Why Influx of Foreign Capital on Chinese Stocks Is Growing In 2018

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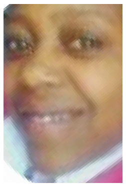

The number of foreign institutions investing in Chinese equities through the Stock Connect schemes has been growing steadily in 2018. In January this year, 275 foreign institutions set up special segregated accounts in China. The Accounts are normally used for settling and safekeeping the A-shares purchased via the Stock Connect. The accounts act as proxies for institutional investors and funds that have an interest in investing in Chinese stocks.

According to estimates from Citi, the average number of financial institutions setting up these accounts each month in 2017 stood at 108. This number is almost a third of the total recorded in January this year (275). In addition to this, recent data shows that the aggregate net buy for Chinese shares via stock connect rose to 35 billion Yuan in January 2018. This was more than double the 15 billion Yuan monthly average recorded in 2017.

The growth in the number of special segregated accounts created by foreign institutions this year is however not surprising. As a matter of fact, this is a trend we have seen over the last few years. In 2017 for example, the total number of special segregated accounts created over the 12 months was double the figure recorded in 2016. Aggregate net-buy trades in 2017 were also up 120% compared to the previous year.

The figures simply underscore the growing appetite among institutional investors towards Chinese Stocks.

The Stock Connect schemes are designed to provide an avenue for international investors to purchase shares listed in the Shenzhen and Shanghai stock markets through brokers in Hong Kong. The program also allows mainland Chinese investors to invest in Hong Kong listed shares. The Stock Connect was first launched in 2014 for the Shanghai stock exchange. The Shenzhen stock market adopted it in 2016.

Why the Sudden Rush

Analysts in China believe that the sudden rush by institutional investors to purchase Chinese stocks is driven by two key factors. The first one is the inclusion of Chinese A shares into the MSCI Emerging Markets Index. The

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inclusion comes to effect in June this year and investors are not ready to wait until then.

There is also a feeling among foreign investors that valuations in China are relatively attractive compared to other countries. Besides, China has continued to post robust growth despite the restrictions on leverage.

Analysts also argue that with increasing transparency in investments, the Chinese market will continue to attract foreign capital moving forward. The Two Stock Connect programs available for foreign investors have played a critical role in all these. The Chinese government has expressed its intention to develop additional connects in the future too.

Investing In China's Stock Market

As an international investor keen on investing on Chinese shares, there is an easier option to explore. Investing with a Fund through a managed portfolio has often been the way to go for Chinese stocks. The Asia Pacific Fund Inc. (NYSE:APB) is offering you this opportunity. The Fund invests in equity securities of companies in the Asia Pacific Region ex. Japan. The Fund's stock is available on the NYSE under the ticker symbol APB.