

# China / HK Market Weekly

## Focus shifts from Q1 results to economic data

Last week (23-27 May), US equities staged a strong rebound as inflation eased, but China / HK markets underperformed as investors were digesting policies and Q1 earnings. Sentiments in HK are improving, as short-sell ratio and volatility index declined. Looking ahead to this week, the focus is shifting from Q1 results to economic data such as China PMI & US employment report. In the short term, we see potential of moderate upward rerating in Internet & Consumer Discretionary stocks.

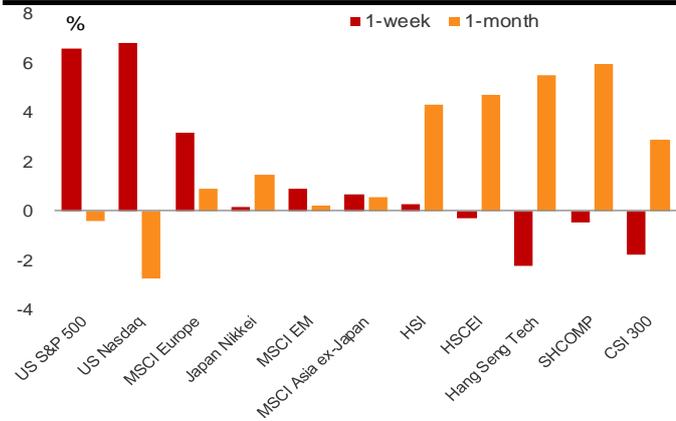
- **Market recap:** US S&P 500 surged 6.5% last week, its best week since Nov 2020, snapping a 7-week losing streak as US core PCE inflation moderated from 5.2% to 4.9% in Apr. The HSI / CSI 300 lagged behind with +0.3% / -1.8% returns, after strong gains in the previous week. By sector in HK, Financials & Energy gained, while growth stocks declined.
- **Fund flows:** Global equity fund outflows from EM eased while equity fund flows into China rebounded. Investor sentiment improved as US stock market started to rebound and China signalled stronger policy loosening ahead. US equity fund withdrawal decreased with improvement of market sentiment. But KWEB, the largest China Internet ETF, recorded outflows, snapping three weeks of inflows (Fig. 9).
- **Stock Connect flows:** Southbound net inflows mildly declined last week, yet remained higher than the weekly average in Apr and early May. By sector, Southbound funds flew into Consumer Discretionary, Telecom, Energy, Healthcare & IT and out of Financials & Consumer Staples. Northbound funds flew into Transportation, Materials, Energy, Banking & Utilities and out of Food, Beverage & Tobacco and Pharmaceutical Biotechnology & Life Sciences.
- **US interest rates:** UST 2-year & 10-year yield retreated but 3-month yield went up, reflecting a lower rate hike expectation over the medium term (Fig. 10). Implied Fed funds rate in Dec 2022 dropped to 2.64%, almost 25bps below the peak in early May (Fig. 12).
- **Sentiments** improved further. “Fear Indexes” VHSI & VIX went down as US stocks rebounded strongly (Fig. 23). Short sell % on HK mainboard (5-day average) dropped to 16.8%, the lowest since early Mar (Fig. 24). Short sell % dropped notably in IT, Consumer Discretionary & Property sectors, and increased in defensive sectors Utilities, Telecom & Industrials.
- **Earnings:** FY22E EPS consensus of the HSI / HSTECH / CSI 300 were revised down by 0.9% / 2.8% / 0.4% last week (Fig. 40-42). In HK, Energy was the only sector that enjoyed upward revision, while IT & Property led downward revisions. Similarly in A-shares market, Energy was the only bright spot, while Consumer Staples got notable earnings cut (Fig. 43-44).
- **Sector views:** In the short term, we see potential of moderate upward rerating in Internet & Consumer Discretionary stocks because 1) moderating inflation and rate hike expectation in the US lend support to growth stocks’ valuation; 2) earnings downgrade in Internet sector may be nearing the end as most stocks have reported Q1 results; 3) the easing lockdown measures in Shanghai and nationwide fiscal support should help consumer sentiment.

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

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

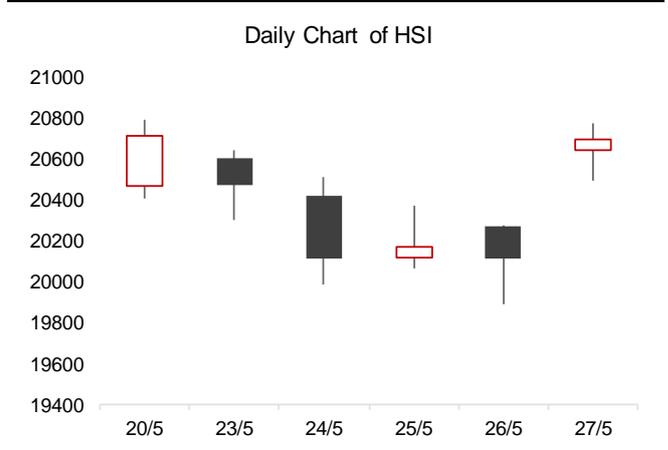
## Market Recap

**Figure 1: Weekly global markets returns: US snapped losing streak; China/HK underperformed**



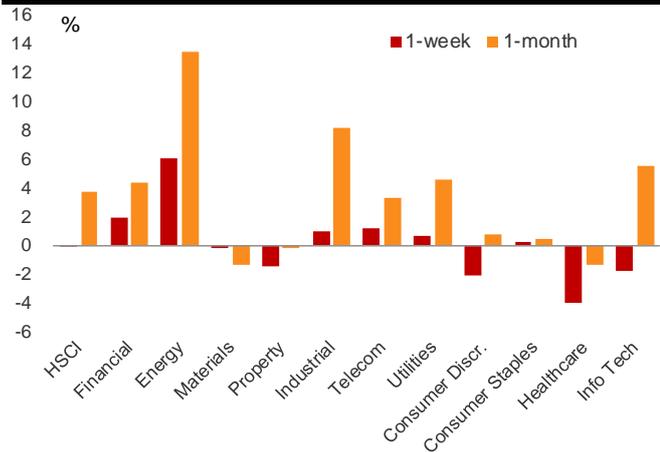
Source: Bloomberg, CMBIGM

**Figure 2: HSI held on to 20000 support level**



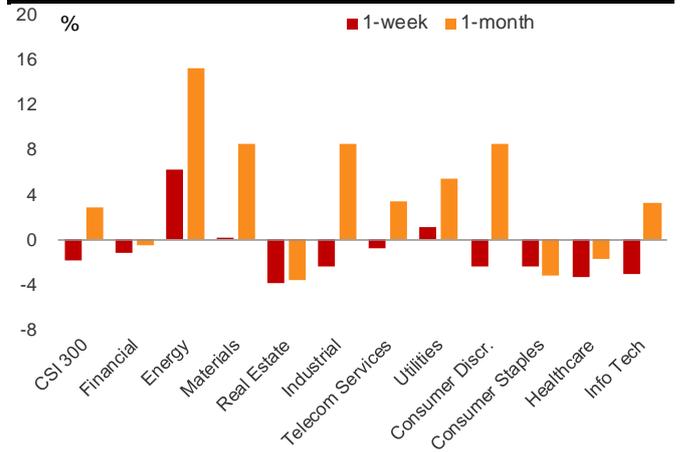
Source: Bloomberg, CMBIGM

**Figure 3: Hang Seng Composite Index sectors: Financials & Energy gained; growth stocks declined**



Source: Bloomberg, CMBIGM

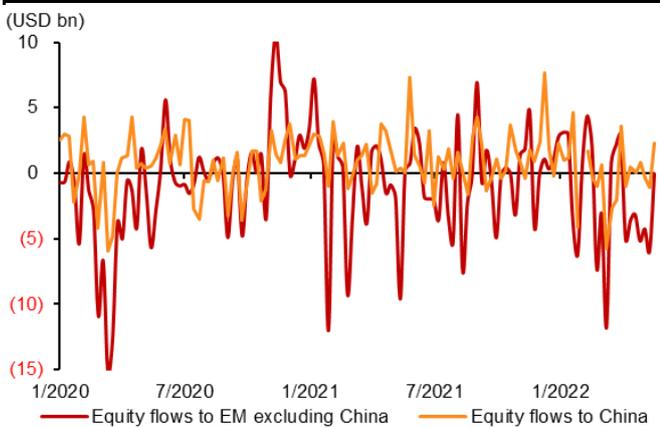
**Figure 4: CSI 300 Index sectors: Real Estate & growth sectors led declines**



Source: Bloomberg, CMBIGM

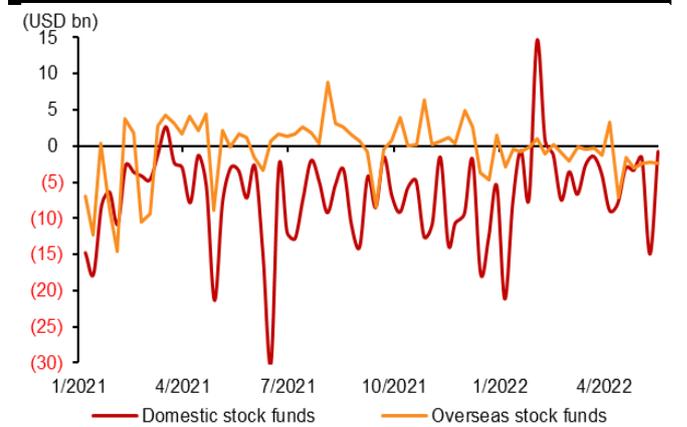
## Fund Flows

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



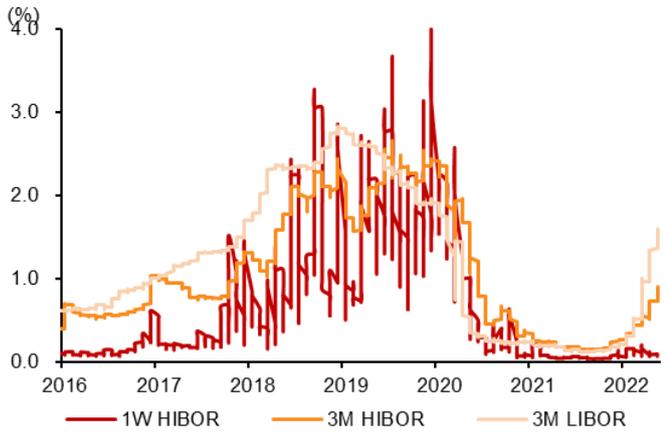
Source: IIF, CMBIGM

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



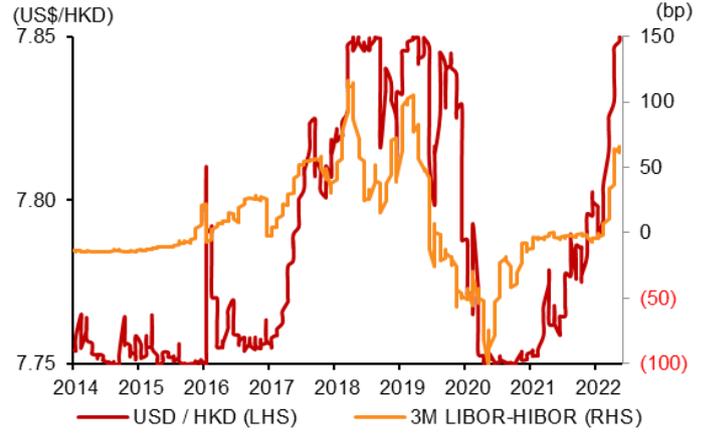
Source: Wind, CMBIGM

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



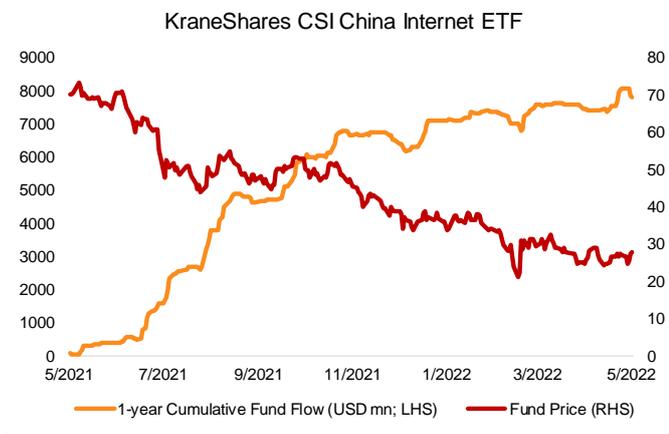
Source: Wind, CMBIGM

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



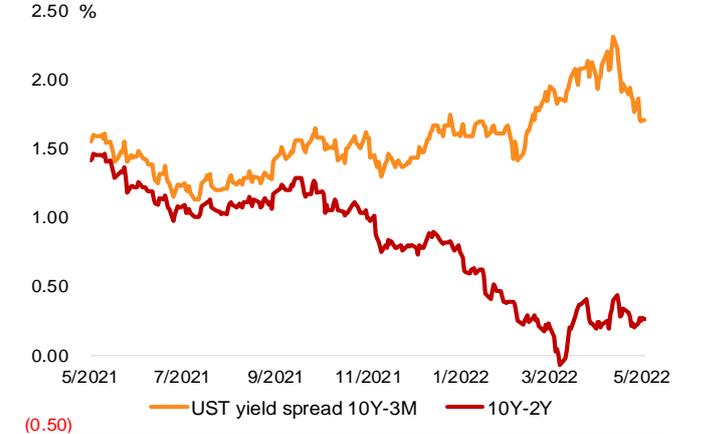
Source: Wind, CMBIGM

**Figure 9: KWEB, the largest China Internet ETF, recorded outflows, snapping three weeks of inflows**



Source: Bloomberg, CMBIGM

**Figure 10: UST 2-year & 10-year yield retreated but 3-month yield went up**



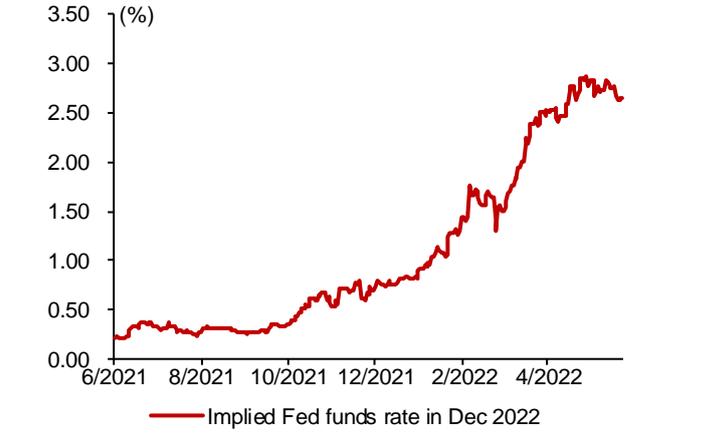
Source: Bloomberg, CMBIGM

**Figure 11: US & China 10-year yield at about the same level**



Source: Bloomberg, CMBIGM

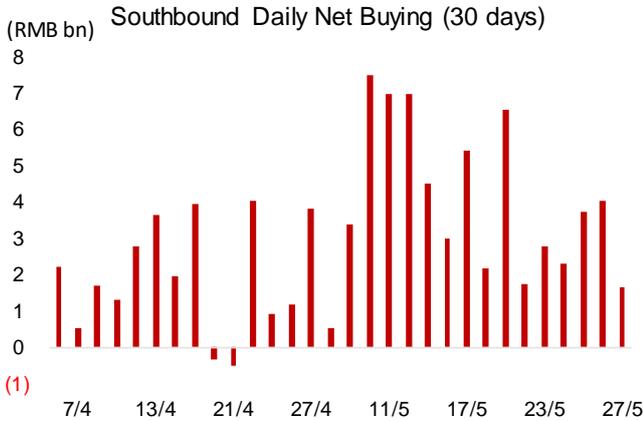
**Figure 12: Implied Fed funds rate in Dec 2022 at 2.64%, almost 25bps below the peak in early May**



Source: Bloomberg, CMBIGM

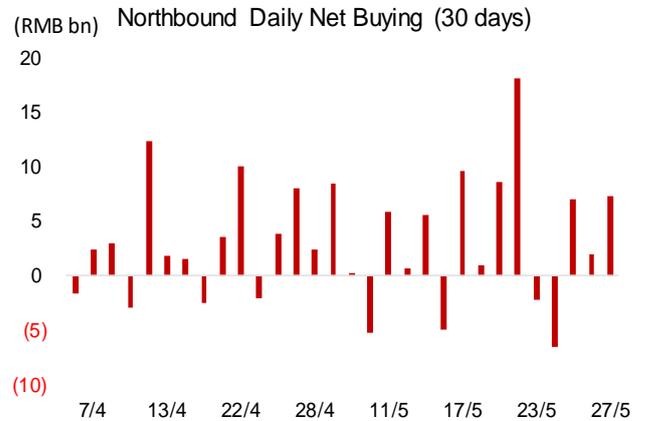
## SH/SZ-HK Stock Connect

**Figure 13: Southbound inflows slightly decreased WoW**



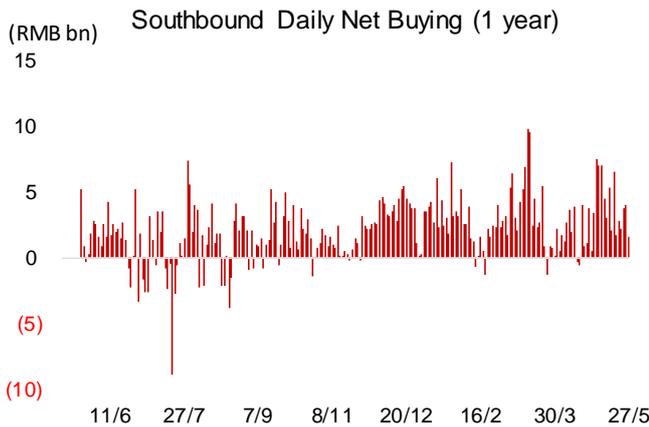
Source: Bloomberg, CMBIGM

**Figure 14: Northbound had moderate net inflows last week**



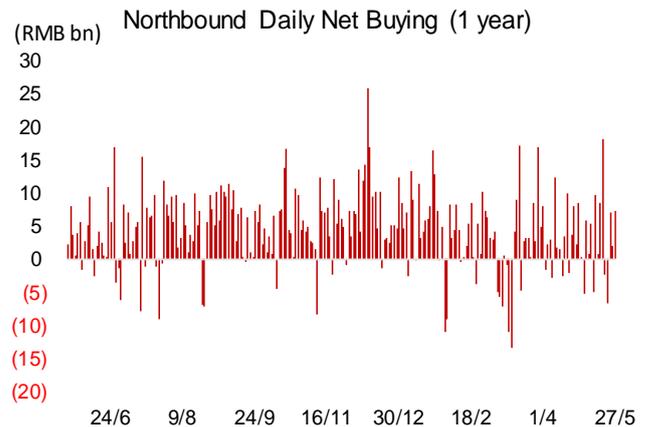
Source: Bloomberg, CMBIGM

**Figure 15: Southbound net buying moderated vs. Q1**



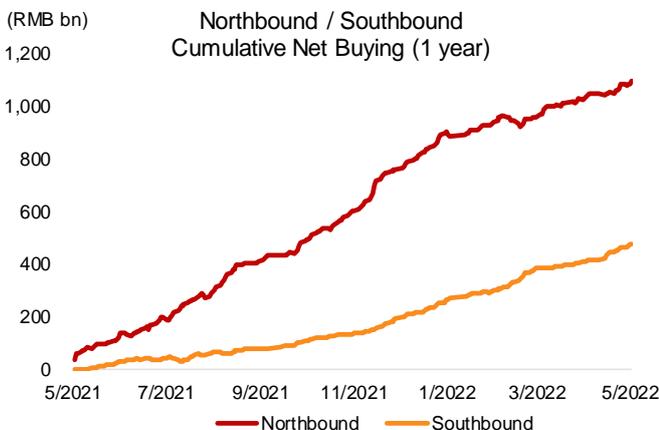
Source: Bloomberg, CMBIGM

**Figure 16: Northbound flows somewhat stabilised**



Source: Bloomberg, CMBIGM

**Figure 17: Southbound inflows speeded up since early 2022, while Northbound inflows slowed down**



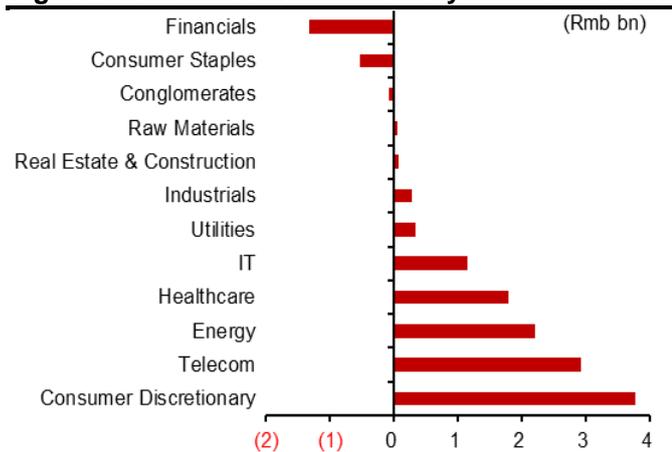
Source: Bloomberg, CMBIGM

**Figure 18: AH premium widened by 1.1 ppt last week but still above 10-year average by ~10 ppt**



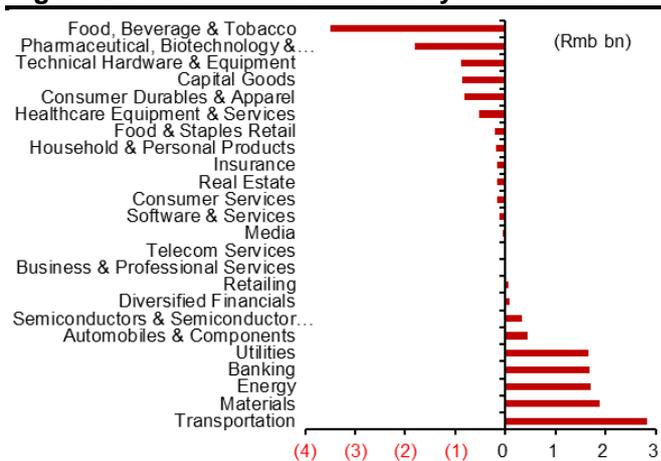
Source: Bloomberg, CMBIGM

**Figure 19: Southbound net flows by sector last week**



Source: Wind, CMBIGM

**Figure 20: Northbound net flows by sector last week**



Source: Wind, CMBIGM

**Figure 21: Southbound weekly Top 10 active stocks**

(HKD mn, cumulative)		Turnover	Net Buying
Meituan	3690 HK	10,417	-64
Tencent	700 HK	11,965	-280
CNOOC	883 HK	6,418	2,243
CCB	939 HK	1,915	89
Kuaishou	1024 HK	2,946	427
Wuxi Biologics	2269 HK	1,636	82
Li Ning	2331 HK	3,092	333
CanSino Biologics	6185 HK	463	75
China Mobile	941 HK	3,664	2,490
Xiaomi	1810 HK	197	-64

Source: Wind, CMBIGM

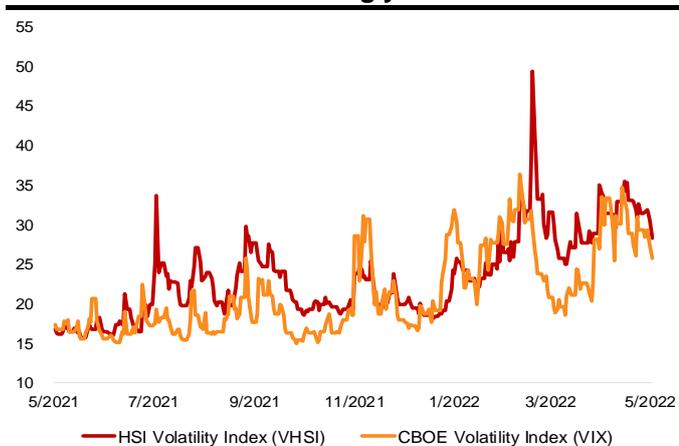
**Figure 22: Northbound (SH) Top 10 active stocks**

(RMB mn, cumulative)		Turnover	Net Buying
Kweichow Moutai	600519 CH	8,049	-1,081
WuXi AppTec	603259 CH	2,084	232
LONGi Green Energy	601012 CH	3,800	-288
China Merchants Bank	600036 CH	4,544	688
Jiangsu Hengrui Medicine	600276 CH	2,128	-468
Anhui Conch Cement	600585 CH	654	-236
China Yangtze Power	600900 CH	2,116	670
COSCO SHIPPING	601919 CH	1,985	664
Inner Mongolia Yili	600887 CH	2,104	462
CTG Duty Free	601888 CH	1,237	-192

Source: Wind, CMBIGM

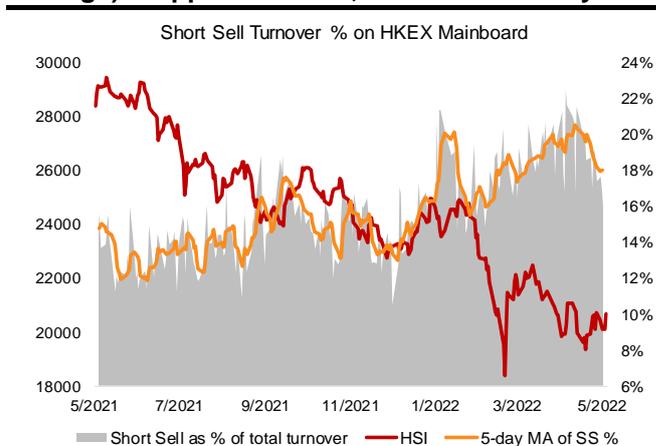
## Sentiments

**Figure 23: "Fear Indexes" VHSI & VIX went down as US stocks rebounded strongly**



Source: Bloomberg, CMBIGM

**Figure 24: Short sell % on HK mainboard (5-day average) dropped to 16.8%, lowest since early Mar**



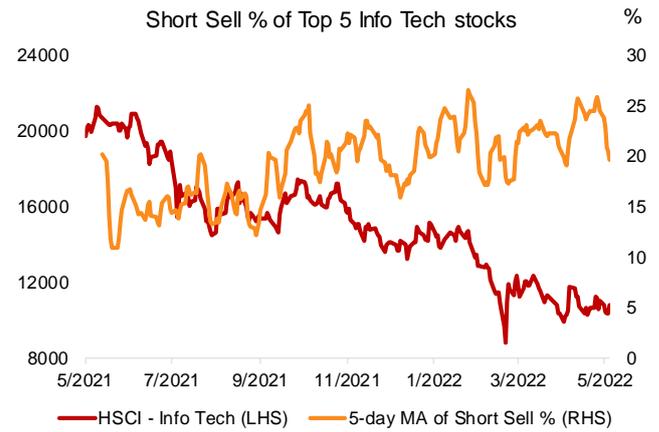
Source: Bloomberg, CMBIGM

**Figure 25: Short sell % in HK - Financials**



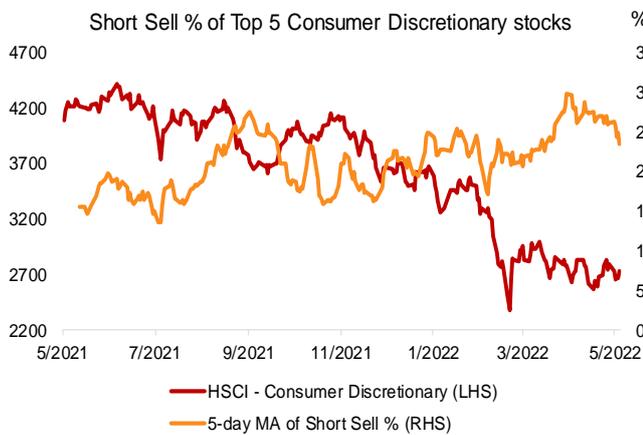
Source: Bloomberg, CMBIGM

**Figure 26: Short sell % in HK – Info Tech**



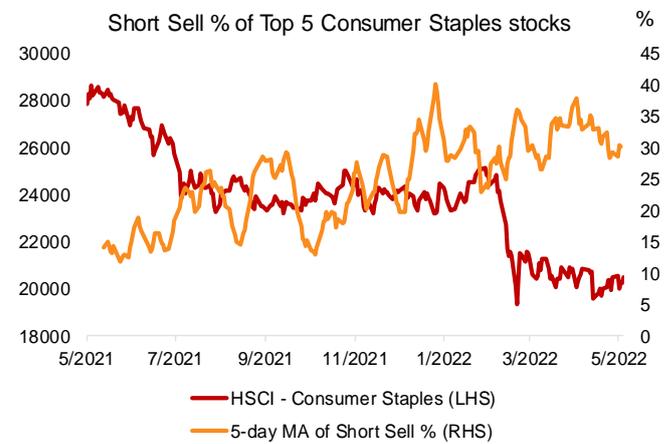
Source: Bloomberg, CMBIGM

**Figure 27: Short sell % in HK – Consumer Discretion.**



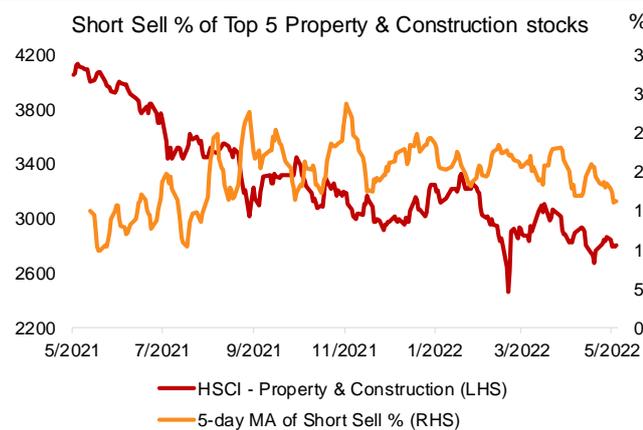
Source: Bloomberg, CMBIGM

**Figure 28: Short sell % in HK – Consumer Staples**



Source: Bloomberg, CMBIGM

**Figure 29: Short sell % in HK - Property**



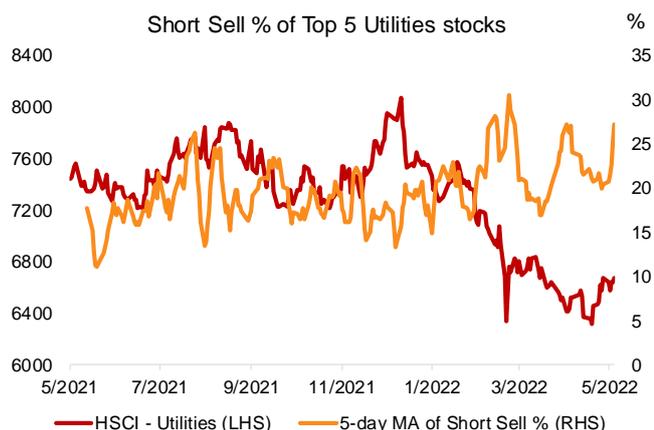
Source: Bloomberg, CMBIGM

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



Source: Bloomberg, CMBIGM

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



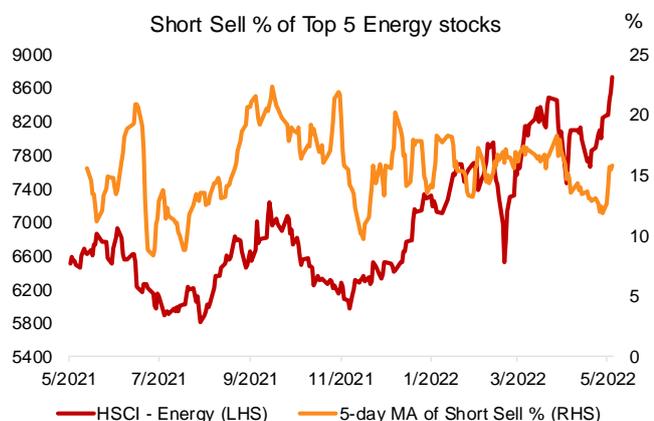
Source: Bloomberg, CMBIGM

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



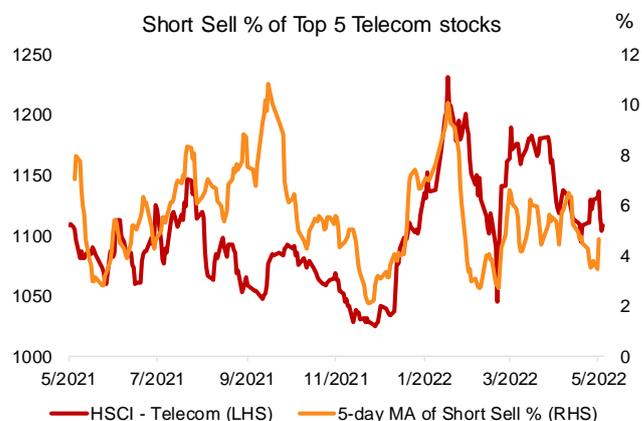
Source: Bloomberg, CMBIGM

**Figure 33: Short sell % in HK – Energy**



Source: Bloomberg, CMBIGM

**Figure 34: Short sell % in HK – Telecom**



Source: Bloomberg, CMBIGM

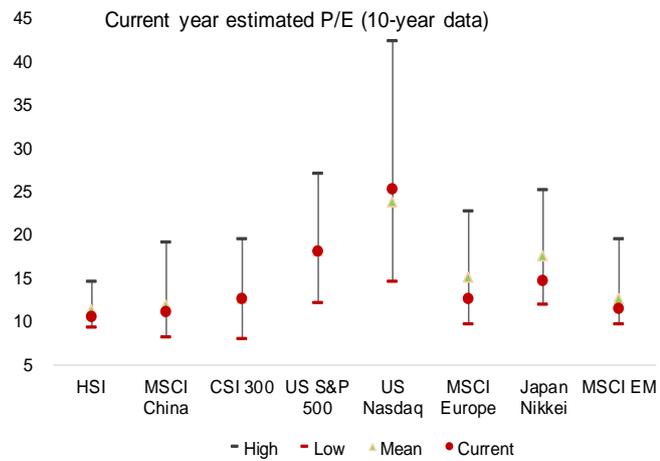
**Figure 35: Short sell % in HK – Materials**



Source: Bloomberg, CMBIGM

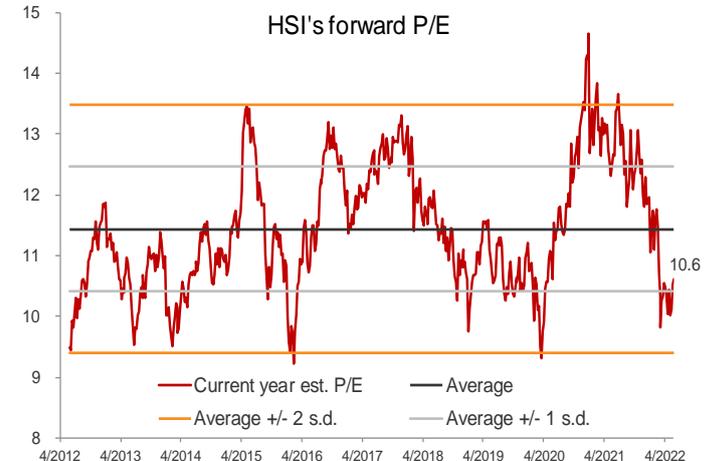
## Earnings & Valuations

**Figure 36: HSI's P/E close to low end, while other major markets' are near 10-year mean**



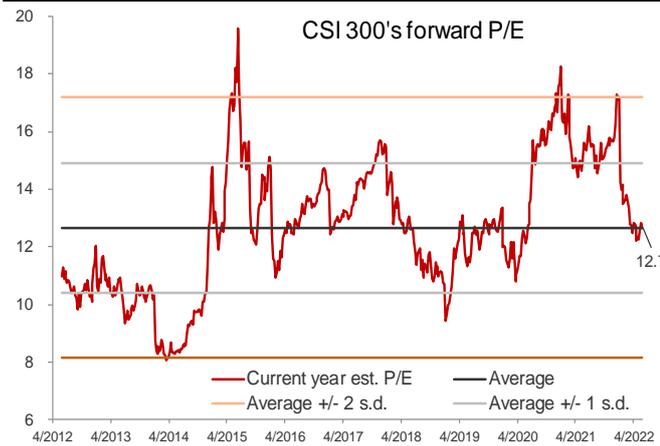
Source: Bloomberg, CMBIGM

**Figure 37: HSI's forward P/E at dropped rebounded to 10.6X**



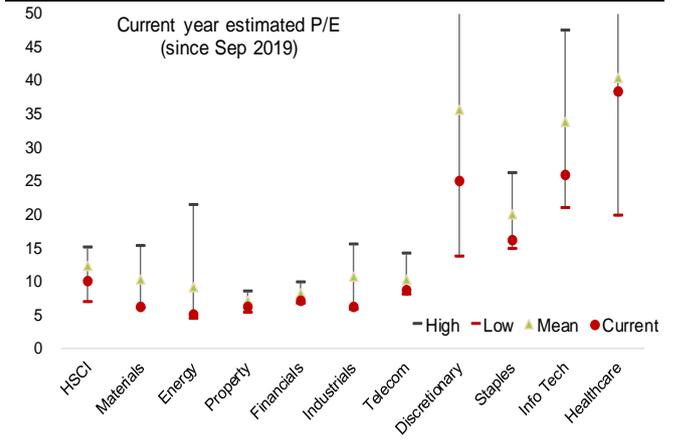
Source: Bloomberg, CMBIGM

**Figure 38: CSI 300's P/E at 10-year mean**



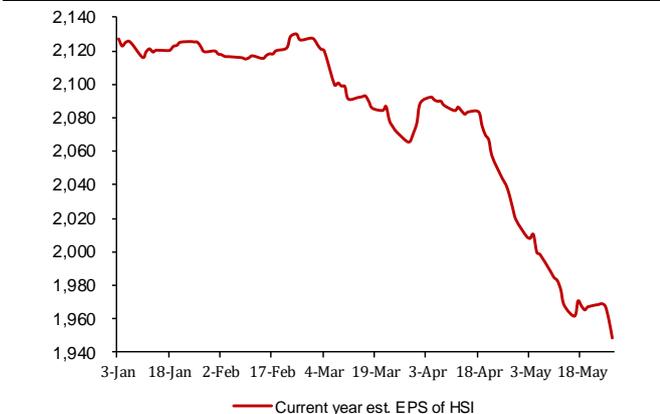
Source: Bloomberg, CMBIGM

**Figure 39: Most HSCI sectors' P/E are near troughs**



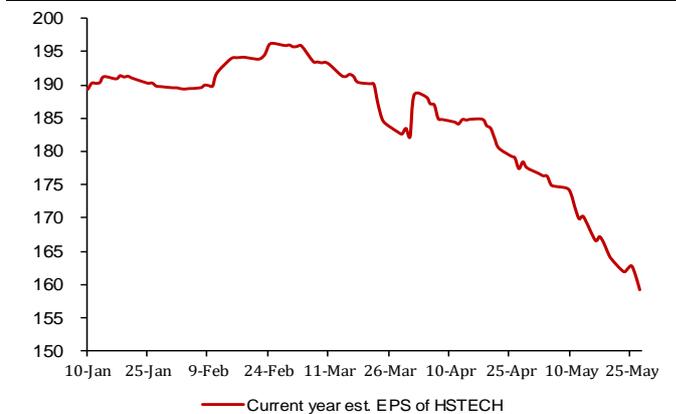
Source: Bloomberg, CMBIGM

**Figure 40: EPS estimates of HSI were revised down by 0.9% last week**



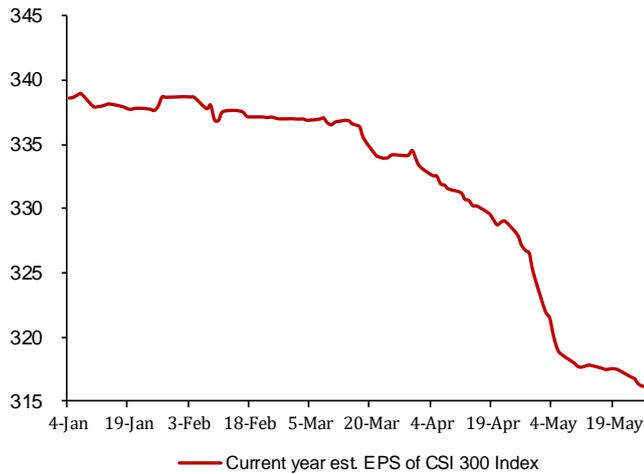
Source: Bloomberg, CMBIGM

**Figure 41: EPS estimates of HSTECH Index were slashed by 2.8% last week**



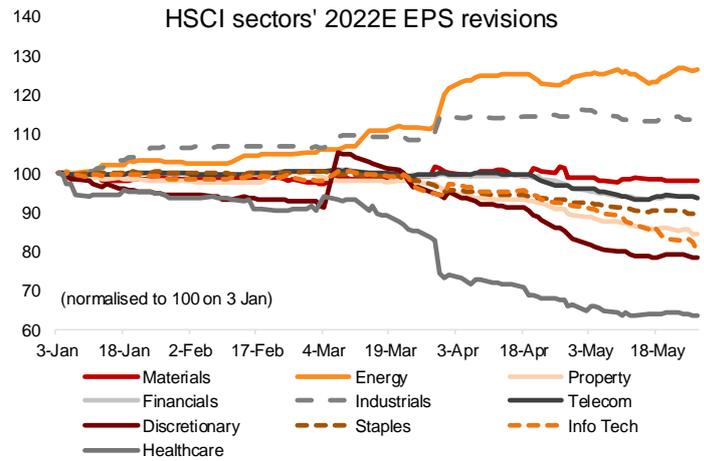
Source: Bloomberg, CMBIGM

**Figure 42: EPS estimates of A-shares were revised down by 0.4% last week**



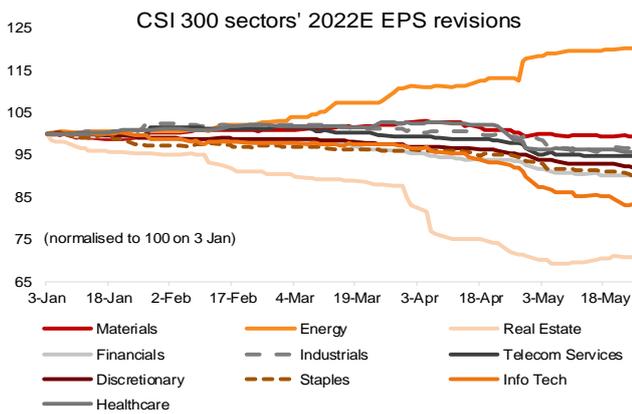
Source: Bloomberg, CMBIGM

**Figure 43: HK earnings revision: only Energy got upward revision; IT & Property led declines**



Source: Bloomberg, CMBIGM

**Figure 44: A-shares earnings revision: only Energy got upward revision; Consumer Staples 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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