

China / HK Market Weekly

Rebounding from panic selloff

Last week (21-25 Mar), worries over delisting of Chinese stocks from the US and Russia-related sanction risks on China have been easing somewhat. But global markets are pricing in more aggressive rate hikes by the US Fed. China / HK markets were less dramatic than the previous four weeks of roller-coaster rides as they entered a consolidation stage after the first round of rebounding. Investors were divided on the upside room of further rebounding. Some investors worried about China's policy credibility issue as they waited to see what concrete measures China would take after the meeting of the Financial Stability and Development Committee. It is possible to see a second dip of the markets as China's property sector stress and the severe epidemic is still going on and the policy response may remain slower than expected. But the markets have already come out of the extreme panic stage and the possibility of another new low should be quite low. Meanwhile, different sectors and stocks start to diverge based on their difference in fundamental and value attractiveness. HK market's earnings estimates are going down, but with valuations at depressed levels, there could be further room for market rebound as volatility gradually comes down.

- **Market recap:** China / HK stock markets rose early last week, extending the rebound in the week earlier from one of the worst selloffs ever, before giving up the gains. Oil prices rebounded again, sending commodity stocks high. Domestic epidemic hit consumer goods & service stocks. For the week, China / HK underperformed developed markets. By sector, Energy / Materials / Real Estate / Telecom / Healthcare surged, while Industrials / Utilities / Consumer / IT dropped (Fig. 3-4).
- **Fund flows:** Global fund flows out of emerging markets alleviated last week as the Xi-Biden call reduced the risk of Russia-Ukraine geopolitical conflict spreading to Asia-Pacific (Fig. 5-6). HKD interest rates gradually rose as the USD rates moved into the hike cycle. USD/HKD spot rates climbed to exceed the mid-point of 7.8 as the capital outflow pressure was still manageable. The market is pricing in more aggressive policy rate hikes by the US Fed as Powell warned the inflation is much too high.
- **Stock connect flows:** Southbound net buying declined with the shrinkage of AH premiums after HK market rebounded. But it remained stronger than Northbound flows over the past few weeks (Fig. 9-10). By sector, Southbound funds flew into Real Estate, Consumer Discretionary, Healthcare, IT, Energy & Telecom and out of Industrials, Financials & Consumer Staples (Fig 15). Northbound funds flow turned positive last week after two weeks of outflow. Overseas investors seemed still cautious as Northbound investors bought defensive sectors like banking and sold most other sectors (Fig 16).
- **Sentiment:** The panic sentiment eased somewhat. "Fear Index" VHSI retreating but still elevated, implying the worst of panic is over but sentiment is still shaky (Fig. 19). Short sell % on HK mainboard mildly declined, but remained high (Fig. 20). By sector, short sell ratio dropped noticeably for Information Tech & Healthcare as Hang Seng Tech Index saw the most significant rebounding. But the short sell ratio remained high for Financials, Consumer staples, Industrials and Utilities.

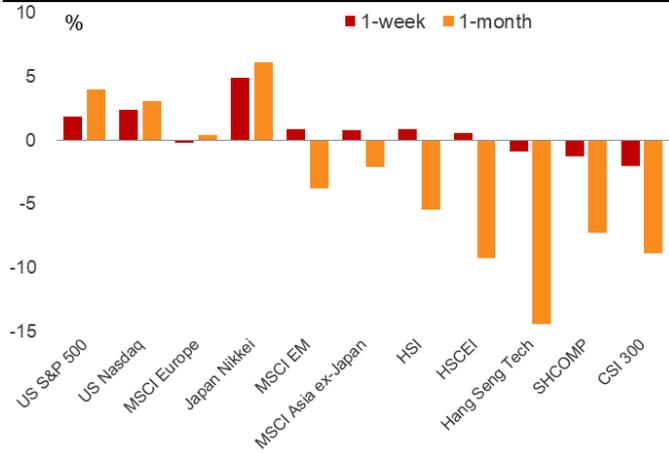
Daniel So, CFA
 (852) 3900 0857
 danielso@cmbi.com.hk

Bingnan YE, Ph.D
 (852) 3761 8967
 yebingnan@cmbi.com.hk

- **Valuation:** HK market is still very cheap even after recent rebound. The HSI is trading at depressed valuations, with forward P/E close to decade-low while other major markets are near mean (Fig. 32-33), and HSI's PB is below 1 and previous crisis troughs (Fig. 35).
- **Earnings:** EPS in HK market is being revised down. Earnings estimates of the HSI / HSTECH are trending down in this earnings season, but that of A-shares are more resilient (Fig. 39-41). In HK market's earnings revisions, Energy & Industrials moved up, Healthcare & IT moved down (Fig. 42). The market expects the EPS growth of Hang Seng Index and CSI 300 index to reach 5.6% and 17.8%, respectively, for 2022.
- **Sector preference:** In the short term, we see additional upside room for internet, healthcare and property-related sectors thanks to the restoration of the valuation. In the medium term, we favor the leaders in consumer goods and services as China economy continues to shift towards the consumption driven. Common prosperity, middle-income group expansion and consumption upgrades will continue to expand the growth room for dominators in food, beverage, tobacco & alcohol, sporting goods, beauty & cosmetics, duty-free retail, smart home appliances, electronics, biotechnology & medical services. We are also optimistic about the high-end manufacturing and hard technology as China economy gradually becomes technology intensive. The major players in the supply chain of new energy vehicles, wind & photovoltaic power generation, artificial intelligence and 5G equipment.

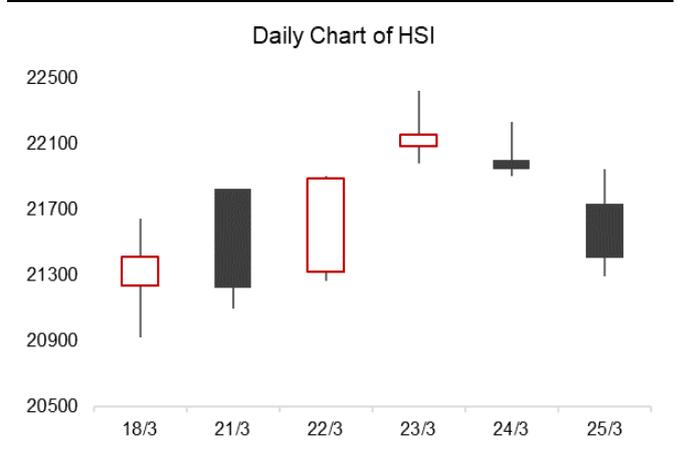
Market Recap

Figure 1: Weekly global markets total returns: US & Japan led gains, China/HK underperformed



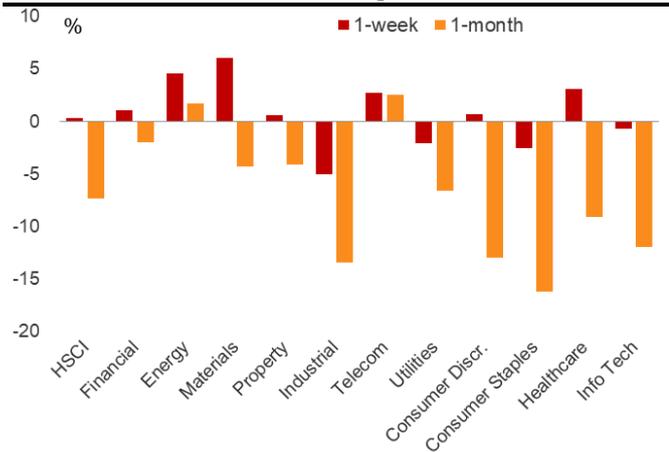
Source: Bloomberg, CMBIGM

Figure 2: HSI continued to rebound but faced resistance at above 22000



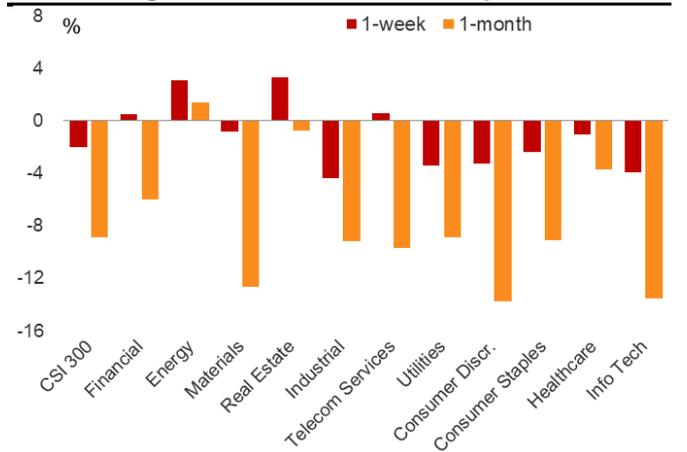
Source: Bloomberg, CMBIGM

Figure 3: Hang Seng Composite Index sectors: Commodities & Telecom led gains



Source: Bloomberg, CMBIGM

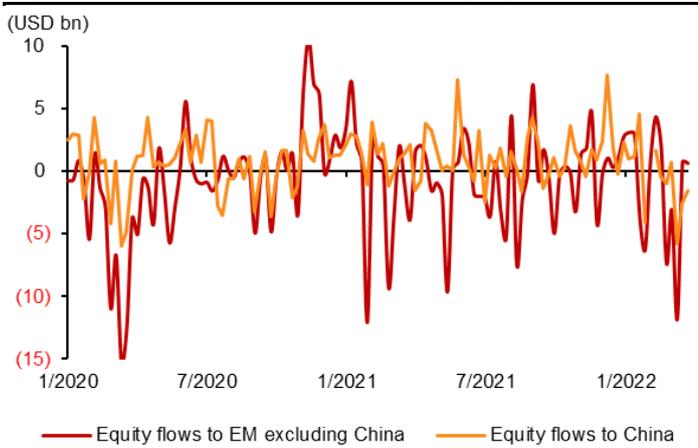
Figure 4: CSI 300 Index sectors: Old economy stood firm while growth stocks were under pressure



Source: Bloomberg, CMBIGM

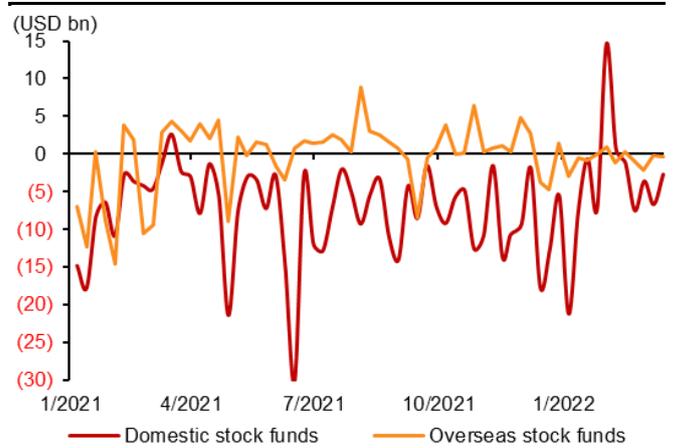
Fund Flows

Figure 5: Global Fund Flow to Emerging Market



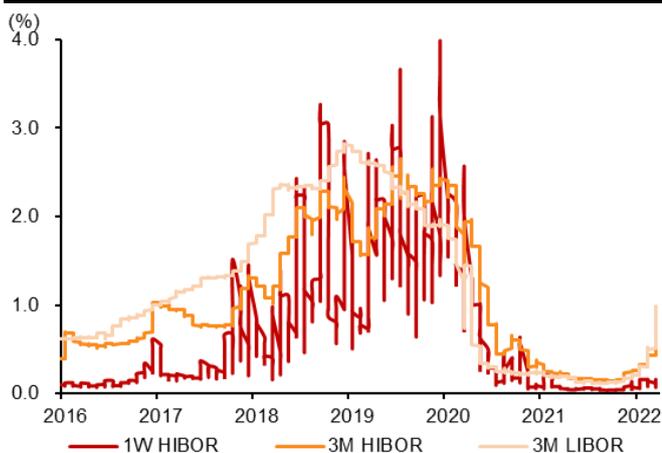
Source: IIF, CMBIGM

Figure 6: US Long-term Mutual Fund Flow



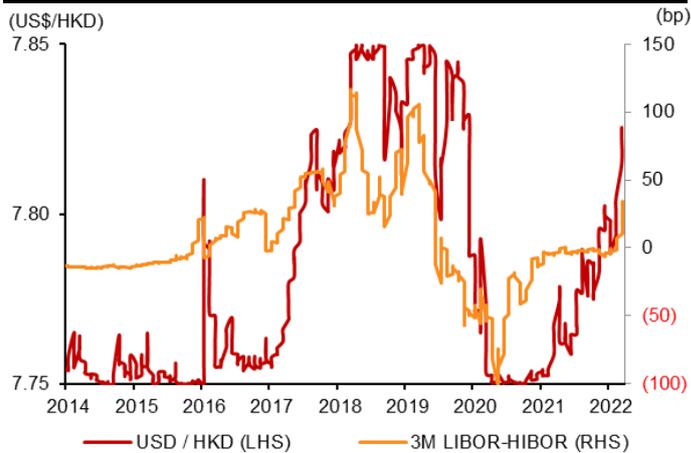
Source: Wind, CMBIGM

Figure 7: USD & HKD Interest Rates



Source: Wind, CMBIGM

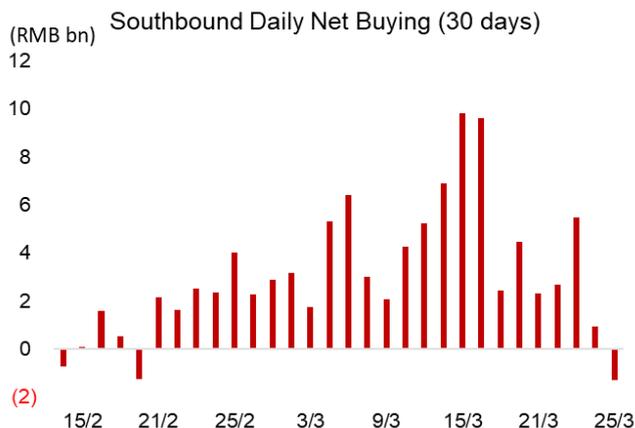
Figure 8: USD/HKD Rates & Interest Spreads



Source: Wind, CMBIGM

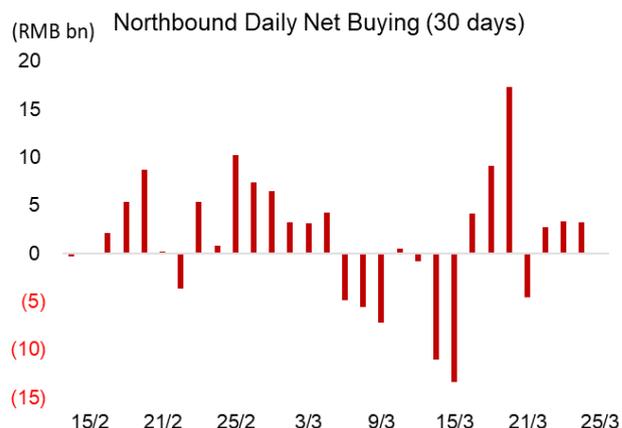
SH/SZ-HK Stock Connect

Figure 9: Southbound net buying remained strong



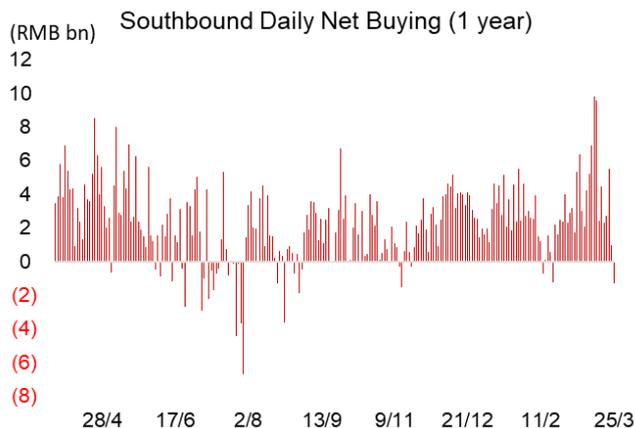
Source: Bloomberg, CMBIGM

Figure 10: Northbound net selling in recent weeks



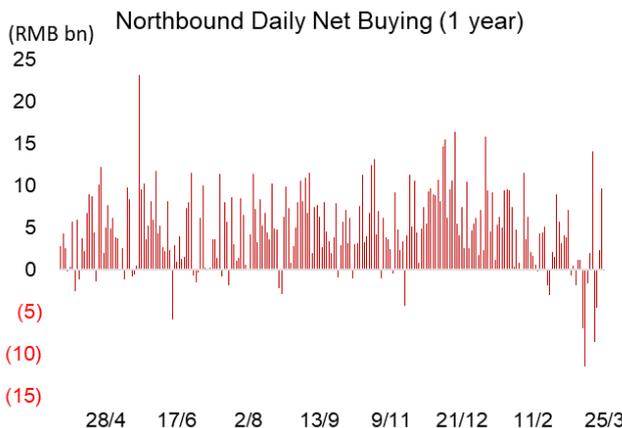
Source: Bloomberg, CMBIGM

Figure 11: Southbound net buying turned strong since mid-Feb...

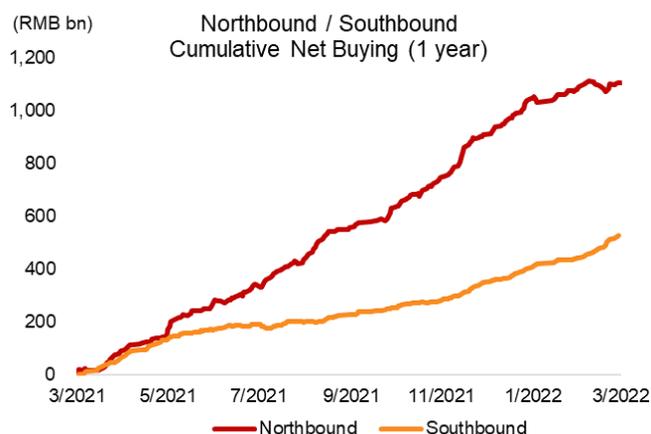


Source: Bloomberg, CMBIGM

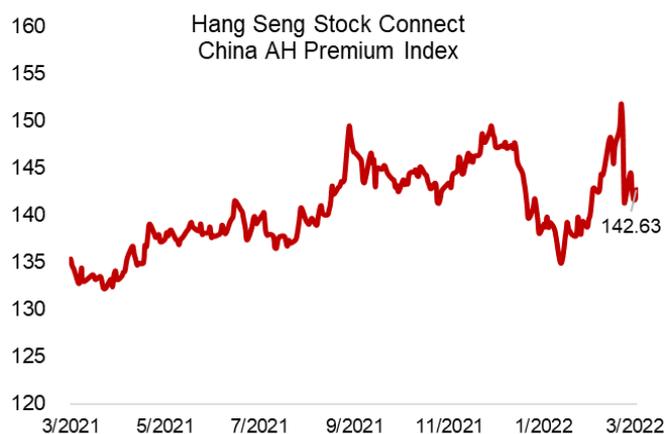
Figure 12: ...while Northbound buying weakened at the same time



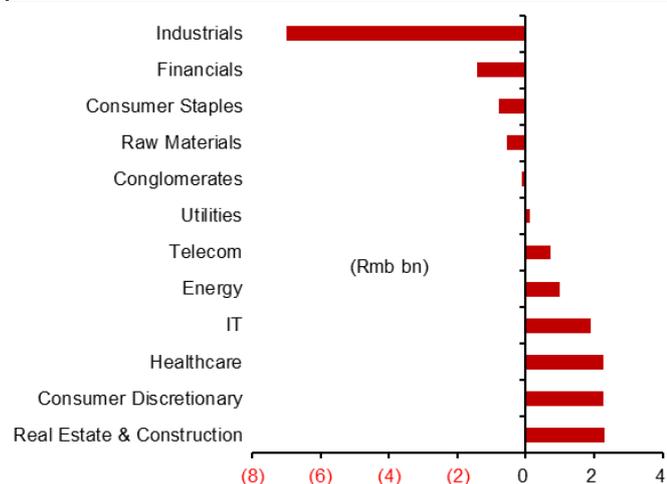
Source: Bloomberg, CMBIGM

Figure 13: Southbound inflows speeding up YTD, while Northbound inflows slowing down


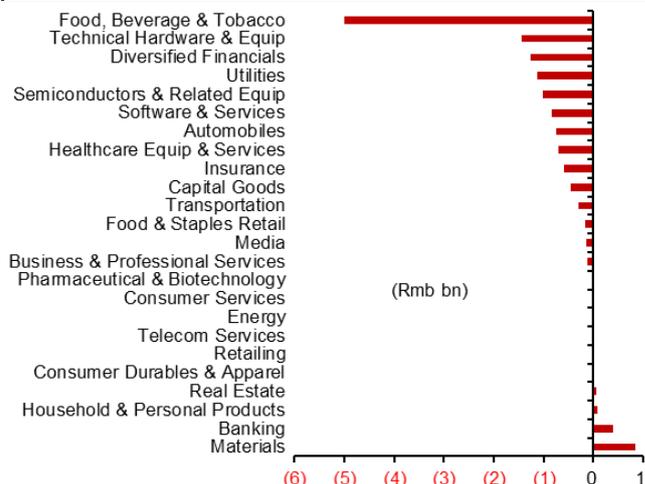
Source: Bloomberg, CMBIGM

Figure 14: AH premium narrowed from decade-high, and still above historical average


Source: Bloomberg, CMBIGM

Figure 15: Southbound Net Flows by Sector Last Week


Source: Wind, CMBIGM

Figure 16: Northbound Net Flows by Sector Last Week


Source: Wind, CMBIGM

Figure 17: Southbound weekly Top 10 active stocks

(HKD bn, cumulative)		Turnover	Net Buying
Tencent	700 HK	235.6	16.3
Meituan	3690 HK	131.5	-10.0
Wuxi Biologics	2269 HK	80.1	10.4
Sunac China	1918 HK	74.6	0.6
SMIC	981 HK	20.2	-0.3
Xiaomi	1810 HK	37.7	1.4
Kuaishou	1024 HK	52.9	-1.7
China Mobile	941 HK	38.3	12.5
CNOOC	883 HK	38.6	3.5
China Construction Bank	939 HK	2.7	-2.5

Source: Wind, CMBIGM

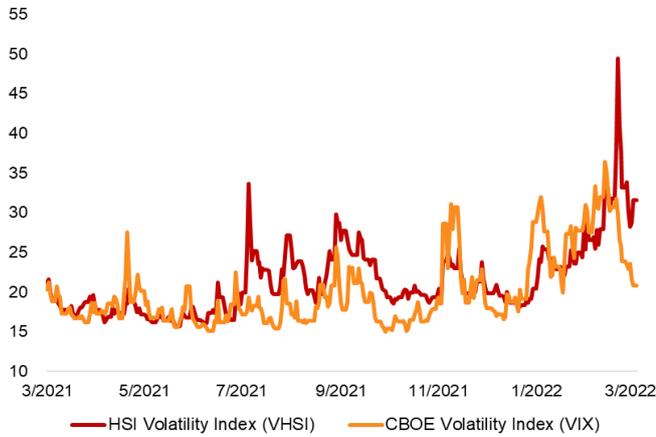
Figure 18: Northbound (SH) Top 10 active stocks

(RMB bn, cumulative)		Turnover	Net Buying
WuXi AppTec	603259 CH	51.5	5.6
Kweichow Moutai	600519 CH	89.1	-24.6
LONGi Green Energy	601012 CH	38.8	-0.5
Industrial Bank	601166 CH	32.3	2.7
China Merchants Bank	600036 CH	46.4	8.9
Shanghai Pharmaceuticals	601607 CH	9.7	1.5
Zijin Mining	601899 CH	18.9	7.6
China State Construction	601668 CH	13.0	0.0
Jiangsu Hengrui Medicine	600276 CH	4.7	-1.5
Shanxi Fen Wine	600809 CH	10.2	-2.1

Source: Wind, CMBIGM

Sentiments

Figure 19: “Fear Index” VHSI retreating but still elevated, implying the worst of panic is over but sentiment is still shaky



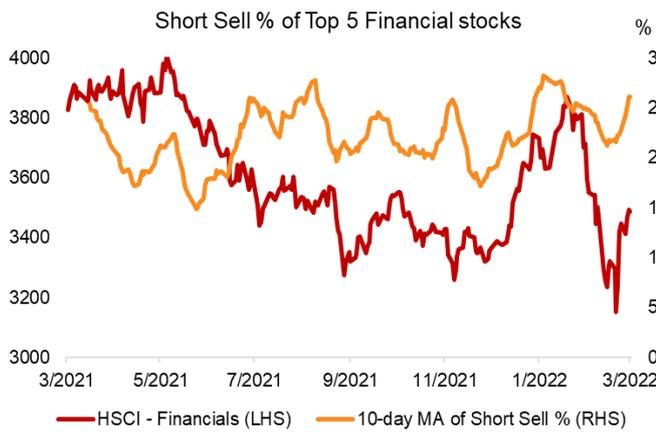
Source: Bloomberg, CMBIGM

Figure 20: Short sell % on HK mainboard remained high



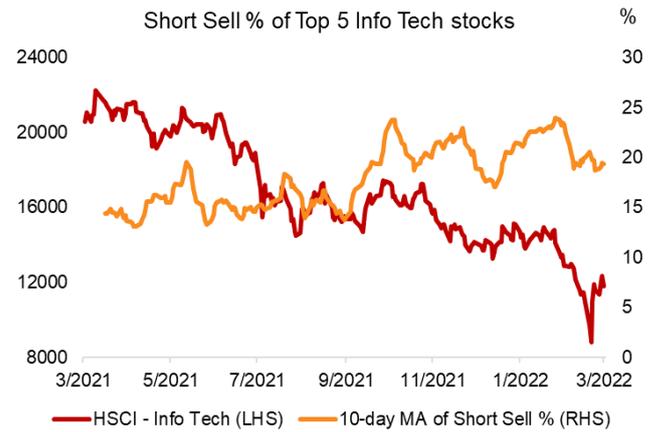
Source: Bloomberg, CMBIGM

Figure 21: Short sell % in HK - Financials



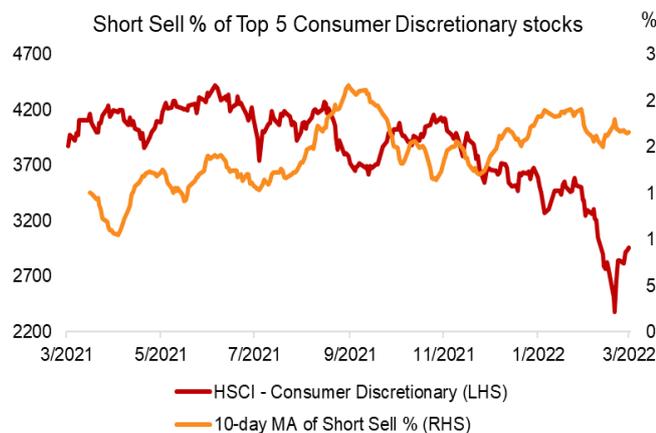
Source: Bloomberg, CMBIGM

Figure 22: Short sell % in HK – Info Tech



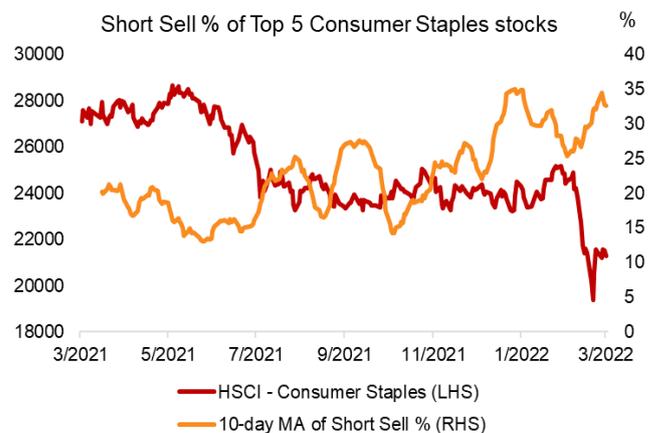
Source: Bloomberg, CMBIGM

Figure 23: Short sell % in HK – Consumer Discretion.



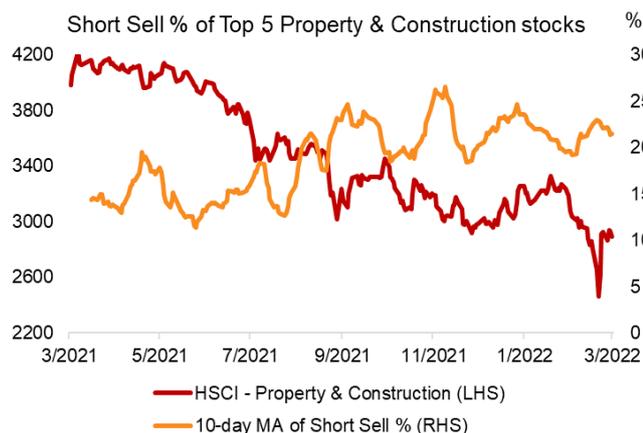
Source: Bloomberg, CMBIGM

Figure 24: Short sell % in HK – Consumer Staples



Source: Bloomberg, CMBIGM

Figure 25: Short sell % in HK - Property



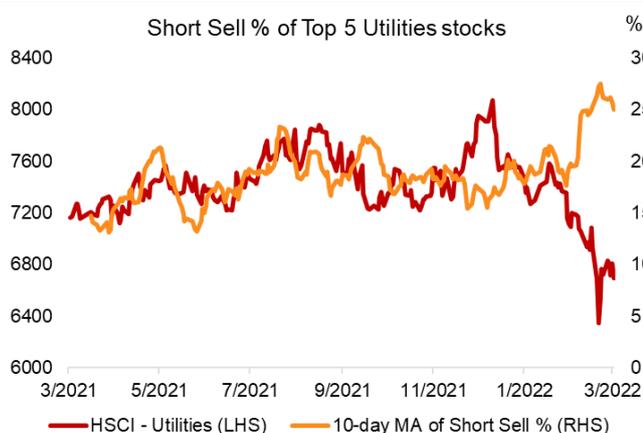
Source: Bloomberg, CMBIGM

Figure 26: Short sell % in HK – Healthcare



Source: Bloomberg, CMBIGM

Figure 27: Short sell % in HK – Utilities



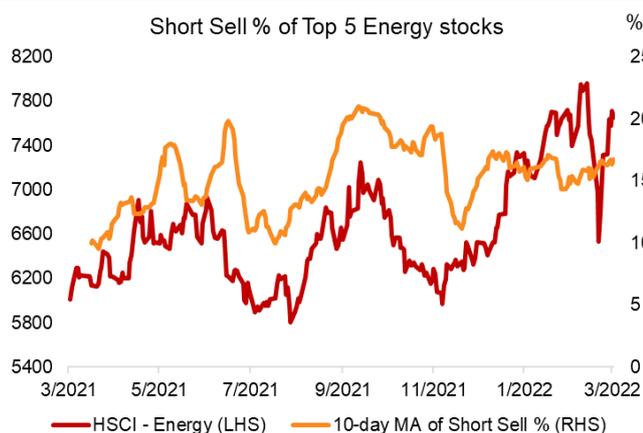
Source: Bloomberg, CMBIGM

Figure 28: Short sell % in HK – Industrials



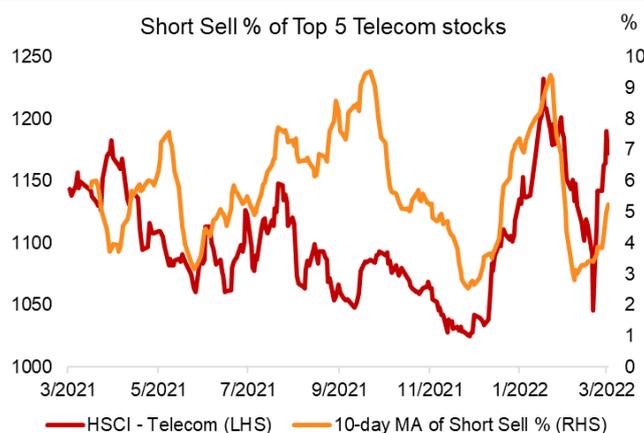
Source: Bloomberg, CMBIGM

Figure 29: Short sell % in HK – Energy



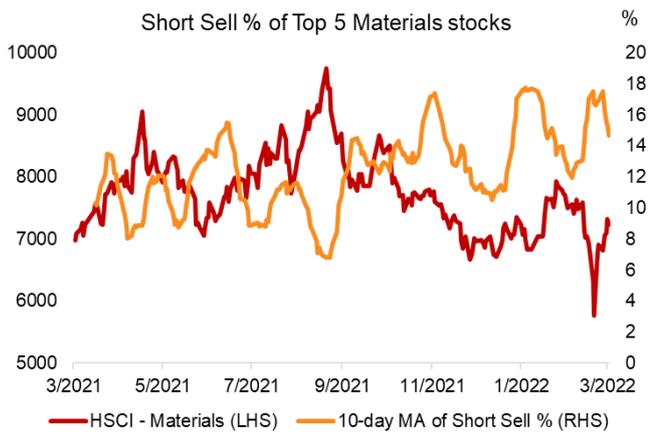
Source: Bloomberg, CMBIGM

Figure 30: Short sell % in HK – Telecom



Source: Bloomberg, CMBIGM

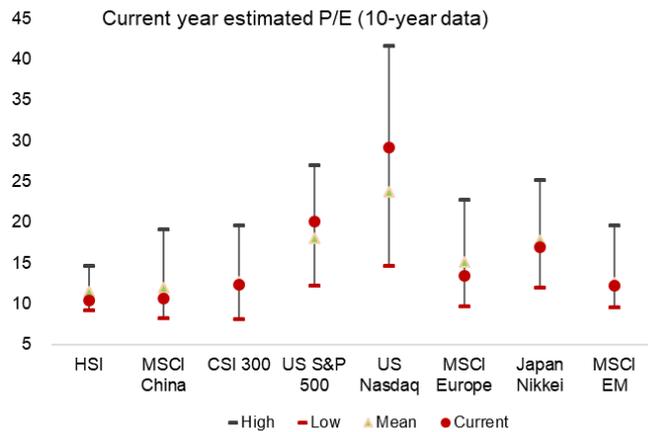
Figure 31: Short sell % in HK – Materials



Source: Bloomberg, CMBIGM

Earnings & Valuations

Figure 32: HSI' P/E close to low end, while other major markets' are near 10-year mean



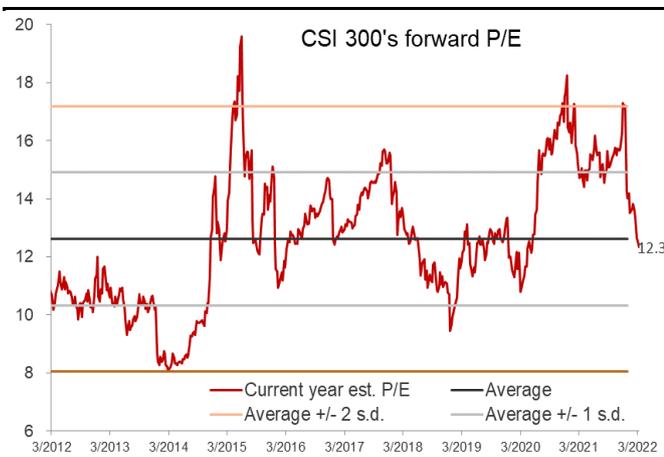
Source: Bloomberg, CMBIGM

Figure 33: HSI' P/E would have been even lower had it not added many high-P/E growth stocks since 2020



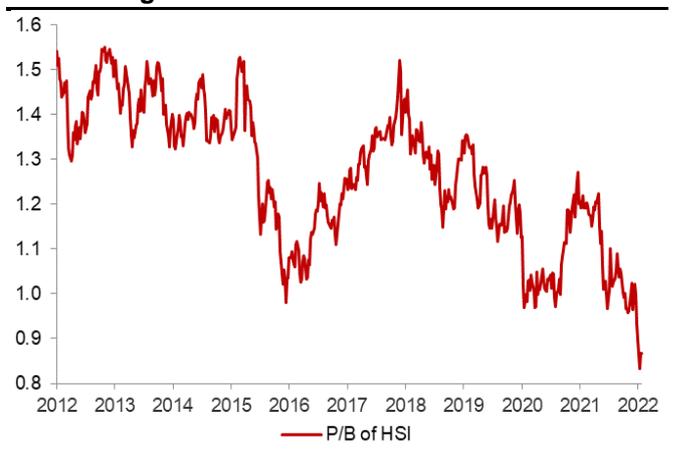
Source: Bloomberg, CMBIGM

Figure 34: CSI 300's P/E not really cheap



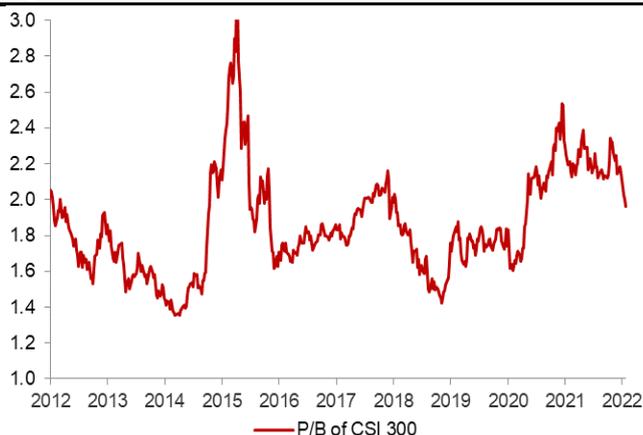
Source: Bloomberg, CMBIGM

Figure 35: HSI' P/B below 1, lower than previous crisis troughs



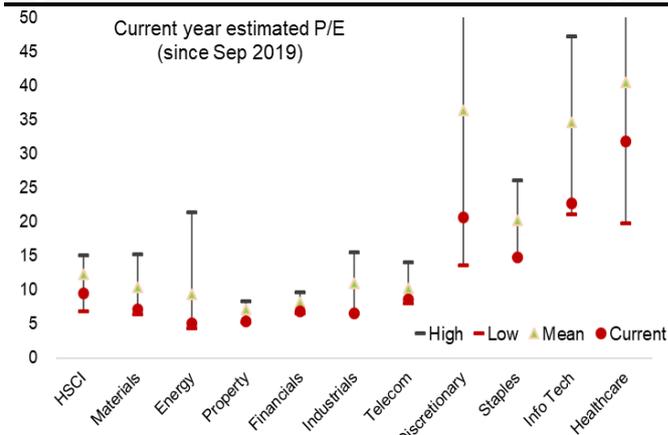
Source: Bloomberg, CMBIGM

Figure 36: CSI 300's P/B at around 2



Source: Bloomberg, CMBIGM

Figure 37: Most HSCI sectors' P/E are near troughs



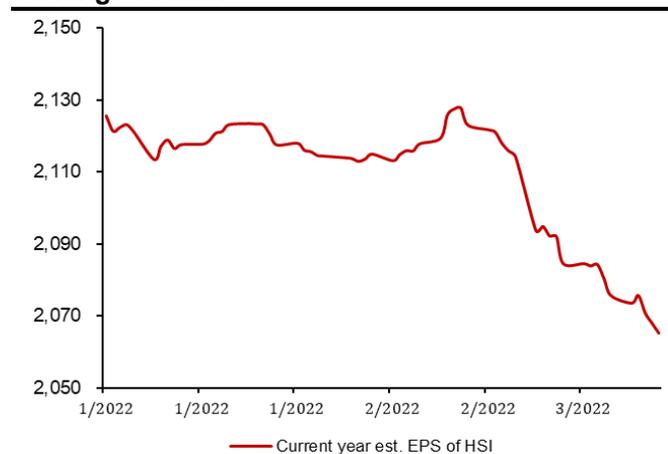
Source: Bloomberg, CMBIGM

Figure 38: EPS Growth for Major Stock Indexes

(%)	2011-2019 CAGR	2019-2021E CAGR	2022E Growth
Hang Seng Index	4.1	(12.0)	5.6
CSI 300 Index	4.6	(2.4)	17.9
Chinext Index	9.3	8.4	40.7
S&P 500 Index	6.5	13.2	7.5
NASDAQ Index	8.9	17.0	8.3
Nikkei 225 Index	11.2	12.5	2.5
Germany DAX	4.5	12.9	5.4
France CAC	1.3	9.5	19.4
UK FTSE 100 Index	(0.3)	4.0	12.0

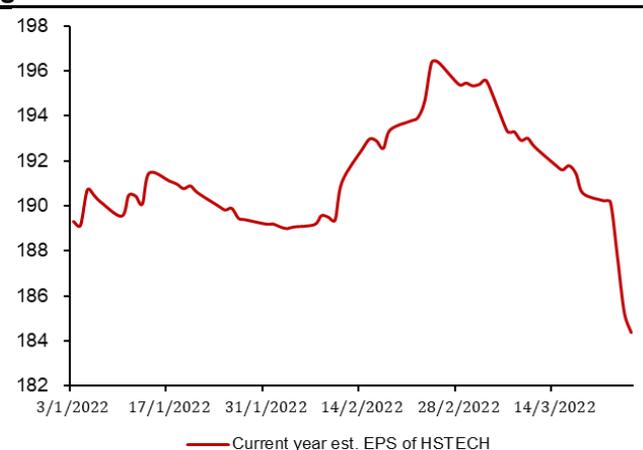
Source: Bloomberg, CMBIGM

Figure 39: EPS estimates of HSI trending down in earnings season



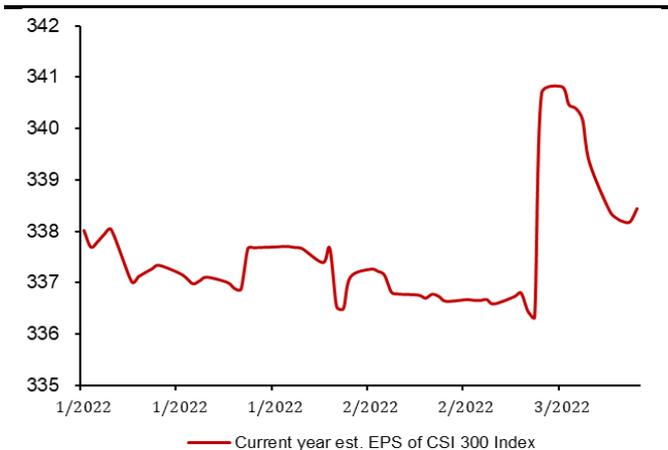
Source: Bloomberg, CMBIGM

Figure 40: EPS estimates of Hang Seng TECH Index got slashed last week



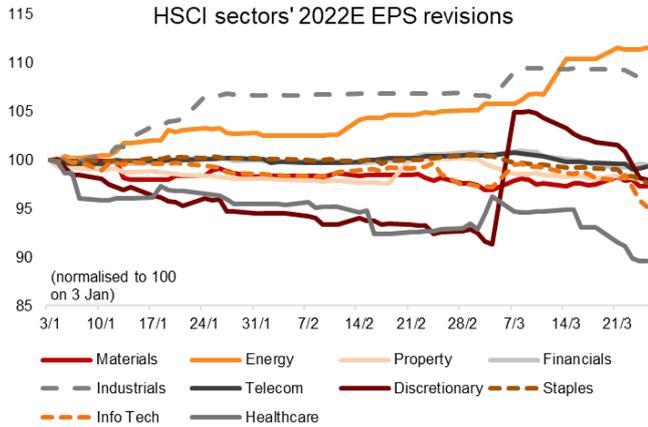
Source: Bloomberg, CMBIGM

Figure 41: EPS estimates of A-shares are relatively resilient vs. H-shares



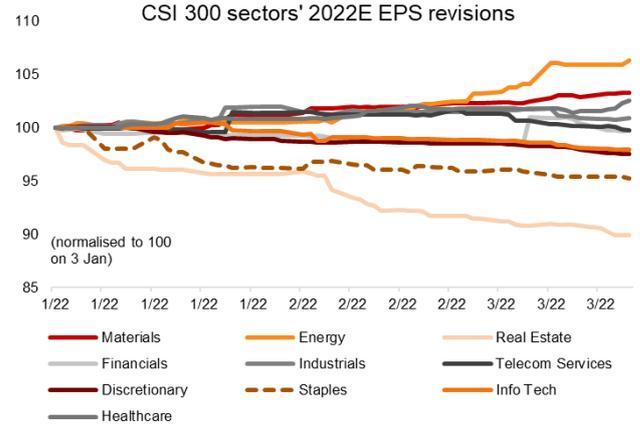
Source: Bloomberg, CMBIGM

Figure 42: HK earnings revision: Energy & Industrials up, Healthcare & IT down



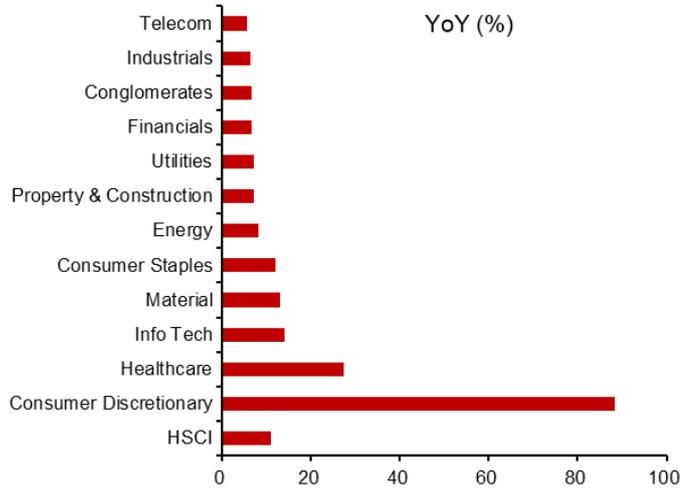
Source: Bloomberg, CMBIGM

Figure 43: A-shares earnings revision: Commodities up, Real Estate & Consumer down



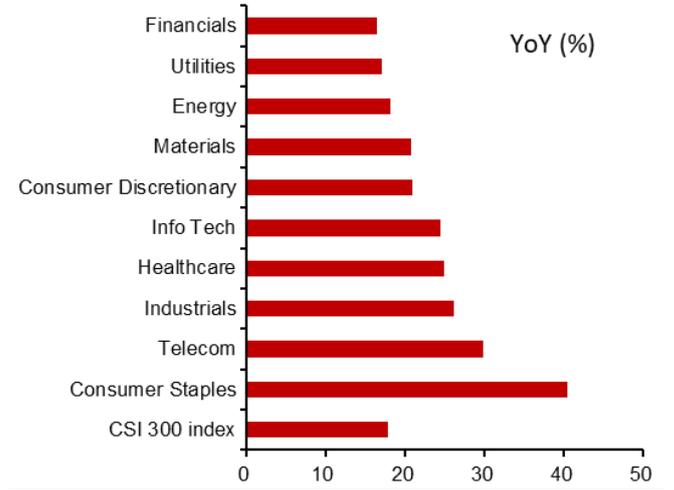
Source: Bloomberg, CMBIGM

Figure 44: 2022 EPS Growth Consensus for HSCI



Source: Bloomberg, CMBIGM

Figure 45: 2022 EPS Growth Consensus for CSI 300



Source: Bloomberg, CMBIGM

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CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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