

# China / HK Market Weekly

## Internet & Consumer stocks led gains

Last week (30 May-3 Jun), US equities retreated by about 1% after stronger-than-expected job gains stoked fears of higher interest rates. China / HK markets gained as China's Manufacturing PMIs in May rebounded. Sentiments in HK market have been improving as volatility index declined for three straight weeks. Looking ahead to this week, Friday's CPI data of China and the US will be the focus, which could show a continued trend that inflation has peaked in the US, but moderately increased in China. In the short term, we continue to see potential of moderate upward rerating in Internet, Consumer Discretionary & reopening-related stocks.

- **Market recap:** The HSI / CSI 300 gained 1.9% / 2.2% last week, as China's Manufacturing PMIs in May rebounded and China's government continued to vow to support the economy. By sector, Internet & Consumer Discretionary led gains, while Energy & Property declined.
- **Fund flows:** Global equity fund flows to EM rebounded as US dollar retreated and EM stock valuation became attractive. Equity fund flows to China also improved with an improvement of sentiment towards Chinese market. US equity funds continued to see withdrawals.
- **Stock Connect flows:** Weekly Northbound net inflows increased to four-month high (Fig. 14). Southbound net inflows remained relatively stable. By sector, Southbound funds flew into Healthcare, Consumer Discretionary, IT, and Automobiles & components, and out of Financials & Energy. Northbound funds flew into Food, Beverage & Tobacco, Capital Goods, Materials and Energy and out of Consumer Durables & Apparel, Semiconductors & Semiconductor Production and Real Estate.
- **US interest rates:** UST yields moved upwards across major maturities. Yields of 3-m / 2-yr / 10-yr increased by 10 / 17 / 18 bps respectively, and as such the yield curve slightly steepened. Implied Fed funds rate in Dec 2022 rebounded by 17 bps to 2.82%, boosted by strong job data (Fig. 12).
- **Sentiments** improved further. "Fear Index" VHSI dropped for three weeks in a row to 27.6 (Fig. 23). Short sell % on HK mainboard (5-day average) slightly rebounded by 0.2 ppt to 17.0%, near the lowest in the past three months (Fig. 24). Short sell % dropped notably in Financials, Consumer, Healthcare & Utilities, and rose in Materials.
- **Earnings:** FY22E EPS consensus of the HSI / HSTECH / CSI 300 were revised down by 0.3% / 2.0% / 0.7% last week (Fig. 40-42). In HK, Healthcare, IT & Industrials got earnings cut, despite some better-than-feared Q1 results by Internet giants, while Commodities & Consumer enjoyed upward revisions. (Fig. 43).
- **Sector views:** In the short term, we continue to see potential of moderate upward rerating in Internet & Consumer Discretionary stocks as earnings downgrade in Internet sector may be nearing the end after Q1 results, and easing lockdown measures in Shanghai & Beijing and nationwide fiscal support are helping consumer sentiment.

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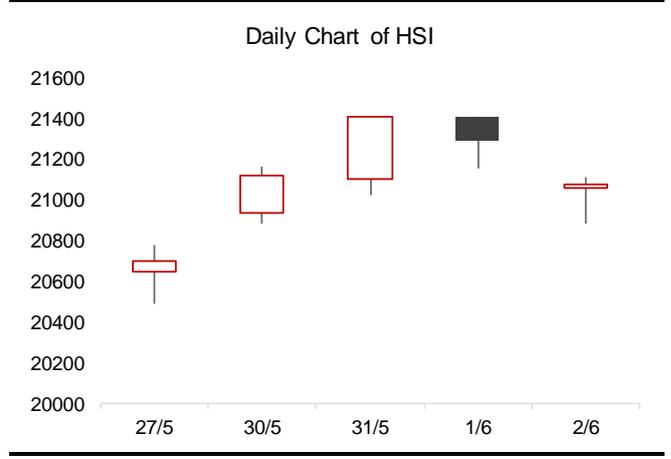
## Market Recap

**Figure 1: Weekly global markets returns: US resumed downtrend; China / HK outperformed**



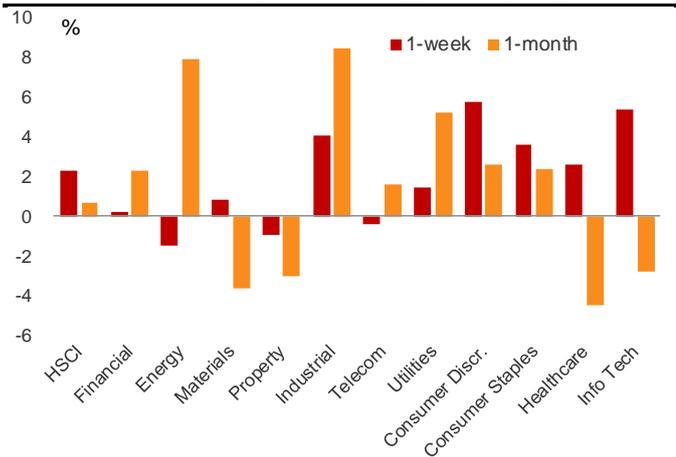
Source: Bloomberg, CMBIGM

**Figure 2: HSI gained on rebound in China PMI and more pro-growth policies**



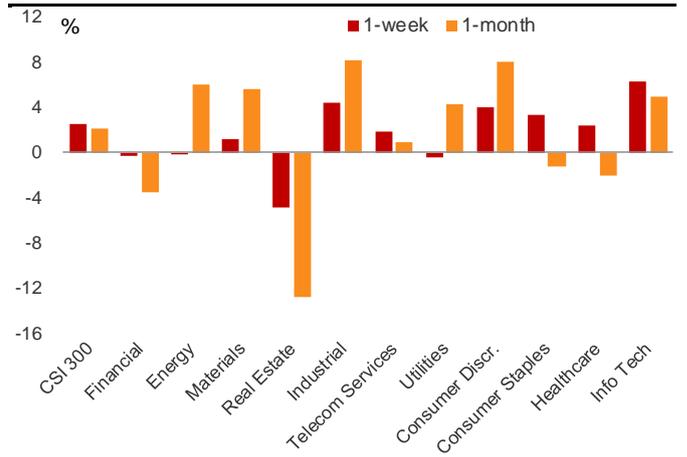
Source: Bloomberg, CMBIGM

**Figure 3: Hang Seng Composite Index sectors: IT & Consumer led gains; Energy & Property down**



Source: Bloomberg, CMBIGM

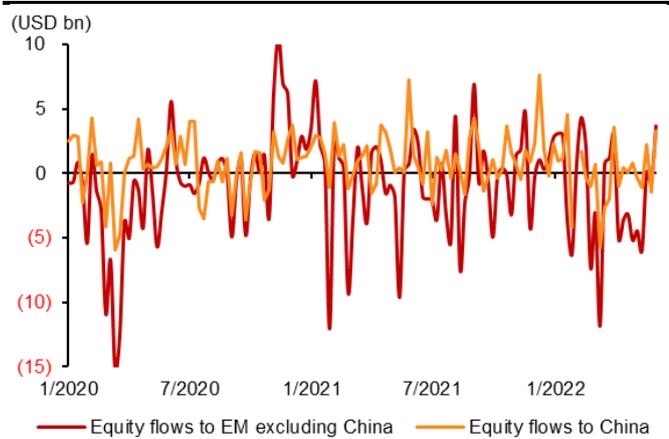
**Figure 4: CSI 300 Index sectors: IT & Consumer gained; Real Estate declined**



Source: Bloomberg, CMBIGM

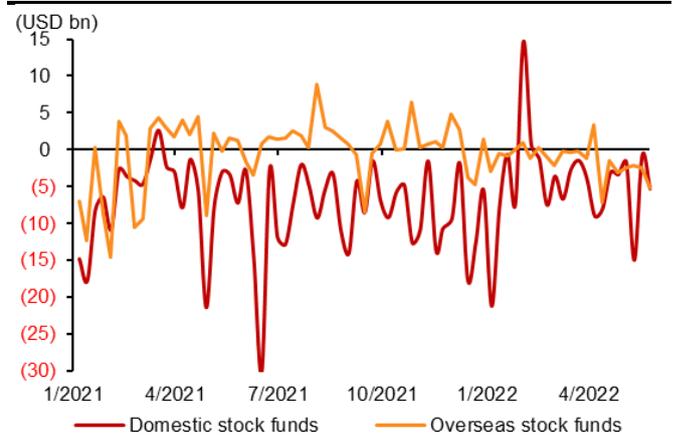
## Fund Flows

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



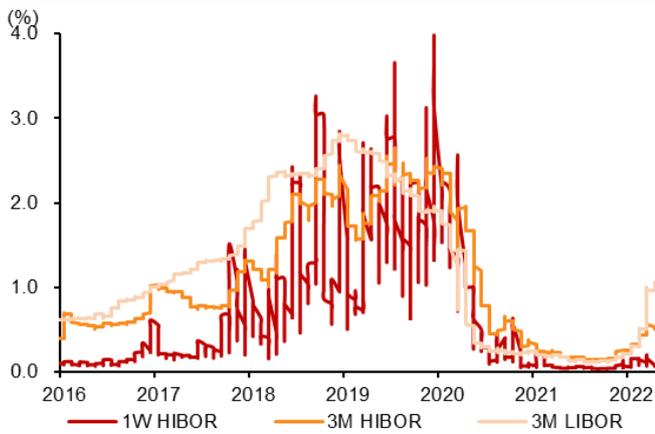
Source: IIF, CMBIGM

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



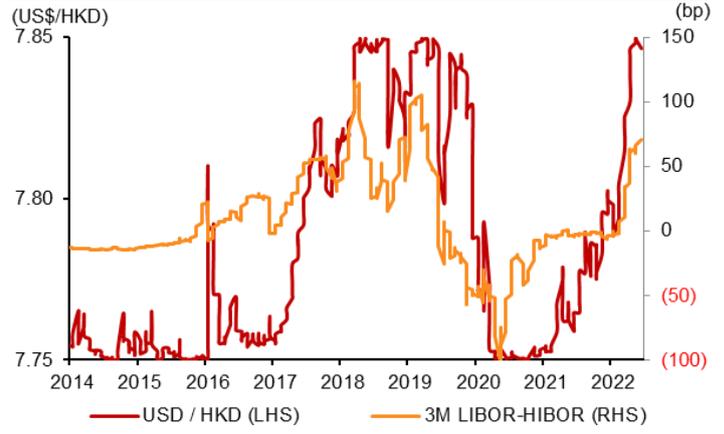
Source: Wind, CMBIGM

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



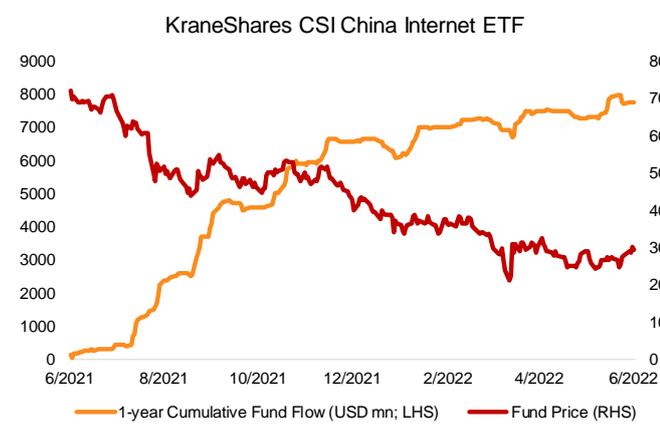
Source: Wind, CMBIGM

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



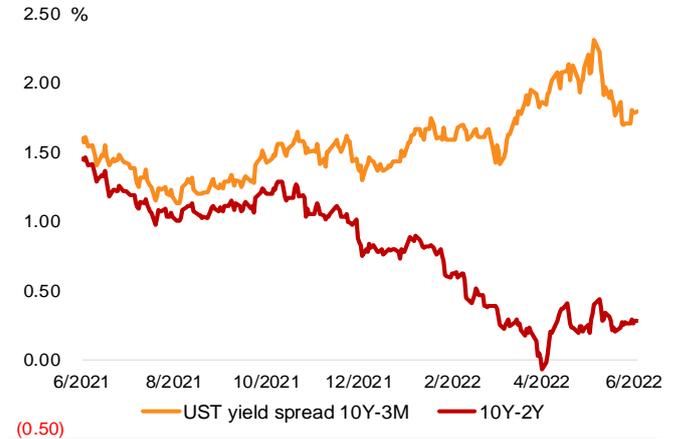
Source: Wind, CMBIGM

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



Source: Bloomberg, CMBIGM

**Figure 10: UST yield curve slightly steepened as yields rebounded across major maturities**



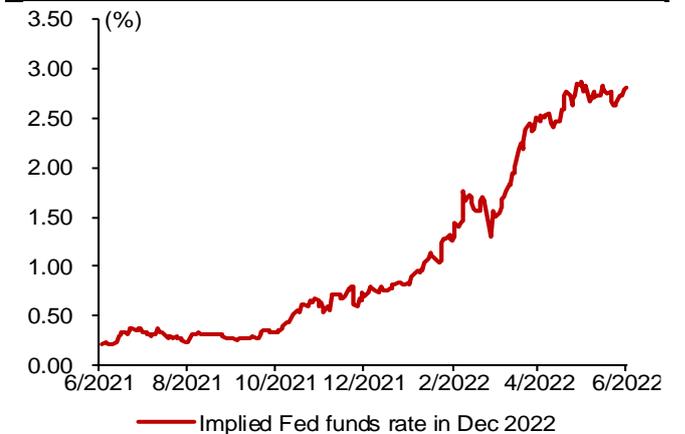
Source: Bloomberg, CMBIGM

**Figure 11: US-China 10-year yield spread rebounded as China's yield stayed flat**



Source: Bloomberg, CMBIGM

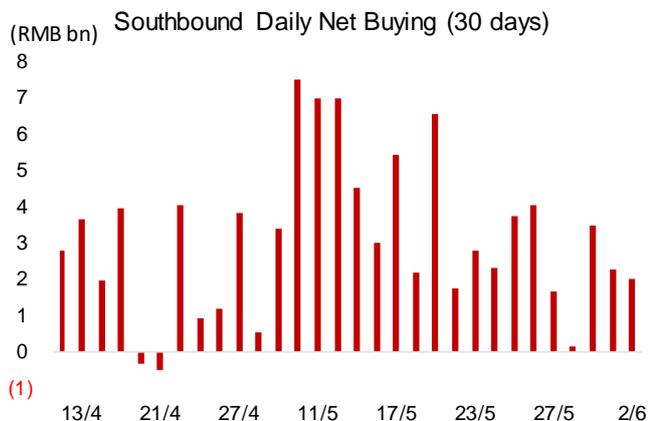
**Figure 12: Implied Fed funds rate in Dec 2022 rebounded 2.82%**



Source: Bloomberg, CMBIGM

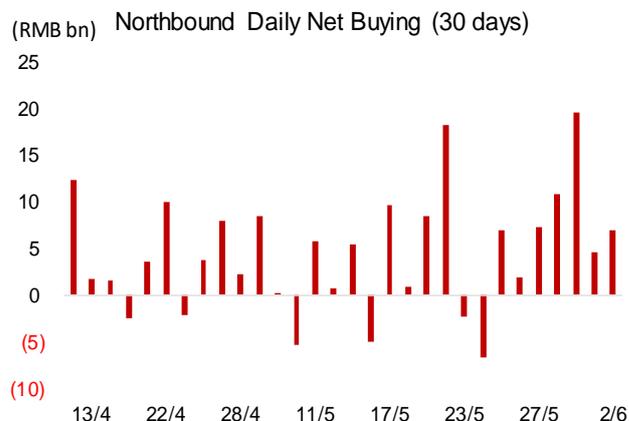
## SH/SZ-HK Stock Connect

**Figure 13: Southbound had rather stable inflows**



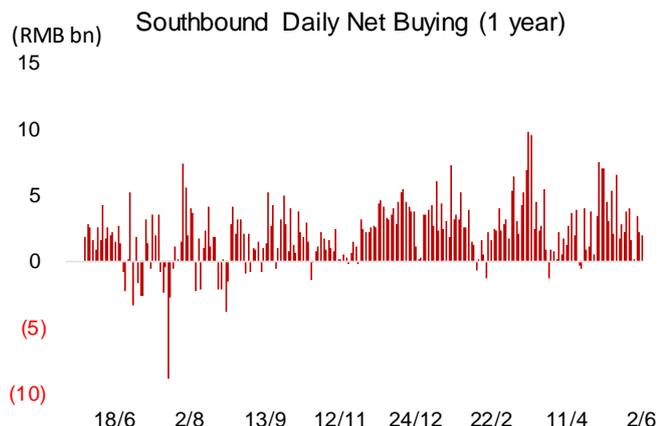
Source: Bloomberg, CMBIGM

**Figure 14: Northbound had strong weekly inflows**



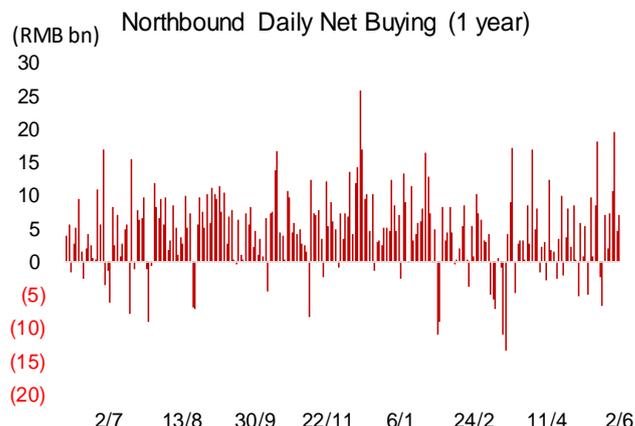
Source: Bloomberg, CMBIGM

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



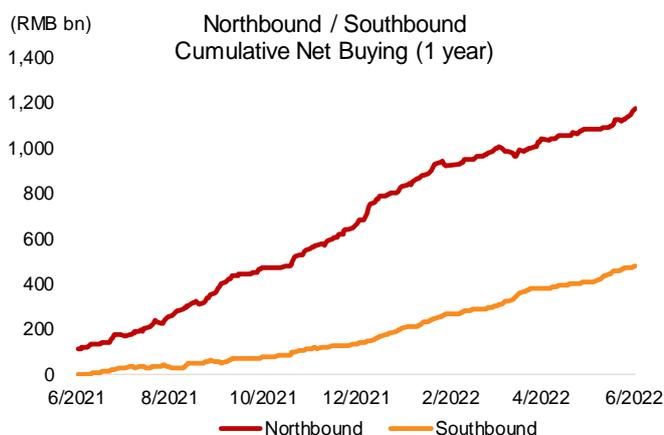
Source: Bloomberg, CMBIGM

**Figure 16: Northbound flows somewhat stabilised**



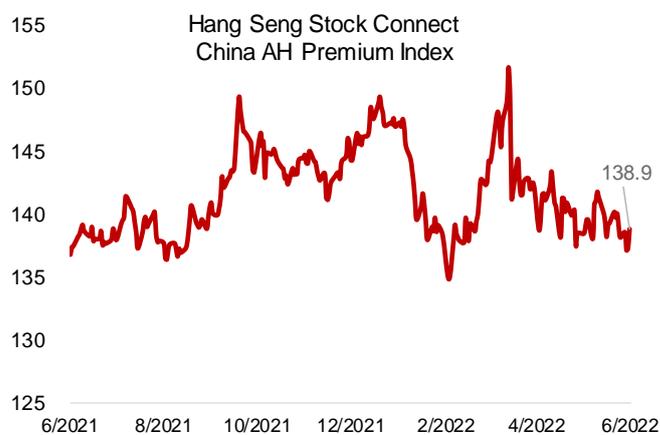
Source: Bloomberg, CMBIGM

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



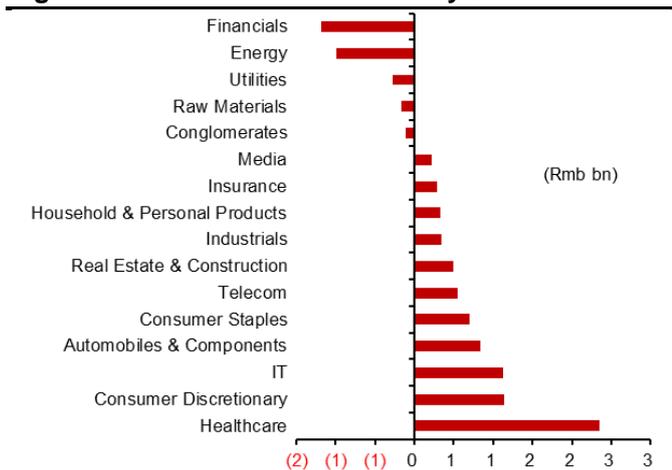
Source: Bloomberg, CMBIGM

**Figure 18: AH premium widened by 0.7 ppt last week**



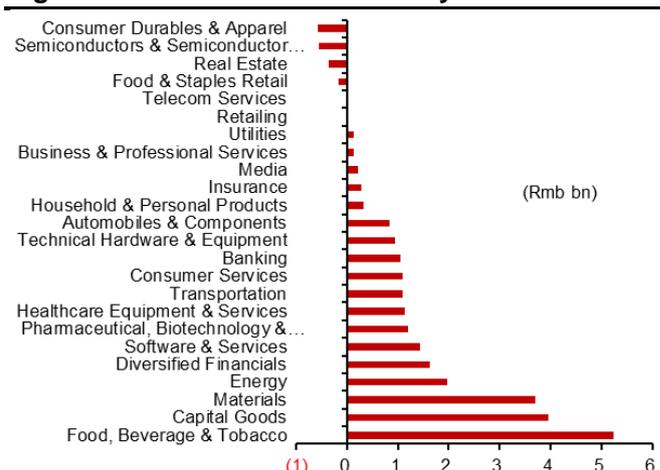
Source: Bloomberg, CMBIGM

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	10,053	-226
Tencent	700 HK	9,880	-1,369
Kuaishou	1024 HK	5,276	2,611
Great Wall Motor	2333 HK	1,968	540
Xiaomi	1810 HK	615	-266
CNBM	3323 HK	310	21
CNOOC	883 HK	4,000	447
Anhui Conch Cement	914 HK	240	218
SMIC	981 HK	678	-115
China Construction Bank	939 HK	1,164	-243

Source: Wind, CMBIGM

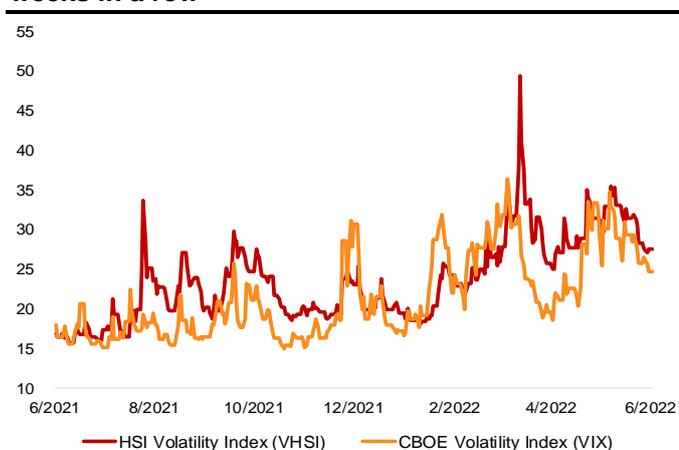
Figure 22: Northbound (SH) Top 10 active stocks

(RMB mn, cumulative)		Turnover	Net Buying
Kweichow Moutai	600519 CH	7,539	1,320
LONGi Green Energy	601012 CH	4,367	301
Tongwei	600438 CH	1,478	140
Will Semiconductor	603501 CH	1,607	-137
Inner Mongolia Yili	600887 CH	2,152	101
China Yangtze Power	600900 CH	1,629	-338
WuXi AppTec	603259 CH	2,346	151
CTG Duty Free	601888 CH	3,096	999
Anhui Conch Cement	600585 CH	501	-402
YTO Express Group	600233 CH	491	194

Source: Wind, CMBIGM

## Sentiments

Figure 23: "Fear Index" VHSI decreased for three weeks in a row



Source: Bloomberg, CMBIGM

Figure 24: Short sell % on HK mainboard stayed at relatively low level 17%



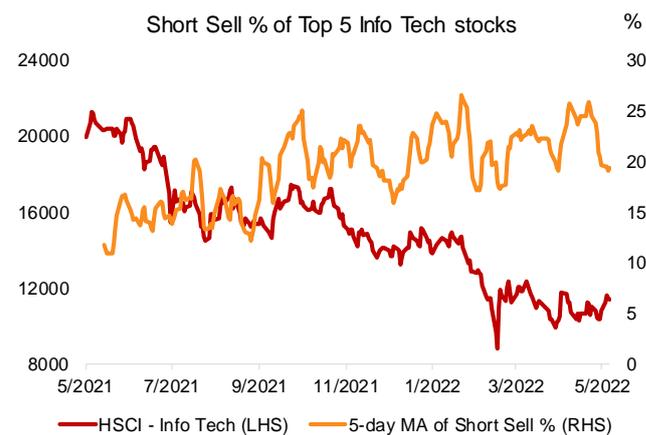
Source: Bloomberg, CMBIGM

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



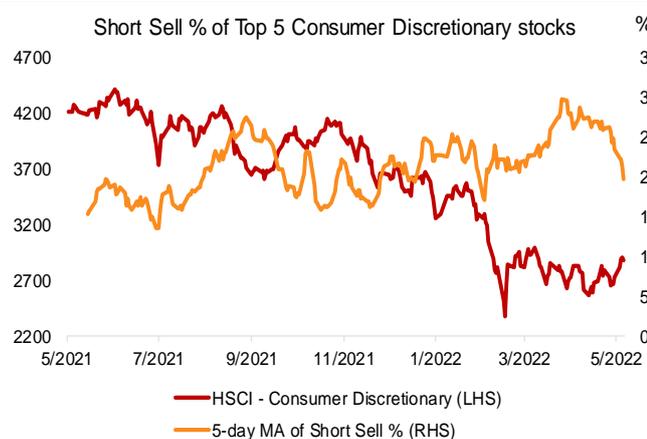
Source: Bloomberg, CMBIGM

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



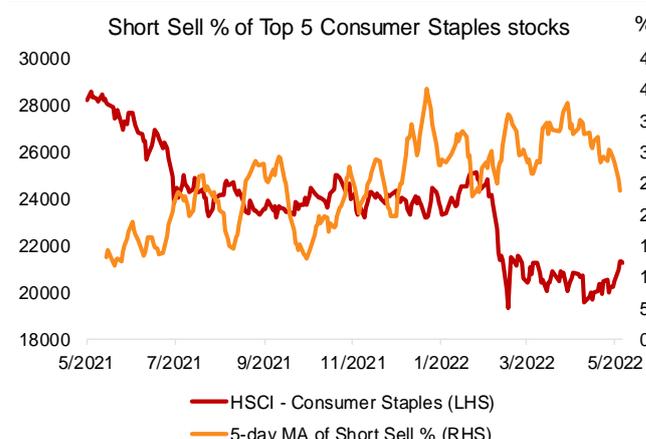
Source: Bloomberg, CMBIGM

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



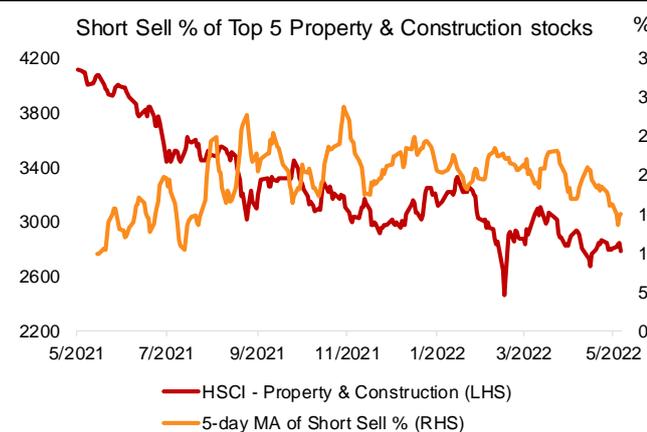
Source: Bloomberg, CMBIGM

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



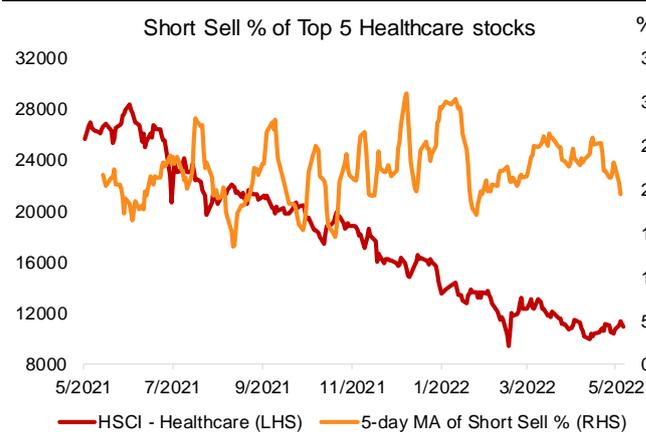
Source: Bloomberg, CMBIGM

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



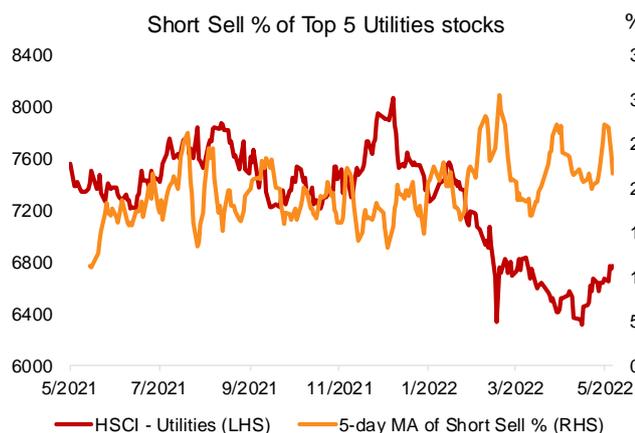
Source: Bloomberg, CMBIGM

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



Source: Bloomberg, CMBIGM

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



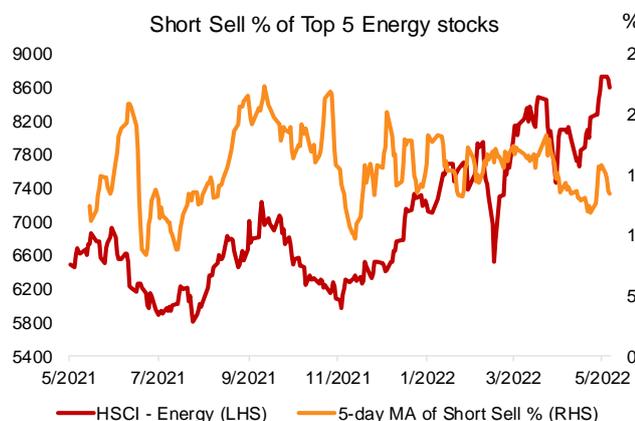
Source: Bloomberg, CMBIGM

**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

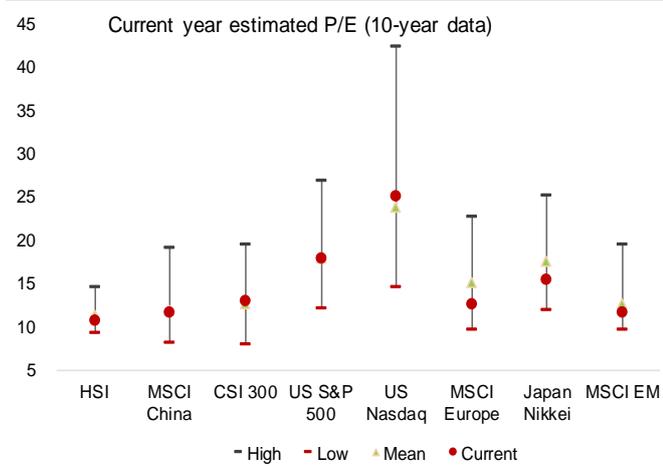
**Figure 35: Short sell % in HK – Materials**



Source: Bloomberg, CMBIGM

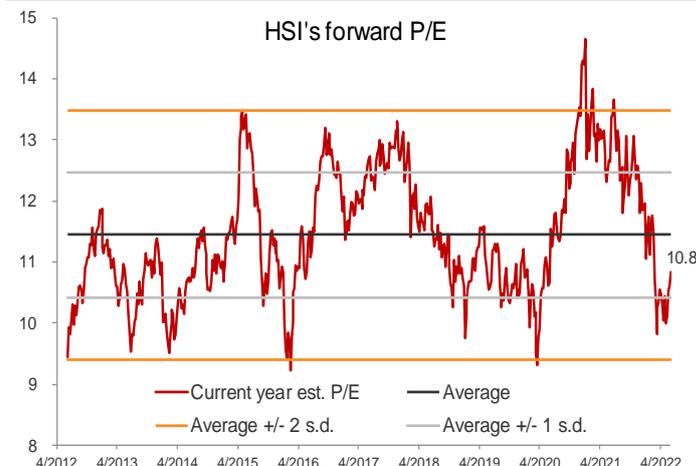
## Earnings & Valuations

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



Source: Bloomberg, CMBIGM

**Figure 37: HSI' forward P/E**



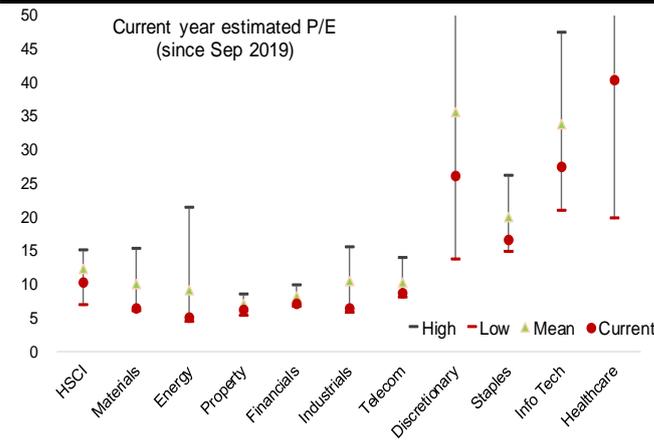
Source: Bloomberg, CMBIGM

**Figure 38: CSI 300's P/E slightly above 10-yr mean**



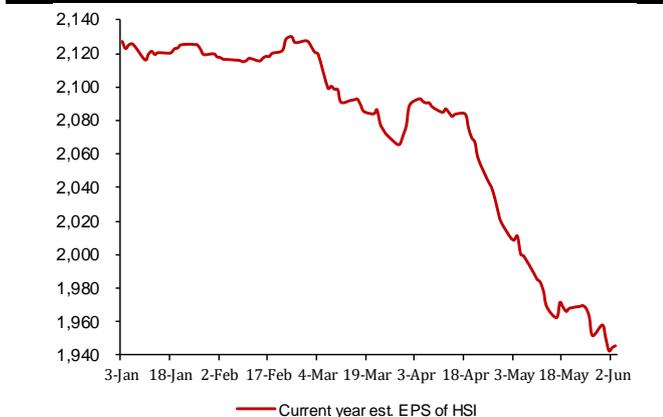
Source: Bloomberg, CMBIGM

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



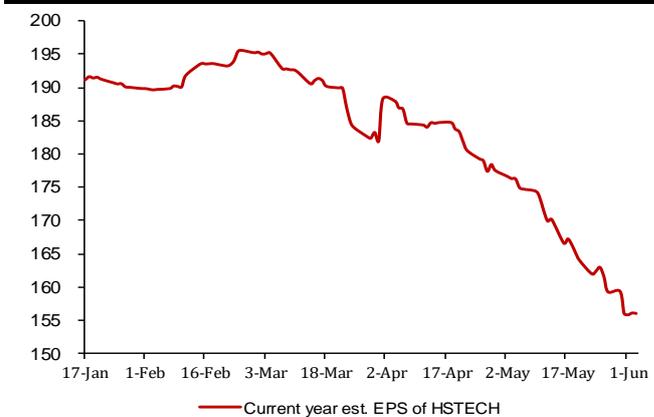
Source: Bloomberg, CMBIGM

**Figure 40: EPS estimates of HSI were still in downtrend, revised down by 0.3% last week**



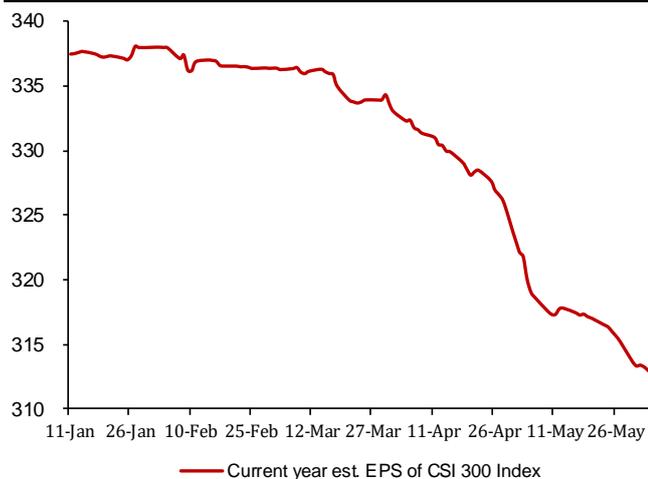
Source: Bloomberg, CMBIGM

**Figure 41: EPS estimates of HSTECH Index were revised down by 2.0% last week**



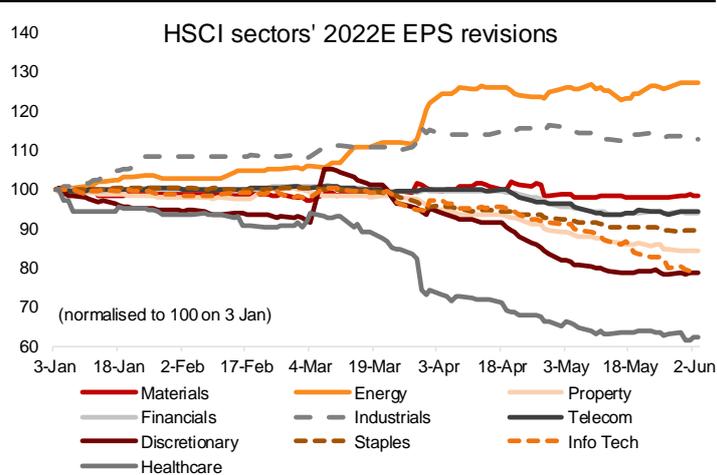
Source: Bloomberg, CMBIGM

**Figure 42: EPS estimates of A-shares were revised down by 0.7% last week**



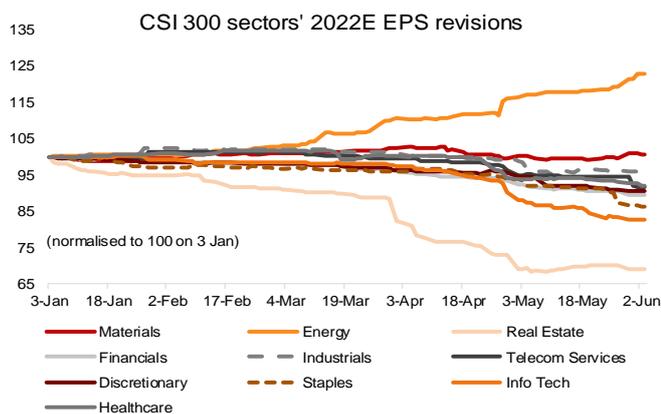
Source: Bloomberg, CMBIGM

**Figure 43: HK earnings revision: Commodities & Consumer up, Healthcare IT & Industrials down**



Source: Bloomberg, CMBIGM

**Figure 44: A-shares earnings revision: Real Estate got slashed**



Source: Bloomberg, CMBIGM

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