



**GFM**  
ASSET MANAGEMENT

Exchange  
Partner

**SGX** 

# Too Big to Ignore: How to Invest in China's Rising Dominance in Global Stock Indices

by Tariq Dennison, +852 9476 2868

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## About Tariq Dennison, CFP<sup>CM</sup>

- I manage accounts held at 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<sup>CM</sup> professional

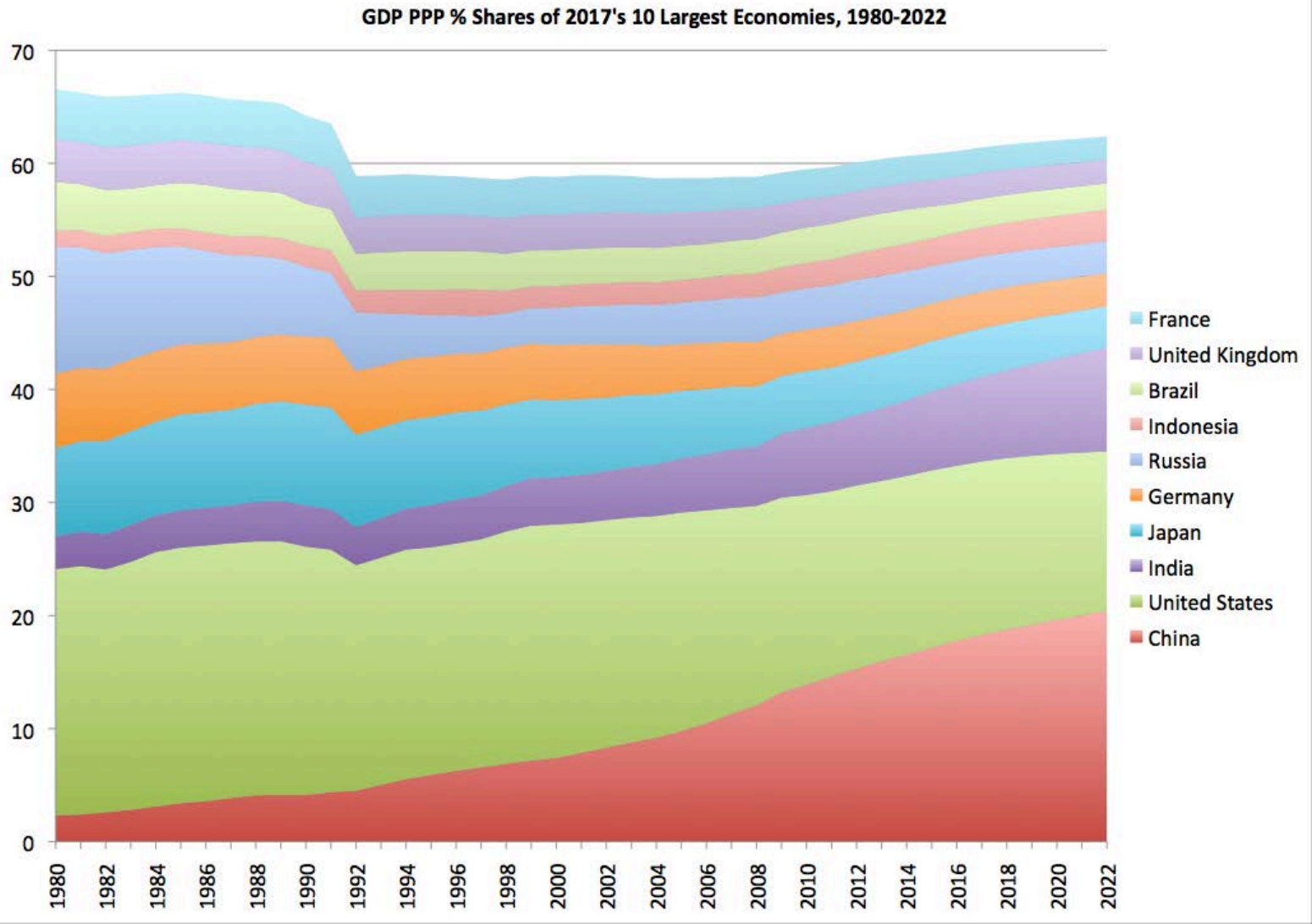


# What is Greater China?



Source: [https://en.wikipedia.org/wiki/File:Great\\_China\\_Map.PNG](https://en.wikipedia.org/wiki/File:Great_China_Map.PNG)

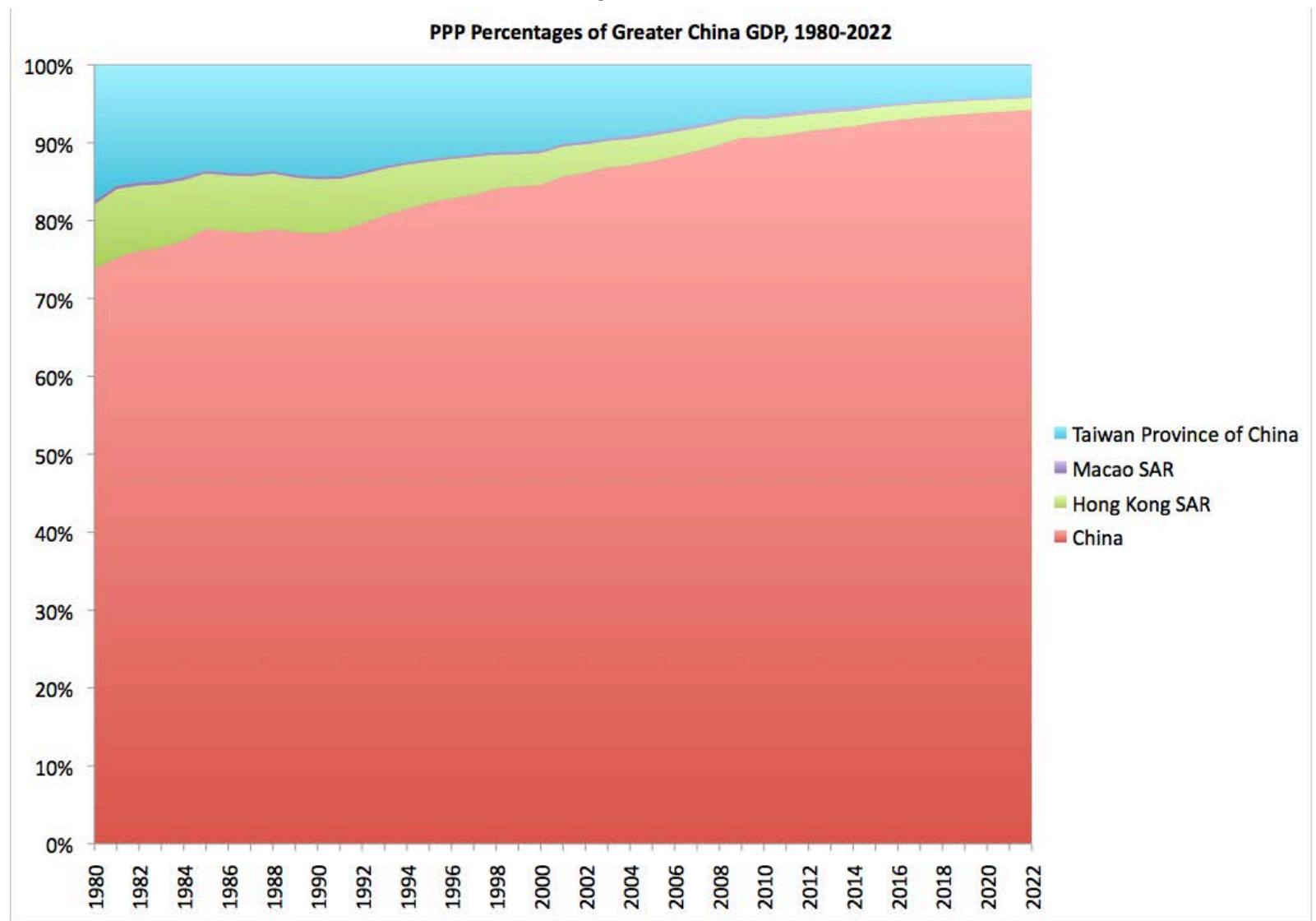
# China's Growth into the World's #1 Economy



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](https://www.cia.gov/library/readingroom/docs/DOC_0000498181.pdf)

# “Greater China” now mostly PRC, so we focus on that



Source: IMF WEO Database

# A vs B vs H-share statistics

	Hong Kong Exchange (04/09/2018 )		Shanghai Stock Exchange (04/09/2018 )		Shenzhen Stock Exchange (04/09/2018 )	
	Main Board	GEM	A Share	B Share	A Share	B Share
No. of listed companies	1,874	379	1,433	51	2,108	48
No. of listed H shares	236	24	n.a.	n.a.	n.a.	n.a.
No. of listed red-chips stocks	159	5	n.a.	n.a.	n.a.	n.a.
Total no. of listed securities	13,099	380	n.a.	n.a.	n.a.	n.a.
Total market capitalisation (Bil. dollars)	HKD 31,960	HKD 221	RMB 29,253	RMB 87	RMB 18,647	RMB 65
Total negotiable capitalisation (Bil. dollars)	n.a.	n.a.	RMB 25,065	RMB 87	RMB 13,662	RMB 64
Average P/E ratio (Times)	11.39	36.02	13.72	11.30	23.14	7.01
Total turnover (Mil. shares)	199,289	1,038	10,968	18	16,129	11
Total turnover (Mil. dollars)	HKD 72,128	HKD 442	RMB 114,067	RMB 108	RMB 155,100	RMB 56
Total market turnover (Mil. dollars)	HKD 72,570		RMB 114,223		RMB 155,156	

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

# A-H Premium Index 2012-2017 (down to ~118 as of 4Sep)

<https://markets.ft.com/data/indices/tearsheet/summary?s=HSCAHPI:HKG>

## HANG SENG CHINA AH PREMIUM INDEX

HSCAHPI: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 by Name, some over 5x

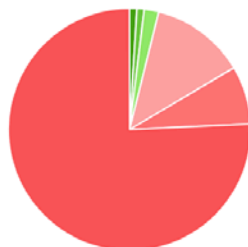
Secure | [www.aastocks.com/en/stocks/market/ah.aspx?sort=5&order=1&filter=3](http://www.aastocks.com/en/stocks/market/ah.aspx?sort=5&order=1&filter=3)

## AH Premium distribution chart ?

H Share Premium < -20% **78**

H Share Premium = -10% to -20% **8**

H Share Premium = -10% to 0 **13**



H Share Premium > 20% **1**

H Share Premium = 10% to 20% **1**

H Share Premium = 0 to 10% **2**

富達專業相伴  
投資夢想一刻

AH Share <span>📄</span> <span>🖨</span>	H-shares <sup>1</sup>			A-shares <sup>2</sup>			H-shares VS. A-shares
Name	Symbol▼	Last (HKD)	Change (%) <sup>3</sup> ▼	Symbol▼	Last (RMB)	Change (%) <sup>3</sup> ▼	Premium (%) <sup>4</sup> ▲ <span>?</span>
DYNAGREEN ENV	<a href="#">01330.HK</a> <span>📄</span>	3.100	-0.322%	<a href="#">601330.SH</a> <span>1M Hi</span> <span>📄</span>	17.82	+10.000%	-84.870%
LUOYANG GLASS <span>1</span>	<a href="#">01108.HK</a> <span>3Y Lo</span> <span>📄</span>	2.530	-1.172%	<a href="#">600876.SH</a> <span>📄</span>	13.62	-2.296%	-83.844%
ZHEJIANG SHIBAO	<a href="#">01057.HK</a> <span>📄</span>	1.250	+4.167%	<a href="#">002703.SZ</a> <span>📄</span>	4.50	-1.099%	-75.841%
SHANDONG MOLONG	<a href="#">00568.HK</a> <span>📄</span>	1.250	-2.344%	<a href="#">002490.SZ</a> <span>📄</span>	4.30	-1.149%	-74.717%
JINGCHENG MAC	<a href="#">00187.HK</a> <span>📄</span>	1.690	0.000%	<a href="#">600860.SH</a> <span>📄</span>	4.94	-1.200%	-70.246%
NE ELECTRIC	<a href="#">00042.HK</a> <span>3Y Lo</span>	0.730	-3.947%	<a href="#">000585.SZ</a>	2.07	-0.481%	-69.328%

Source: AASTocks

# Trading the A50 – Still over 50% Financials (vs 62% 1ya)

Weight %	NameEN	NameTC	NameSC	ExchgTicker	TradE xchg	GICSector EN
12.2	PING AN INSURANCE GROUP CO-A	中國平安	中国平安	601318	CG SHAX	Financials
6.9	CHINA MERCHANTS BANK-A	招商銀行	招商银行	600036	CG SHAX	Financials
6.2	KWEICHOW MOUTAI CO LTD-A	貴州茅台	贵州茅台	600519	CG SHAX	Consumer Staples
4.3	INDUSTRIAL BANK CO LTD -A	興業銀行	兴业银行	601166	CG SHAX	Financials
3.4	CHINA MINSHENG BANKING-A	民生銀行	民生银行	600016	CG SHAX	Financials
3.4	MIDEA GROUP CO LTD-A	美的集團	美的集团	000333	CS SHEX	Consumer Discretionary
3.4	GREE ELECTRIC APPLIANCES I-A	格力電器	格力电器	000651	CS SHEX	Consumer Discretionary
3.2	CHINA VANKE CO LTD -A	萬科	万科	000002	CS SHEX	Real Estate
3.1	SHANGHAI PUDONG DEVEL BANK-A	浦發銀行	浦发银行	600000	CG SHAX	Financials
2.6	AGRICULTURAL BANK OF CHINA-A	農業銀行	农业银行	601288	CG SHAX	Financials
2.6	CITIC SECURITIES CO-A	中信証券	中信证券	600030	CG SHAX	Financials
2.5	INNER MONGOLIA YILI INDUS-A	伊利股份	伊利股份	600887	CG SHAX	Consumer Staples
2.4	IND & COMM BK OF CHINA-A	工商銀行	工商银行	601398	CG SHAX	Financials
2.3	BANK OF COMMUNICATIONS CO-A	交通銀行	交通银行	601328	CG SHAX	Financials
2.3	JIANGSU HENGRUI MEDICINE C-A	恆瑞醫藥	恒瑞医药	600276	CG SHAX	Health Care
2.3	WULIANGYE YIBIN CO LTD-A	五糧液	五粮液	000858	CS SHEX	Consumer Staples

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

# A50 Futures are Still Super-liquid

www.sgx.com/wps/portal/sgxweb/home/marketinfo/derivatives/delayed\_prices/futures

Type

Contract

Trading Session  ALL  T  T + 1

	Contract Month	Last	Bid Size	Bid	Ask	Ask Size	Open	High	Low	Screen Volume	Off-Exch Volume	Total Volume	Open Interest	DSP	Prev.Day DSP
T	Sep 18	▼ 11,140.00	106	11,127.50	11,140.00	31	11,365.00	11,395.00	11,107.50	245,967	-	245,967	843,133	11,140.00	11,410.00
T	Oct 18	▼ 11,157.50	1	11,145.00	11,160.00	10	11,375.00	11,402.50	11,130.00	1,243	-	1,243	1,155	11,157.50	11,435.00
T	Nov 18	-	1	11,065.00	11,245.00	1	-	-	-	-	-	-	-	11,185.00	11,457.50
T	Dec 18	▼ 11,170.00	1	11,100.00	11,257.50	1	11,400.00	11,425.00	11,170.00	42	-	42	207	11,210.00	11,482.50
T	Mar 19	▼ 11,360.00	1	11,180.00	11,350.00	1	11,400.00	11,400.00	11,360.00	2	-	2	221	11,287.50	11,562.50
T	Jun 19	▼ 11,300.00	1	11,200.00	11,405.00	1	11,300.00	11,300.00	11,300.00	1	-	1	14	11,217.50	11,492.50

**Trading Hours**  
SGX (T) Trading Hours: Mon - Fri 9:00 am - 4:35 pm

**Trading Hours**  
SGX (T+1) Trading Hours: Mon - Fri 5:00 pm - 4:45 am

Source: SGX

# ... traditionally complemented with Hang Seng or H-Share

[www.hkex.com.hk/Products/Listed-Derivatives/Equity-Index/Hang-Seng-Index-\(HSI\)/Hang-Seng-Index-Futures?sc\\_lang=en#8](http://www.hkex.com.hk/Products/Listed-Derivatives/Equity-Index/Hang-Seng-Index-(HSI)/Hang-Seng-Index-Futures?sc_lang=en#8)



☀ DAY SESSION

🌙 NIGHT SESSION

Contract	Last Traded	Net Change	Prev.Day Settlement Price	Bid Ask	Open	High Low	Volume
Sep-18	27,104	-778	27,105	27,100 27,120	27,660	27,819 27,100	219,196
Oct-18	27,104	-771	27,099	26,550 27,300	27,707	27,796 27,104	2,152
Dec-18	27,140	-785	27,140	27,063 27,800	27,770	27,853 27,140	532
Mar-19	27,181	-780	27,180	- 27,883	27,734	27,890 27,205	134

## ... which is also bank-heavy (+Tencent)

State Street Global Advisors Asia Limited [HK] | <https://www.trahk.com.hk/eng/Fund/fundInformation#holdings>

Ticker	Company	Sector	Weight
5-HK	HSBC Holdings	Financials	9.91%
1299-HK	AIA Group Ltd.	Financials	9.28%
700-HK	Tencent Holdings (P Chip)	Information Technology	9.12%
939-HK	China Construction Bank (H)	Financials	7.57%
941-HK	China Mobile (Red Chip)	Telecommunications	5.21%
1398-HK	Industrial and Commercial Bank of China (H)	Financials	4.84%
2318-HK	Ping An Insurance (H)	Financials	4.49%
3988-HK	Bank of China (H)	Financials	3.18%
388-HK	Hong Kong Exchanges & Clearing	Financials	2.97%
883-HK	CNOOC (Red Chip)	Energy	2.80%

# Even after A inclusion, top A (Kweichow Moutai) is still only 0.11% of the index



## Top 20 Constituents of the MSCI China Free Index

Bloomberg Ticker		Index Weight
700 HK Equity	TENCENT HOLDINGS LI (CN)	14.9%
BABA UN Equity	ALIBABA GROUP HLDG ADR	12.5%
939 HK Equity	CHINA CONSTRUCTION BK H	5.2%
BIDU UW Equity	BAIDU ADR	3.9%
941 HK Equity	CHINA MOBILE	3.6%
1398 HK Equity	ICBC H	3.1%
2318 HK Equity	PING AN INSURANCE H	3.1%
3988 HK Equity	BANK OF CHINA H	2.2%
883 HK Equity	CNOOC	1.9%
386 HK Equity	CHINA PETRO & CHEM H	1.5%
JD UW Equity	JD.COM ADR	1.4%
2628 HK Equity	CHINA LIFE INSURANCE H	1.0%
CTRP UW Equity	CTRP COM INTL ADR	1.0%
NTES UW Equity	NETEASE COM ADR	1.0%
857 HK Equity	PETROCHINA CO H	0.9%
3968 HK Equity	CHINA MERCHANTS BANK H	0.9%
YUMC UN Equity	YUM CHINA HOLDINGS	0.9%
1288 HK Equity	AGRI BANK OF CHINA H	0.9%
688 HK Equity	CHINA OVERSEAS LAND & INV	0.7%
1093 HK Equity	CSPC PHARMACEUTICAL GRP	0.7%

Source: SGX



Bloomberg ticker: M1CNX (US\$) – MSCI China Free Net Total Return Index in US\$



# MSCI China Index - All China Envelope for Global Investors

## A-Share Inclusion: Stock Connect eligible A-shares Only

### 1 All China Envelope for Global Investors

Source: MSCI as of 5 September 2018

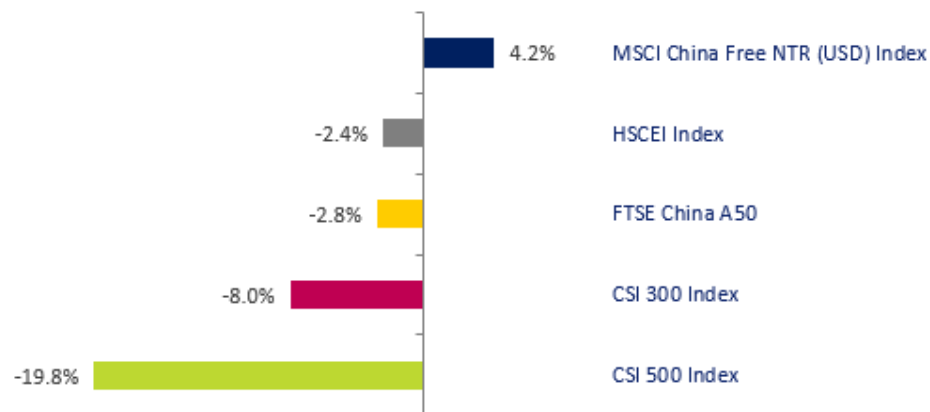
Share Class	No. of Securities	Initial Weight (%)
A-shares	247	10.3
ADR	19	23.6
B-shares	3	0.2
H-shares	93	31.5
P-chips	65	27.4
Red-chips	43	13.8

### Sector Weights of MSCI China Free Index<sup>SM</sup>

Sector	Sector Weights (%)
Information Technology	37
Financials	22
Consumer Discretionary	9
Energy	6
Real Estate	5
Industrials	5
Telecommunication Services	5
Health Care	4
Utilities	3
Consumer Staples	3
Materials	2

### 2 An Index that Outperforms Other Key Chinese Equity Indices

#### Year-on-Year Growth of Key Chinese Equity Indices (31 Aug 2017 – 31 July 2018)



#### Sectors Fuelling MSCI China Free NTR (USD) Index's Growth Year to Date



Information Technology



Real Estate



Energy



Health Care

Source: MSCI and Bloomberg

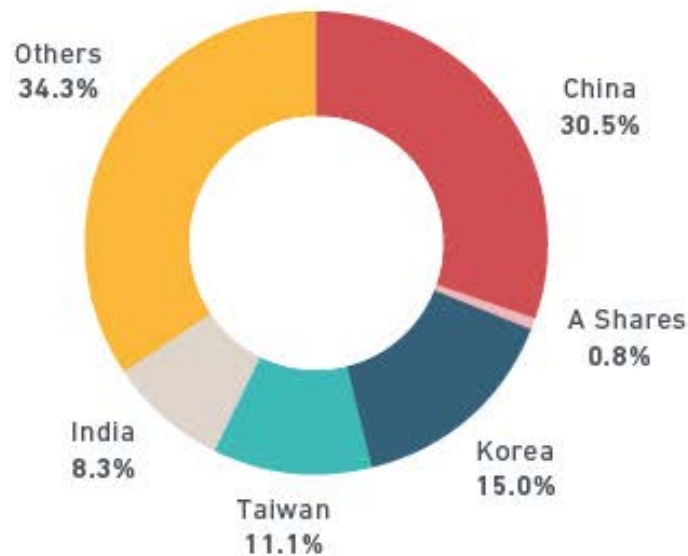
Key MSCI China Indexes	Share Classes	Domestic	Non-Domestic								
		China A	China H	China B	Red Chip	P Chip	HK	HSBC	Taiwan	US	SGP
Domestic China Index											
MSCI China A Index		●									
Non-domestic China Indexes											
MSCI China Index			●	●	●	●					
MSCI China H Index			●								
MSCI China B Index				●							
MSCI China Red Chip Index					●						
MSCI China P Chip Index						●					
MSCI China Free Index			●		●	●					
MSCI Hong Kong Index								●			
MSCI Overseas China Index										●	●
China Composite Indexes											
MSCI China A + H Index		●	●								
MSCI China A + B Index		●		●							
MSCI China A + B + H Index		●	●	●							
MSCI International China Index			●	●	●	●				●	●
MSCI China Free + Overseas China Index			●		●	●				●	●
MSCI Zhong Hua Index			●	●	●	●	●				
MSCI Zhong Hua + Overseas China Index			●	●	●	●	●			●	●
MSCI Zhong Hua + HSBC Index			●	●	●	●	●	●			
MSCI Golden Dragon Index			●	●	●	●	●		●		
MSCI Golden Dragon (A) Index		●	●	●	●	●	●		●		
MSCI Golden Dragon + Overseas China Index			●	●	●	●	●		●	●	●
MSCI All China Index		●	●	●	●	●				●	●
MSCI All China + Hong Kong + Taiwan Index		●	●	●	●	●	●		●	●	●

Source: <https://www.msci.com/documents/10199/c843449c-94e5-4a55-a606-fd0b7f234acb>

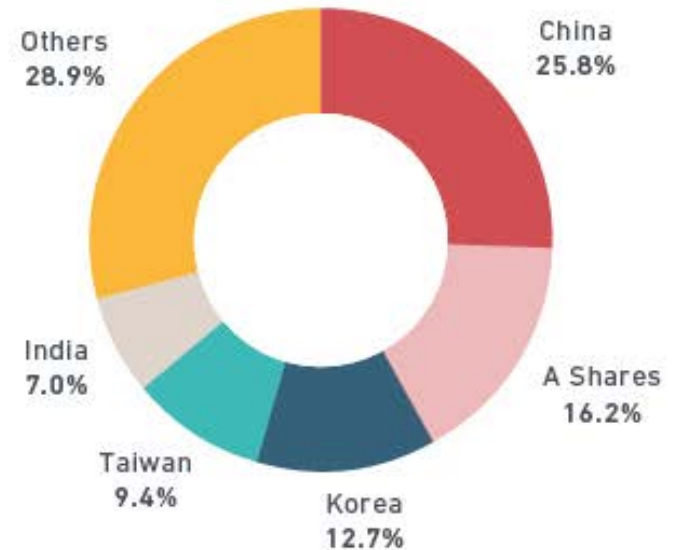
# Too Big to ignore: A inclusion will push Mainland China to over 42% of the EM index

## Already "EM-ex-China", look for "Asia ex-China"

MSCI EM INDEX WITH 5% CHINA A SHARES



MSCI EM INDEX WITH 100% CHINA A SHARES



Source: <https://www.msci.com/www/blog-posts/the-world-comes-to-china/01002067599>

Asia ex-China ETFs are currently offered by iShares, Columbia and EGAI

# China Free futures still not heavily traded...

[www.sgx.com/wps/portal/sgxweb/home/marketinfo/derivatives/delayed\\_prices/futures](http://www.sgx.com/wps/portal/sgxweb/home/marketinfo/derivatives/delayed_prices/futures)

Type	Equity Index ▼														
Contract	CH - SGX MSCI China Free Price Return (USD) Index Futures ▼														
Trading Session	<input type="radio"/> ALL <input checked="" type="radio"/> T <input type="radio"/> T + 1														
	Contract Month	Last	Bid Size	Bid	Ask	Ask Size	Open	High	Low	Screen Volume	Off-Exch Volume	Total Volume	Open Interest	DSP	Prev.Day DSP
T	Sep 18	▼7,988.00	5	7,450.00	7,998.00	1	8,026.00	8,026.00	7,988.00	78	-	78	58	7,984.00	8,200.00
T	Oct 18	-	5	7,438.00	8,868.00	5	-	-	-	-	-	-	-	7,996.00	8,212.00

Source: SGX

# Snapshot performance of the 3 indices over 2013-2018



Source: Yahoo Finance

# Order Confirmation for Greater China Futures on IBKR

The image displays three overlapping screenshots of the IBKR Order Confirmation window, showing order details for different financial instruments.

**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  
FTSE/Xinhua China A50

Order Type LMT  
Limit Price 12017.50

Amount  
Amount  
Commission (est.)  
Total

Don't display this message again.

**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  
MSCI Taiwan Index

Order Type LMT  
Limit Price 384.00

Amount  
Amount  
Commission (est.)  
Total

Don't display this message again.

**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  
MSCI China Free Price USD Index

Order Type LMT  
Routing SGX  
Time in Force DAY  
Account DU2189

Limit Price 8348.00

Amount	Margin Impact (in USD)	Current	Change	Post-trade*
Amount	41,740 USD			
Commission (est.)	2.85 USD			
Total	41,742.85 USD			
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 has been expanding its “Total China” coverage

## SGX: One Stop, Multi Asset Platform for Chinese Assets

Only Exchange to offer Mainland and offshore Chinese equity derivatives on a single platform

### Equities

- SGX FTSE China A50 Futures
- SGX MSCI China Futures & Options

### Currencies

- CNY/USD Futures
- USD/CNH Futures & Options
- EUR/CNH Futures
- SGD/CNH Futures

### Commodities

- Iron Ore Swaps, Futures & Options
- Coking Coal Futures
- Rubber Futures

Leading international clearing house for iron ore and coking coal derivatives

Physical benchmark for TSR20 rubber

Fastest growing and largest CNH futures in the world (70% market share)

# Order Confirmation for SGX RMB Currency Futures

**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 U
Commission (est.)	1.80 U
<b>Total</b>	<b>81,496.80 U</b>

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	Margin Impact (in USD)
Amount	666,920 CNH
Commission (est.)	11.20 CNH
<b>Total</b>	<b>666,908.80 CNH</b>
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



# Risk #1: Trade War



Source: [https://commons.wikimedia.org/wiki/File:Turnbull\\_selfie\\_with\\_Xi\\_Trump\\_Quang.jpg](https://commons.wikimedia.org/wiki/File:Turnbull_selfie_with_Xi_Trump_Quang.jpg)

# Risk #2: Banking / Credit Crisis



Source: Max Pixel

## Trade 1: Long MSCI Free

### Drivers

- Narrowing AH Premium
- Continued Strength in BAT+J (Baidu, Alibaba, Tencent, JD.com)

## Short A50 Futures

### Risks

- Widening and Volatile AH Premium
- Collapse in BAT+J

## 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



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## Questions? Contact Us

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