%	600806.SH	6.44	0.000%	-66.799%
COMEC ¹	00317.HK CON	13.680	+5.231%	600685.SH CON	26.46	+5.042%	-55.605%
MAANSHAN IRON	00323.HK CON	3.940	-1.253%	600808.SH CON	5.23	0.000%	-35.311%
SHANGHAI PECEM	00338.HK CON	4.480	+1.587%	600688.SH CON	6.90	+1.471%	-44.247%
ANGANG STEEL ¹	00347.HK	6.510	-0.153%	000898.SZ	7.03	+3.382%	-20.483%
JIANGXI COPPER	00358.HK CON	13.740	0.000%	600362.SH CON	19.60	-0.558%	-39.804%

Source: <https://www.hkex.com.hk/eng/csm/highlight.htm>

Index 1: FTSE/Xinhua China A50 – 62% Financials

Weighting	NameEN	NameSC	ExchgTicker	TradExchg	GICSSectorEN	GICSSectorSC
10.9	PING AN INSURANCE GROUP CO-A	中国平安	601318 CG	SHAX	Financials	金融
6.8	CHINA MERCHANTS BANK-A	招商银行	600036 CG	SHAX	Financials	金融
5.5	INDUSTRIAL BANK CO LTD -A	兴业银行	601166 CG	SHAX	Financials	金融
4.7	KWEICHOW MOUTAI CO LTD-A	贵州茅台	600519 CG	SHAX	Consumer Staples	日常消费品
4.0	SHANGHAI PUDONG DEVEL BANK-A	浦发银行	600000 CG	SHAX	Financials	金融
3.9	CHINA MINSHENG BANKING-A	民生银行	600016 CG	SHAX	Financials	金融
3.2	MIDEA GROUP CO LTD-A	美的集团	000333 CS	SHEX	Consumer Discretionary	非日常生活消费品
3.0	CITIC SECURITIES CO-A	中信证券	600030 CG	SHAX	Financials	金融
3.0	AGRICULTURAL BANK OF CHINA-A	农业银行	601288 CG	SHAX	Financials	金融
2.9	BANK OF COMMUNICATIONS CO-A	交通银行	601328 CG	SHAX	Financials	金融
2.7	IND & COMM BK OF CHINA-A	工商银行	601398 CG	SHAX	Financials	金融

sgx.com/wps/portal/sgxweb/home/marketinfo/derivatives/delayed_prices/futures

	Contract Month	Last	Bid Size	Bid	Ask	Ask Size	Open	High	Low	Screen Volume	Off-Exch Volume	Total Volume	Open Interest
Γ	Aug 17	▼ 11,745.00	36	11,745.00	11,760.00	560	11,852.50	11,872.50	11,742.50	138,800	5,000	143,800	615,566
Γ	Sep 17	▼ 11,730.00	1	11,727.50	11,750.00	2	11,840.00	11,850.00	11,715.00	8,437	5,000	13,437	18,914
Γ	Oct 17	▼ 11,745.00	1	11,735.00	11,982.50	3	11,745.00	11,745.00	11,745.00	1	-	1	5
Γ	Dec 17	▼ 11,775.00	1	11,765.00	11,895.00	1	11,830.00	11,915.00	11,775.00	29	-	29	704
Γ	Mar 18	▼ 11,810.00	1	11,762.50	11,950.00	1	11,945.00	11,945.00	11,810.00	7	-	7	231
Γ	Jun 18	▼ 11,800.00	1	11,750.00	11,950.00	1	11,810.00	11,810.00	11,800.00	2	-	2	24

Source: SGX, CSOP (<https://csopasset.us/products/afty>)

Index 2: MSCI China – More IT and Consumer

Category	Index Value	Company	Market Cap	Industry	Country	Weight
Information Technology	37.90					
Financials	23.61					
Consumer Discretionary	9.94	700	TENCENT HOLDINGS LTD	Information Technology	China	15.78
Telecommunication Services	5.82	BABA	ALIBABA GROUP HOLDING ADR REPRESENTING	Information Technology	China	12.19
Energy	4.88	939	CHINA CONSTRUCTION BANK CORP H	Financials	China	4.99
Real Estate	4.44	941	CHINA MOBILE LTD	Telecommunication Services	China	4.64
		BIDU	BAIDU ADR REPRESENTING INC CLASS A	Information Technology	China	4.37
		1398	INDUSTRIAL AND COMMERCIAL BANK OF CHINA	Financials	China	3.73
		3988	BANK OF CHINA LTD H	Financials	China	2.82
		2318	PING AN INSURANCE (GROUP) CO OF CH	Financials	China	2.76
		JD	JD.COM ADR REPRESENTING INC CLASS A	Consumer Discretionary	China	2.09
		NTES	NETEASE ADR REPRESENTING INC	Information Technology	China	1.69

sgx.com/wps/portal/sgxweb/home/market

	Contract Month	Last	Bid Size	Bid	Ask	Ask Size	Open	High	Low	Screen Volume	Off-Exch Volume	Total Volume	Open Interest
T	Aug 17	▲ 8,032.00	5	7,326.00	8,528.00	5	8,010.00	8,044.00	8,008.00	59	-	59	294
T	Sep 17	-	5	7,328.00	8,536.00	5	-	-	-	-	-	-	-
T	Oct 17	-	-	-	-	-	-	-	-	-	-	-	-

Source: SGX, iShares.com

Index 3: MSCI Taiwan – Different IT sub-sectors

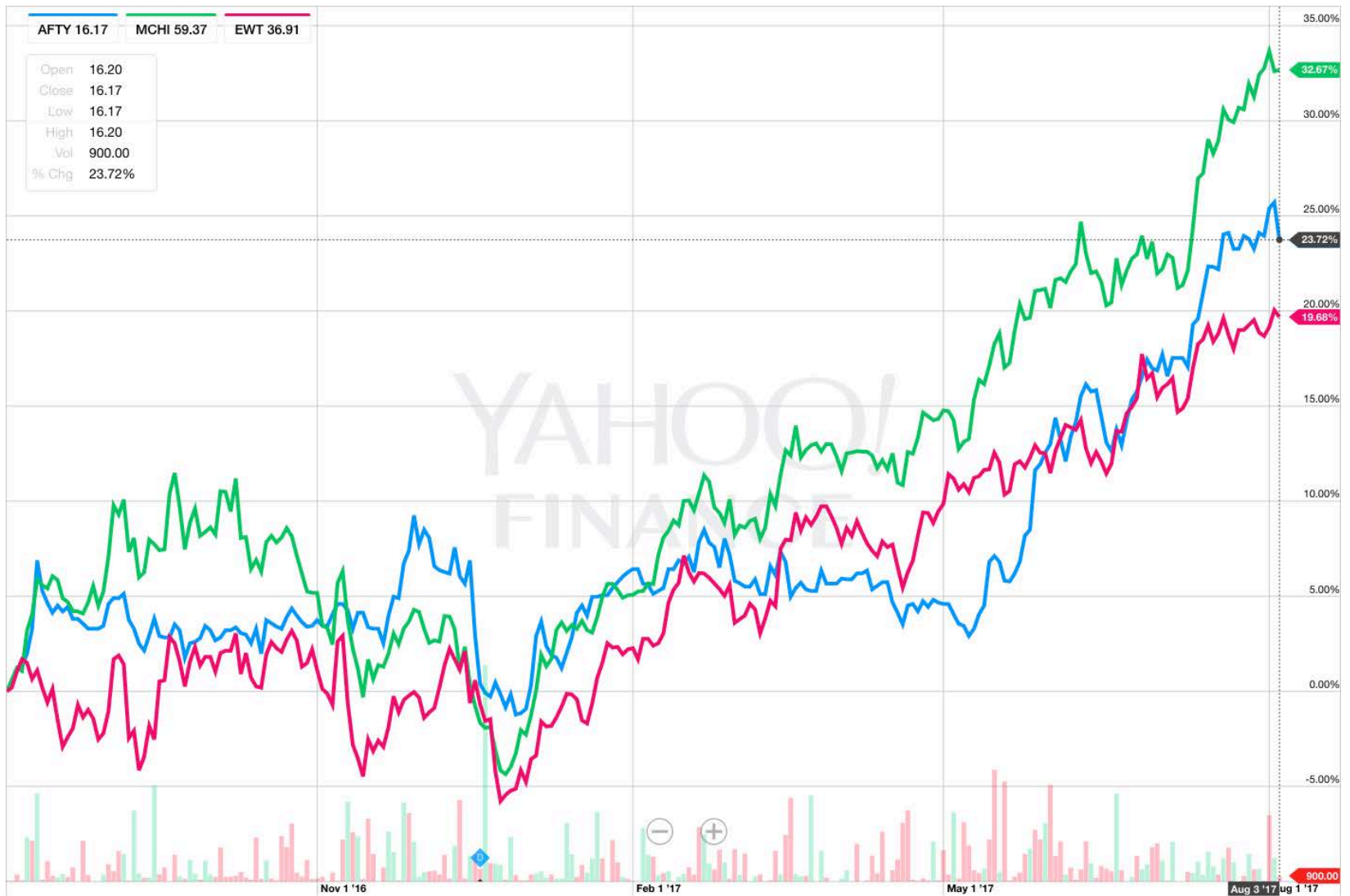
Category	Index Value	Company	Sub-Sector	Country	Weight	
Information Technology	57.07					
Financials	16.68					
Materials	9.22	2330	TAIWAN SEMICONDUCTOR MANUFACTURING	Information Technology	Taiwan	21.87
Telecommunication Services	4.06	2317	HON HAI PRECISION INDUSTRY LTD	Information Technology	Taiwan	10.33
Consumer Discretionary	4.01	3008	LARGAN PRECISION LTD	Information Technology	Taiwan	3.24
		2454	MEDIATEK INC.	Information Technology	Taiwan	2.48
		2882	CATHAY FINANCIAL HOLDING LTD	Financials	Taiwan	2.28
		1301	FORMOSA PLASTICS CORP.	Materials	Taiwan	2.22
		2412	CHUNGHWA TELECOM CO. LTD.	Telecommunication Services	Taiwan	2.19
		1303	NAN YA PLASTICS CORP.	Materials	Taiwan	2.09
		2891	CTBC FINANCIAL HOLDING CO LTD	Financials	Taiwan	1.91
		2002	CHINA STEEL CORP.	Materials	Taiwan	1.82

sgx.com/wps/portal/sgxweb/home/marketinfo

	Contract Month	Last	Bid Size	Bid	Ask	Ask Size	Open	High	Low	Screen Volume	Off-Exch Volume	Total Volume	Open Interest
T	Aug 17	▲ 393.40	9	393.30	393.40	21	392.50	394.10	392.10	22,192	-	22,192	218,872
T	Sep 17	▲ 393.30	1	392.60	393.90	1	392.60	393.30	392.30	355	-	355	23,476
T	Oct 17	-	3	383.90	397.20	6	-	-	-	-	-	-	5

Source: SGX, iShares.com

Snapshot performance of the 3 indices over 2016-2017



Source: Yahoo Finance

Greater China Futures on IBKR (vs SGX Nikkei)

SGXNK ∞ Sep07'17 @SGX	19415	60.8K
XINA50 ∞ Aug30'17 @SGX	11902.50	84.7K
STW ∞ Aug30'17 @SGX	391.60	30.8K
M3CNX ∞ Aug30'17 @SGX	c8204.00	
CY ∞ Sep18'17 @SGX	c0.15001	
UC ∞ Dec18'17 @SGX	6.7058	937

Source: Interactive Brokers

Greater China Futures on IBKR (Order Confirmation)

The image displays three overlapping screenshots of the Interactive Brokers (IBKR) Order Confirmation interface. Each window shows the details for a specific futures contract, including the instrument name, bid/ask prices, order type, and account information.

Order Confirmation 1: FTSE/Xinhua China A50

Financial Instrument	Bid	Bid Yield	Ask	Ask Yield	Last	Lst Yld
XINA50 ∞ Oct30'17 ...	12017.50		12020.00		12020.00	

Order Description: XINA50 ∞ Oct30'17 @SGX
 BUY 1
 FTSE/Xinhua China A50
 Order Type LMT Routing SGX Time in Force DAY
 Account DU2189
 Limit Price 12017.50

Amount: 12,017.50
 Commission (est.): 2.85
 Total: 12,020.35

Don't display this message

Order Confirmation 2: MSCI Taiwan Index

Financial Instrument	Bid	Bid Yield	Ask	Ask Yield	Last	Last Yield
STW ∞ Oct30'17 @SGX	384.00		384.20		384.10	

Order Description: STW ∞ Oct30'17 @SGX
 BUY 1
 MSCI Taiwan Index
 Order Type LMT Routing SGX Time in Force DAY
 Account DU2189
 Limit Price 384.10

Amount: 38,410
 Commission (est.): 2.85
 Total: 38,412.85

Don't display this message

Order Confirmation 3: MSCI China Free Price USD Index

Financial Instrument	Bid	Bid Yield	Ask	Ask Yield	Last	Last Yield
M3CNX ∞ Sep28'17 ...	8330.00		8350.00		8338.00	

Order Description: M3CNX ∞ Sep28'17 @SGX
 BUY 1
 MSCI China Free Price USD Index
 Order Type LMT Routing SGX Time in Force DAY Account DU2189
 Limit Price 8348.00

Amount: 41,740 USD
 Commission (est.): 2.85 USD
 Total: 41,742.85 USD

Margin Impact (in USD)

	Current	Change	Post-trade*
Equity with Loan	10,655,564	-33	10,655,531
Initial Margin	1,019,934	6,490	1,026,424
Maintenance Margin	1,013,687	5,192	1,018,879
Position	0	1	1

*This is a current projection and is subject to change.

Don't display this message again.

Source: Interactive Brokers

SGX RMB Currency Futures (Order Confirmation)

Order Confirmation

SGX onshore Chinese Renminbi (CNY) in US Dollar Futures

Financial Instrument	Bid	Bid Yield	Ask	Ask Yield	Last	Lst Yld
CY ∞ Mar19'18 @SGX	0.14300		0.16300		c0.14941	

Order Description: **BUY 1**
 CY ∞ Mar19'18 @SGX
 SGX onshore Chinese Renminbi (CNY) in US Dollar Futures

Order Type LMT Routing SGX Time in Force DAY Account DU2189

Limit Price 0.16299

Amount

Amount	81,495 USD
Commission (est.)	1.80 USD
Total	81,496.80 USD

Don't display this message again.

Order Confirmation

SGX US Dollar in offshore Chinese Renminbi (CNH)

Financial Instrument	Bid	Bid Yield	Ask	Ask Yield	Last	Last Yield
UC ∞ Dec18'17 @SGX	6.6679		6.6692		6.6697	

Order Description: **SELL 1**
 UC ∞ Dec18'17 @SGX
 SGX US Dollar in offshore Chinese Renminbi (CNH)

Order Type LMT Routing SGX Time in Force DAY Account DU2189

Limit Price 6.6692

Amount

Amount	666,920 CNH
Commission (est.)	11.20 CNH
Total	666,908.80 CNH

Margin Impact (in USD)

	Current	Change	Post-trade*
Equity with Loan	10,655,711	-2	10,655,710
Initial Margin	1,019,775	14,981	1,034,756
Maintenance Margin	1,013,528	11,984	1,025,513
Position	0	-1	-1

*This is a current projection and is subject to change.

Don't display this message again.

Source: Interactive Brokers

Trade 1: Long MSCI Free

Drivers

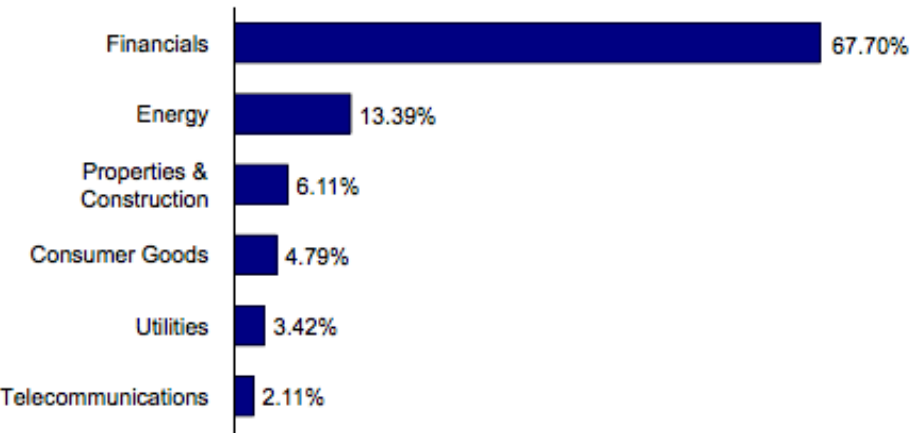
- Narrowing AH Premium
- Continued Strength in BAT (Baidu, Alibaba, Tencent)

Short A50 Futures

Risks

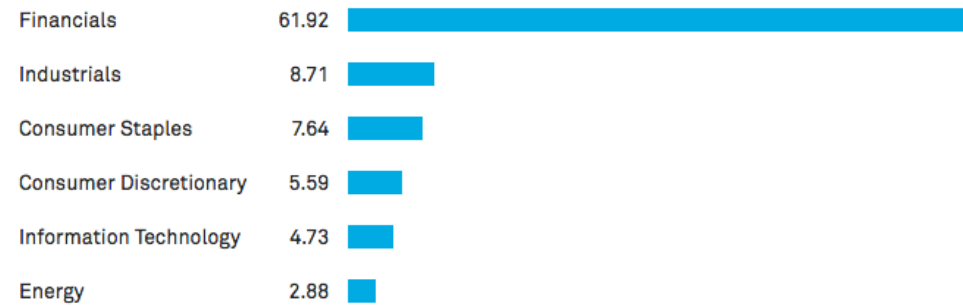
- Widening and Volatile AH Premium
- Collapse in BAT

Note: A50 matches HSCEI and Connect more than MSCI

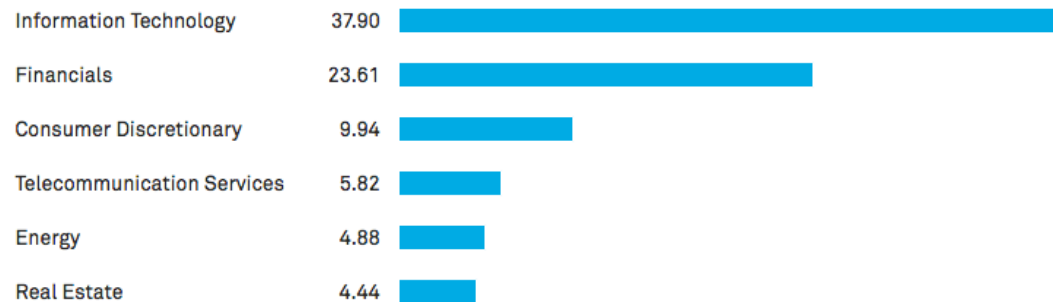


Hang Seng H-Share Index

Source: http://www.hangseng.com/cms/ivp/eng/etf/PDF/2828_eng_mfs.pdf



FTSE/Xinhua China A50 Index



MSCI China Free

Trade 2: Long SC Stocks

- Select portfolio of individual names
- Discount rotation as well as AH Premium
- Need cash to fund stock positions

Short A50 Futures

- USD-CNH basis risk
- Margin call if AH premium widens or shares underperform

Trade 3: Short MSCI Taiwan

Drivers

- Continued lower returns in commoditized Taiwan vs branded China names
- All USD contracts

Long MSCI China + A50

Risks

- Major onshore credit crisis where Taiwan is less affected

Trade 4: Buy USD Bonds

Drivers

- Continued USD weakness / RMB strength
- Greater availability of USD credits

Buy CY or Sell UC

Risks

- RMB weakness or collapse
- Major offshore credit crisis



GLOBAL FINANCIAL MARKETS
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