

China / HK Market Weekly

Focus turning to Q1 earnings & policy support

Last week (2-6 May), Hong Kong stock market suffered a selloff as concerns on US Fed tightening lingered and China's economic outlook remained negative. US inflation stayed high and investors' confidence in a soft-landing of US economy decreased. Meanwhile, China still faced the conflict between economic resumption and epidemic control in the short term. Investor sentiment weakened as VHSI and short-sell ratio rose further. Looking ahead, investors will turn their attention on Chinese companies' Q1 earnings and guidance, and watch for any supportive policies from Beijing. Consumer and Infrastructure stocks may outperform on potential fiscal policy support.

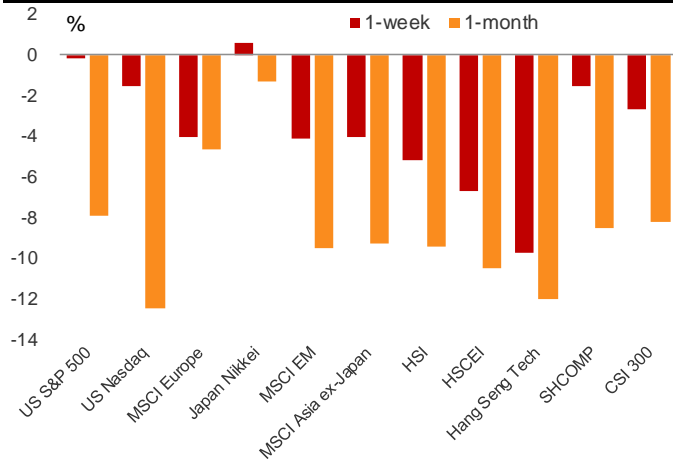
- **Market recap:** The HSI slumped by 5.2% last week due to concerns on a hawkish US Fed, China's insistence on zero-COVID policy and delisting risk of Chinese stocks from US market. As such, the gain on 29 Apr triggered by China's Politburo meeting evaporated. All major sectors in HK declined, with growth stocks like IT & Healthcare underperformed value stocks (Fig. 3).
- **Fund flows:** Global funds continued to flow out of emerging markets as the hawkish Fed continued to push up risk aversion sentiment. Global equity flows to China mildly improved as the valuation became attractive and Chinese policymakers signalled stronger support to growth. US equity mutual funds continued to see net outflows. UST yield curve steepened as 10-year yield breached 3% for the first time since 2018 (Fig. 10).
- **Stock Connect flows:** Southbound and Northbound had only two and one trading days respectively last week due to holidays, and not surprisingly turnover and net buying were anaemic (Fig. 12-13). By sector, southbound funds flew into IT, Healthcare, Energy & Consumer Discretionary and out of Telecom, Consumer Staples, Raw Materials & Utilities.
- **Sentiment:** "Fear Index" VHSI rose further to 33, while the US VIX moderated to 30.2 (Fig. 22). Short sell % on HK mainboard remained high at above 20% (Fig. 23). By sector, short sell ratio increased in Financials (HSBC & Ping An in particular), IT (most notably NetEase) & Industrials, and decreased in Utilities, Energy & Materials.
- **Earnings:** FY22E EPS consensus of the HSI / HSTECH / CSI 300 were still in downtrends, revised down by 1.0% / 1.2% / 1.3% 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 may remain volatile as companies see more positive policy signals yet with lower earning guidance and higher UST yields weighing on valuations. The valuation of property sector has some room for repair as China further loosens the policy, but fundamentals need some more time to stabilise. Infrastructure stocks may outperform as policymakers regards infrastructure investment as an important means of boosting growth. Consumer stocks may also outperform as their valuation becomes attractive and household consumption is expected to gradually recover in 2H22.

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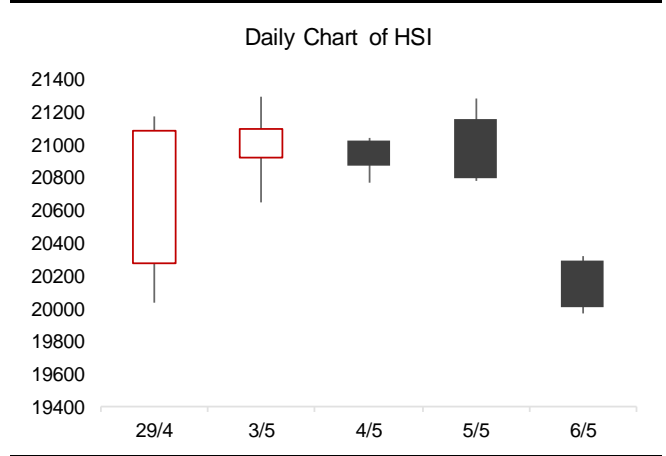
Market Recap

Figure 1: Weekly global markets returns: generally negative with EM under more pressure



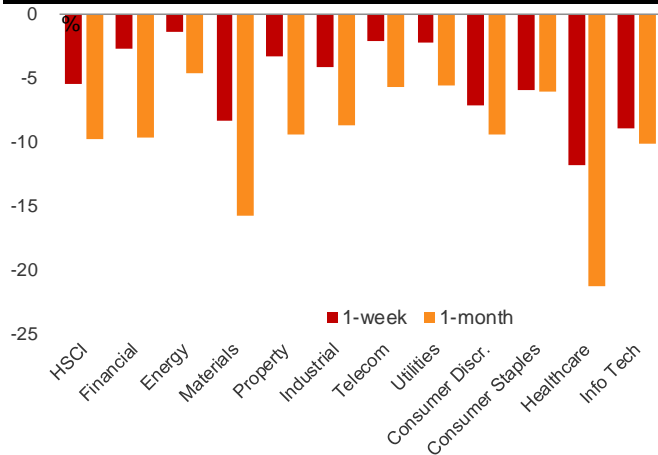
Source: Bloomberg, CMBIGM

Figure 2: HSI tested 20000 support again on hawkish Fed & China's insistence on zero-COVID



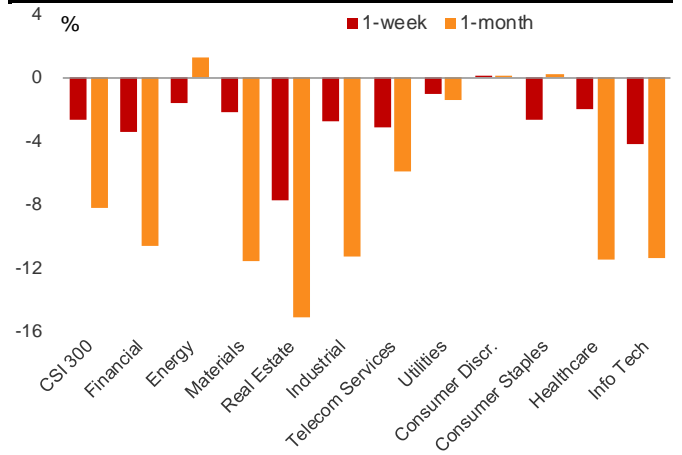
Source: Bloomberg, CMBIGM

Figure 3: Hang Seng Composite Index sectors: down across the board; value outperformed growth



Source: Bloomberg, CMBIGM

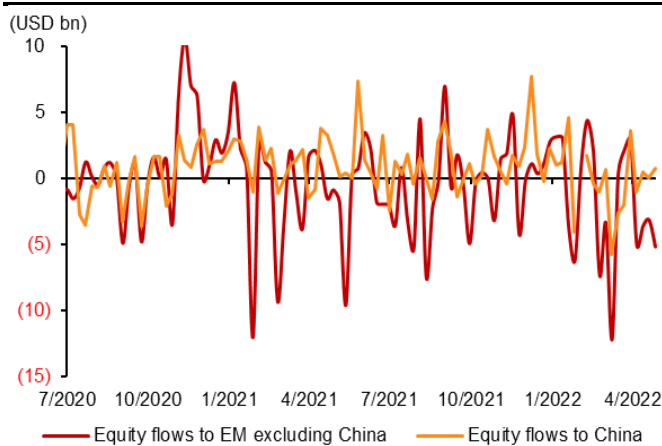
Figure 4: CSI 300 Index sectors: Real Estate led declines



Source: Bloomberg, CMBIGM

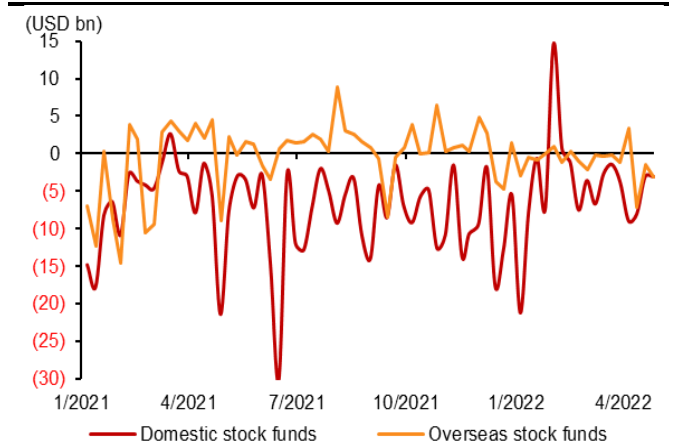
Fund Flows

Figure 5: Global Fund Flow to Emerging Market



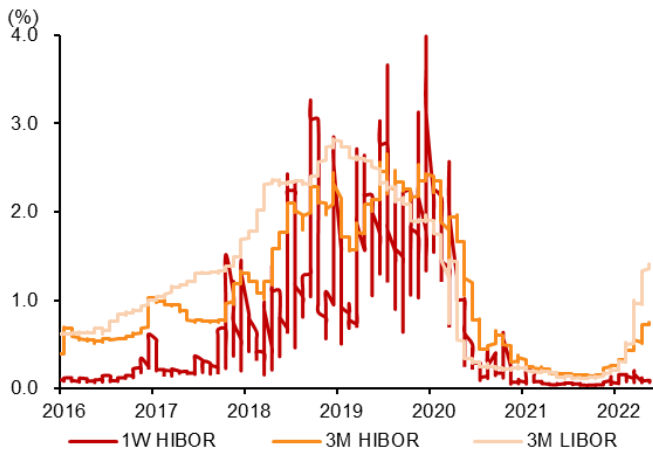
Source: IIF, CMBIGM

Figure 6: US Long-term Mutual Fund Flow



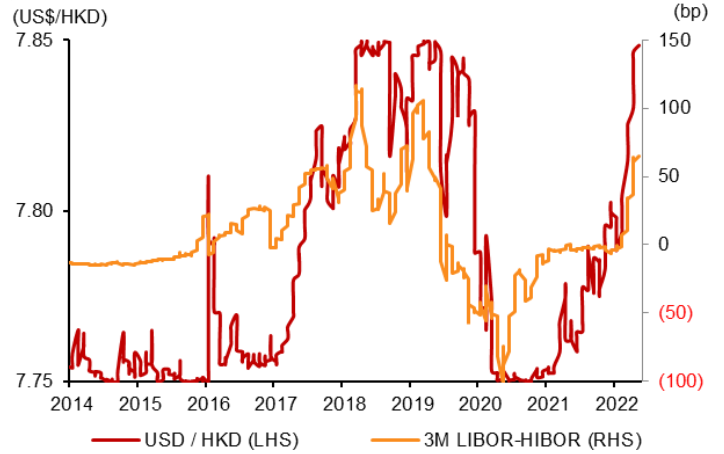
Source: Wind, CMBIGM

Figure 7: USD & HKD Interest Rates



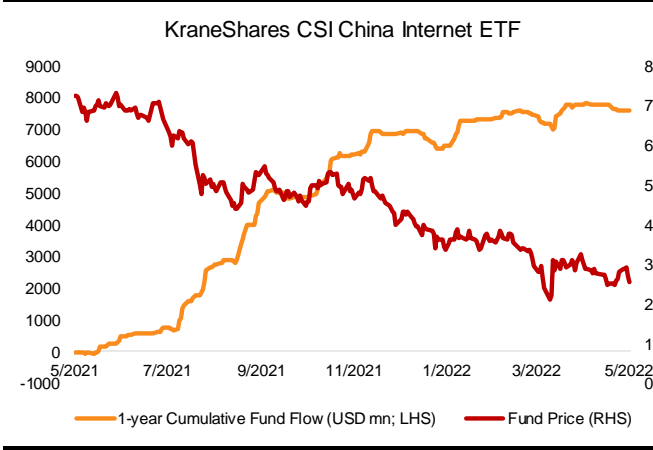
Source: Wind, CMBIGM

Figure 8: USD/HKD Rates & Interest Spreads



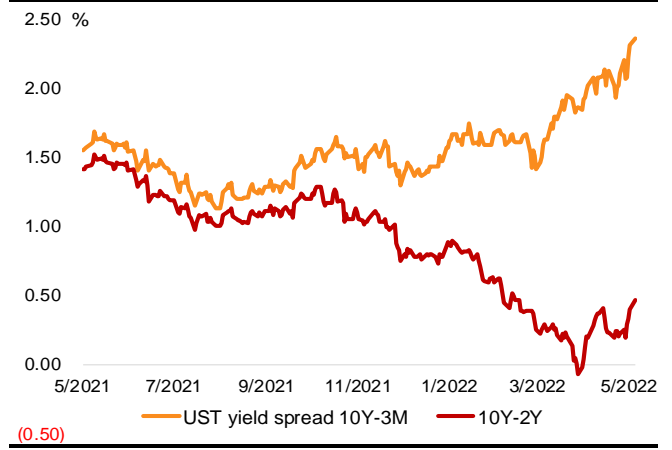
Source: Wind, CMBIGM

Figure 9: KWEB, the largest China Internet ETF, recorded mild inflows last week



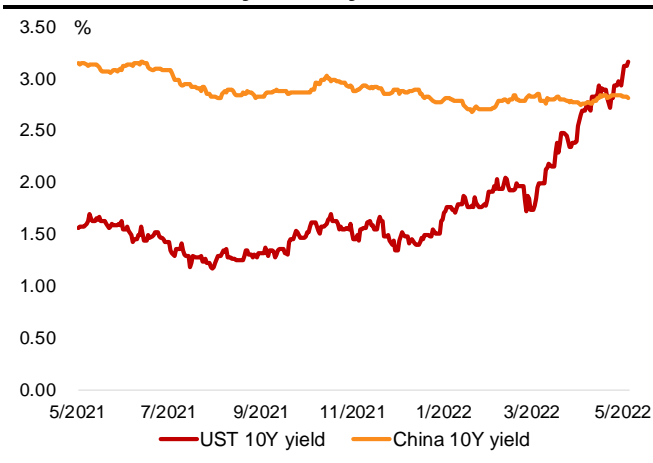
Source: Bloomberg, CMBIGM

Figure 10: UST yield curve steepened as 10-year yield breached 3% for the first time since 2018



Source: Bloomberg, CMBIGM

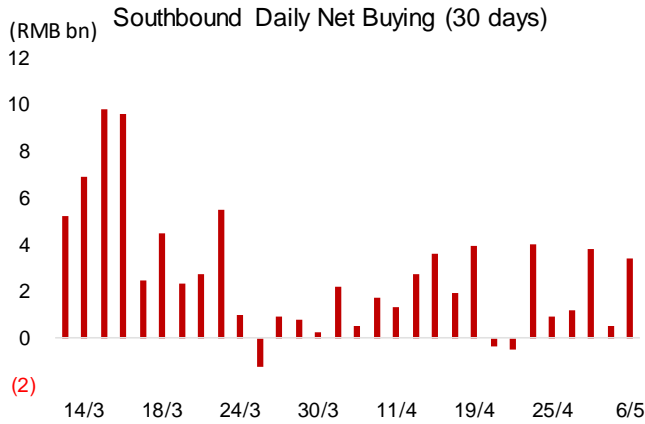
Figure 11: US-China 10-year yield spread widened further as China's yield stayed flat



Source: Bloomberg, CMBIGM

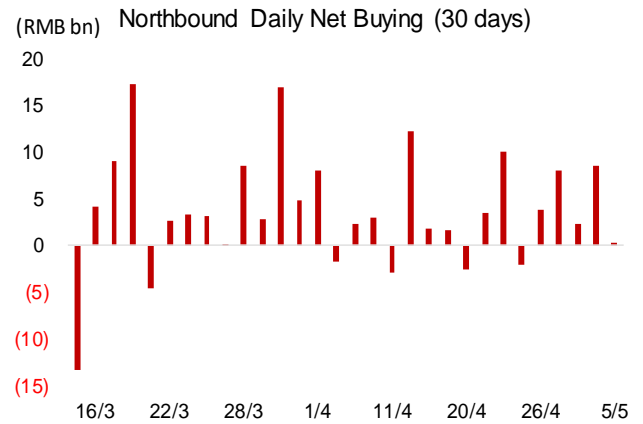
SH/SZ-HK Stock Connect

Figure 12: Southbound had inflows on the only two trading days last week



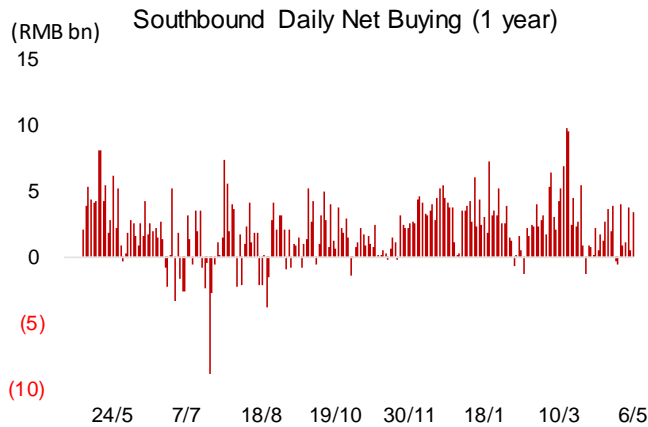
Source: Bloomberg, CMBIGM

Figure 13: Northbound had minimal inflows on the only trading day last week



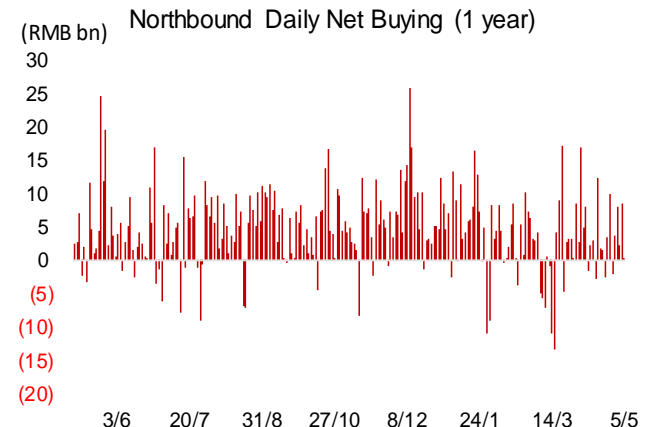
Source: Bloomberg, CMBIGM

Figure 14: Southbound net buying moderated vs. Q1



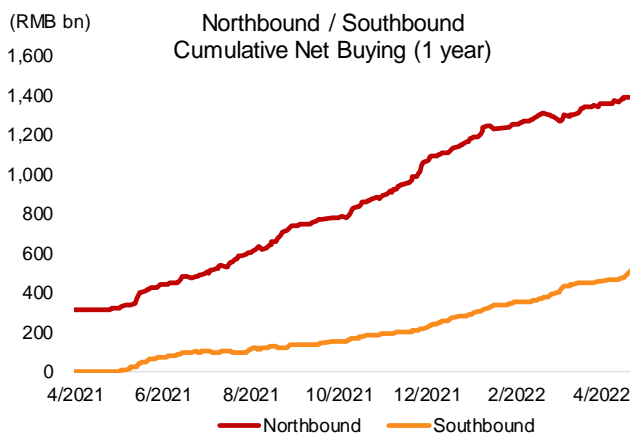
Source: Bloomberg, CMBIGM

Figure 15: Northbound flows somewhat stabilised



Source: Bloomberg, CMBIGM

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



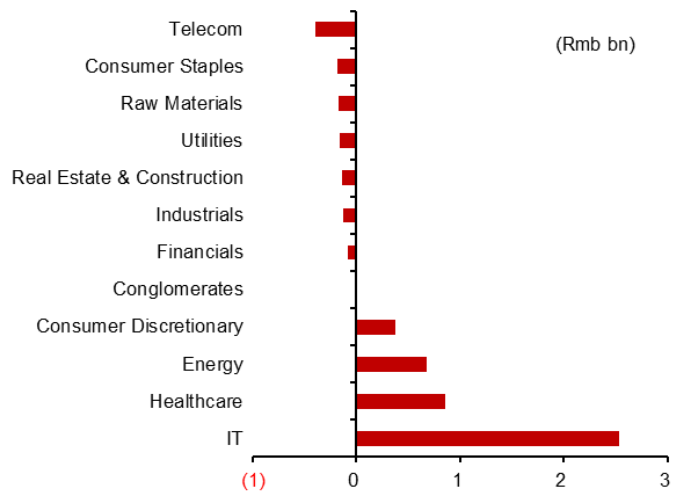
Source: Bloomberg, CMBIGM

Figure 17: AH premium widened by 1.1 ppt last week as H-shares declined more than A-shares



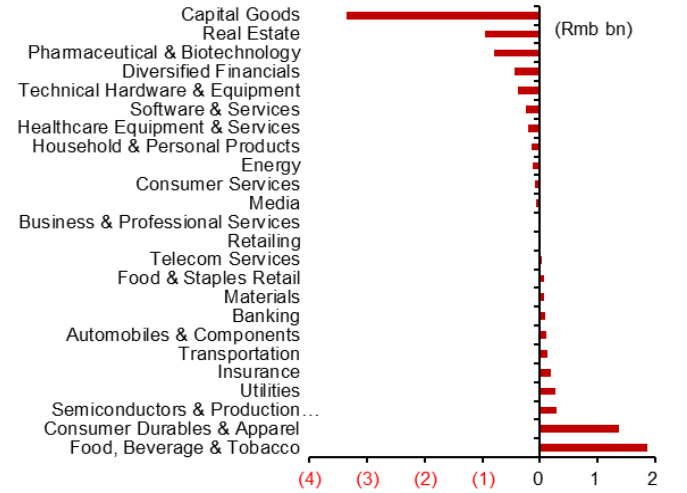
Source: Bloomberg, CMBIGM

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 mn, cumulative)		Turnover	Net Buying
Tencent	700 HK	7,356	-245
Meituan	3690 HK	6,927	1,465
Country Garden Services	6098 HK	549	-178
Li Ning	2331 HK	934	383
China Mobile	941 HK	1,165	120
CNOOC	883 HK	2,069	875
ANTA Sports	2020 HK	639	384
SMIC	981 HK	262	-15
China Shenhua Energy	1088 HK	652	-117
Xiaomi	1810 HK	669	158

Source: Wind, CMBIGM

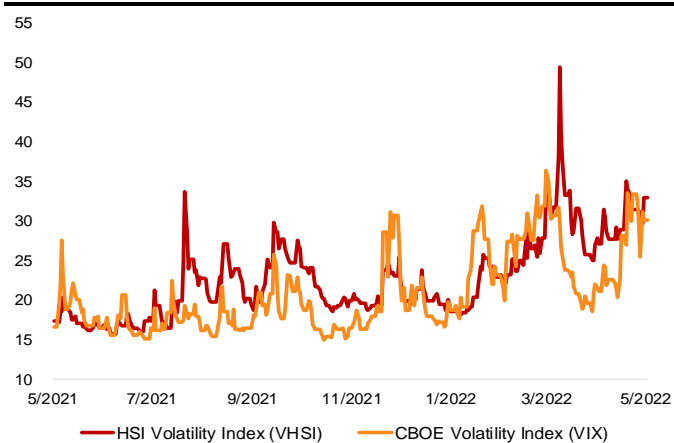
Figure 21: Northbound (SH) Top 10 active stocks

(RMB mn, cumulative)		Turnover	Net Buying
Kweichow Moutai	600519 CH	2,436	818
Inner Mongolia Yili	600887 CH	1,159	544
China Merchants Bank	600036 CH	1,017	-140
LONGi Green Energy	601012 CH	865	-46
China State Construction	601668 CH	806	-298
COSCO SHIPPING	601919 CH	698	223
WuXi AppTec	603259 CH	690	-171
Wanhua Chemical	600309 CH	669	205
NARI Technology	600406 CH	658	318
Zijin Mining	601899 CH	623	-249

Source: Wind, CMBIGM

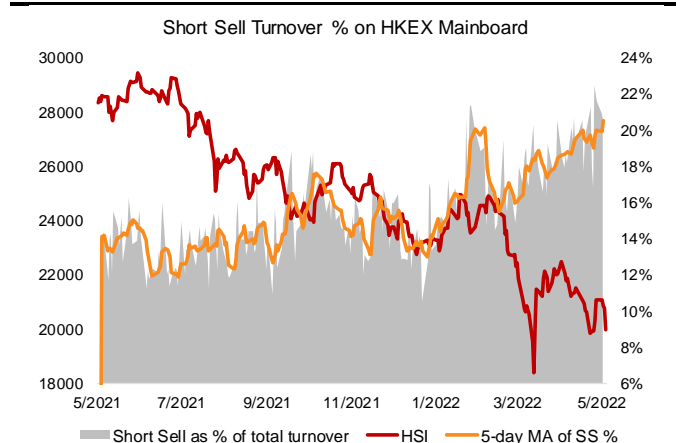
Sentiments

Figure 22: "Fear Index" VHSI rose further to 33, while the US VIX moderated to 30.2



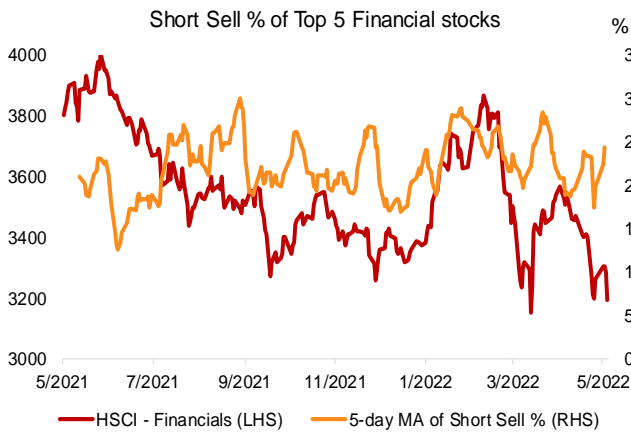
Source: Bloomberg, CMBIGM

Figure 23: Short sell % on HK mainboard remained high at above 20%



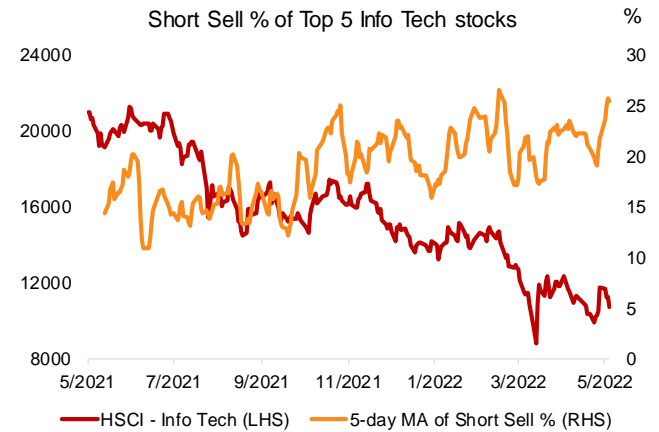
Source: Bloomberg, CMBIGM

Figure 24: Short sell % in HK - Financials



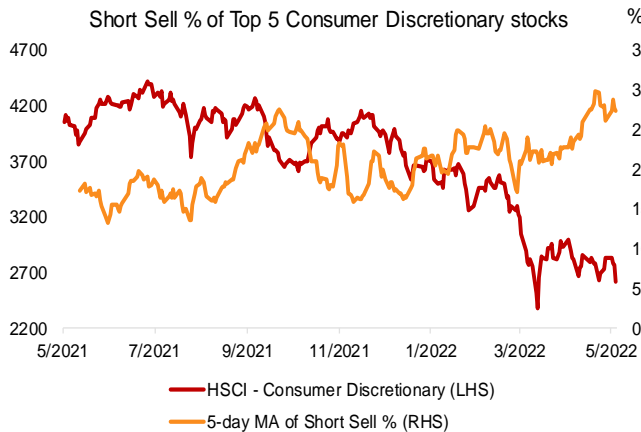
Source: Bloomberg, CMBIGM

Figure 25: Short sell % in HK – Info Tech



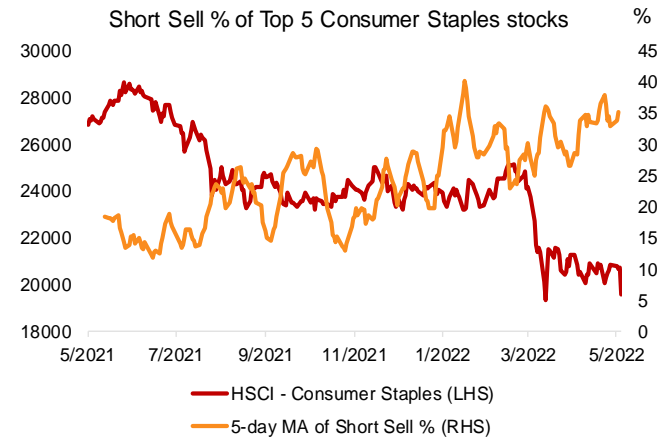
Source: Bloomberg, CMBIGM

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



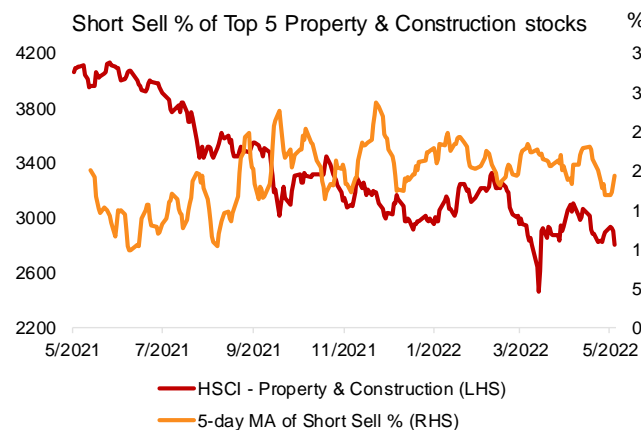
Source: Bloomberg, CMBIGM

Figure 27: Short sell % in HK – Consumer Staples



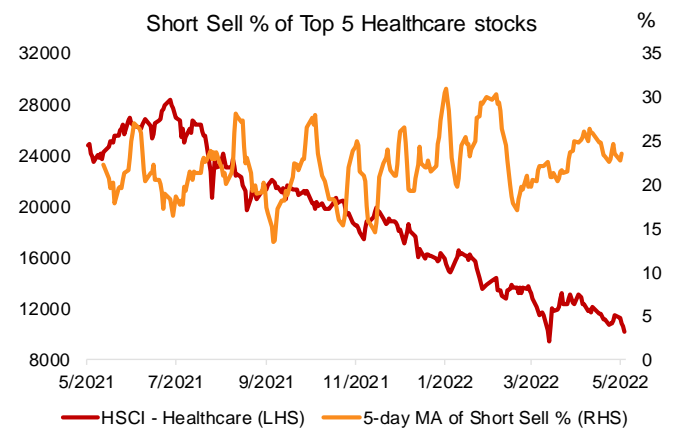
Source: Bloomberg, CMBIGM

Figure 28: Short sell % in HK - Property



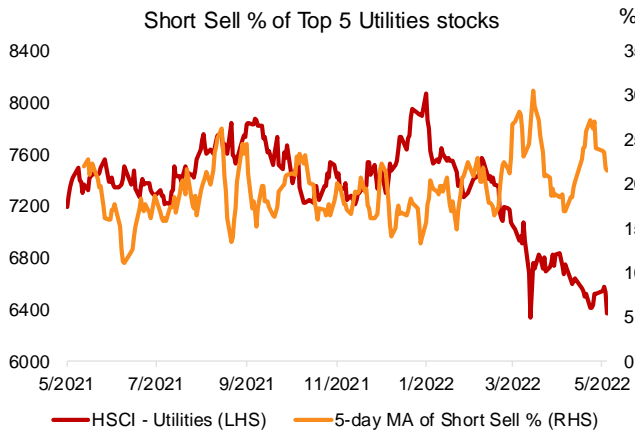
Source: Bloomberg, CMBIGM

Figure 29: Short sell % in HK – Healthcare



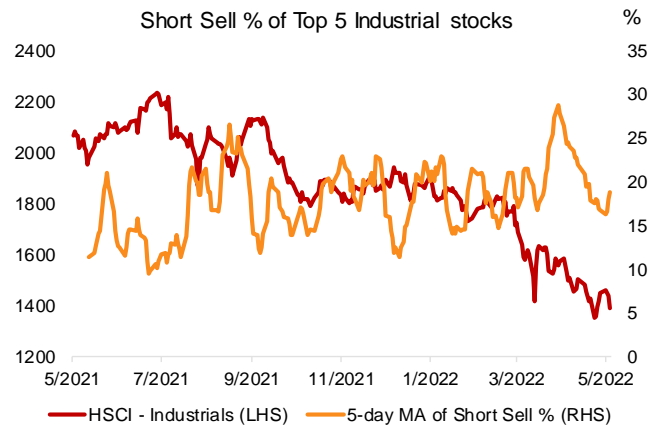
Source: Bloomberg, CMBIGM

Figure 30: Short sell % in HK – Utilities



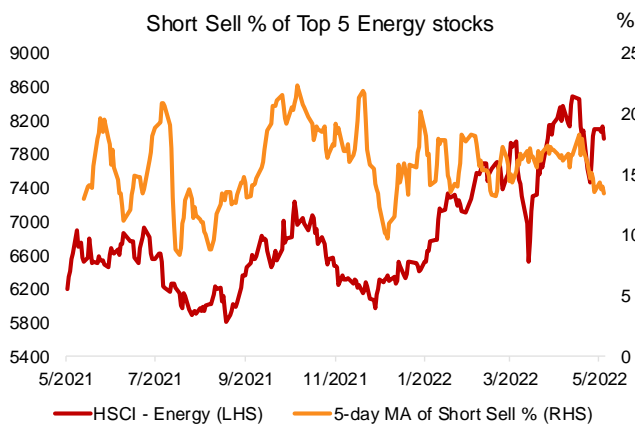
Source: Bloomberg, CMBIGM

Figure 31: Short sell % in HK – Industrials



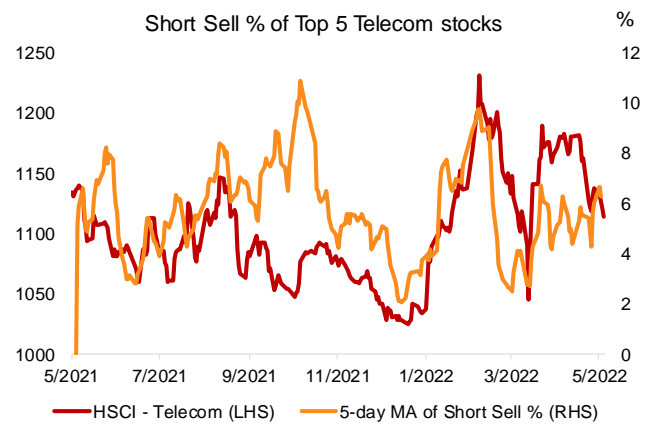
Source: Bloomberg, CMBIGM

Figure 32: Short sell % in HK – Energy



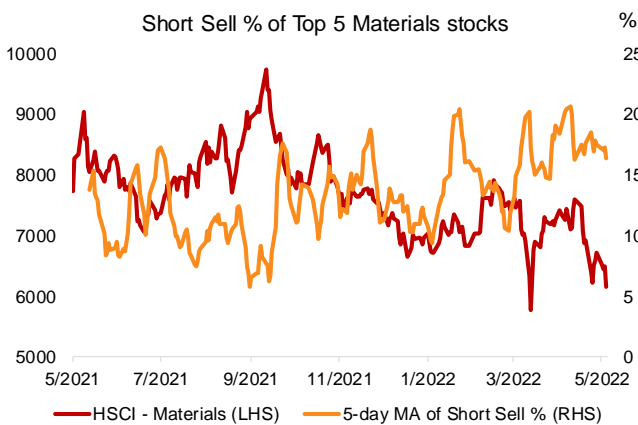
Source: Bloomberg, CMBIGM

Figure 33: Short sell % in HK – Telecom



Source: Bloomberg, CMBIGM

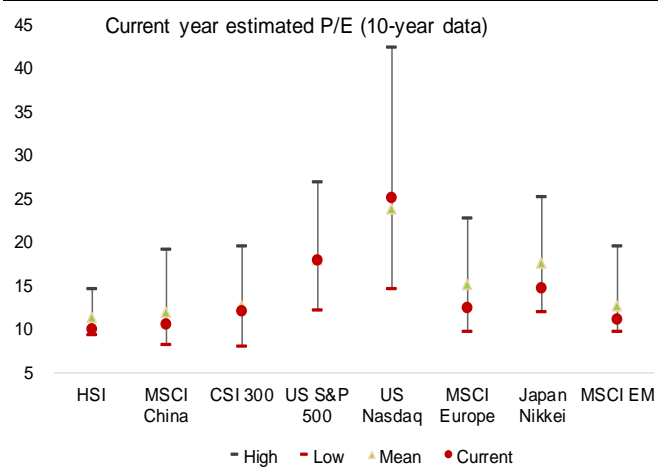
Figure 34: Short sell % in HK – Materials



Source: Bloomberg, CMBIGM

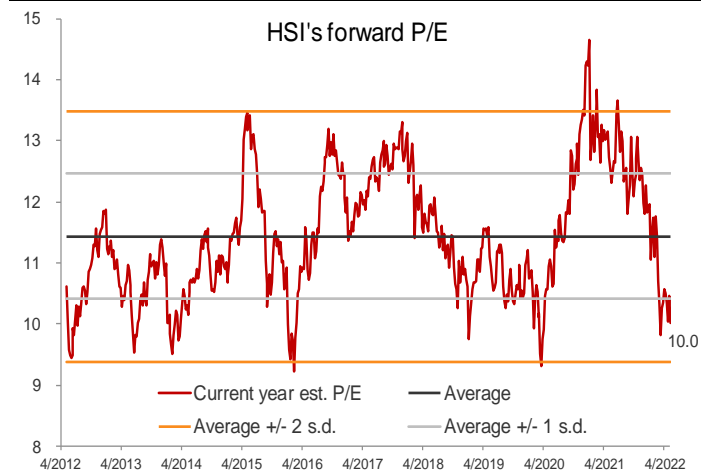
Earnings & Valuations

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



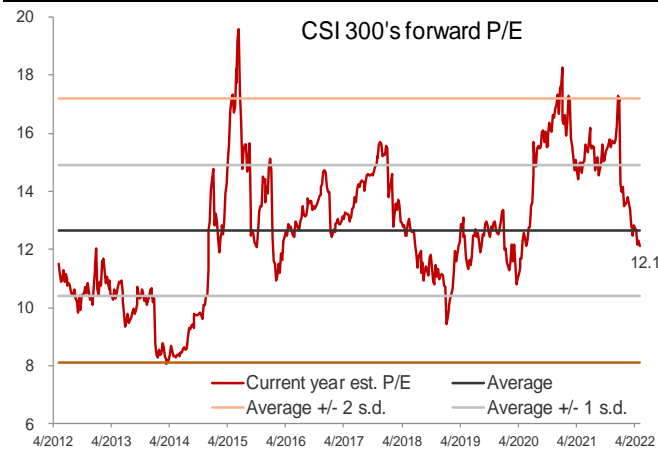
Source: Bloomberg, CMBIGM

Figure 36: HSI' forward P/E at dropped to 10.0X



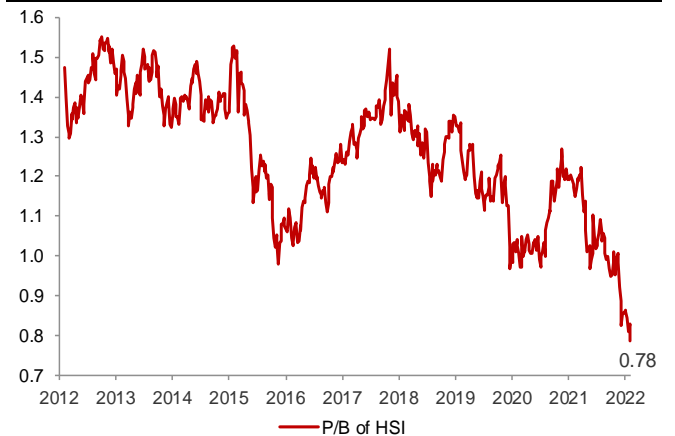
Source: Bloomberg, CMBIGM

Figure 37: CSI 300's P/E only slightly lower than 10-year mean



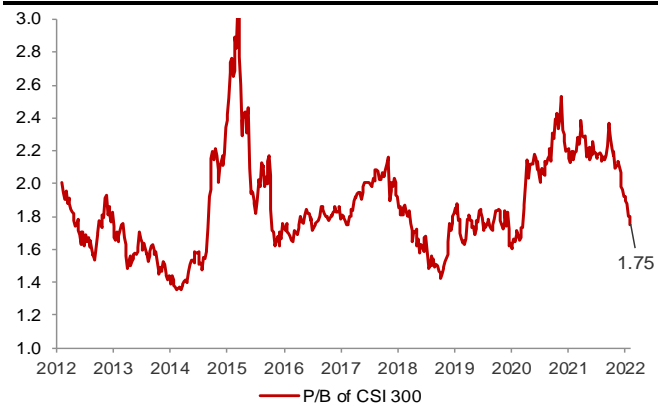
Source: Bloomberg, CMBIGM

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



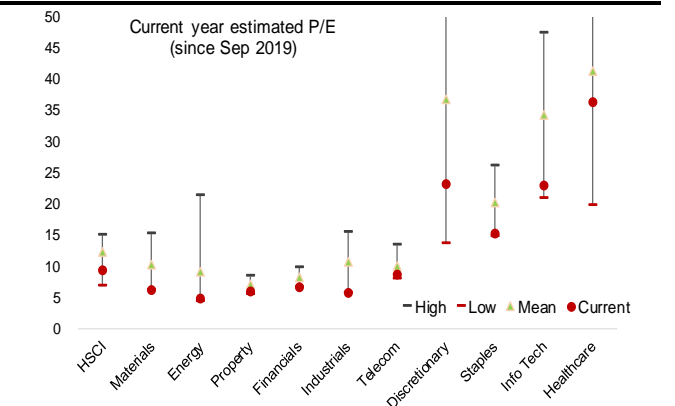
Source: Bloomberg, CMBIGM

Figure 39: CSI 300's P/B only slightly lower than 10-year mean (1.88X)



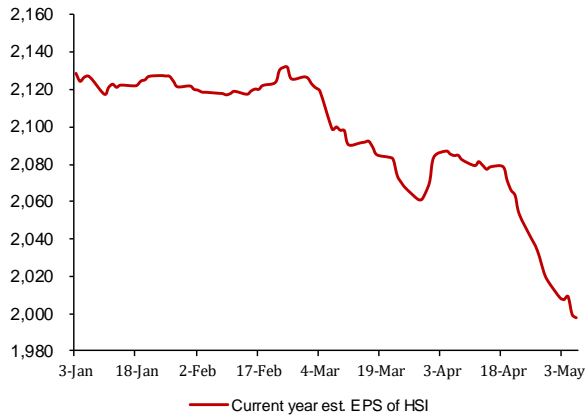
Source: Bloomberg, CMBIGM

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



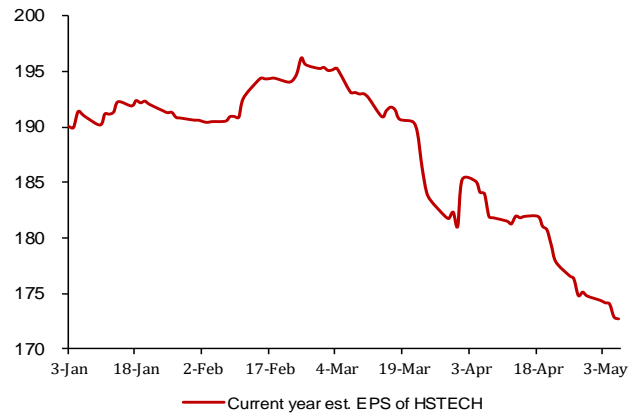
Source: Bloomberg, CMBIGM

Figure 41: EPS estimates of HSI were still in downtrend, revised down by 1.0% last week



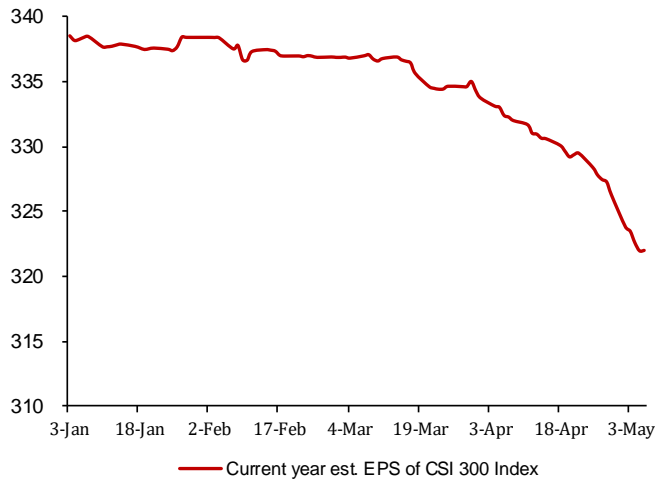
Source: Bloomberg, CMBIGM

Figure 42: EPS estimates of HSTECH Index were revised down by 1.2% last week



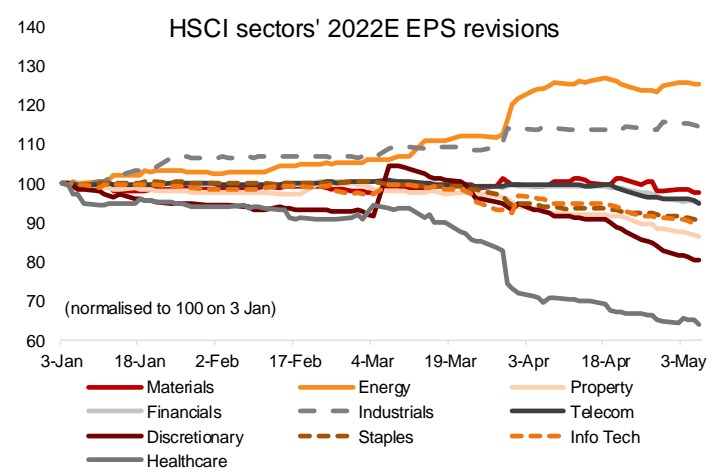
Source: Bloomberg, CMBIGM

Figure 43: EPS estimates of A-shares were revised down by 1.3% last week



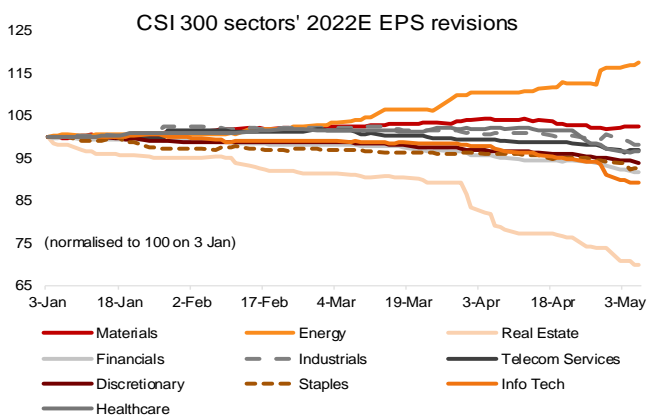
Source: Bloomberg, CMBIGM

Figure 44: HK earnings revision: IT, Discretionary, Healthcare, Property suffered earnings downgrade



Source: Bloomberg, CMBIGM

Figure 45: A-shares earnings revision: Real Estate got slashed again; Commodities revised up



Source: Bloomberg, CMBIGM

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