

MSCI inclusion: a look from flow perspective
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The MSCI announced to increase the weight of China A shares in its index via expanding the inclusion factor from current 5% to 20% in three steps in May, August and November 2019.

In addition to include China A large cap, China A ChiNext will be added from May while China A mid cap will be included from November. Total 253 large and 167 mid cap A shares and 27 ChiNext shares will be in the list. The percentage of China A shares in the MSCI EM index will increase from 0.8% to 3.3% after three steps.

The inclusion is based on China's commitment to improve market accessibility as well as the reduction of disruption such as trade halt. The future increase of weight will depend on the development of risk management tools as well as improving market accessibility standard.

China's A share was first added into MSCI index from 1 June 2018 with initial inclusion factor at 2.5%, which was subsequently raised to 5% from 1 September 2018. China A-share represented about 0.8% of total MSCI EM index in 2018 and 0.1% of total MSCI All Country World index. The percentage will be raised to 3.3% in November at 20% inclusion factor. In the event of full inclusion factor, China's A-share is expected to account for 16.5% of total EM index.

Timeline for the change of inclusion factor				
	Current	May 2019	August 2019	November 2019
Inclusion factor	5% for China A large cap	10% for China A large cap and 10% for ChiNext	15% for China A large cap and 15% for ChiNext	20% for China A large cap, 20% for China A mid cap and 20% for ChiNext

What's new?

The inclusion of 27 ChiNext listed companies from May 2019 and 167 China A mid cap companies from November 2019 were earlier than market expected. The expansion is expected to attract more than US\$60 billion new allocation from foreign investors based on the assumption that about US\$1.8 trillion funds tracking MSCI EM index and at least US\$3.6 trillion funds tracking MSCI All Country World Index.

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China A share's weights in major MSCI index			
	Current (5% inclusion)	November 2019 (20% inclusion)	In the event of full inclusion
MSCI EM index	0.8%	3.3%	16.5%
MSCI All Country World Index	0.1%	0.4%	2%

More inflows expected

As of end of 2018, foreign investors held about CNY1.15 trillion Chinese equities, accounting for about 3.2% of total market cap. Given China plans to further increase its foreign ownership of equities, we may expect more foreign inflows in the coming years.

Chart: China wants to increase its equity foreign ownership probably to 10%.



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