

# China / HK Market Weekly

## Pricing in a more hawkish Fed

Last week (4-8 Apr), China / HK stock markets retreated along with the US market, as expectation of Fed tightening increased further. Tech sector, which is more sensitive to interest rate hikes, was under pressure. China's introduction of normative regulation for the live broadcast sector also hurt market sentiment. Consumer Discretionary also underperformed on COVID outbreak in China. Energy stocks gained as their earnings estimates were again revised upwards.

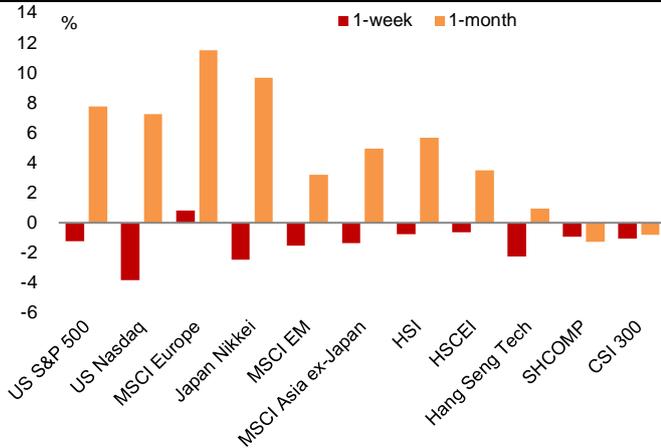
- **Market recap:** The HSI and CSI 300 declined by 0.76% and 1.04% respectively on a more hawkish Fed, but outperformed the US market (Fig. 1). The HSI stayed range-bound between 21100-22500 for the third consecutive week. By sector, IT, Consumer & Industrials underperformed in HK, while property H-shares gained as more Chinese cities loosened property policies. In A-shares market, old-economy stocks gained, while IT, Telecom & Healthcare underperformed (Fig. 3-4).
- **Fund flows:** Global fund flow out of China slightly increased last week as investors were concerned about a deterioration of the country's economic fundamental amid the virus resurgence. But there were strong flows into China internet ETF (Fig. 9). US stock mutual funds continued to see net withdrawal on a more hawkish Fed.
- **Stock Connect flows:** Southbound trading opened for only three days last week due to Ching Ming Festival. Southbound net inflows were mild. By sector, Southbound funds flew into Healthcare, Energy & IT and out of Financials, Consumer Staples, Consumer Discretionary, Industrials and Telecom. Northbound funds flew into Banking, Capital Goods, Materials, Pharmaceutical & Biotechnology, Utilities and Insurance. But they flew out of Technical Hardware & Equip, Consumer Services, Food, Beverage & Tobacco, Diversified Financials and Consumer Durables & Apparels. AH premium further shrank to 41.2%, which is still significantly higher than 10-year average of 22% (Fig. 15).
- **Sentiment:** "Fear Index" VHSI rebounded to 27.1, and the US VIX was up too as markets went down on a hawkish Fed (Fig. 20). Short sell % on HK mainboard remained high at above 18%. By sector, short sell ratio increased noticeably in Consumer Staples and Materials.
- **Earnings:** EPS estimates of HSI / HSTECH / CSI 300 were revised down by ~2% / ~6% / <1% in this FY21 earnings season (Fig. 39-41). By sector, in HK, Commodities enjoyed upward revision in FY22E EPS again, while Healthcare & Consumer Discretionary were revised down. In A-shares market, EPS estimates of Real Estate got slashed (Fig. 42-43).
- **Sector views:** In the short term, we see further upside in Internet sector, as we expect earnings growth would improve in Q2 and China modified rules to ease delisting risks of Chinese companies from the U.S. Infrastructure-related sectors such as Capital Goods & Cement could be boosted by a speed up in infrastructure spending. We are bearish on commodity stocks as optimism of Russia-Ukraine ceasefire is building up and US Fed's policy tightening may also bring downside pressure on commodity price.

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

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

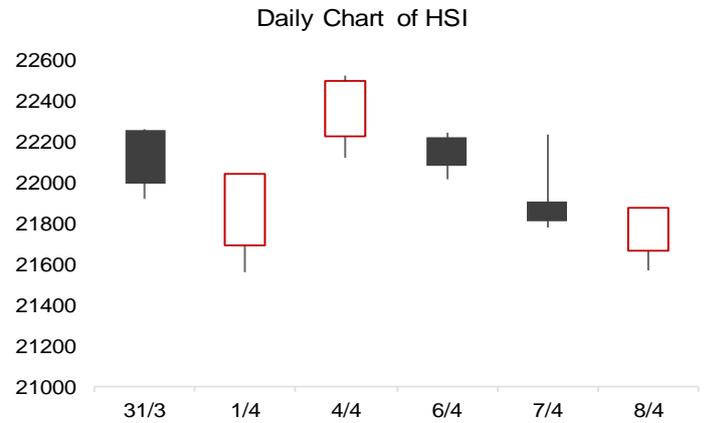
## Market Recap

**Figure 1: Weekly global markets returns: mostly negative due to hawkish Fed; Tech suffered**



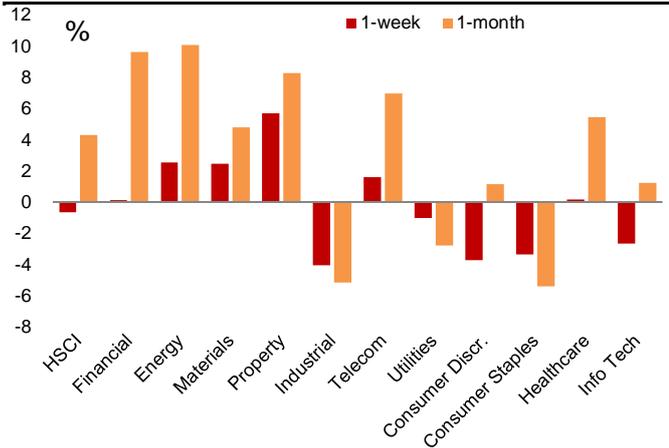
Source: Bloomberg, CMBIGM

**Figure 2: HSI range-bound between 21100-22500 for the third consecutive week**



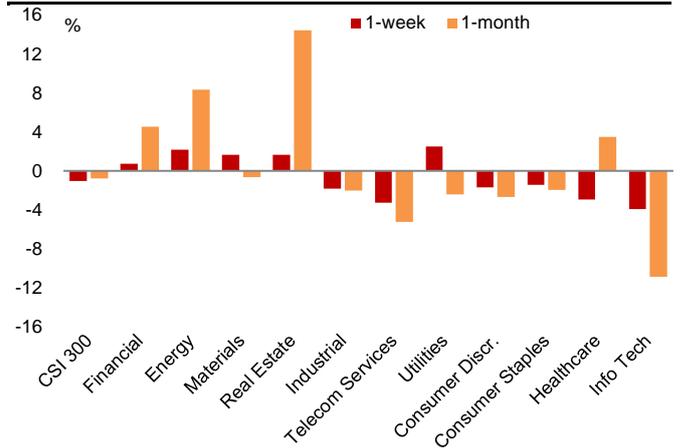
Source: Bloomberg, CMBIGM

**Figure 3: Hang Seng Composite Index sectors: Old-economy gained; IT & Consumer declined**



Source: Bloomberg, CMBIGM

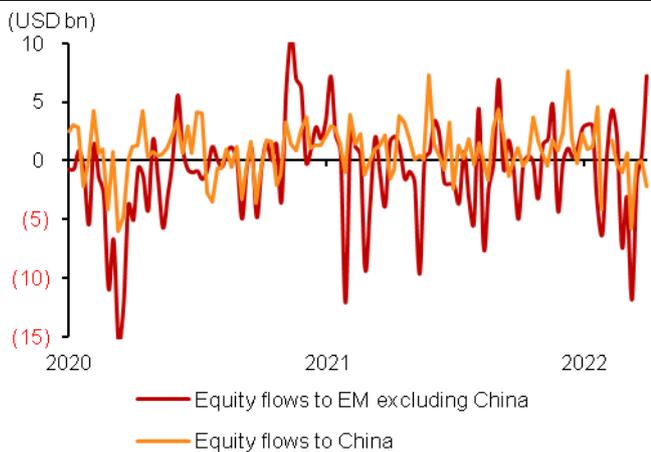
**Figure 4: CSI 300 Index sectors: Old-economy up; IT, Telecom & Healthcare down**



Source: Bloomberg, CMBIGM

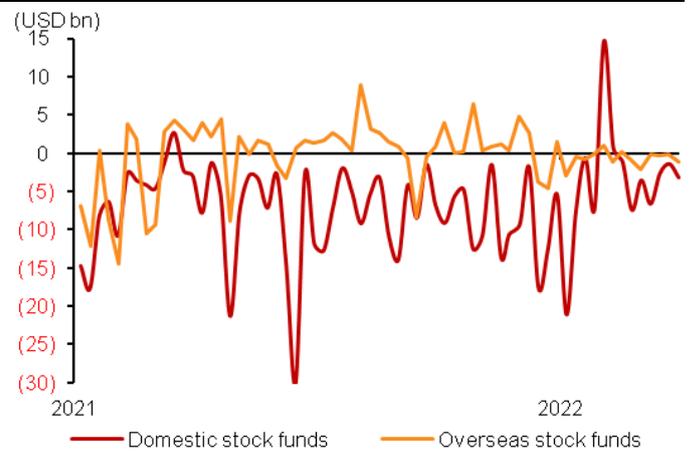
## Fund Flows

**Figure 5: Global Fund Flow to Emerging Market**



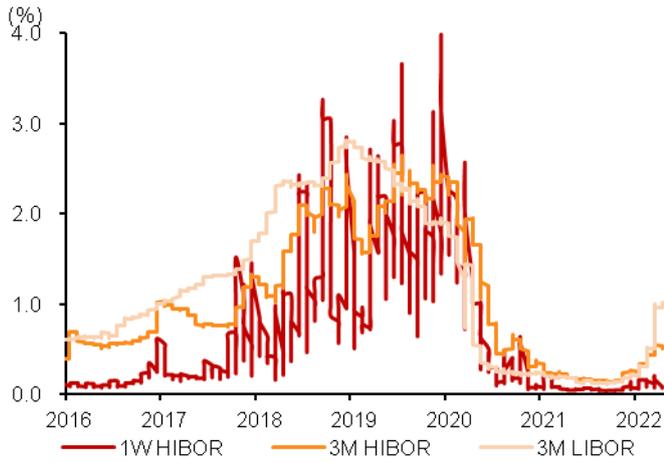
Source: IIF, CMBIGM

**Figure 6: US Long-term Mutual Fund Flow**



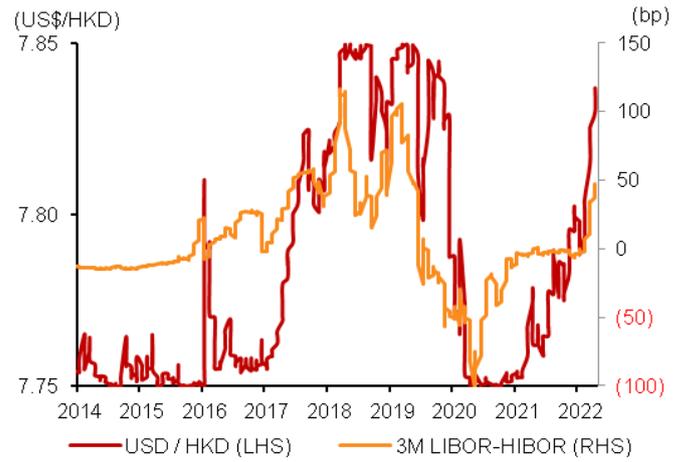
Source: Wind, CMBIGM

**Figure 7: USD & HKD Interest Rates**



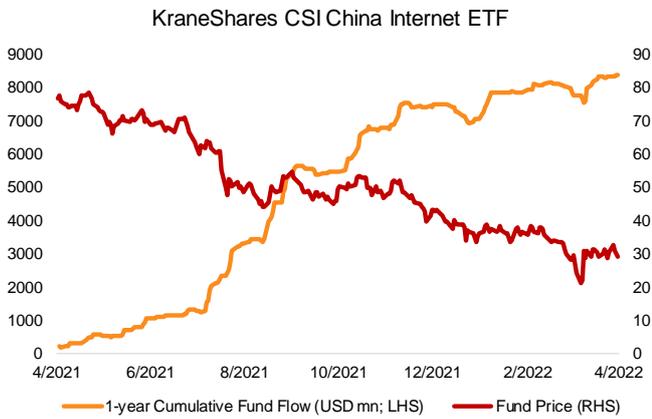
Source: Wind, CMBIGM

**Figure 8: USD/HKD Rates & Interest Spreads**



Source: Wind, CMBIGM

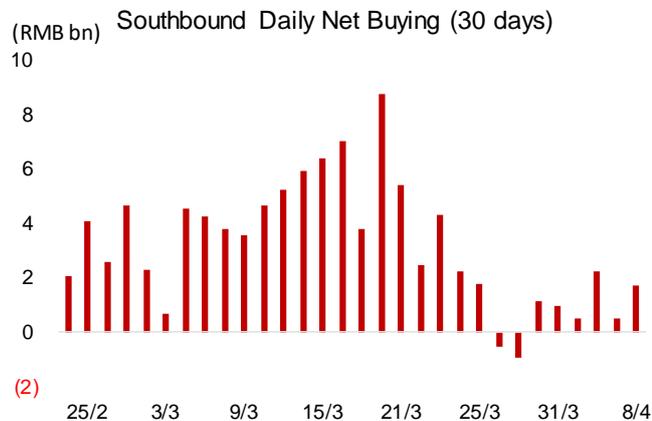
**Figure 9: KWEB, the largest China Internet ETF, recorded strong inflows since 17 Mar**



Source: Bloomberg, CMBIGM

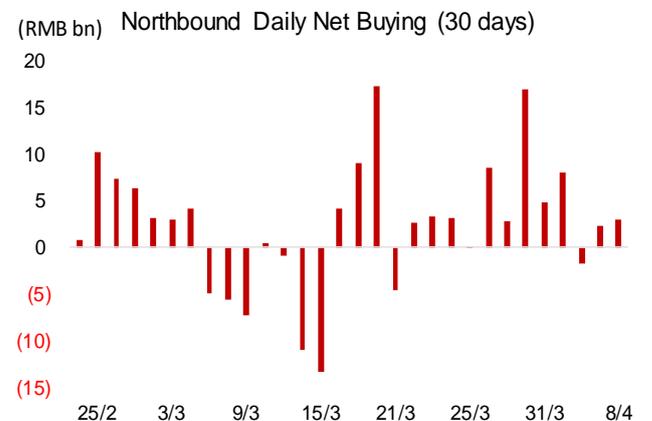
## SH/SZ-HK Stock Connect

**Figure 10: Southbound flow slightly rebounded**



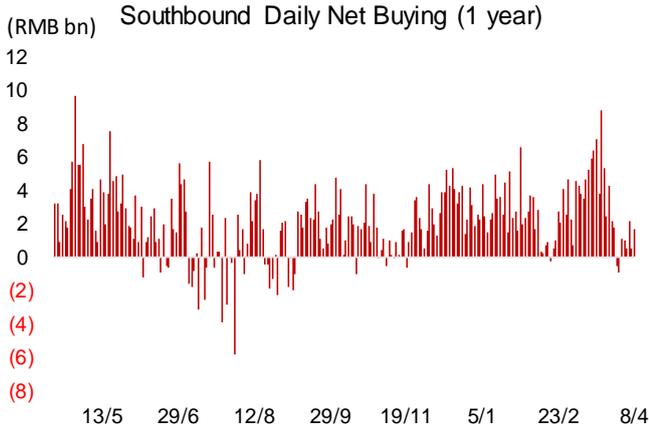
Source: Bloomberg, CMBIGM

**Figure 11: Northbound net inflows came down**



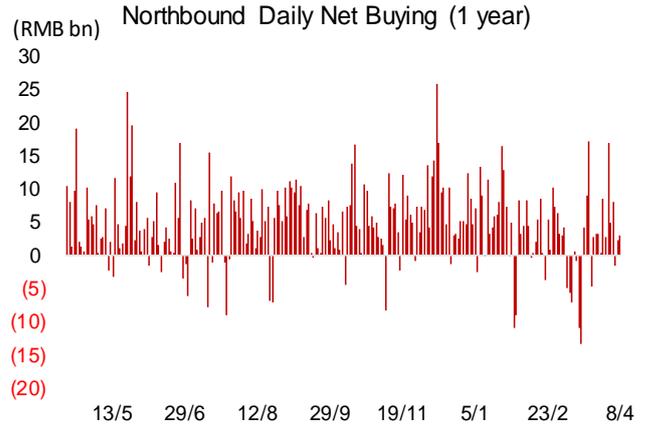
Source: Bloomberg, CMBIGM

**Figure 12: Southbound net buying turned strong since mid-Feb...**



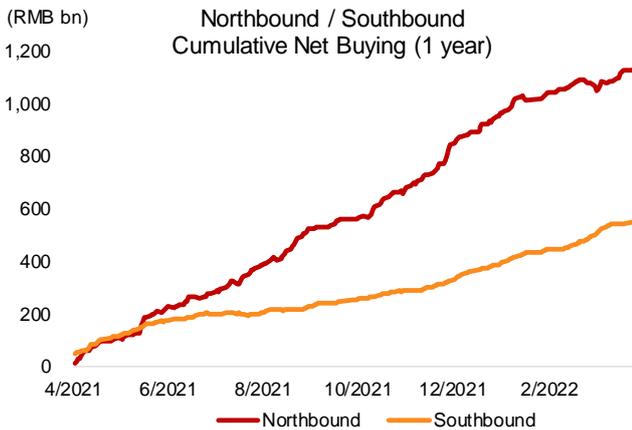
Source: Bloomberg, CMBIGM

**Figure 13: ...while Northbound buying weakened at the same time**



Source: Bloomberg, CMBIGM

**Figure 14: Southbound inflows speeded up since early 2022, while Northbound inflows slowed down**



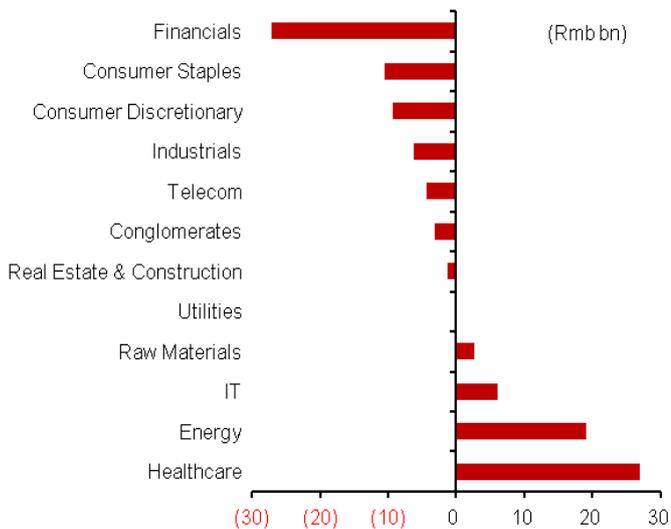
Source: Bloomberg, CMBIGM

**Figure 15: AH premium slightly narrowed further from a week ago, and still above historical average**



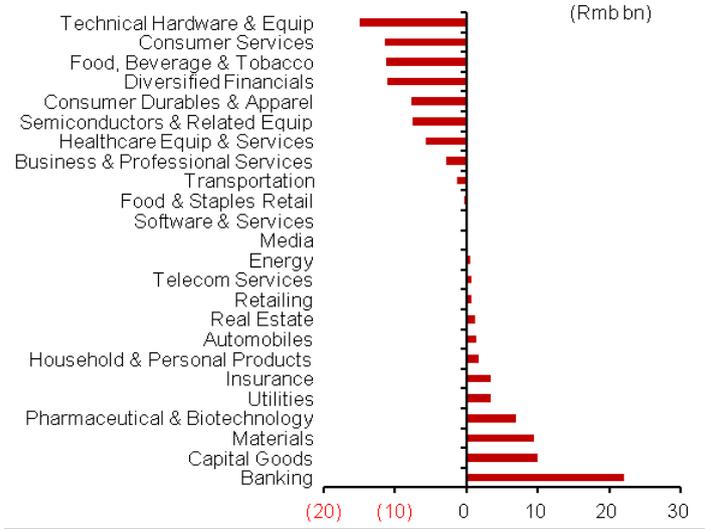
Source: Bloomberg, CMBIGM

**Figure 16: Southbound net flows by sector last week**



Source: Wind, CMBIGM

**Figure 17: Northbound net flows by sector last week**



Source: Wind, CMBIGM

**Figure 18: Southbound weekly Top 10 active stocks**

(HKD bn, cumulative)		Turnover	Net Buying
Tencent	700 HK	63.0	-9.2
Meituan	3690 HK	54.0	15.3
Xiaomi	1810 HK	10.5	-3.9
CNOOC	883 HK	68.5	20.3
China Mobile	941 HK	13.9	9.1
CCB	939 HK	10.4	-4.3
Li Ning	2331 HK	11.3	-3.1
China Shenhua Energy	1088 HK	6.8	-1.1
ICBC	1398 HK	5.0	-4.3
ANTA Sports	2020 HK	6.0	2.4

Source: Wind, CMBIGM

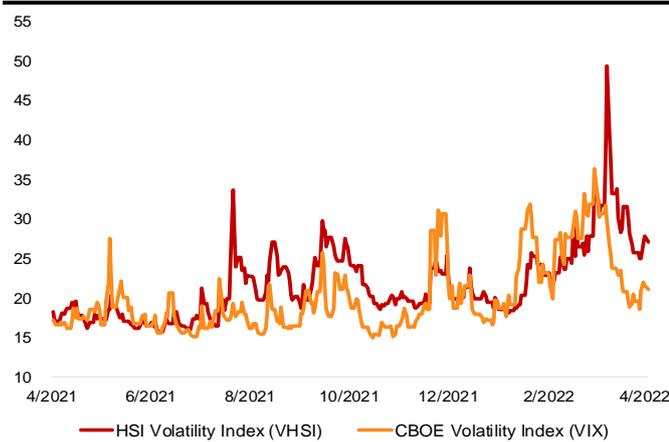
**Figure 19: Northbound (SH) Top 10 active stocks**

(RMB bn, cumulative)		Turnover	Net Buying
Kweichow Moutai	600519 CH	49.2	6.2
China State Construction	601668 CH	29.2	5.6
Jiangsu Hengrui Medicine	600276 CH	9.0	-5.9
China Merchants Bank	600036 CH	27.7	-1.5
Zijin Mining	601899 CH	12.7	-0.5
LONGi Green Energy	601012 CH	27.7	-4.9
Wanhua Chemical	600309 CH	5.2	1.9
Ping An Insurance	601318 CH	16.4	3.0
Sany Heavy Industry	600031 CH	4.9	0.7
CTG Duty Free	601888 CH	18.1	-4.2

Source: Wind, CMBIGM

## Sentiments

**Figure 20: "Fear Index" VHSI rebounded to 27.1, and the VIX was up too as market went down on Fed**



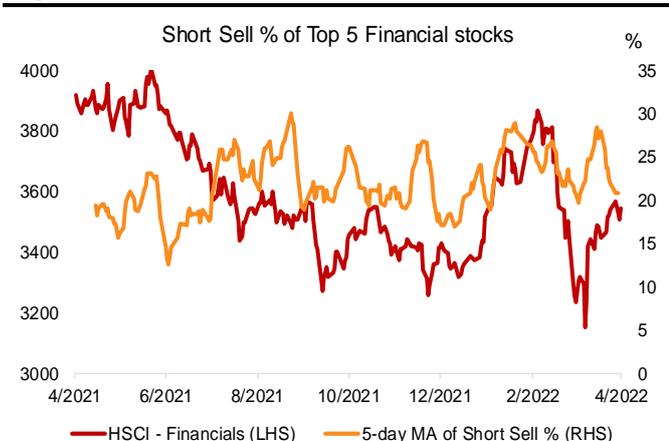
Source: Bloomberg, CMBIGM

**Figure 21: Short sell % on HK mainboard remained high at above 18%**



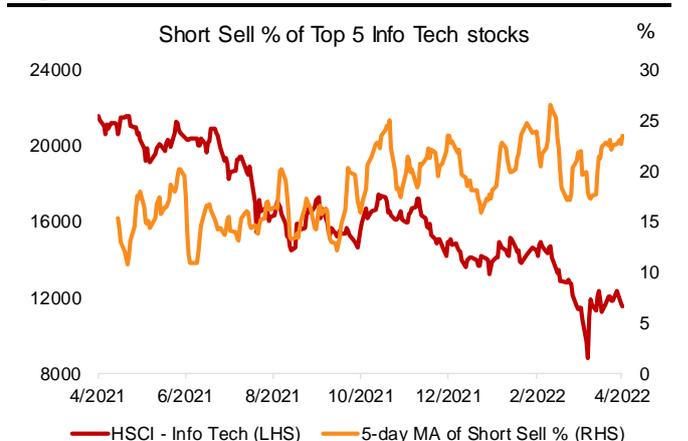
Source: Bloomberg, CMBIGM

**Figure 22: Short sell % in HK - Financials**



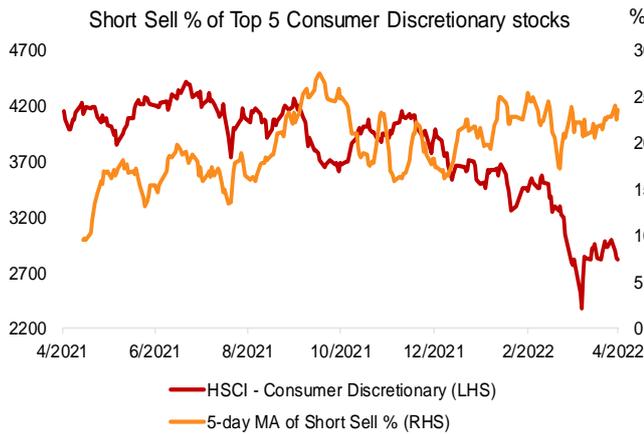
Source: Bloomberg, CMBIGM

**Figure 23: Short sell % in HK - Info Tech**



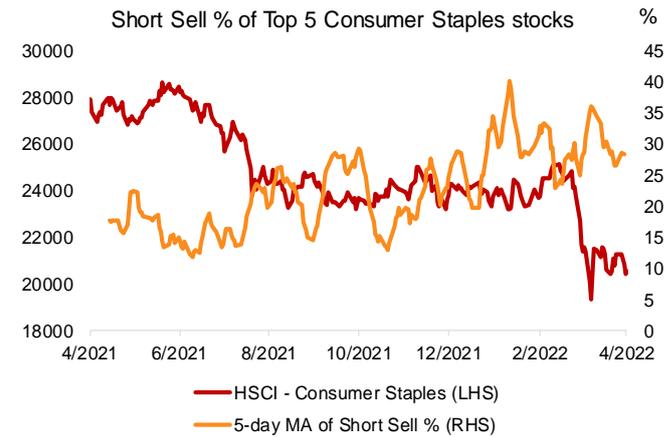
Source: Bloomberg, CMBIGM

**Figure 24: Short sell % in HK – Consumer Discret.**



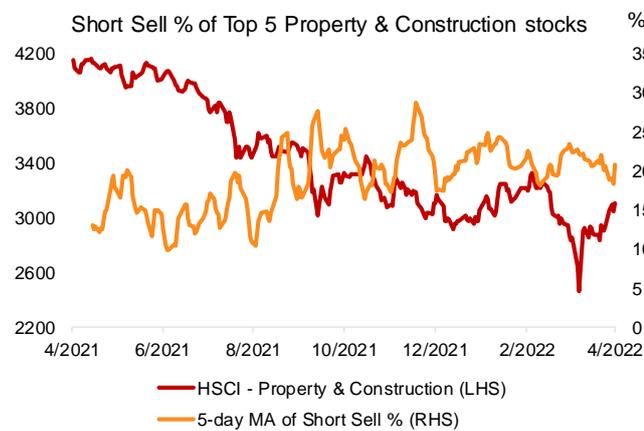
Source: Bloomberg, CMBIGM

**Figure 25: Short sell % in HK – Consumer Staples**



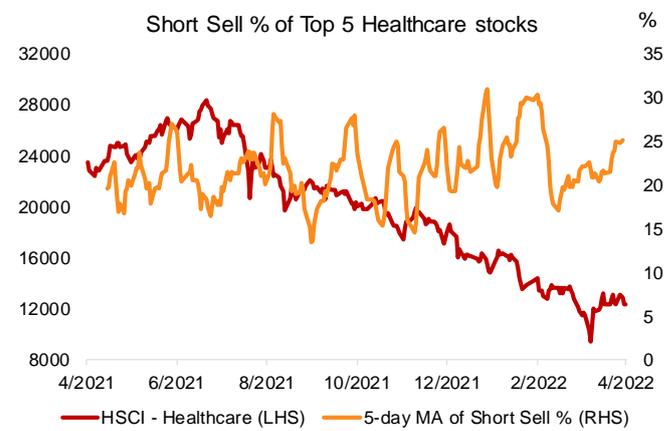
Source: Bloomberg, CMBIGM

**Figure 26: Short sell % in HK - Property**



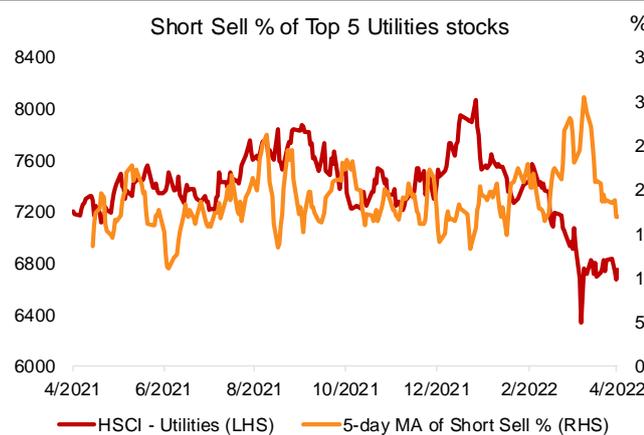
Source: Bloomberg, CMBIGM

**Figure 27: Short sell % in HK – Healthcare**



Source: Bloomberg, CMBIGM

**Figure 28: Short sell % in HK – Utilities**



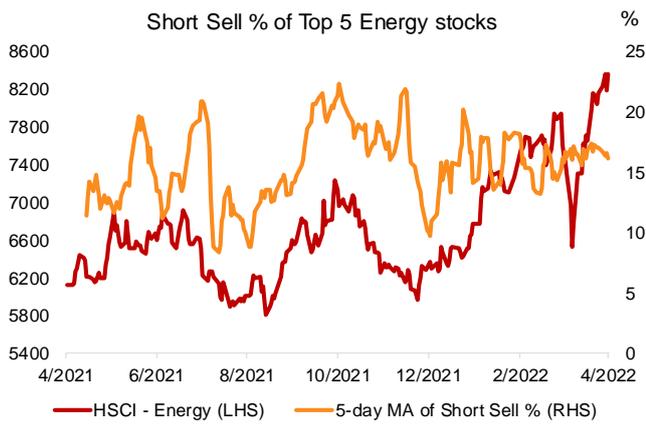
Source: Bloomberg, CMBIGM

**Figure 29: Short sell % in HK – Industrials**



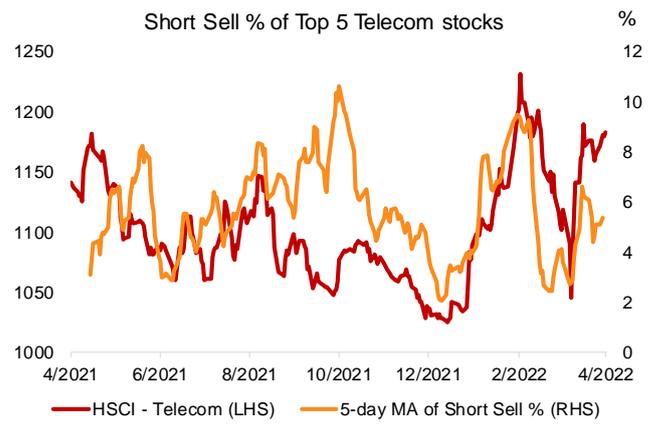
Source: Bloomberg, CMBIGM

**Figure 30: Short sell % in HK – Energy**



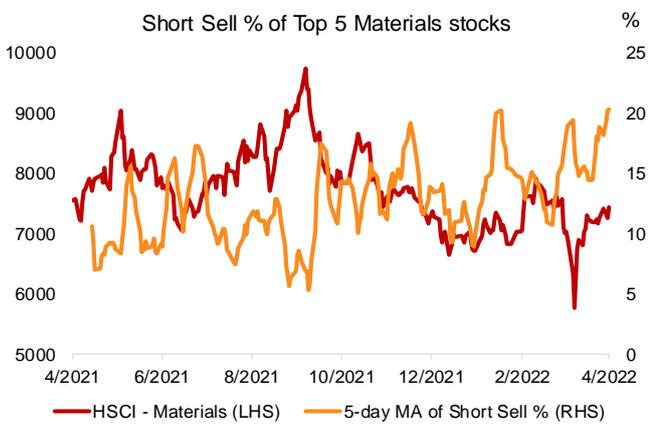
Source: Bloomberg, CMBIGM

**Figure 31: Short sell % in HK – Telecom**



Source: Bloomberg, CMBIGM

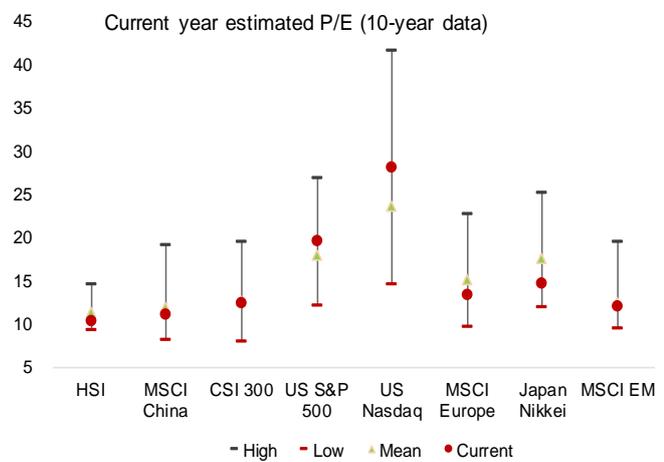
**Figure 32: Short sell % in HK – Materials**



Source: Bloomberg, CMBIGM

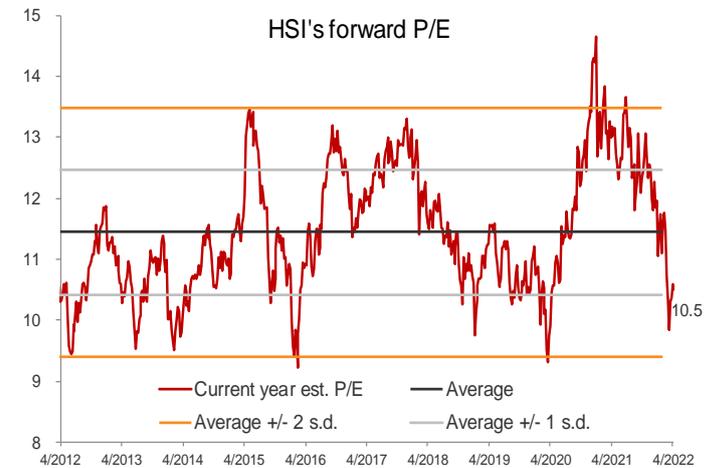
## Earnings & Valuations

**Figure 33: HSI' forward P/E close to low end, while other major markets' are near 10-year mean**



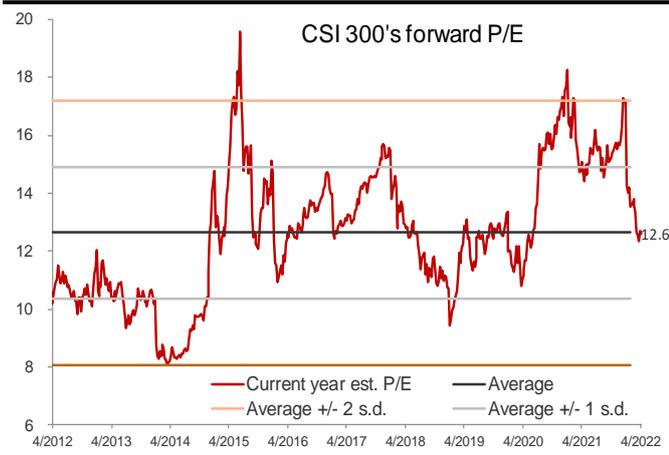
Source: Bloomberg, CMBIGM

**Figure 34: HSI' forward P/E at 1 s.d. below 10-yr average**



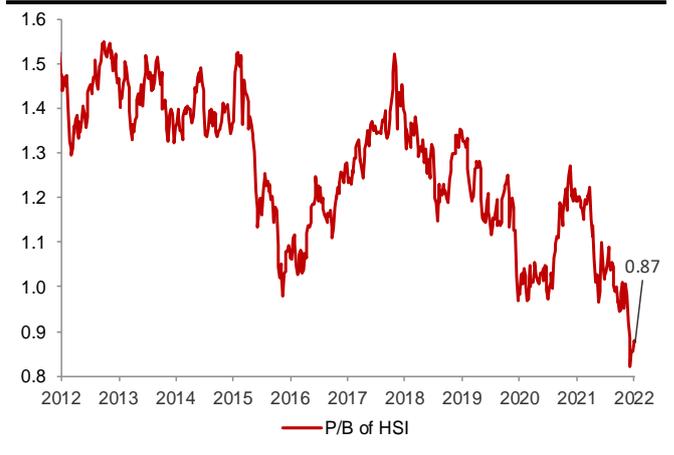
Source: Bloomberg, CMBIGM

**Figure 35: CSI 300's P/E at around 10-year mean, not really cheap**



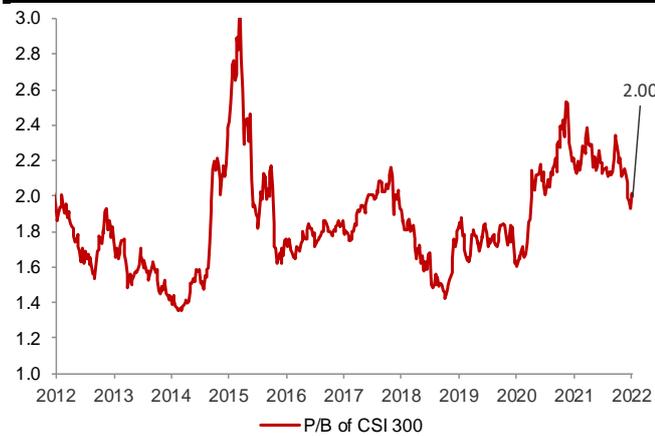
Source: Bloomberg, CMBIGM

**Figure 36: HSI' P/B below 1, lower than previous crisis troughs**



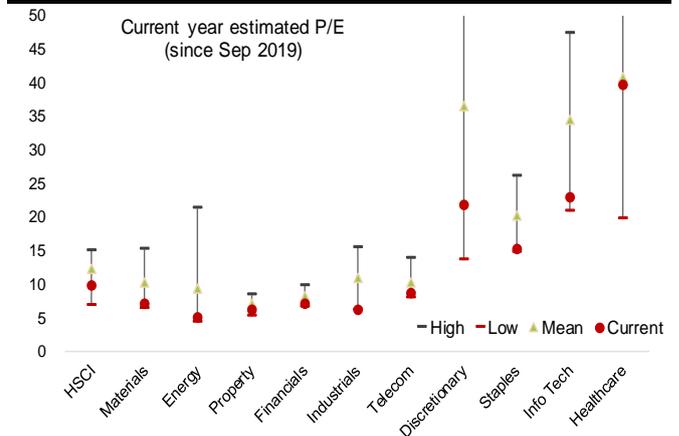
Source: Bloomberg, CMBIGM

**Figure 37: CSI 300's P/B at around 2**



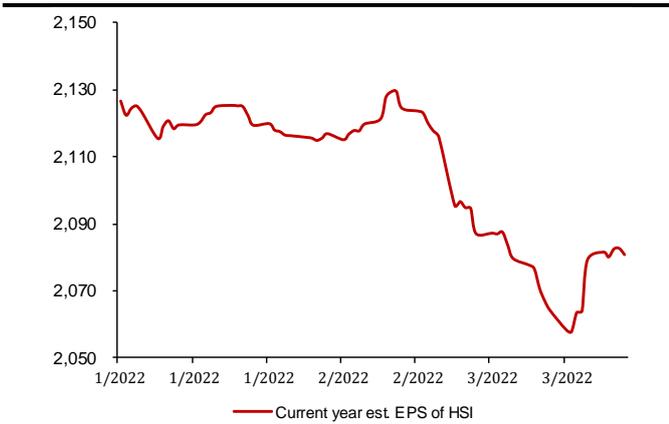
Source: Bloomberg, CMBIGM

**Figure 38: Most HSCI sectors' P/E are near troughs**



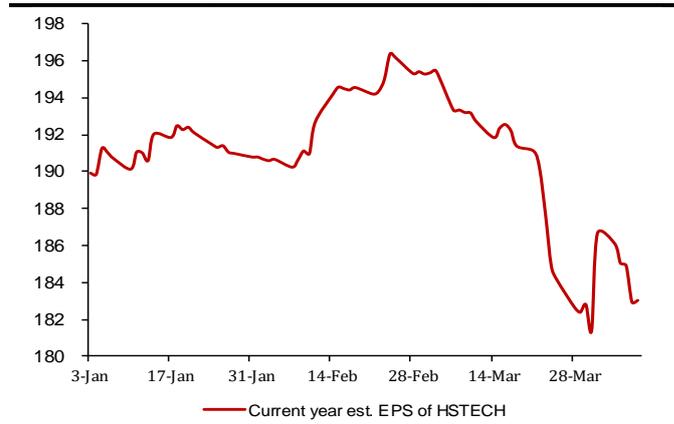
Source: Bloomberg, CMBIGM

**Figure 39: EPS estimates of HSI were revised down by ~2% in FY21 earnings season**



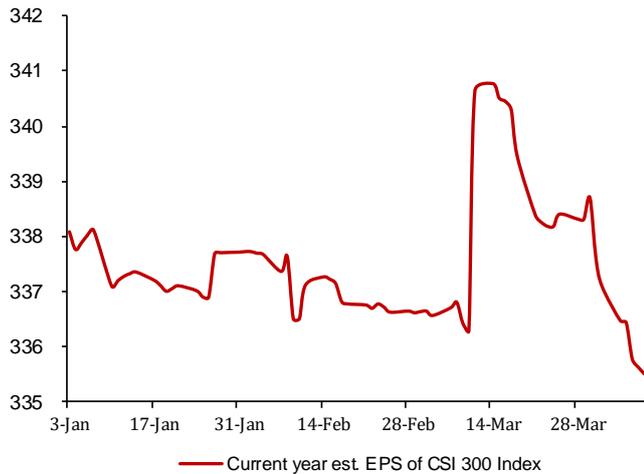
Source: Bloomberg, CMBIGM

**Figure 40: EPS estimates of HSTECH Index were revised down by ~6% in FY21 earnings season**



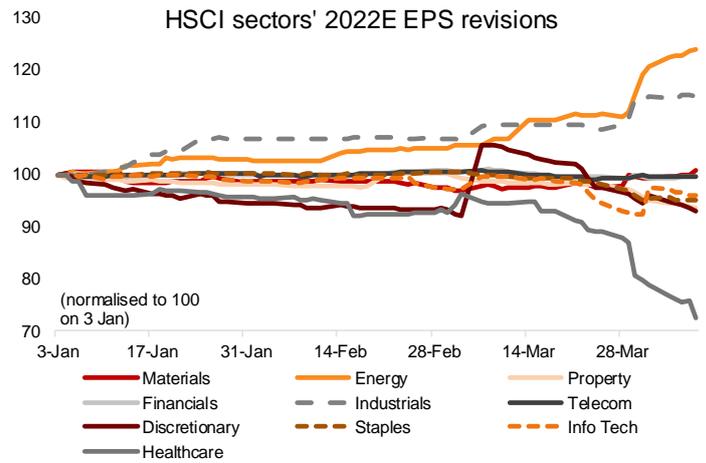
Source: Bloomberg, CMBIGM

**Figure 41: EPS estimates of A-shares were revised down by <1% in FY21 earnings season**



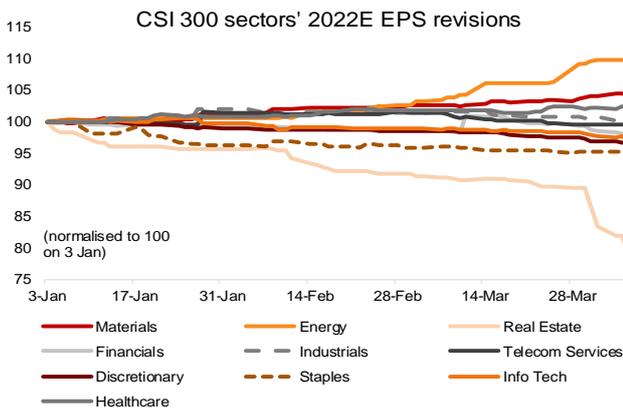
Source: Bloomberg, CMBIGM

**Figure 42: HK earnings revision: Commodities up, Healthcare & Consumer Discretionary down again**



Source: Bloomberg, CMBIGM

**Figure 43: A-shares earnings revision: Real Estate got slashed**



Source: Bloomberg, CMBIGM

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

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