

China / HK Market Weekly

PBOC easing weaker than expected

Last week (18-22 Apr), major stock markets around the world declined as a hawkish Fed and strong USD continued to weigh on sentiment. The epidemic and lockdowns in some regions caused a slump of China economy. The policy support was weaker than expected as China / HK stock markets were not helped by a smaller-than-expected RRR cut. Consumer sector outperformed for the second consecutive week as investors expected the epidemic in Shanghai to ease soon. We see potential of further rebound in Consumer stocks, as the COVID outbreak in Shanghai is likely to be peaking out. IT sector may stay weak on risks of lower guidance and de-rating due to higher UST yields.

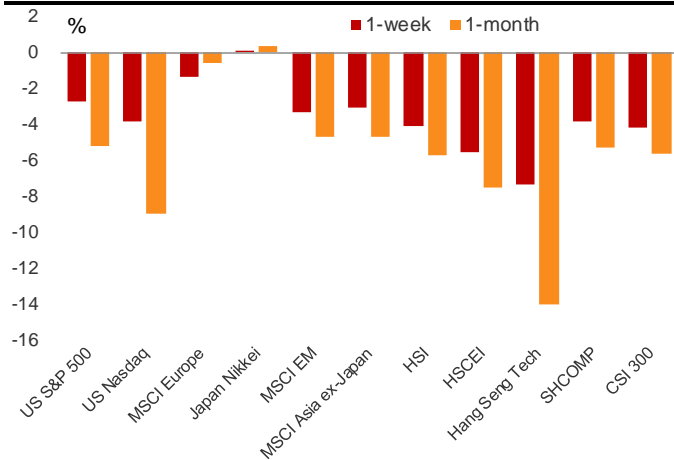
- **Market recap:** The HSI and CSI 300 were down by 4.1% & 4.2% respectively (Fig. 1), declining for the third straight week, as monetary policy by the PBOC (25 bps cut in RRR, LPR unchanged) was not as stimulative as expected. The HSI finally breached the lower bound of its trading range 21000-22500 in the previous four weeks. By sector, all sub-sectors of the HSCI declined, with defensive sectors like Utilities & Telecom having smaller losses. In A-shares, only Utilities gained as a safe haven (Fig. 3-4).
- **Fund flows:** Global funds continued to flow out of emerging markets amid a hawkish Fed and rising US Treasury yields. Global equity flows to China also deteriorated as the policy easing in the country was below investors' expectations. US equity mutual funds saw more significant net withdrawals in April on a more hawkish Fed. US 10-year Treasury yield continued to go up, and surpassed China 10-year yield in the past two weeks (Fig. 11).
- **Stock Connect flows:** Southbound had two days of slight outflows, but recorded cumulative net inflows for the week. Northbound oscillated between inflows and outflows (Fig. 12-13). By sector, Southbound funds flew into IT, Real Estate, Telecom & Energy, and out of Financials & Consumer Staples. Northbound funds flew into Capital Goods, Utilities & Energy, and out of Diversified Financials, Semiconductors & Equipment and Technical Hardware & Equipment.
- **Sentiment:** "Fear Index" VHSI remained elevated, while the US VIX spiked on a hawkish Fed (Fig. 22). Short sell % on HK mainboard stayed at above 19%. By sector, short sell ratio increased noticeably in Financials (HSBC in particular), Consumer Discretionary & Utilities. Short sell ratios decreased in IT, Healthcare, Property & Industrials.
- **Earnings:** FY22E EPS consensus of the HSI / HSTECH / CSI 300 were revised down by 1.0% / 2.0% / 0.3% last week (Fig. 41-43). By sector, in HK, Materials & Industrials were revised up, while Healthcare & Consumer Discretionary were down again. In A-shares market, EPS estimates of Energy crept up, while the rest were down (Fig. 44-45).
- **Sector views:** In the short term, we see potential of rebound in Consumer stocks, as the COVID outbreak in Shanghai is likely to be peaking out. On the other hand, IT sector may stay weak as companies may lower guidance in the wake of weaker economic outlook, and higher UST yields are weighing on valuations.

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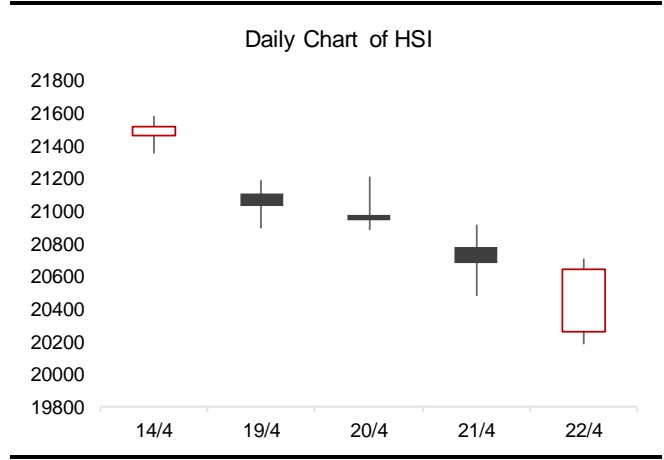
Market Recap

Figure 1: Weekly global markets returns: negative due to hawkish Fed and strong USD



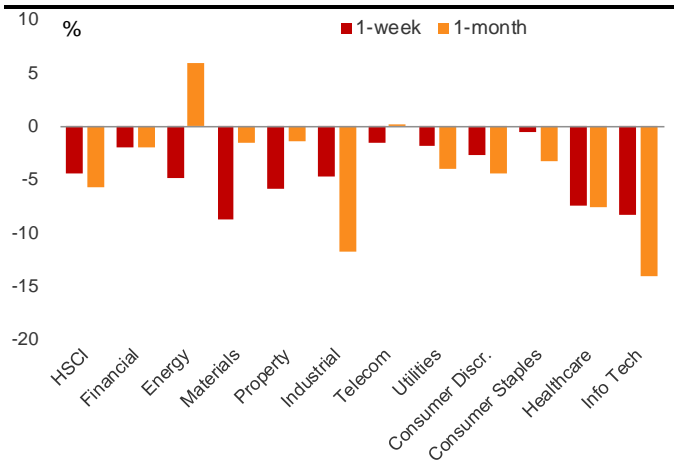
Source: Bloomberg, CMBIGM

Figure 2: HSI tested 20000 support as PBOC easing was weaker than expected



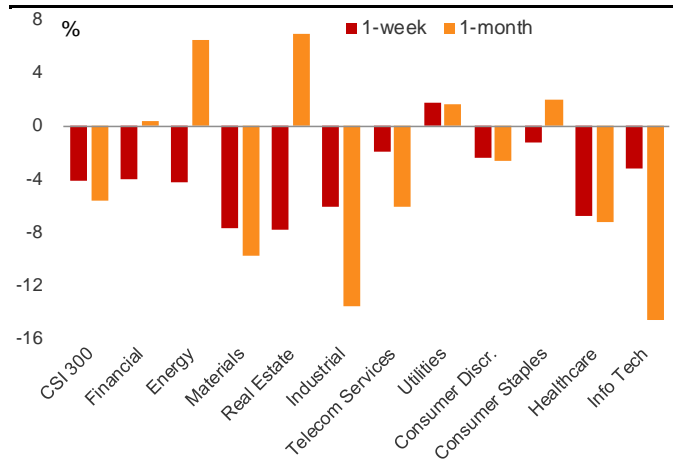
Source: Bloomberg, CMBIGM

Figure 3: Hang Seng Composite Index sectors: down across the board



Source: Bloomberg, CMBIGM

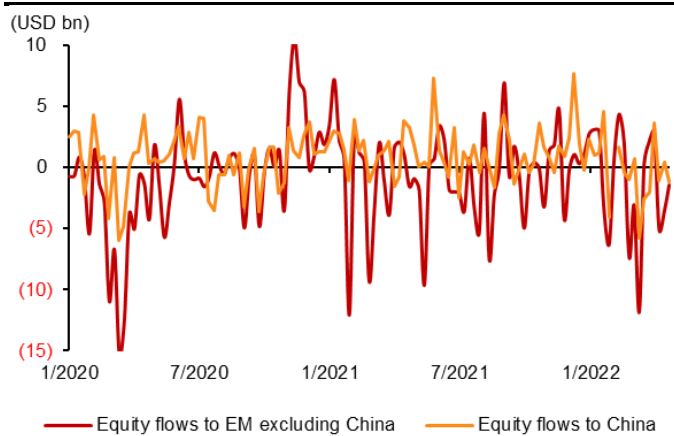
Figure 4: CSI 300 Index sectors: Only Utilities gained as a safe haven



Source: Bloomberg, CMBIGM

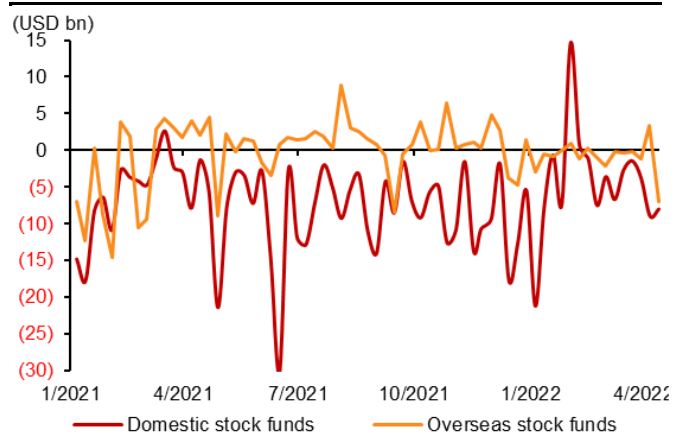
Fund Flows

Figure 5: Global Fund Flow to Emerging Market



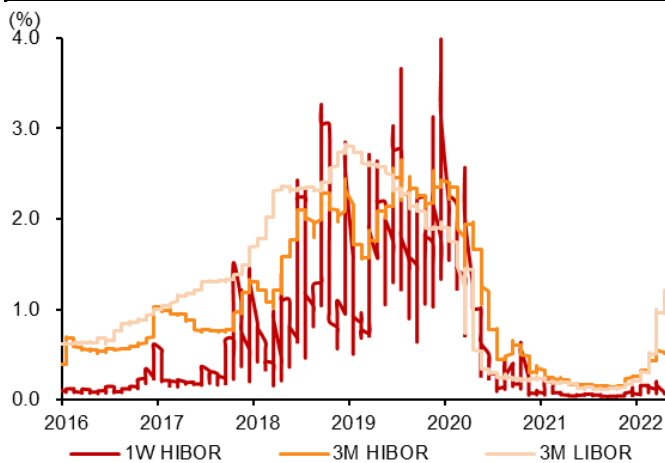
Source: IIF, CMBIGM

Figure 6: US Long-term Mutual Fund Flow



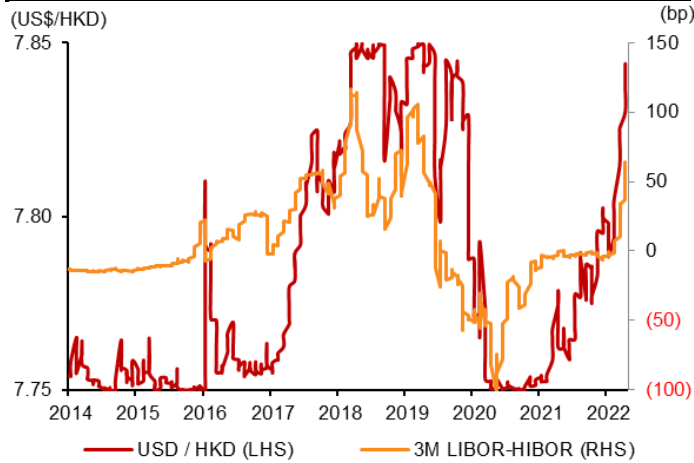
Source: Wind, CMBIGM

Figure 7: USD & HKD Interest Rates



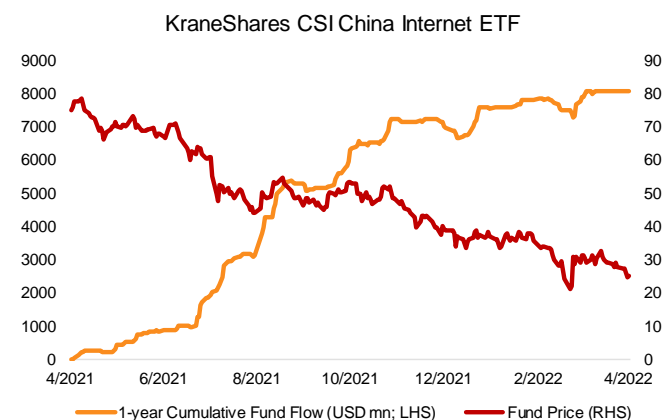
Source: Wind, CMBIGM

Figure 8: USD/HKD Rates & Interest Spreads



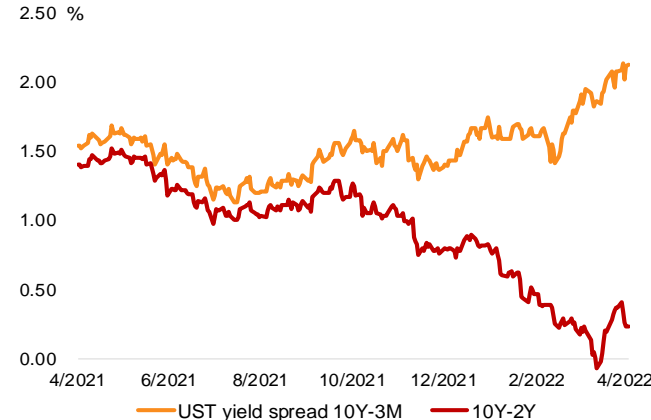
Source: Wind, CMBIGM

Figure 9: KWEB, the largest China Internet ETF, recorded slight outflows last week



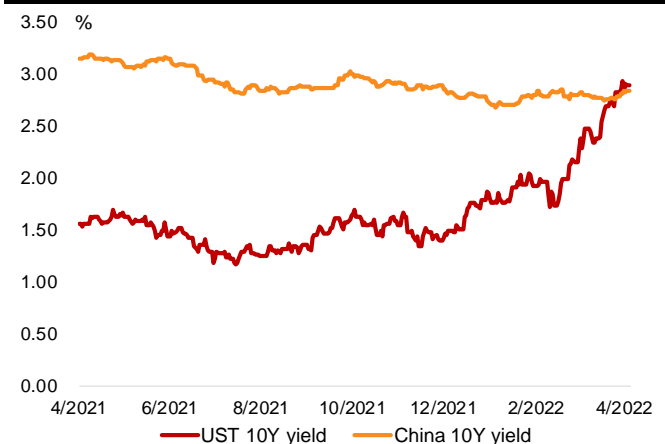
Source: Bloomberg, CMBIGM

Figure 10: UST yield curve (10Y-2Y) briefly inverted in early Apr



Source: Bloomberg, CMBIGM

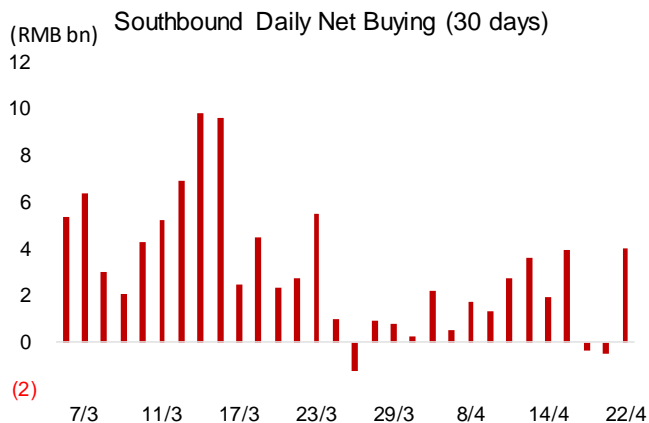
Figure 11: UST yield surpassed China govt' yield



Source: Bloomberg, CMBIGM

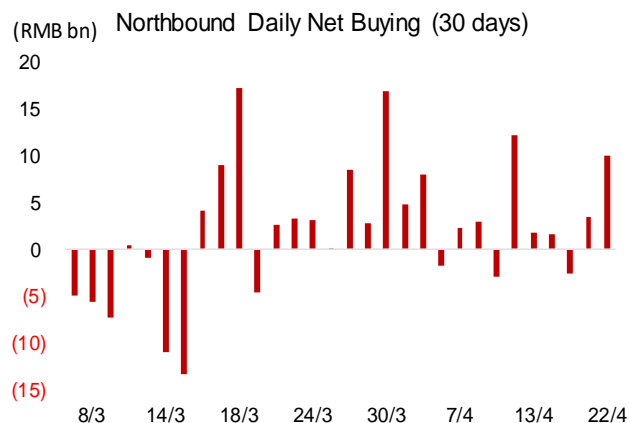
SH/SZ-HK Stock Connect

Figure 12: Southbound had two days of net selling



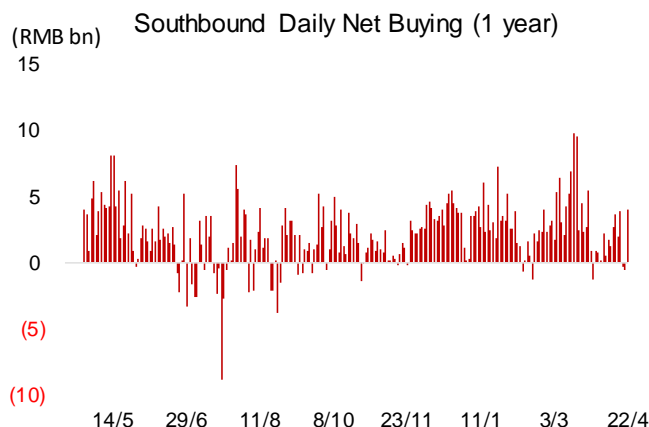
Source: Bloomberg, CMBIGM

Figure 13: Northbound daily flows fluctuated



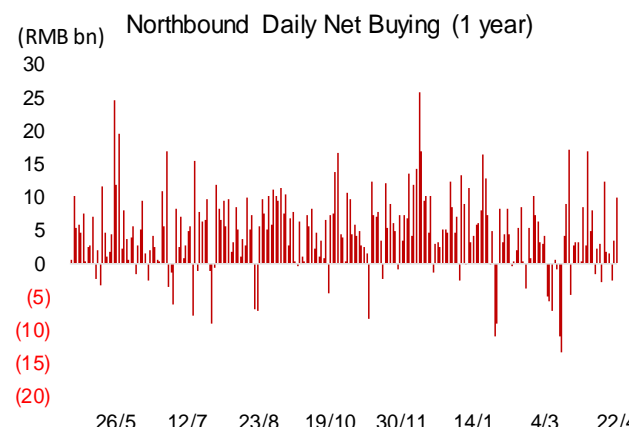
Source: Bloomberg, CMBIGM

Figure 14: Southbound net buying moderated vs. Q1



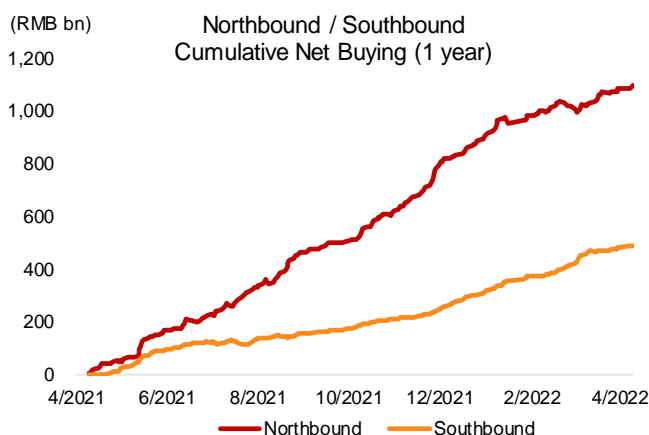
Source: Bloomberg, CMBIGM

Figure 15: Northbound flows somewhat stabilised



Source: Bloomberg, CMBIGM

Figure 16: Southbound inflows speeded up since early 2022, while Northbound inflows slowed down



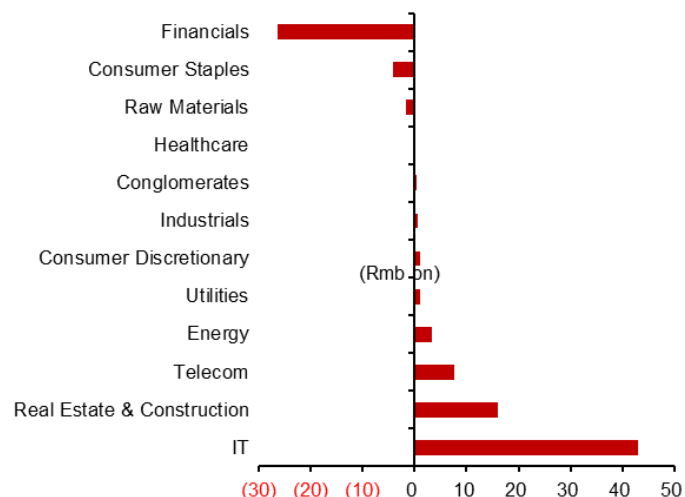
Source: Bloomberg, CMBIGM

Figure 17: AH premium little changed from a week ago, and both markets went down



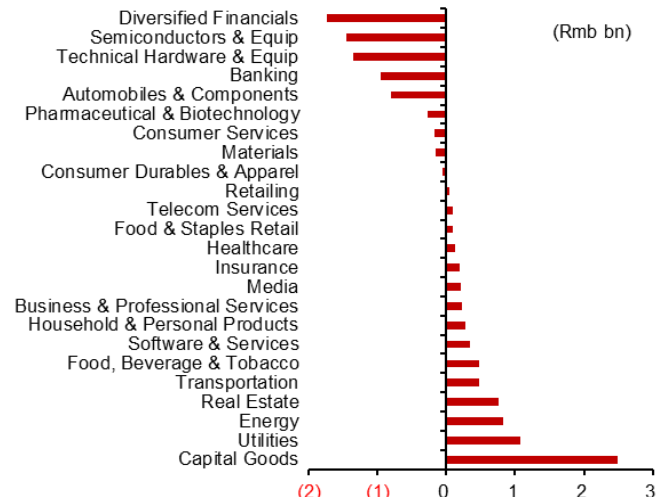
Source: Bloomberg, CMBIGM

Figure 18: Southbound net flows by sector last week



Source: Wind, CMBIGM

Figure 19: Northbound net flows by sector last week



Source: Wind, CMBIGM

Figure 20: Southbound weekly Top 10 active stocks

| (HKD bn, cumulative) | | Turnover | Net Buying |
|----------------------|---------|----------|------------|
| Tencent | 700 HK | 108.4 | 7.0 |
| Meituan | 3690 HK | 81.6 | 34.5 |
| CNOOC | 883 HK | 57.3 | -1.6 |
| Xiaomi | 1810 HK | 7.5 | -0.8 |
| CCB | 939 HK | 8.0 | -2.3 |
| ANTA Sports | 2020 HK | 7.6 | 6.6 |
| Kuaishou | 1024 HK | 13.4 | 0.9 |
| Wuxi Biologics | 2269 HK | 15.3 | -3.4 |
| ICBC | 1398 HK | 4.3 | -3.5 |
| China Mobile | 941 HK | 19.6 | -1.1 |

Source: Wind, CMBIGM

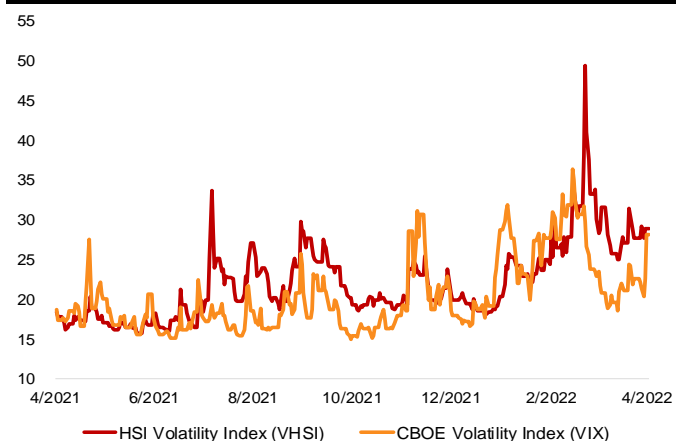
Figure 21: Northbound (SH) Top 10 active stocks

| (RMB bn, cumulative) | | Turnover | Net Buying |
|--------------------------|-----------|----------|------------|
| China Yangtze Power | 600900 CH | 43.8 | 7.2 |
| Kweichow Moutai | 600519 CH | 87.0 | 17.0 |
| LONGi Green Energy | 601012 CH | 49.7 | -4.0 |
| China Merchants Bank | 600036 CH | 97.9 | -26.5 |
| Zijin Mining | 601899 CH | 33.8 | 0.0 |
| China State Construction | 601668 CH | 22.7 | 2.7 |
| Inner Mongolia Yili | 600887 CH | 19.8 | 0.0 |
| WuXi AppTec | 603259 CH | 14.3 | 1.4 |
| Ping An Insurance | 601318 CH | 26.4 | -1.1 |
| CTG Duty Free | 601888 CH | 23.3 | 0.2 |

Source: Wind, CMBIGM

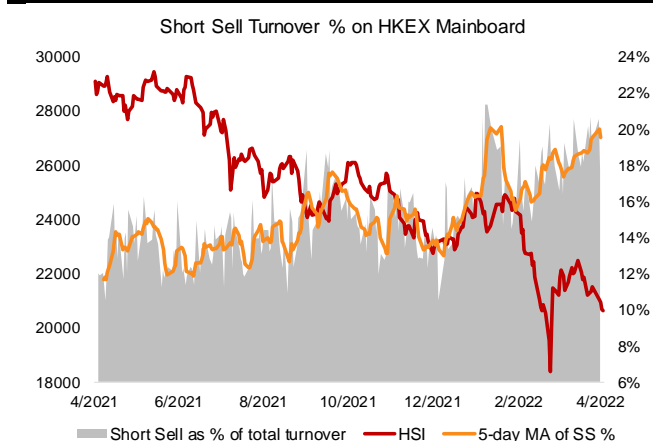
Sentiments

Figure 22: "Fear Index" VHSI remained elevated, and the US VIX spiked on a hawkish Fed



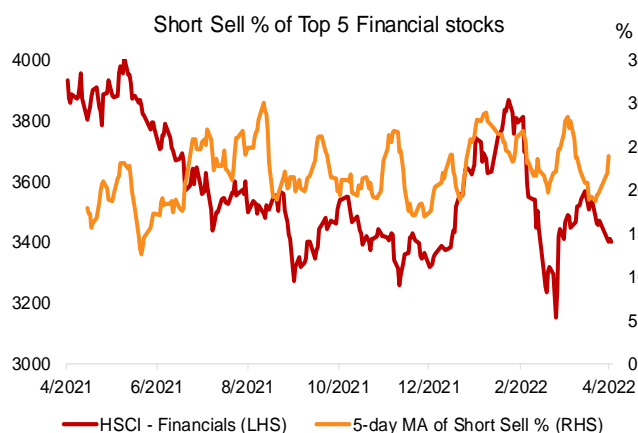
Source: Bloomberg, CMBIGM

Figure 23: Short sell % on HK mainboard remained high at above 19%



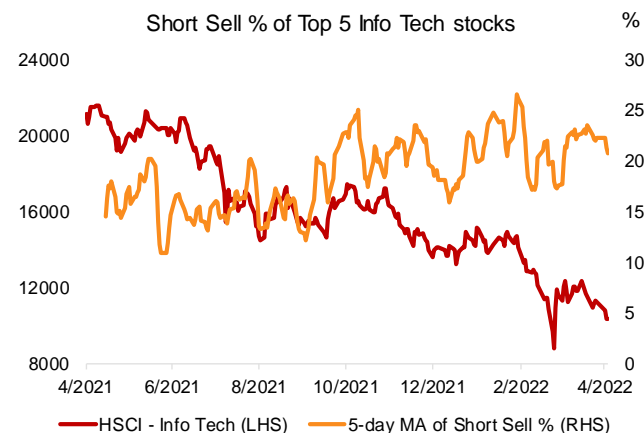
Source: Bloomberg, CMBIGM

Figure 24: Short sell % in HK – Financials



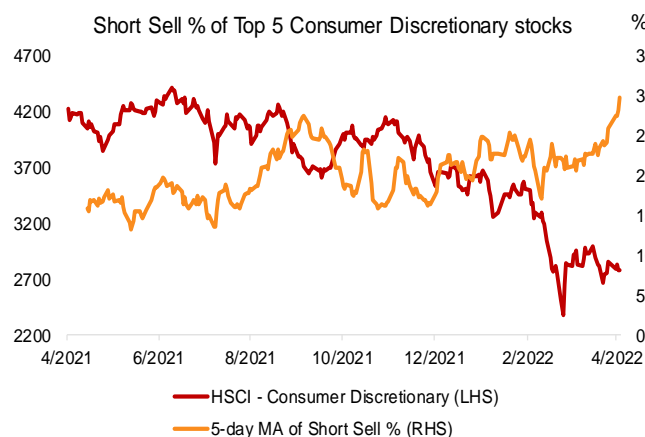
Source: Bloomberg, CMBIGM

Figure 25: Short sell % in HK – Info Tech



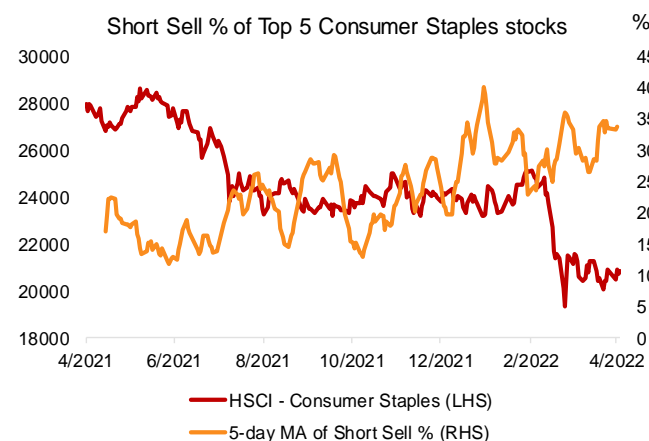
Source: Bloomberg, CMBIGM

Figure 26: Short sell % in HK – Consumer Discretion.



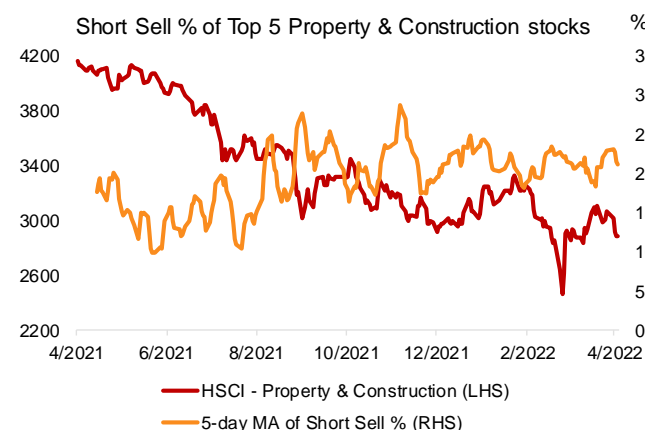
Source: Bloomberg, CMBIGM

Figure 27: Short sell % in HK – Consumer Staples



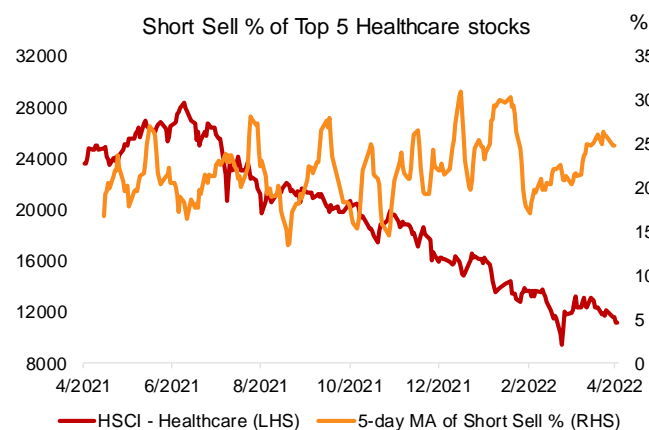
Source: Bloomberg, CMBIGM

Figure 28: Short sell % in HK – Property



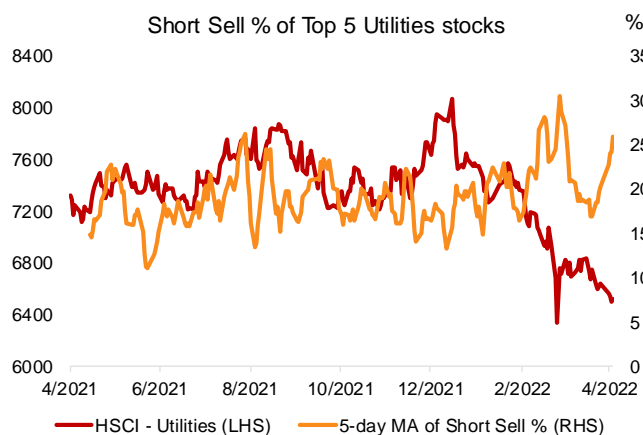
Source: Bloomberg, CMBIGM

Figure 29: Short sell % in HK – Healthcare



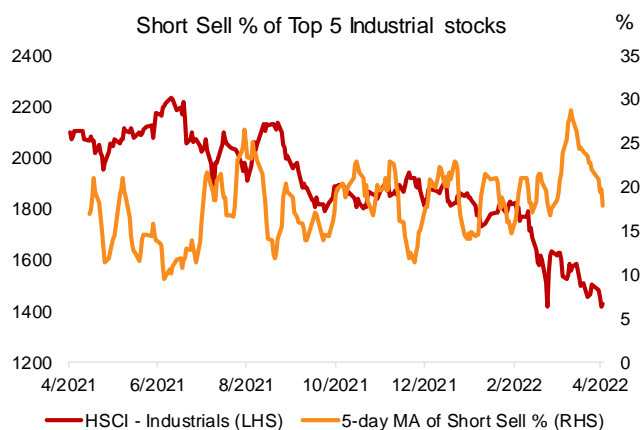
Source: Bloomberg, CMBIGM

Figure 30: Short sell % in HK – Utilities



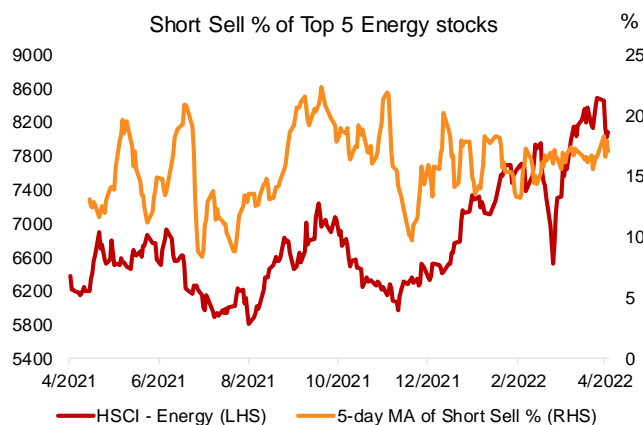
Source: Bloomberg, CMBIGM

Figure 31: Short sell % in HK – Industrials



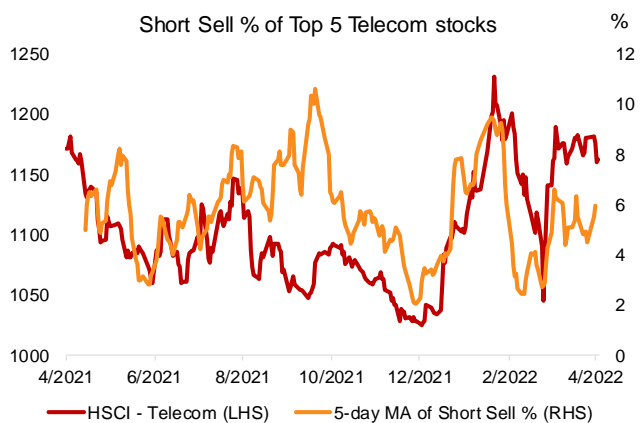
Source: Bloomberg, CMBIGM

Figure 32: Short sell % in HK – Energy



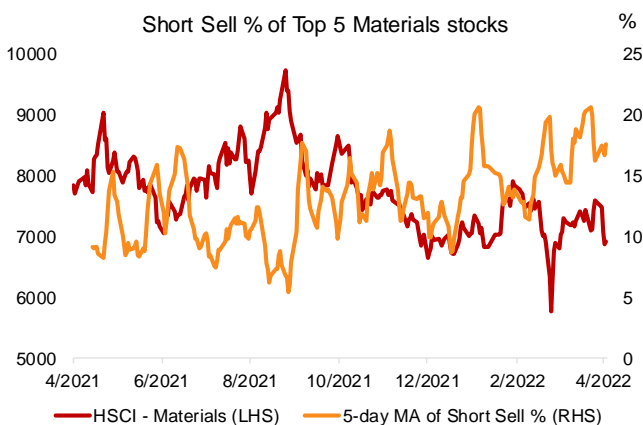
Source: Bloomberg, CMBIGM

Figure 33: Short sell % in HK – Telecom



Source: Bloomberg, CMBIGM

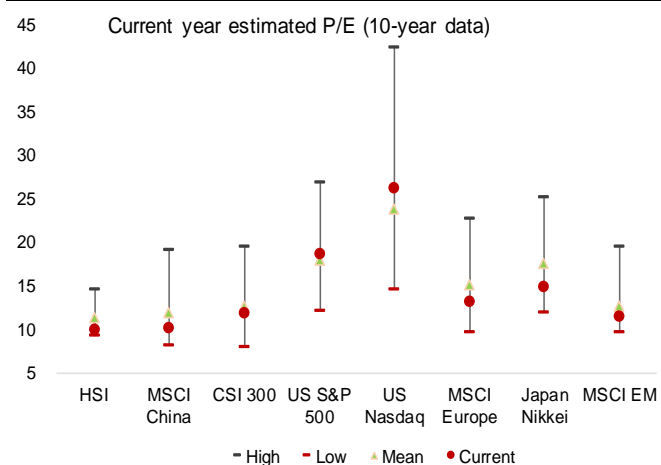
Figure 34: Short sell % in HK – Materials



Source: Bloomberg, CMBIGM

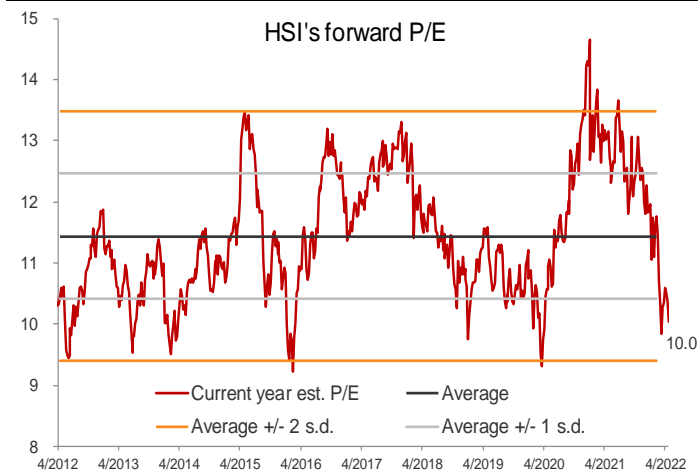
Earnings & Valuations

Figure 35: HSI' P/E close to low end, while other major markets' are near 10-year mean



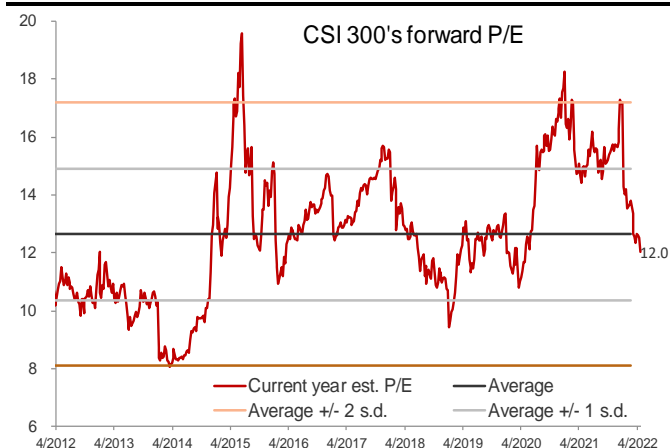
Source: Bloomberg, CMBIGM

Figure 36: HSI' forward P/E below 10-yr average by more than 1 s.d.



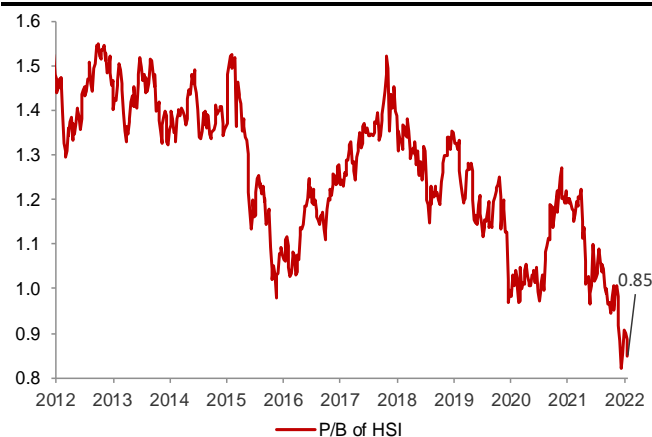
Source: Bloomberg, CMBIGM

Figure 37: CSI 300's P/E at around 10-year mean, not really cheap



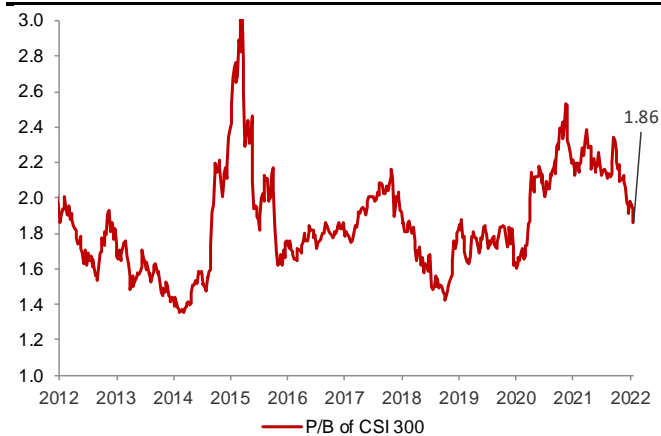
Source: Bloomberg, CMBIGM

Figure 38: HSI' P/B below 1, lower than previous crisis troughs



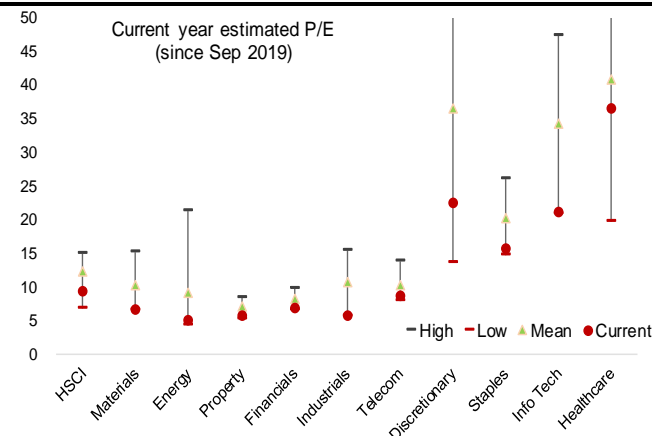
Source: Bloomberg, CMBIGM

Figure 39: CSI 300's P/B at around 1.9



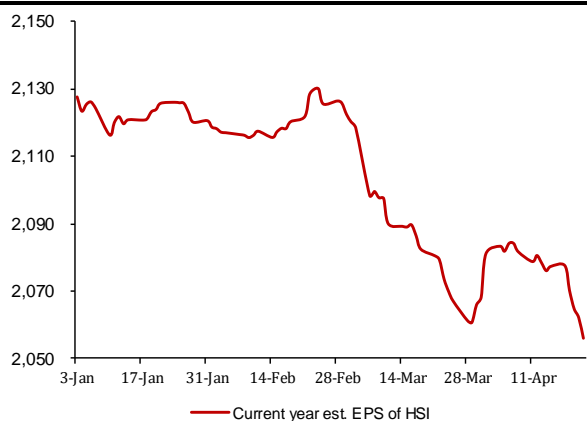
Source: Bloomberg, CMBIGM

Figure 40: Most HSCI sectors' P/E are near troughs



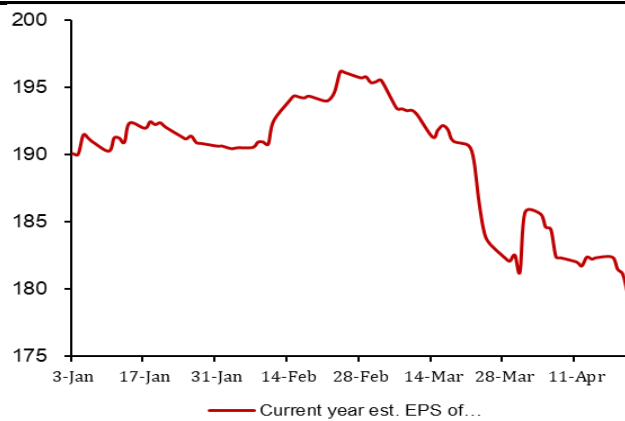
Source: Bloomberg, CMBIGM

Figure 41: EPS estimates of HSI were revised down by 1.0% last week



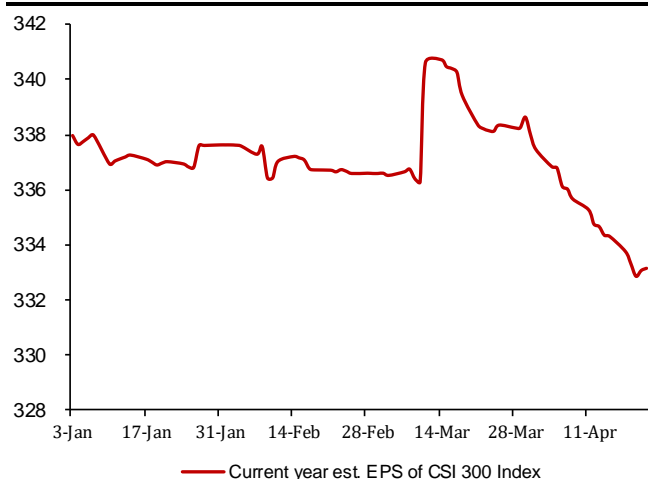
Source: Bloomberg, CMBIGM

Figure 42: EPS estimates of HSTECH Index were revised down by 2.0% last week



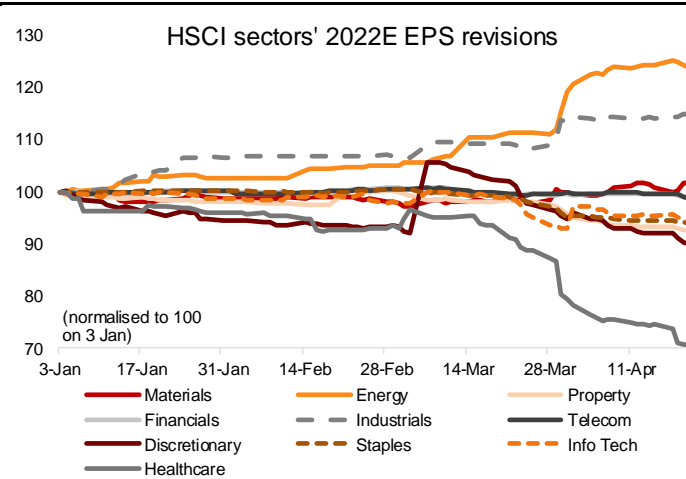
Source: Bloomberg, CMBIGM

Figure 43: EPS estimates of A-shares were revised down by 0.3% last week



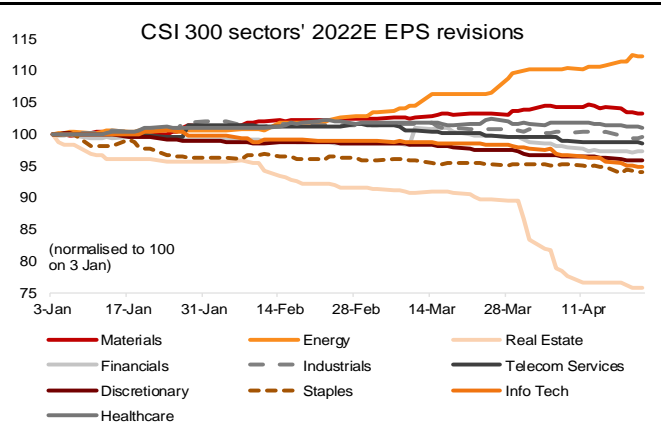
Source: Bloomberg, CMBIGM

Figure 44: HK earnings revision: Materials & Industrials up, Healthcare & Consumer Discretionary down again



Source: Bloomberg, CMBIGM

Figure 45: A-shares earnings revision: Energy up, the rest slightly down



Source: Bloomberg, CMBIGM

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