

# Greater market openness

## More opening up voiced at Boao Forum

President Xi Jinping delivered (10 April) the key message of a more open China market at the Boao Forum. Key areas (Fig.1) covered include automobiles, finance, ships and aircraft. Additionally, new PBOC Governor Yi Gang announced detailed measures and a timetable for further opening up of the domestic capital market and financial sector, including expansion of the Stock Connect daily quota and studying the Shanghai-London Connect. Greater market openness will be a long-term positive catalyst to the China/HK market, in our view, though the short-term implications will not be prominent for some areas.

## Expansion of Stock Connect daily quota

The daily quota for Stock Connect will be expanded by fourfold to RMB42bn for each of Shanghai-Hong Kong and Shenzhen-Hong Kong southbound trading and to RMB52bn for each of Hong Kong-Shanghai and Hong Kong-Shenzhen northbound trading, effective on 1 May. This will not have impact on short-term fund flows, in our view, because only 9.3/3.8% of southbound/northbound daily quota were used in 2017; moreover, since the launch of Stock Connect, daily quotas were rarely fully reached. The long-lasting implication, nonetheless, is that it could reassure both southbound and northbound investors about market accessibility in the case of large fund inflows. For the HK market, we think expanding the southbound stock universe or approving participation in IPOs via Stock Connect could have more immediate influence on southbound fund flows and spark more interest. For the A-share market, we think A-share inclusion in MSCI indexes might not be the key consideration for increasing the daily quota, but it could prepare for the entry of more foreign capital in the long run.

## Studying the Shanghai-London Connect and QDII reform

The CSRC is said to be pushing forward preparation work for Shanghai-London Connect and aims to launch the program by the end of this year. The State Administration of Foreign Exchange also claimed that it will study QDII reform next. We think these reform measures could mark a new milestone (Fig.2) for the opening up of China's capital market and boost the integration of China's capital market with global markets. In the long run, it could enhance Chinese stocks' attractiveness.

## Short-term impact might not be prominent

Despite the long-term positive implications, we think short-term market influence could be minimal until more details are unveiled. According to PBOC Governor Mr Yi Gang, the progress of reforms will be gradual and pushed forward with caution. We continue to expect extended market turbulence (see [2Q outlook](#)) and recommend sticking to resilient earnings amid volatility. We like consumer durables and apparel, consumer staples, healthcare, and select oil companies with low PB and improving ROE. We continue to like Internet leaders, banks, and air transport, but we think recent weak sentiment will weigh on their short-term performance.

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**Fig.1. Key areas and measures for opening up announced recently**

Areas	Measures	Timetable
Auto	Cut import tariffs Lift cap on foreign ownership	
Finance	Quadruple the daily quota of Stock Connect. The northbound quota of Shanghai Connect and Shenzhen Connect will be raised from RMB13 billion to RMB52 billion, and southbound daily quota will be increased from RMB10.5 billion to RMB52 billion. Abolish cap on foreign ownership in banks and financial asset management companies; allow foreign banks to open branches Lift the cap on foreign ownership in securities companies, fund management companies, futures companies, and life insurance companies to 51% Abolish the requirement of at least one domestic securities company shareholder for JV securities companies Open select insurance business areas to qualified foreign investors Prepare for Shanghai-London Connect Study QDII reform	Effective on 1 May In next few months In next few months In next few months In next few months Before the end of 2018
Manufacturing	Lift foreign ownership cap in select areas such as ship and aircraft sectors	

Source: News report, Huatai HK Research

**Fig.2. Key events of opening of China capital market**

Time	Key progress
Nov-2002	QFII scheme was launched
Jun-2007	QDII scheme started
Dec-2011	RQFII scheme expanded channels for foreign investors to invest in domestic securities market using RMB
Nov-2014	SH-HK Connect started trading
Dec-2016	SZ-HK Connect started trading
Oct-2016	RMB was included into SDR
Jul-2017	Bond Connect northbound trading started
Jun-2017	MSCI announced A-share inclusion in June 2018
Mar-2018	Bloomberg LP announced addition of RMB denominated bonds into its global bond index in April 2019
??	Shanghai-London Stock Connect in preparation

Source: Huatai HK Research

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