

China / HK Market Weekly

Another policy-driven rebound

Last week (25-29 Apr), Hong Kong stock market rebounded after a Chinese Politburo meeting on Friday helped restore investor confidence. Officials promised more policy support to meet the country's economic growth target for the year, and to promote a healthy growth in internet platforms. We believe Internet sector has further room of re-rating as regulatory concerns are easing, but stock prices may remain volatile as companies might lower guidance. Consumer and Infrastructure stocks may also outperform on potential fiscal policy support.

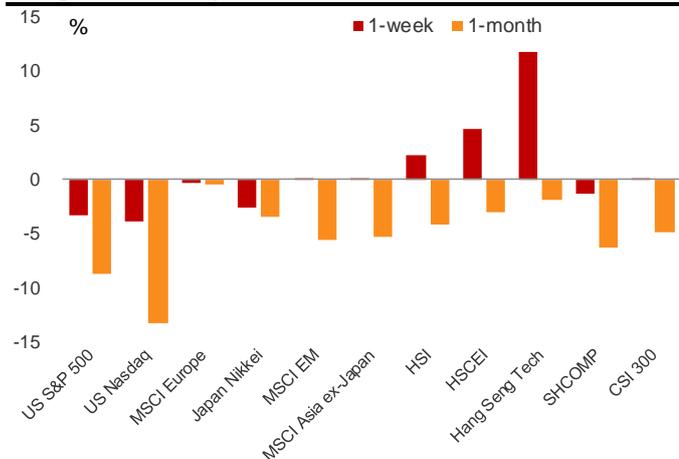
- **Market recap:** After three weeks of decline, the HSI rebounded by 4.0%, led by >10% surge in the Tech sector. The CSI 300 gained only 0.1%, dragged by Financial stocks. US stocks continued to retreat by over 3% (Fig. 1). By sector, in HK, growth stocks such as IT, Healthcare and Consumer Discretionary gained, while Financials & Materials declined. (Fig. 3-4).
- **Fund flows:** Global funds continued to flow out of emerging markets as the high inflation kept Fed hawkish in near term. Global equity flows to China mildly improved as the valuation became attractive and the Chinese policymaker signaled stronger support to growth. US equity mutual funds continued to see net outflow, yet mildly improved. China Internet ETF recorded net outflows despite rebound in share prices (Fig. 9).
- **Stock Connect flows:** Southbound had net buying in a week with only three trading days. Northbound had seven consecutive weeks of net inflows (Fig. 12-13). By sector, southbound funds flew into Consumer Discretionary and out of Financials, Energy, Industrials, Telecom and Healthcare. Northbound funds flew into Capital Goods, Semiconductors & Related Equipment, Utilities, Diversified Financials and Technical Hardware & Equipment and out of Banking, Pharmaceutical & Biotechnology and Consumer Service. AH premium narrowed by 2.5 ppts after H-shares outperformed (Fig. 17).
- **Sentiment:** "Fear Index" VHSI rose despite a rebound in the HSI, while the US VIX continued to rise as US stocks retreated (Fig. 22). Short sell % on HK mainboard went up further to 20% (Fig. 23). By sector, short sell ratio increased in IT & Telecom, and decreased in Energy, Consumer, Property, Utilities & Industrials.
- **Earnings:** FY22E EPS consensus of the HSI / HSTECH / CSI 300 were revised down by 1.4% / 1.5% / 1.0% last week (Fig. 41-43). By sector, in HK, Energy & Industrials were revised up, while Property, Financials, Consumer Discretionary & Healthcare were revised down. In A-shares market, EPS estimates of Energy were up, while Real Estate, IT & Healthcare were down (Fig. 44-45).
- **Sector views:** In the short term, Internet sector has further room of re-rating as regulatory concerns are easing. But this sector may remain volatile as companies might lower guidance in the wake of weaker economic outlook, and higher UST yields are weighing on valuations. Consumer and Infrastructure stocks may also outperform due to optimism of fiscal policy support from Beijing.

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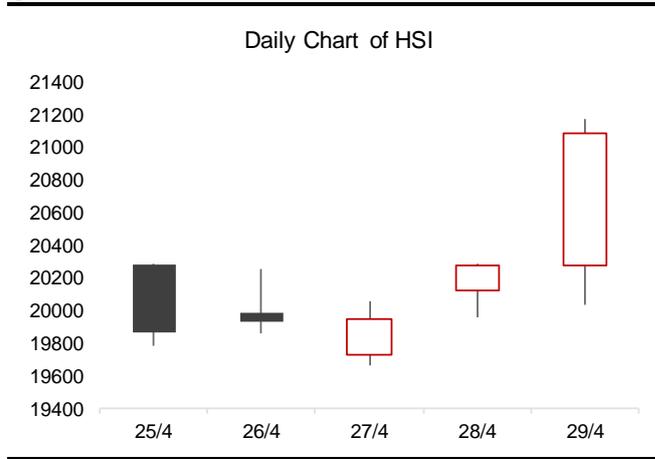
Market Recap

Figure 1: Weekly global markets returns: HK gained led by Tech, US corrections continued



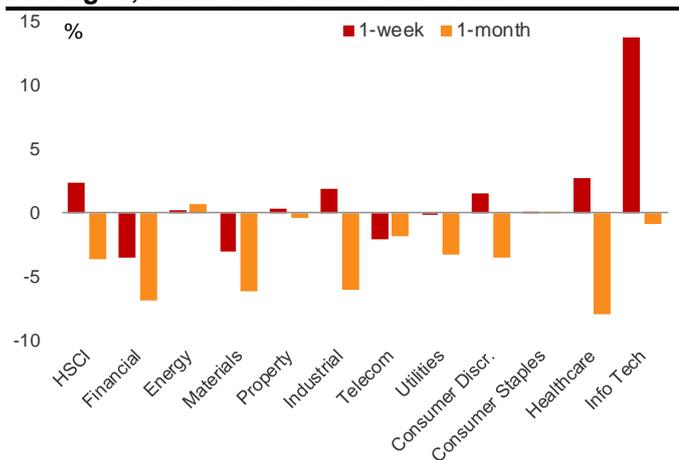
Source: Bloomberg, CMBIGM

Figure 2: HSI surged 4% on Friday as Chinese government restored investor confidence



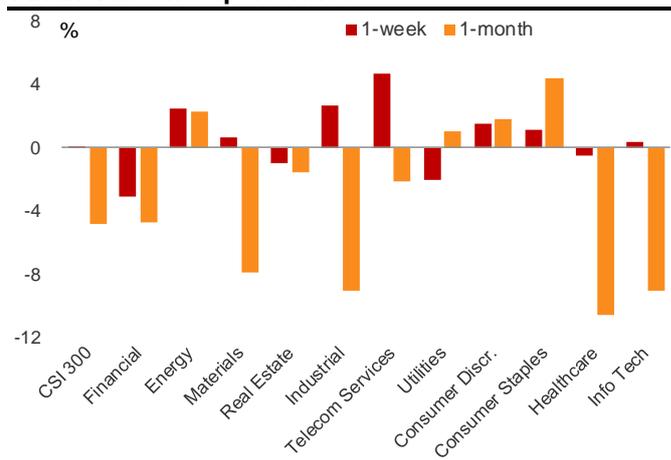
Source: Bloomberg, CMBIGM

Figure 3: Hang Seng Composite Index sectors: IT surged; Financials & Materials down



Source: Bloomberg, CMBIGM

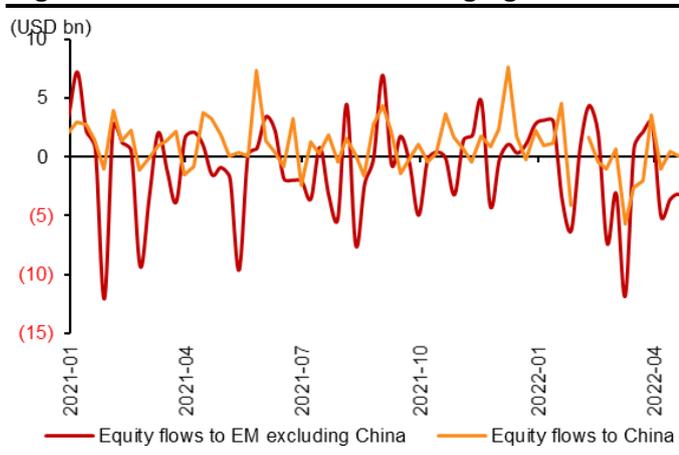
Figure 4: CSI 300 Index sectors: mixed performance; Financials underperformed



Source: Bloomberg, CMBIGM

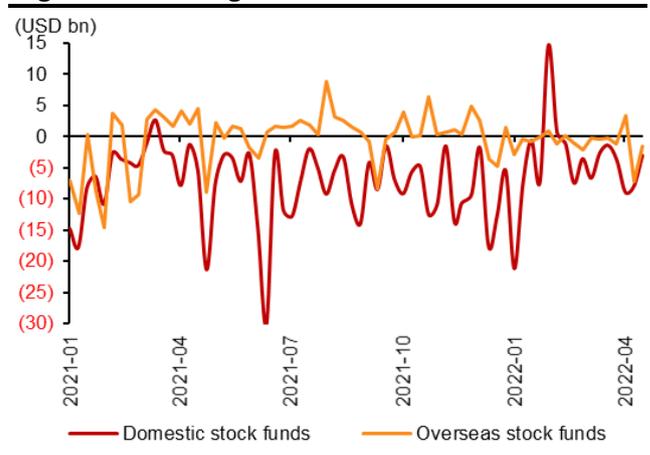
Fund Flows

Figure 5: Global Fund Flow to Emerging Market



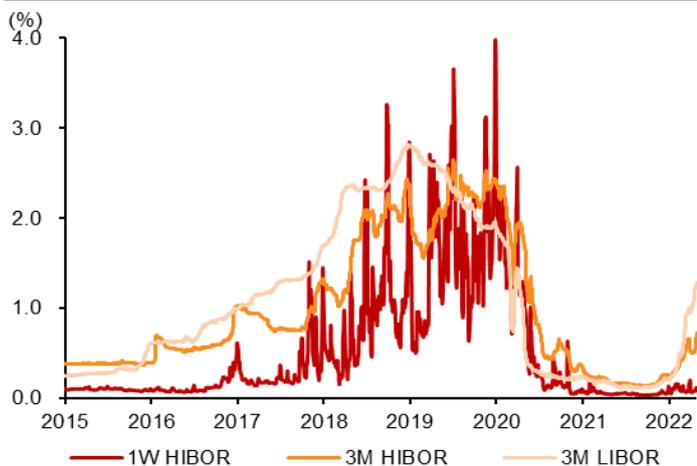
Source: IIF, CMBIGM

Figure 6: US Long-term Mutual Fund Flow



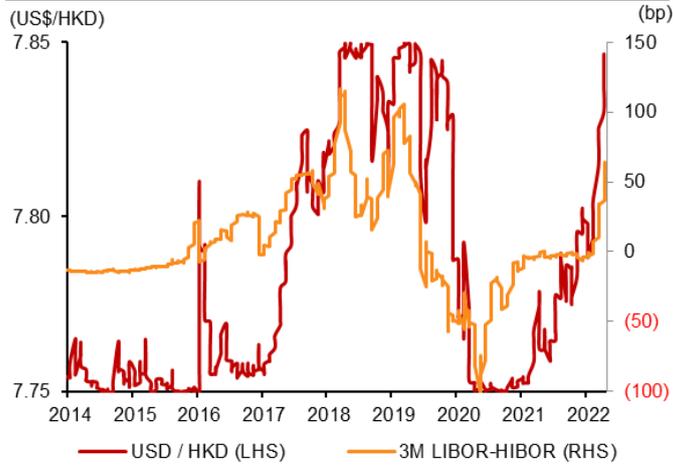
Source: Wind, CMBIGM

Figure 7: USD & HKD Interest Rates



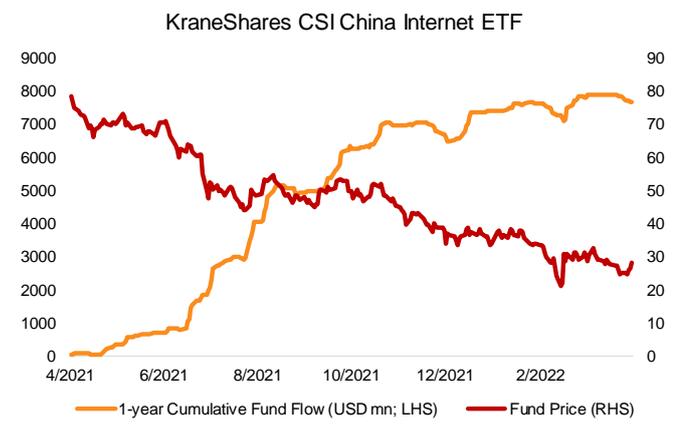
Source: Wind, CMBIGM

Figure 8: USD/HKD Rates & Interest Spreads



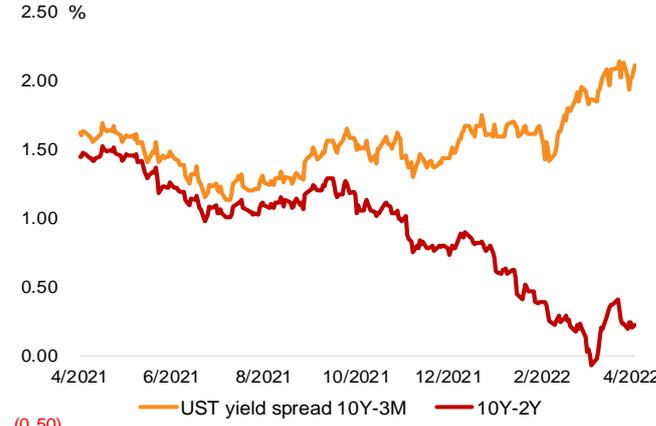
Source: Wind, CMBIGM

Figure 9: KWEB, the largest China Internet ETF, recorded outflows despite rebound in price



Source: Bloomberg, CMBIGM

Figure 10: UST yield spread (10Y-2Y) largely unchanged



Source: Bloomberg, CMBIGM

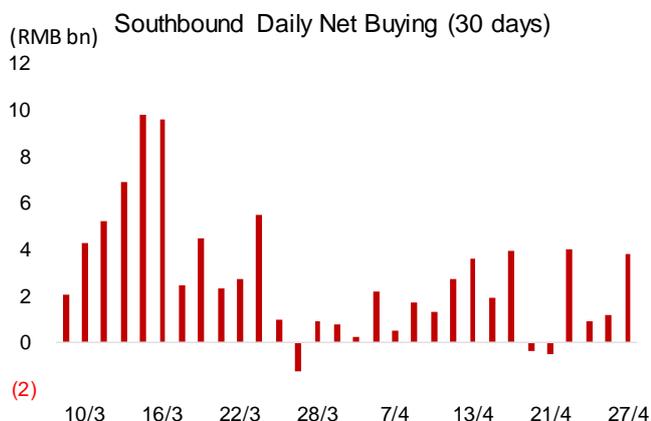
Figure 11: UST yield spread over China govt' bond widened slightly last week



Source: Bloomberg, CMBIGM

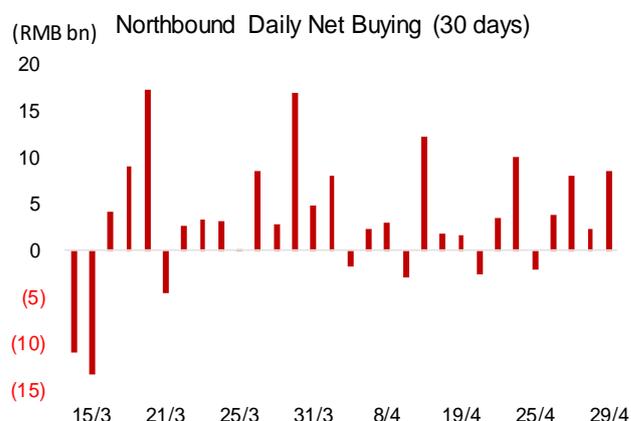
SH/SZ-HK Stock Connect

Figure 12: Southbound had net buying in a week with only three trading days



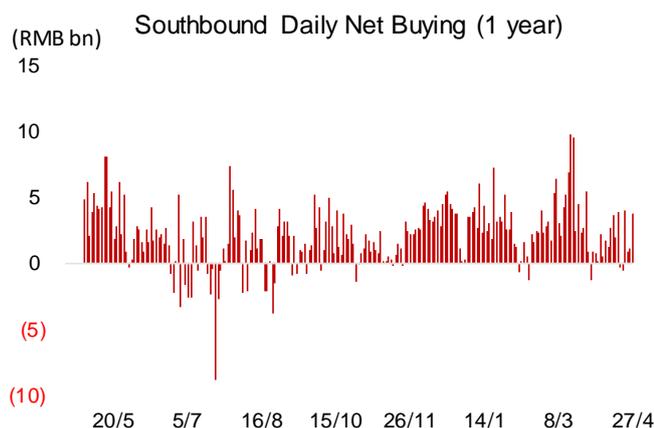
Source: Bloomberg, CMBIGM

Figure 13: Northbound had seven consecutive weeks of net inflows



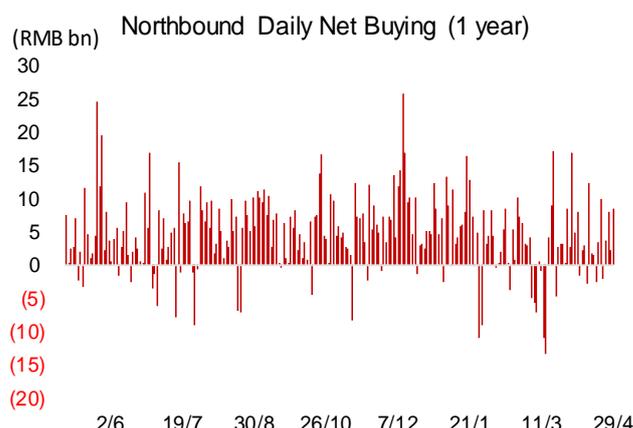
Source: Bloomberg, CMBIGM

Figure 14: Southbound net buying moderated vs. Q1



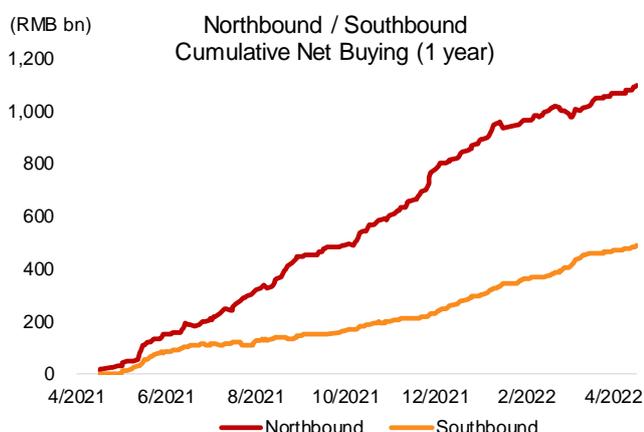
Source: Bloomberg, CMBIGM

Figure 15: Northbound flows somewhat stabilised



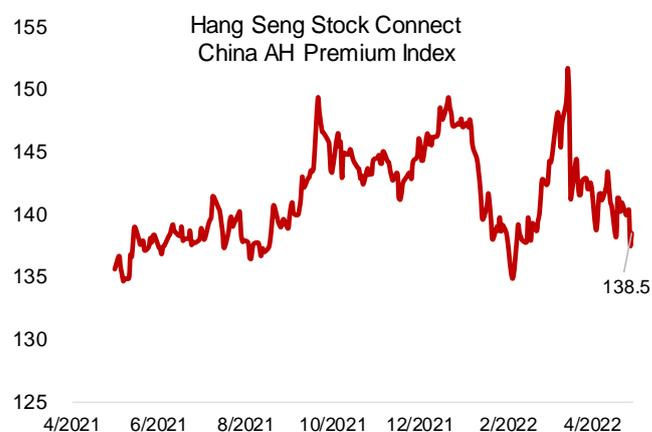
Source: Bloomberg, CMBIGM

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



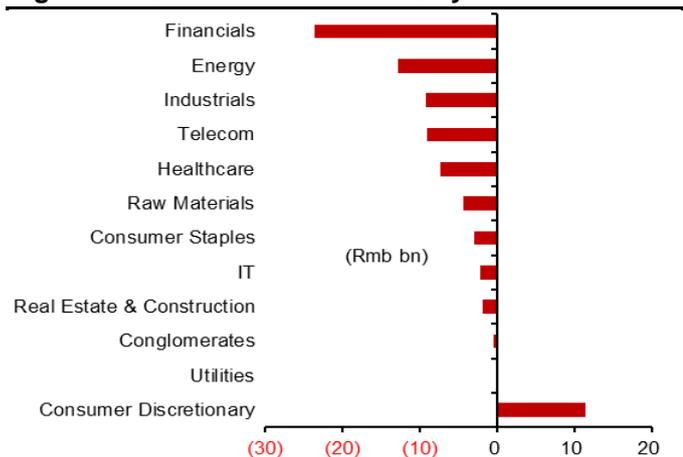
Source: Bloomberg, CMBIGM

Figure 17: AH premium narrowed by 2.5 pts last week after H-shares outperformed



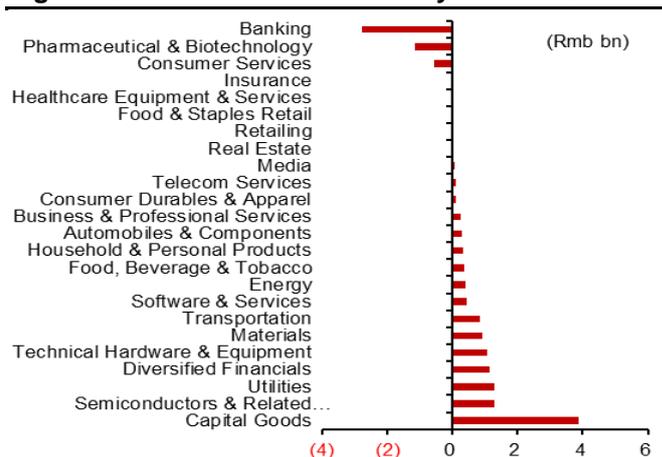
Source: Bloomberg, CMBIGM

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
Meituan	3690 HK	69.4	27.0
Tencent	700 HK	107.3	0.8
CNOOC	883 HK	47.8	0.7
Kuaishou	1024 HK	21.2	4.7
China Merchants Bank	3968 HK	11.5	3.1
Wuxi Biologics	2269 HK	11.8	1.0
CCB	939 HK	8.8	-6.6
Xiaomi	1810 HK	13.1	-2.1
Huaneng Power Intl	902 HK	2.2	0.4
China Mobile	941 HK	14.2	-3.2

Source: Wind, CMBIGM

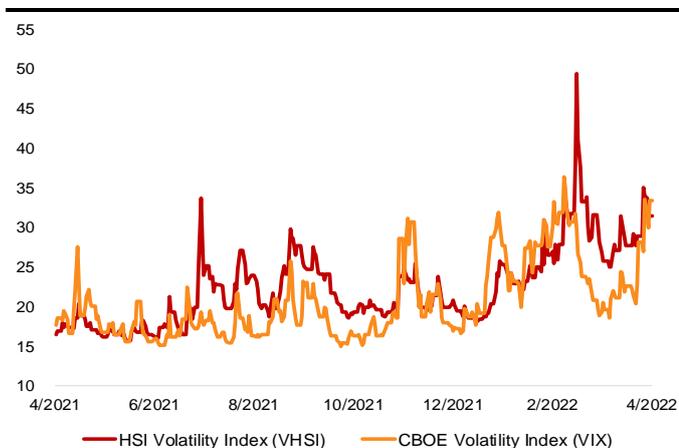
Figure 21: Northbound (SH) Top 10 active stocks

(RMB bn, cumulative)		Turnover	Net Buying
Kweichow Moutai	600519 CH	157.8	21.0
LONGi Green Energy	601012 CH	59.7	5.6
China Merchants Bank	600036 CH	115.6	-36.9
Industrial Bank	601166 CH	44.6	-1.0
Zijin Mining	601899 CH	34.0	-5.6
CITIC Securities	600030 CH	8.1	0.2
China State Construction	601668 CH	42.7	-9.6
Shanxi Fen Wine	600809 CH	7.8	0.5
NARI Technology	600406 CH	7.4	2.3
Inner Mongolia Yili	600887 CH	16.9	-0.3

Source: Wind, CMBIGM

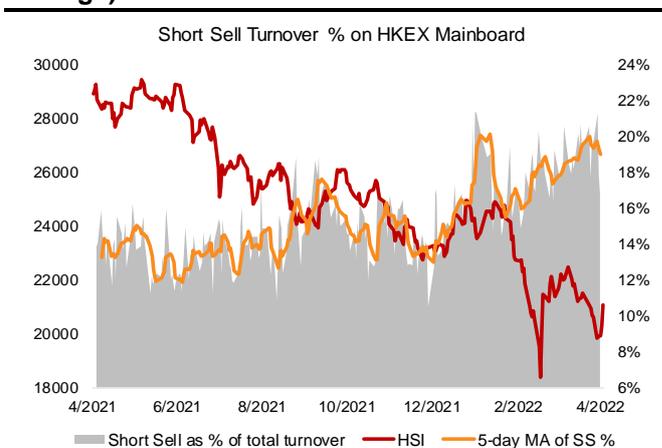
Sentiments

Figure 22: "Fear Index" VHSI up despite HSI rebound; VIX continued to rise as US stocks retreated



Source: Bloomberg, CMBIGM

Figure 23: Short sell % on HK mainboard (5-day average) rose to 20%



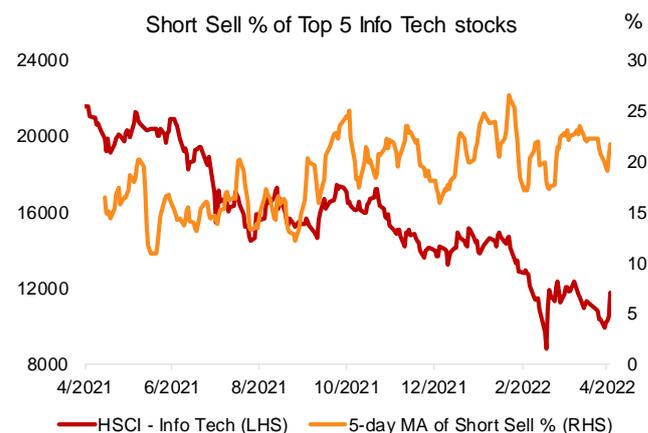
Source: Bloomberg, CMBIGM

Figure 24: Short sell % in HK - Financials



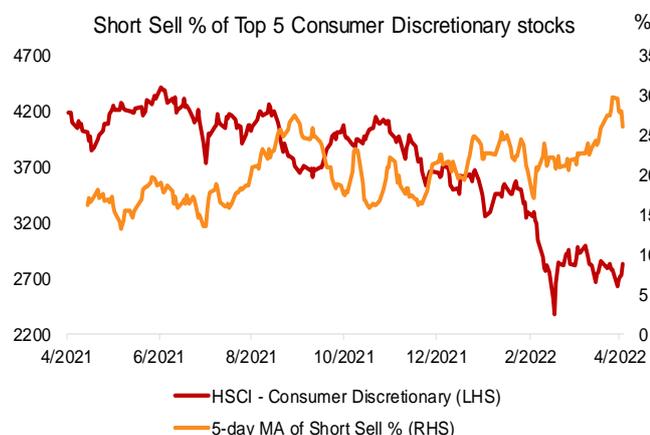
Source: Bloomberg, CMBIGM

Figure 25: Short sell % in HK – Info Tech



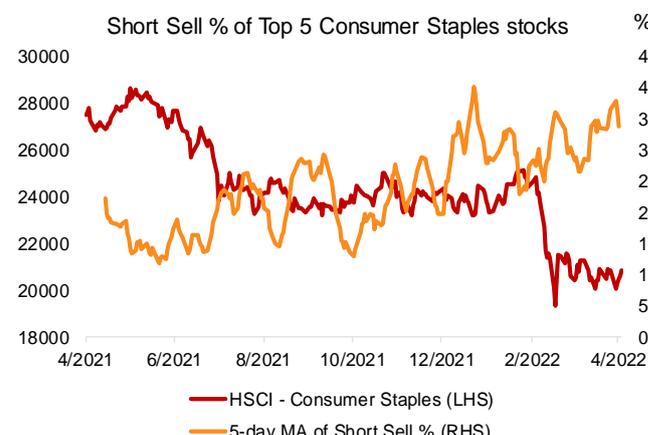
Source: Bloomberg, CMBIGM

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



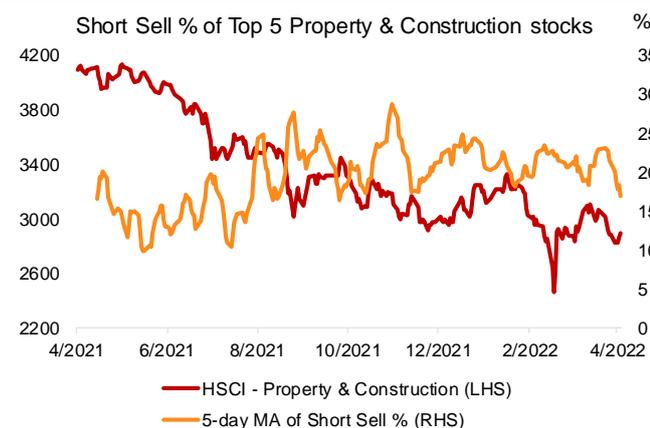
Source: Bloomberg, CMBIGM

Figure 27: Short sell % in HK – Consumer Staples



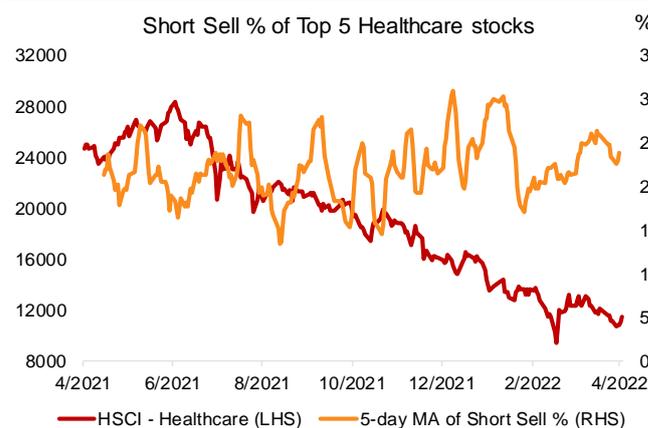
Source: Bloomberg, CMBIGM

Figure 28: Short sell % in HK - Property



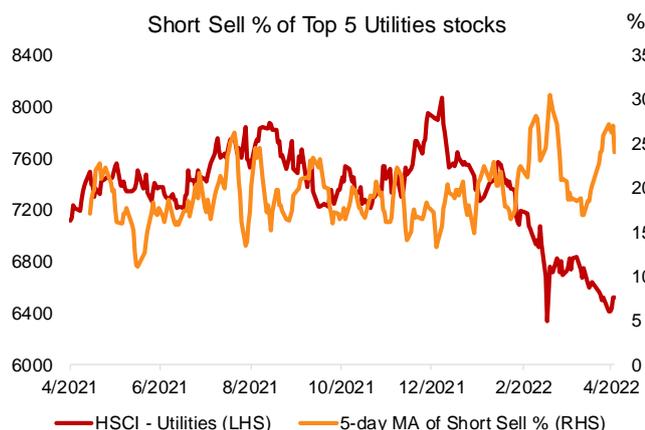
Source: Bloomberg, CMBIGM

Figure 29: Short sell % in HK – Healthcare



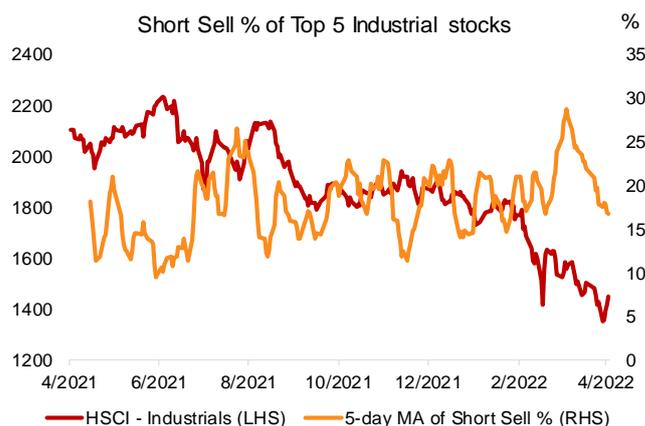
Source: Bloomberg, CMBIGM

Figure 30: Short sell % in HK – Utilities



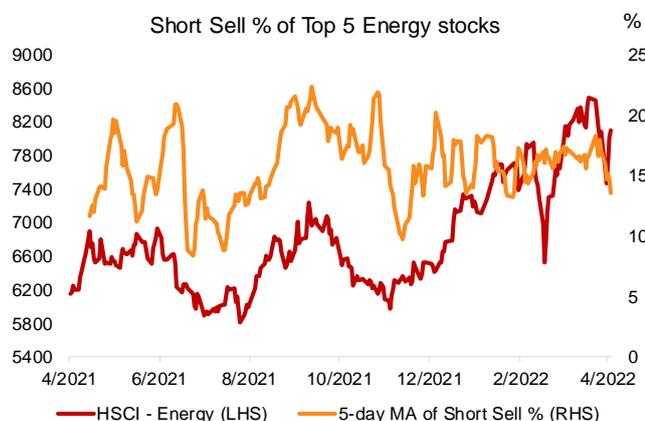
Source: Bloomberg, CMBIGM

Figure 31: Short sell % in HK – Industrials



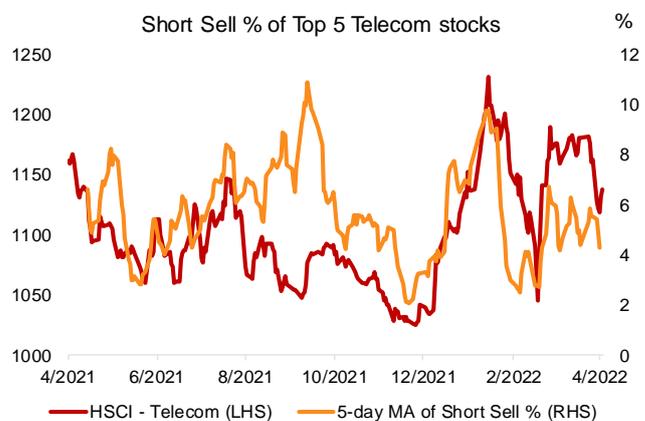
Source: Bloomberg, CMBIGM

Figure 32: Short sell % in HK – Energy



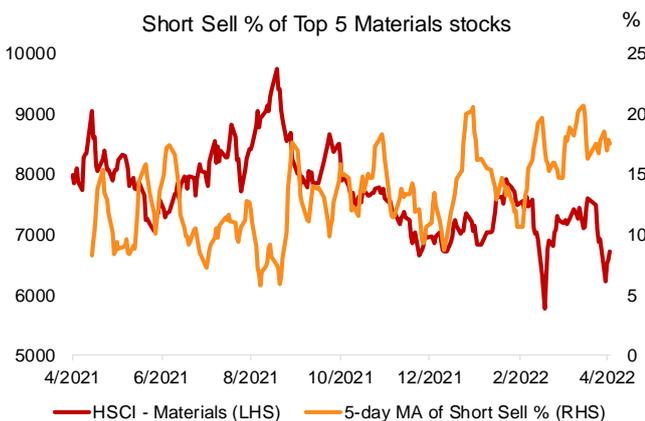
Source: Bloomberg, CMBIGM

Figure 33: Short sell % in HK – Telecom



Source: Bloomberg, CMBIGM

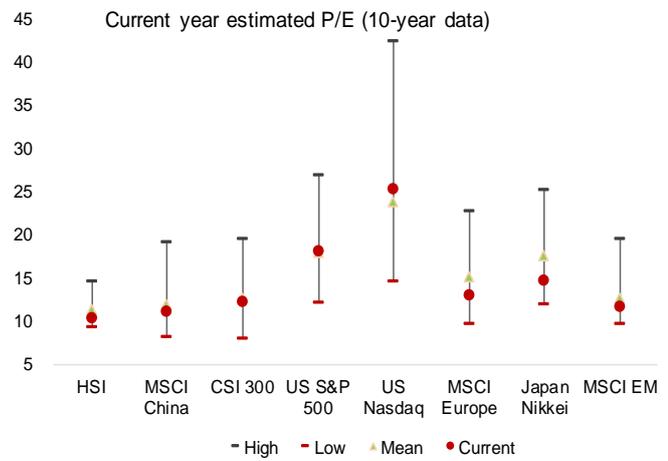
Figure 34: Short sell % in HK – Materials



Source: Bloomberg, CMBIGM

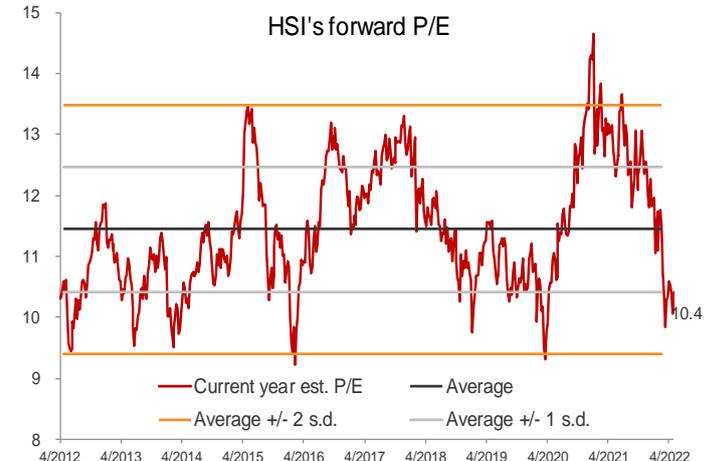
Earnings & Valuations

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



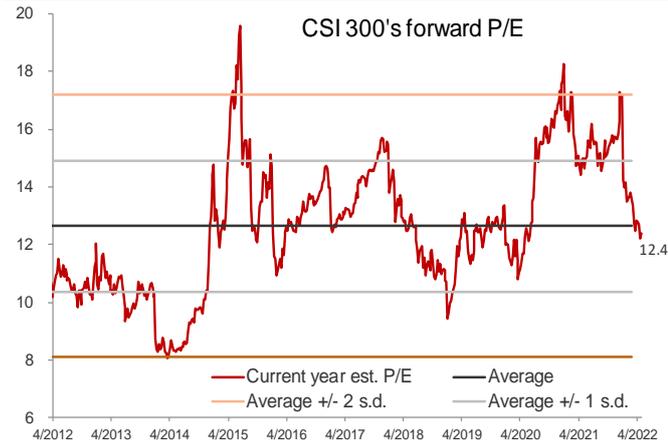
Source: Bloomberg, CMBIGM

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



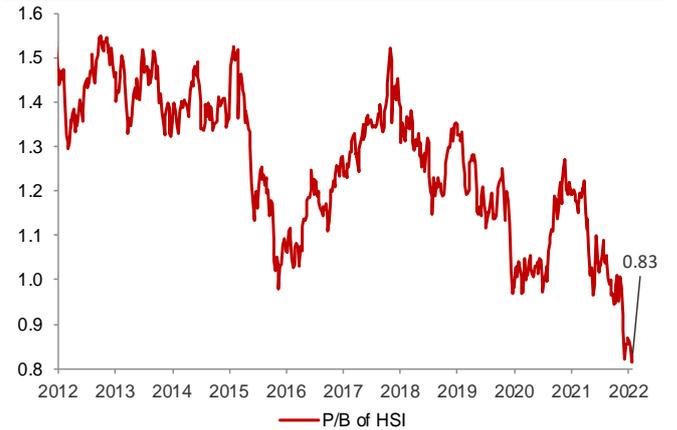
Source: Bloomberg, CMBIGM

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



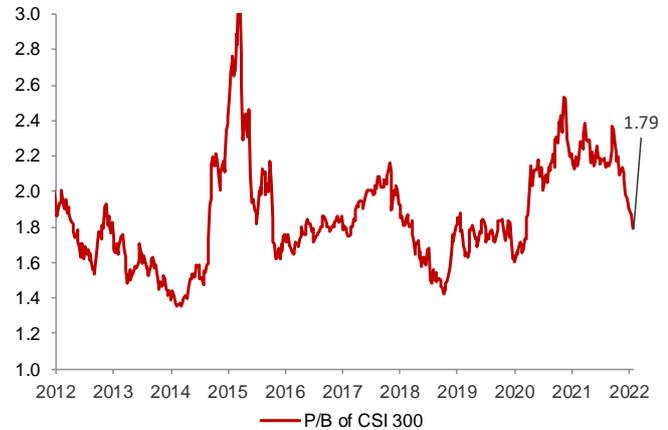
Source: Bloomberg, CMBIGM

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



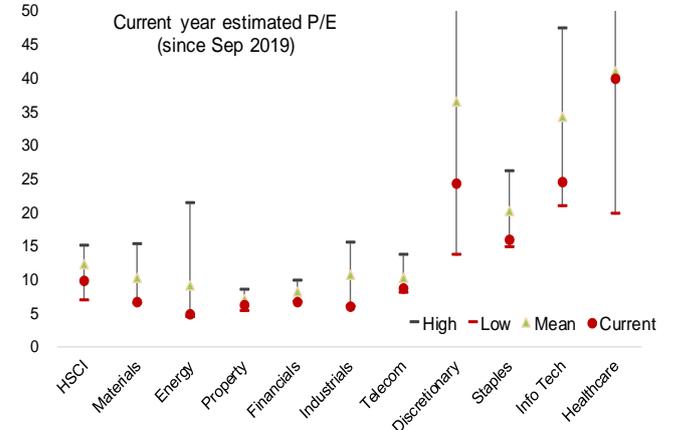
Source: Bloomberg, CMBIGM

Figure 39: CSI 300's P/B retreated to 10-year average



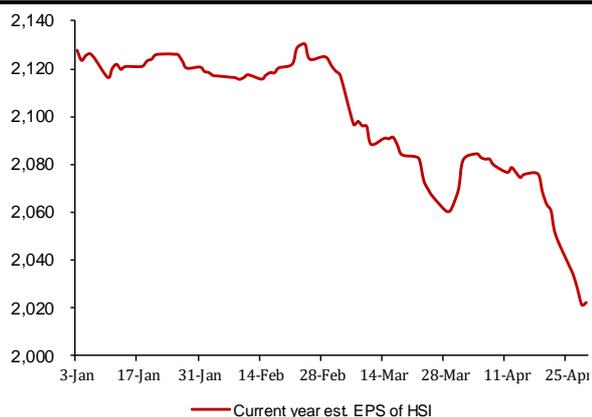
Source: Bloomberg, CMBIGM

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



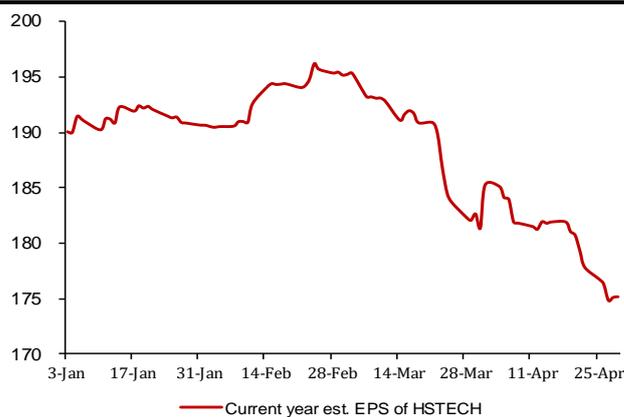
Source: Bloomberg, CMBIGM

Figure 41: EPS estimates of HSI were revised down by 1.4% last week



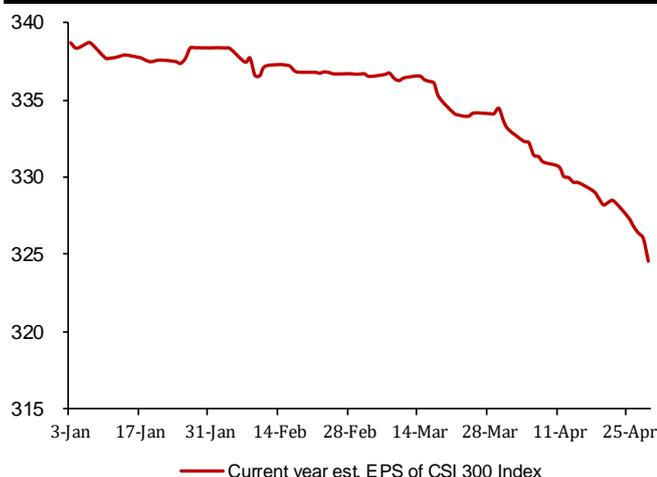
Source: Bloomberg, CMBIGM

Figure 42: EPS estimates of HSTECH Index were revised down by 1.5% last week



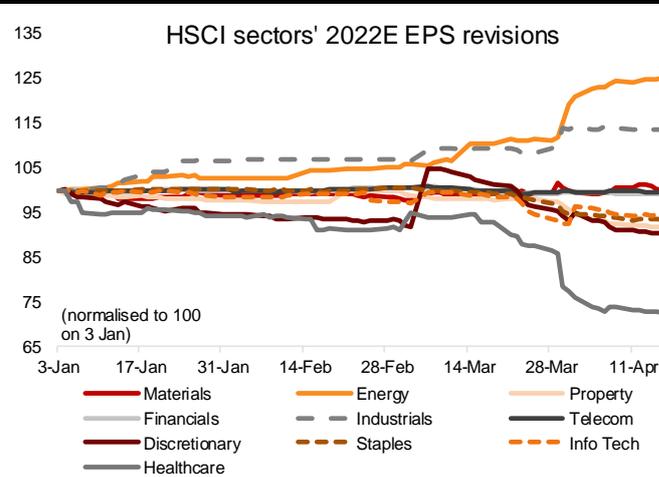
Source: Bloomberg, CMBIGM

Figure 43: EPS estimates of A-shares were revised down by 1.0% last week



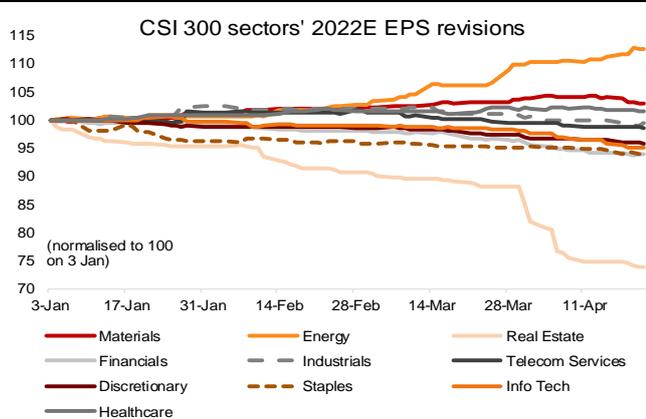
Source: Bloomberg, CMBIGM

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



Source: Bloomberg, CMBIGM

Figure 45: A-shares earnings revision: Real Estate got slashed



Source: Bloomberg, CMBIGM

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