

China / HK Market Weekly

Growth stocks may pull back on higher US rates

Last week (6-10 Jun), US equities declined by over 5% as May's CPI reported on Friday topped estimates at 8.6% YoY (core CPI 6.0% YoY), stoking rate hike fears. China / HK markets gained, led by growth stocks. Sentiments and fund flows in HK market have been improving. Looking ahead to this week, all eyes will be on US Fed's interest rate decision on Wednesday. Officials have hinted at a 50 bps hike, but after the latest CPI data, chances of a 75 bps hike are increasing. In the short term, China Internet, Healthcare & Consumer Discretionary stocks, after weeks of rebound, might have moderate pullbacks as higher US interest rates do not bode well for growth stocks' valuation.

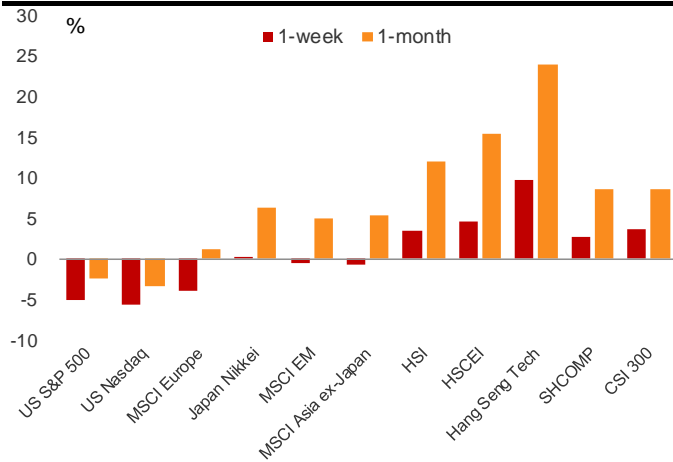
- **Market recap:** The HSI / CSI 300 gained 3.4% / 3.7% last week, as China's pro-growth policies and easing concerns on regulatory risks continued to lend support to Chinese stocks. By sector in HK, IT & Healthcare led gains with over 10% returns, while value stocks underperformed. IT, Healthcare & Consumer Discretionary showed improved momentum in recent weeks (Fig. 5-6). Growth stocks are on the verge of bucking an 18-month downtrend relative to value stocks (Fig. 7), but might face short-term pullbacks on higher US rates.
- **Fund flows:** Global equity fund flows to EM rebounded as EM stock valuation was cheap. Equity fund flows to China also improved as the low valuation and policy easing cycle attracted some investors. US equity funds continued to see withdrawals.
- **Stock Connect flows:** Weekly Northbound net inflows increased further from the previous week's high base, and Southbound net inflows remained healthy (Fig. 16-17). By sector, Southbound funds flew into Consumer Discretionary, Healthcare and IT, and out of Telecom, Energy and Financials. Northbound funds flew into Materials, Food, Beverage & Tobacco, Capital Goods, Semiconductors & Consumer Services, and out of Transportation and Software & Services.
- **US interest rates:** UST yields surged as bets on Fed rate hikes increased following strong CPI data. 2-yr yield jumped to the highest since 2008. Implied Fed funds rate in Dec 2022 rose by 42 bps to new-high 3.24% (Fig. 15).
- **Sentiments** in HK slightly improved further. Short sell % on HK mainboard (5-day average) slightly dropped to 16.5%, a 3-month low (Fig. 27). Short sell % dropped notably in Financials, Consumer Discretionary & Utilities.
- **Earnings** estimates are stabilising as 1Q results season concluded. FY22E EPS consensus of the HSI / HSTECH / CSI 300 were revised down by 0.1% / 0.6% / 0.1% last week (Fig. 43-45). In HK, Healthcare & Consumer Discretionary got earnings cut while other sectors' were little changed.
- **Sector views:** growth stocks may be bumpy this week as investors digest high US CPI data and watch for the Fed's rate hike. As such, China Internet, Healthcare & Consumer Discretionary stocks might take a breather after a strong run over the past few weeks, but we continue to see re-rating potential over the medium-term, driven by China's economic growth bottoming out, more fiscal support and less regulatory concerns.

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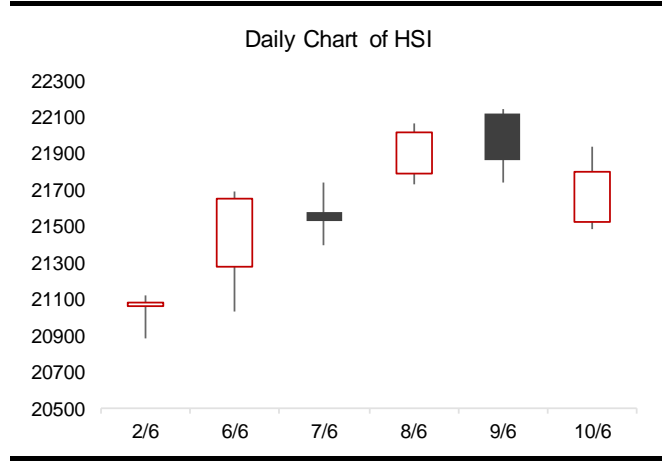
Market Recap

Figure 1: Weekly global markets returns: US declined on rate hike fears; China/HK gained



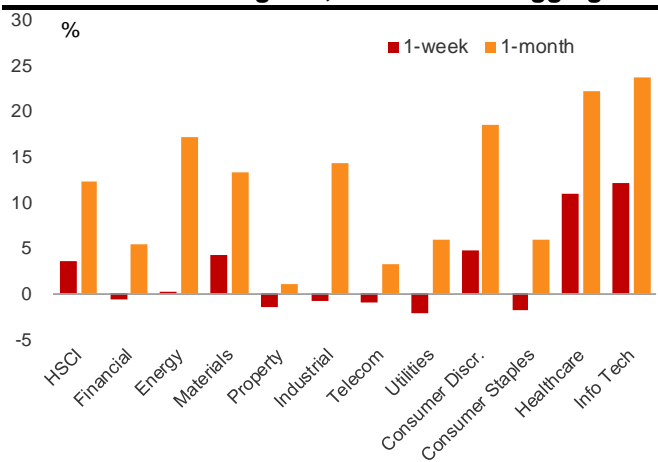
Source: Bloomberg, CMBIGM

Figure 2: HSI gained 3.4% but faced resistance at 22000



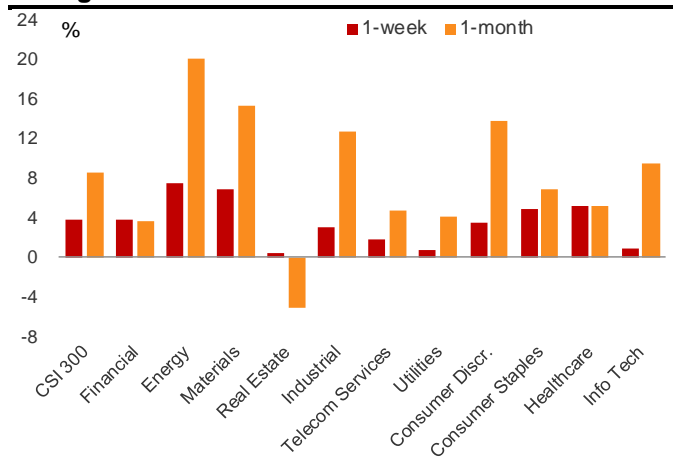
Source: Bloomberg, CMBIGM

Figure 3: Hang Seng Composite Index sectors: IT & Healthcare led gains; value stocks lagging



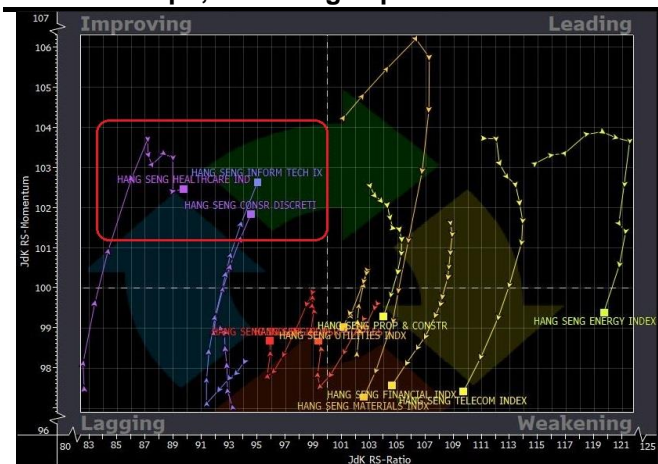
Source: Bloomberg, CMBIGM

Figure 4: CSI 300 Index sectors: performance less divergent than in HK



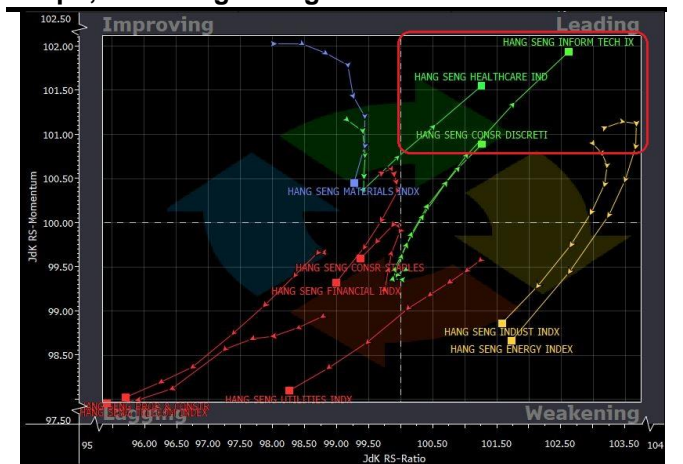
Source: Bloomberg, CMBIGM

Figure 5: IT, Healthcare & Consumer Discretionary moved to “Improving” zone in weekly Relative Rotation Graph, indicating improved momentum



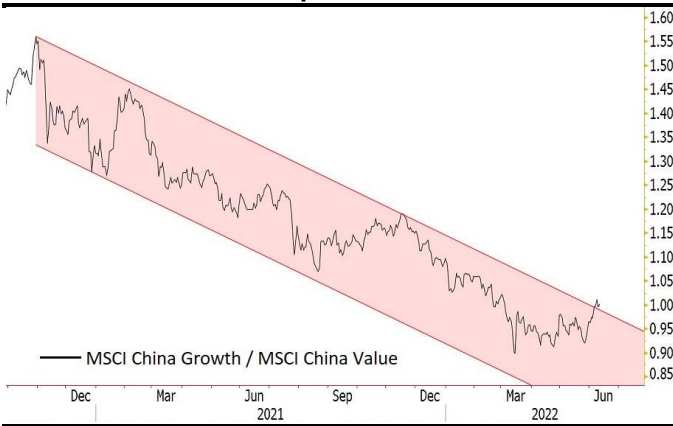
Source: Bloomberg, CMBIGM

Figure 6: IT, Healthcare & Consumer Discretionary moved to “Leading” zone in daily Relative Rotation Graph, indicating strong short-term momentum



Source: Bloomberg, CMBIGM

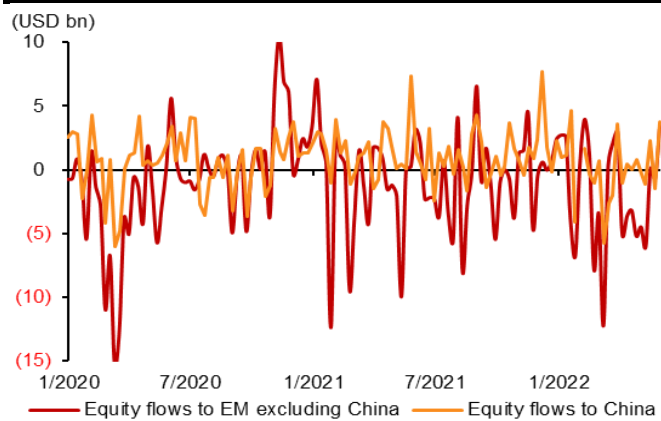
Figure 7: China Growth stocks outperformed Value in recent weeks, but might face resistance at downtrend on the chart of relative performance



Source: Bloomberg, CMBIGM

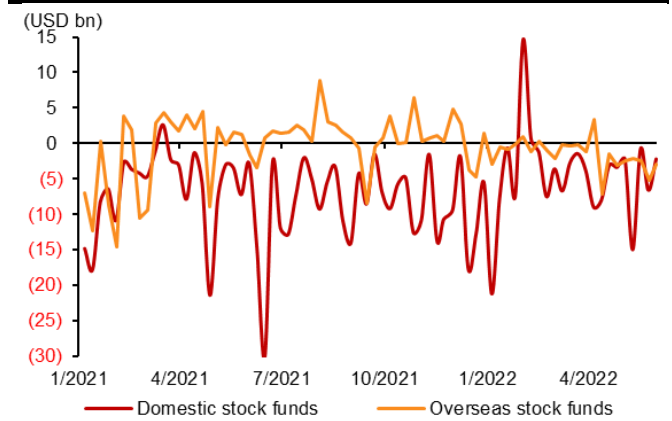
Fund Flows

Figure 8: Global Fund Flow to Emerging Market



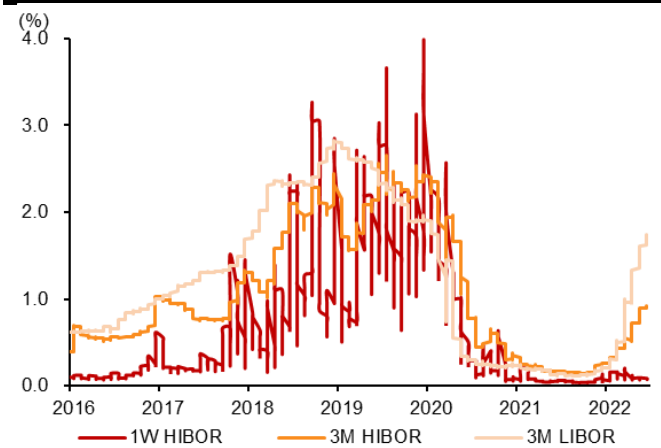
Source: IIF, CMBIGM

Figure 9: US Long-term Mutual Fund Flow



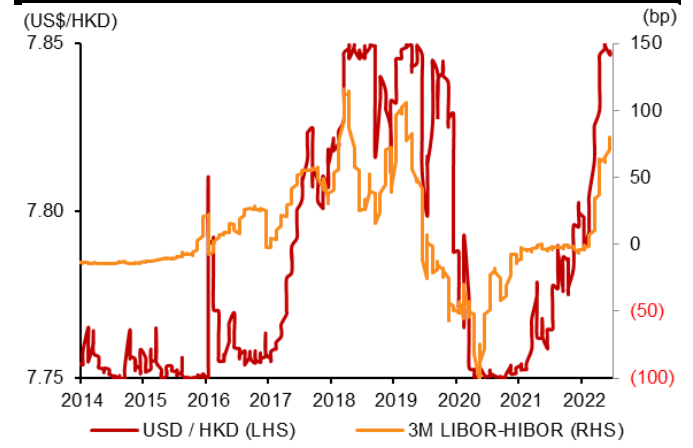
Source: Wind, CMBIGM

Figure 10: USD & HKD Interest Rates



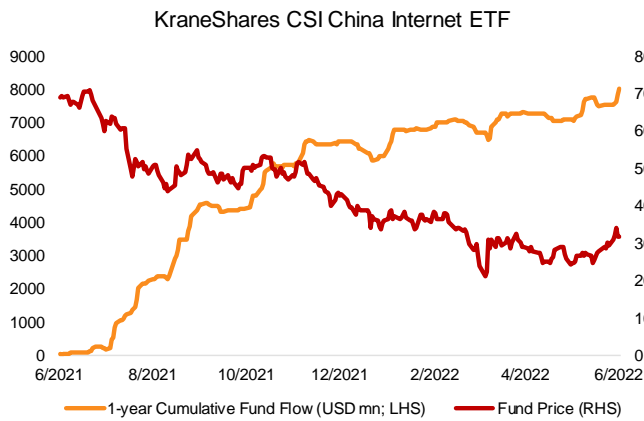
Source: Wind, CMBIGM

Figure 11: USD/HKD Rates & Interest Spreads



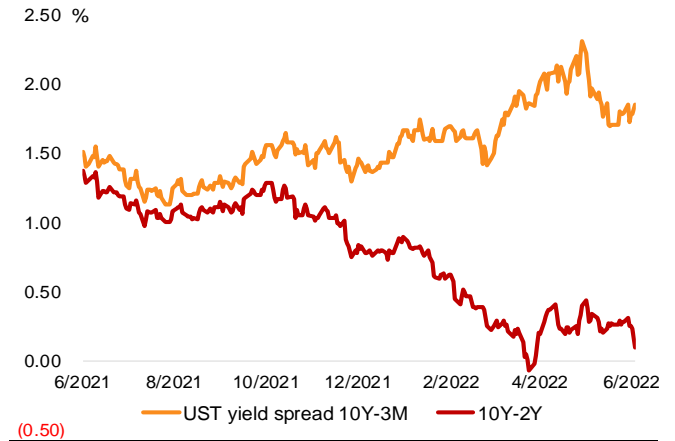
Source: Wind, CMBIGM

Figure 12: KWEB, the largest China Internet ETF, recorded strong inflows last week



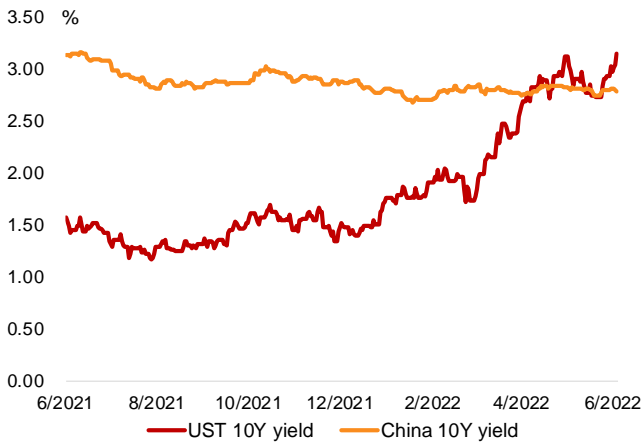
Source: Bloomberg, CMBIGM

Figure 13: UST 10Y-2Y spread narrowed as bets on Fed rate hikes increased following strong CPI data



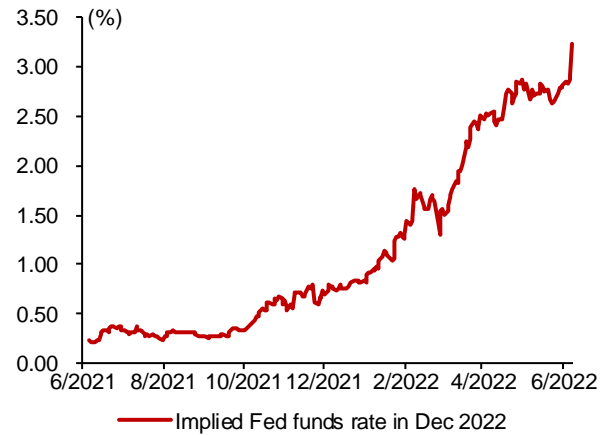
Source: Bloomberg, CMBIGM

Figure 14: US-China 10-year yield spread widened further as China's yield stayed flat



Source: Bloomberg, CMBIGM

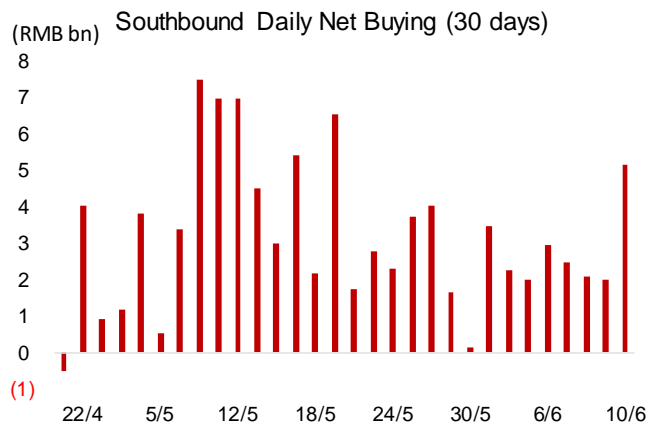
Figure 15: Implied Fed funds rate in Dec 2022 surged to new high 3.24%



Source: Bloomberg, CMBIGM

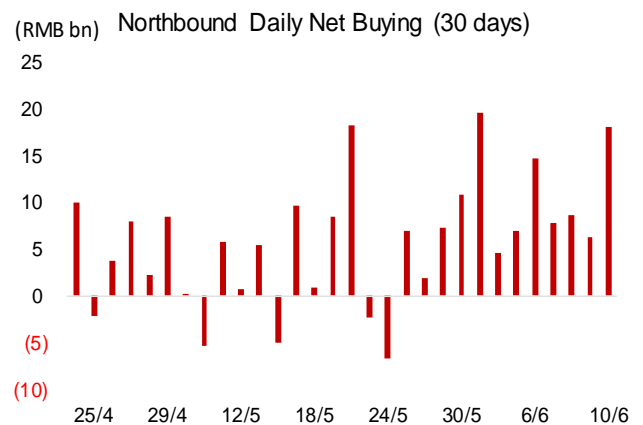
SH/SZ-HK Stock Connect

Figure 16: Southbound had moderate inflows last week



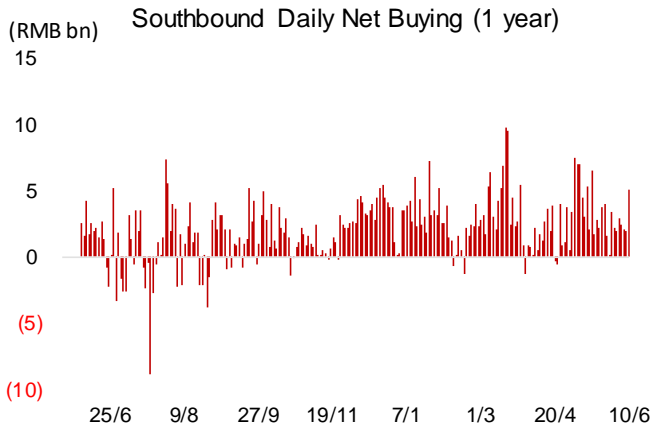
Source: Bloomberg, CMBIGM

Figure 17: Northbound inflows increased further from last week's high base



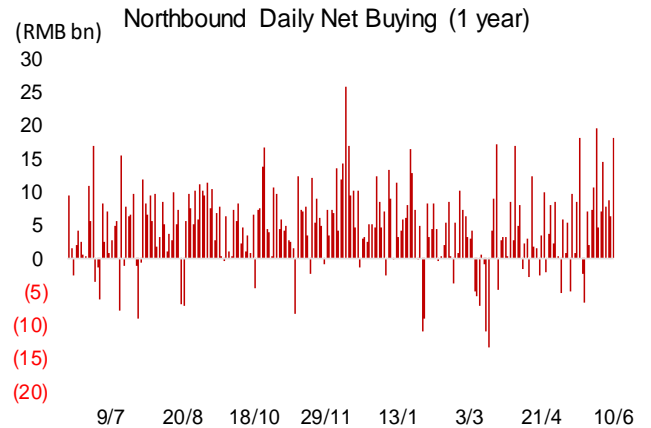
Source: Bloomberg, CMBIGM

Figure 18: Southbound net buying moderated vs. Q1



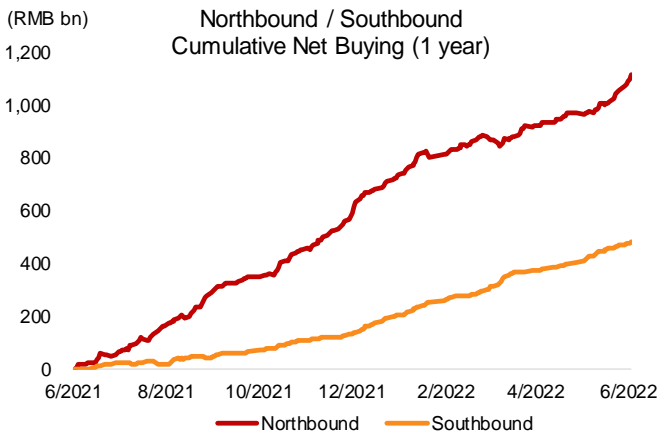
Source: Bloomberg, CMBIGM

Figure 19: Northbound flows increased recently



Source: Bloomberg, CMBIGM

Figure 20: Southbound & Northbound inflows over the past 12 months



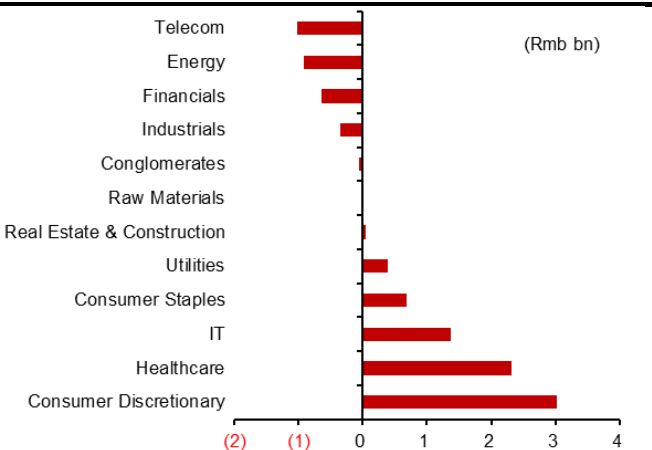
Source: Bloomberg, CMBIGM

Figure 21: AH premium widened by 2.0 ppt last week as H-shares declined more than A-shares



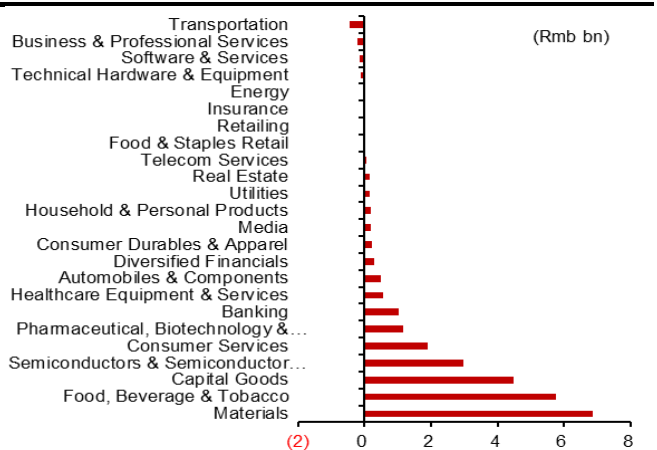
Source: Bloomberg, CMBIGM

Figure 22: Southbound net flows by sector last week



Source: Wind, CMBIGM

Figure 23: Northbound net flows by sector last week



Source: Wind, CMBIGM

Figure 24: Southbound weekly Top 10 active stocks

(HKD mn, cumulative)		Turnover	Net Buying
Tencent	700 HK	22,670	681
Meituan	3690 HK	15,271	-920
CNOOC	883 HK	8,713	439
Kuaishou	1024 HK	6,956	1,627
SMIC	981 HK	1,913	127
China Construction Bank	939 HK	1,351	-337
GCL Technology	3800 HK	2,586	235
China Mobile	941 HK	1,993	-634
BYD Co	1211 HK	3,015	1
Great Wall Motor	2333 HK	564	-25

Source: Wind, CMBIGM

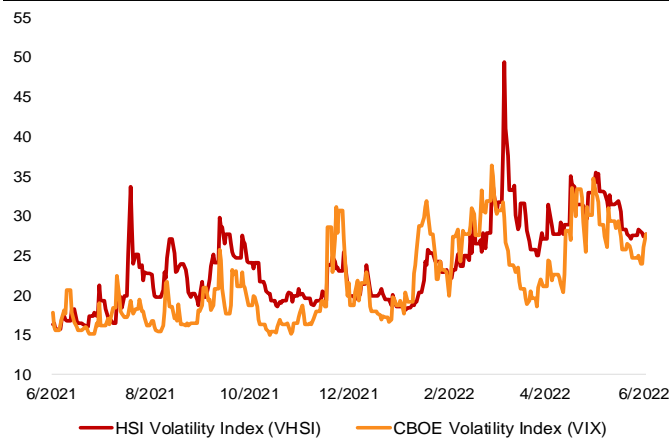
Figure 25: Northbound (SH) Top 10 active stocks

(RMB mn, cumulative)		Turnover	Net Buying
Kweichow Moutai	600519 CH	13,619	6,068
TBEA Co	600089 CH	3,128	65
China Yangtze Power	600900 CH	2,160	-445
CTG Duty Free	601888 CH	6,463	2,229
LONGi Green Energy	601012 CH	5,949	1,348
Inner Mongolia Yili	600887 CH	4,839	2,662
Tongwei	600438 CH	4,778	771
China Merchants Bank	600036 CH	4,396	249
Industrial Bank	601166 CH	915	418
China Northern Rare Earth	600111 CH	825	-147

Source: Wind, CMBIGM

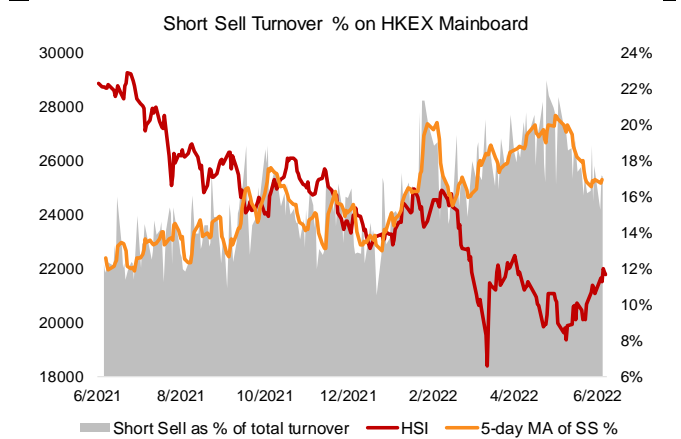
Sentiments

Figure 26: "Fear Index" VHSI stayed flat, while the US VIX rebounded as high CPI caused selloffs in stocks



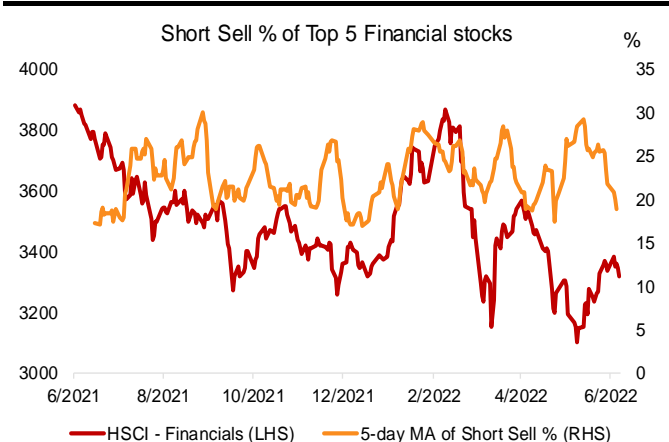
Source: Bloomberg, CMBIGM

Figure 27: Short sell % on HK mainboard dropped further to below 17%



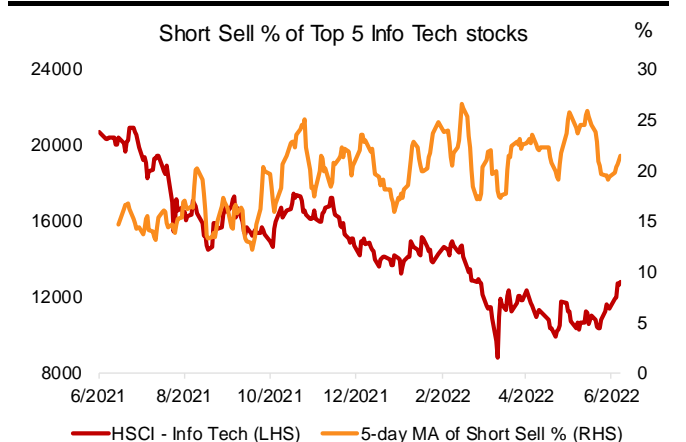
Source: Bloomberg, CMBIGM

Figure 28: Short sell % in HK - Financials



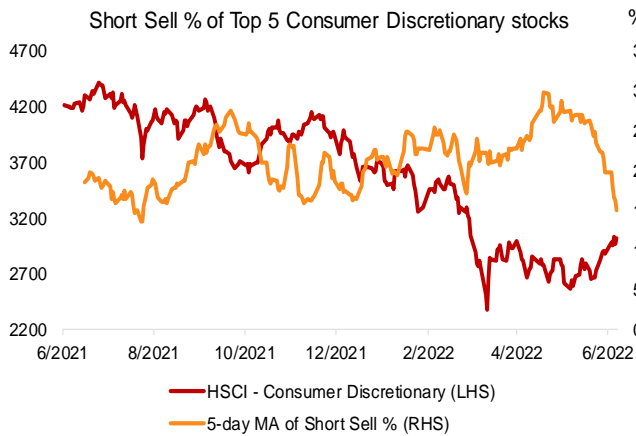
Source: Bloomberg, CMBIGM

Figure 29: Short sell % in HK - Info Tech



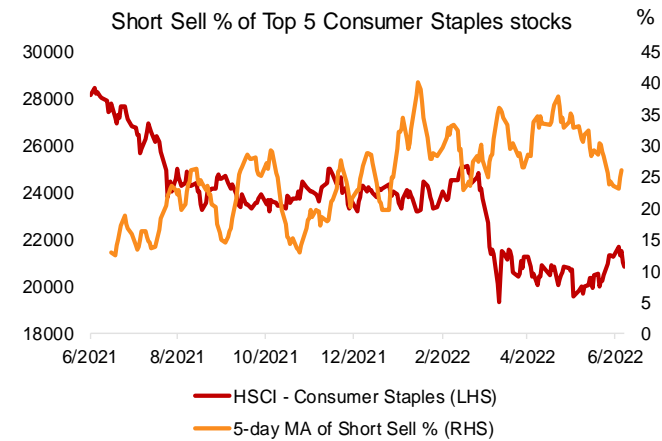
Source: Bloomberg, CMBIGM

Figure 30: Short sell % in HK – Consumer Discretion.



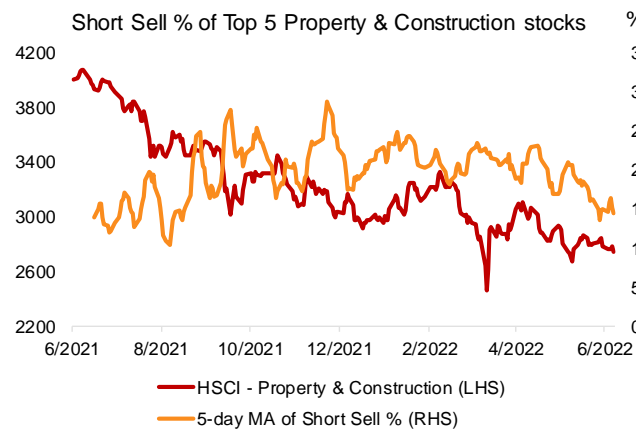
Source: Bloomberg, CMBIGM

Figure 31: Short sell % in HK – Consumer Staples



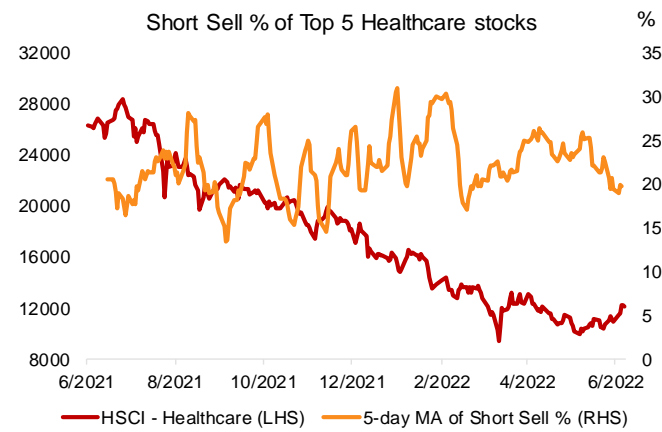
Source: Bloomberg, CMBIGM

Figure 32: Short sell % in HK - Property



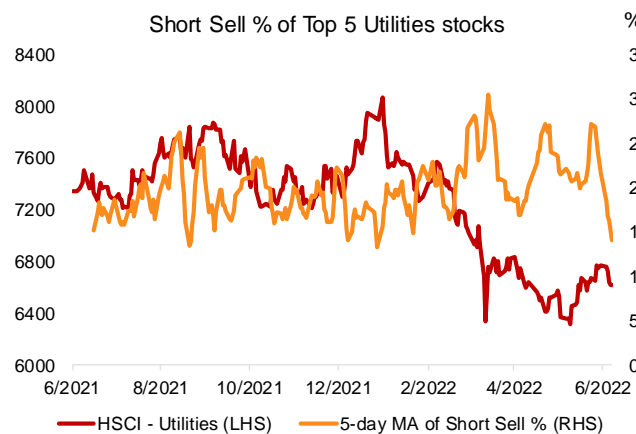
Source: Bloomberg, CMBIGM

Figure 33: Short sell % in HK – Healthcare



Source: Bloomberg, CMBIGM

Figure 34: Short sell % in HK – Utilities



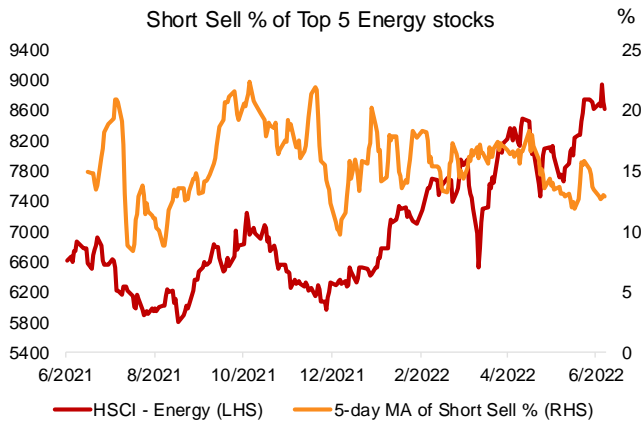
Source: Bloomberg, CMBIGM

Figure 35: Short sell % in HK – Industrials



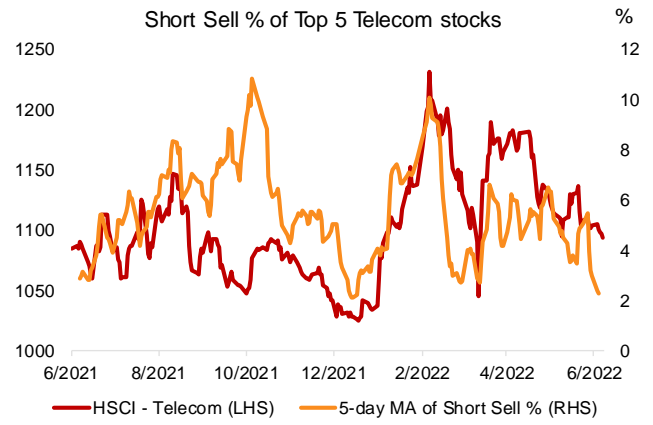
Source: Bloomberg, CMBIGM

Figure 36: Short sell % in HK – Energy



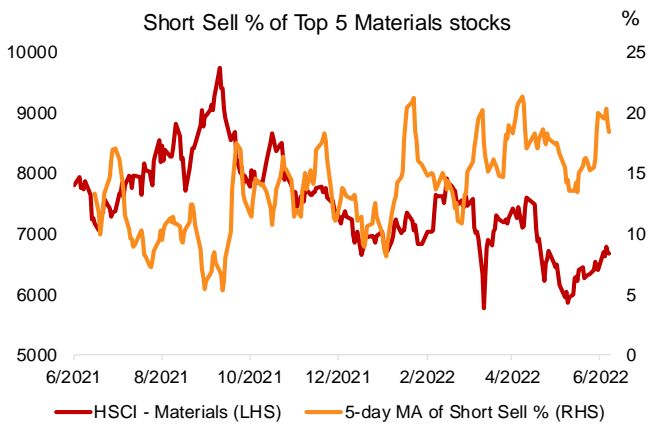
Source: Bloomberg, CMBIGM

Figure 37: Short sell % in HK – Telecom



Source: Bloomberg, CMBIGM

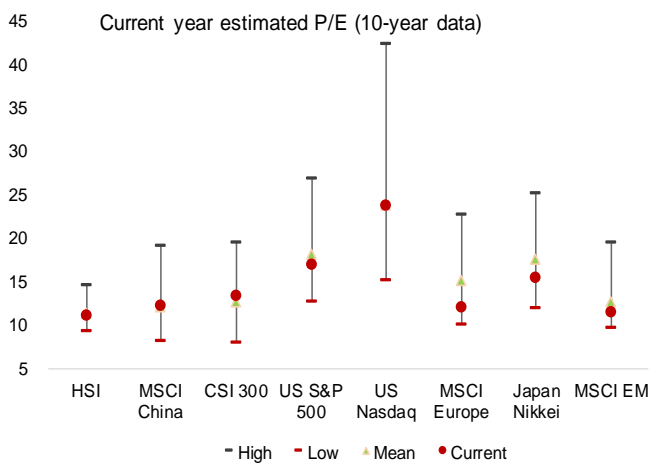
Figure 38: Short sell % in HK – Materials



Source: Bloomberg, CMBIGM

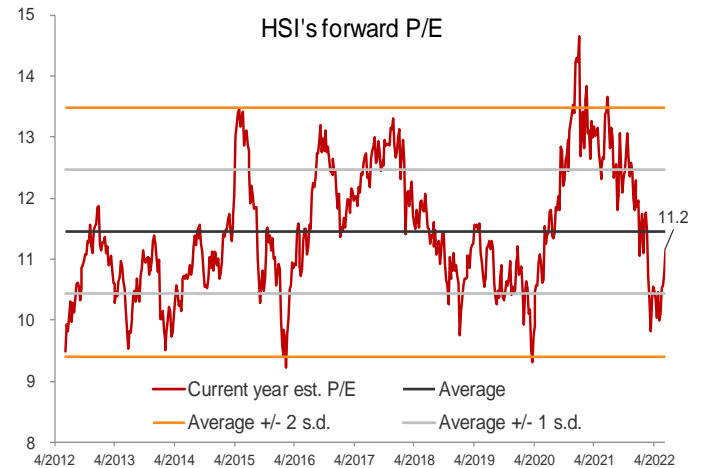
Earnings & Valuations

Figure 39: HSI' forward P/E still lower than those of major markets



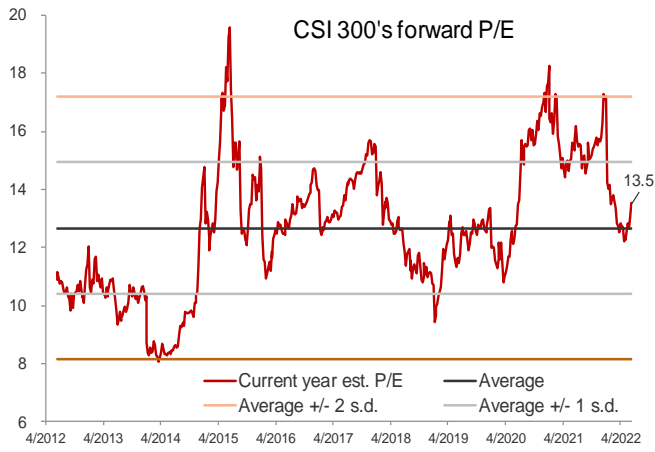
Source: Bloomberg, CMBIGM

Figure 40: HSI' forward P/E approaching 10-year mean following market rebound & earning cuts



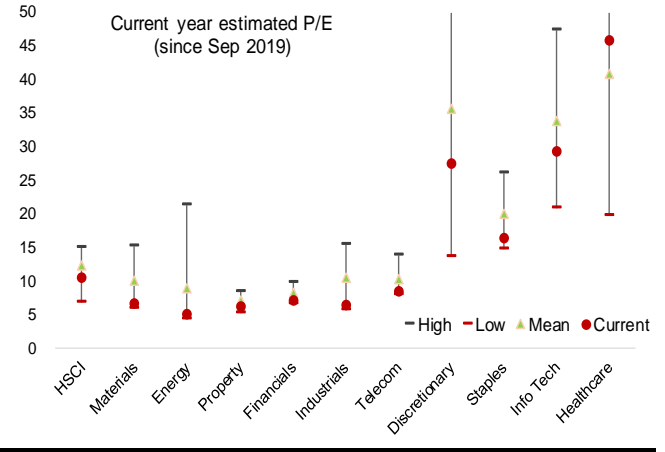
Source: Bloomberg, CMBIGM

Figure 41: CSI 300's P/E above 10-year mean



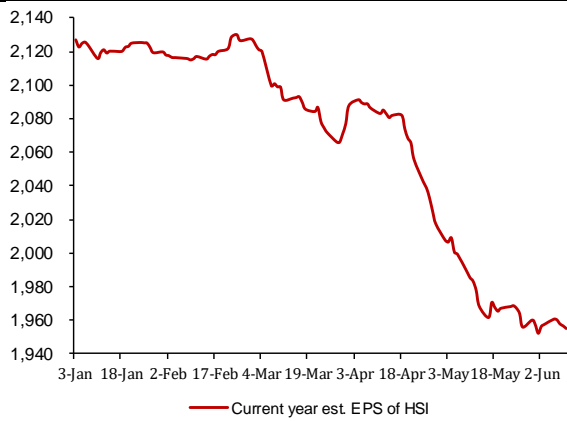
Source: Bloomberg, CMBIGM

Figure 42: Many HSCI sectors' P/E are near troughs



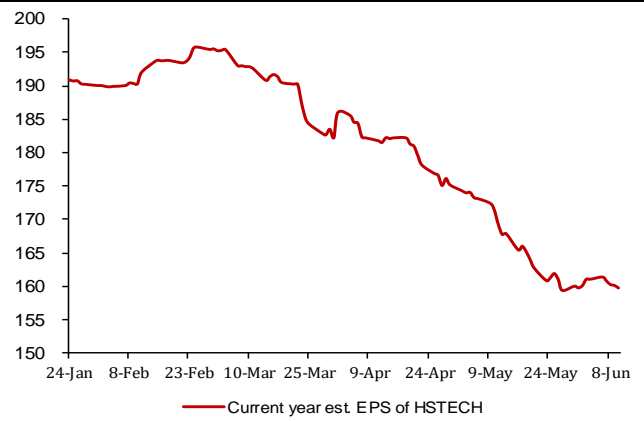
Source: Bloomberg, CMBIGM

Figure 43: EPS estimates of HSI were slightly revised down by 0.1% last week



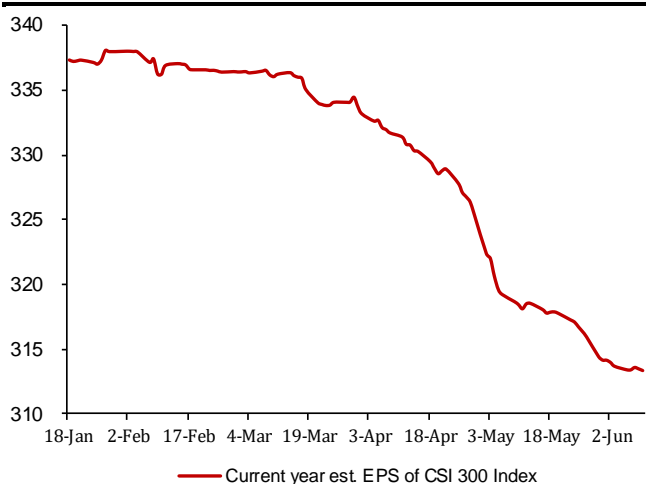
Source: Bloomberg, CMBIGM

Figure 44: EPS estimates of HSTECH Index were revised down by 0.6% last week



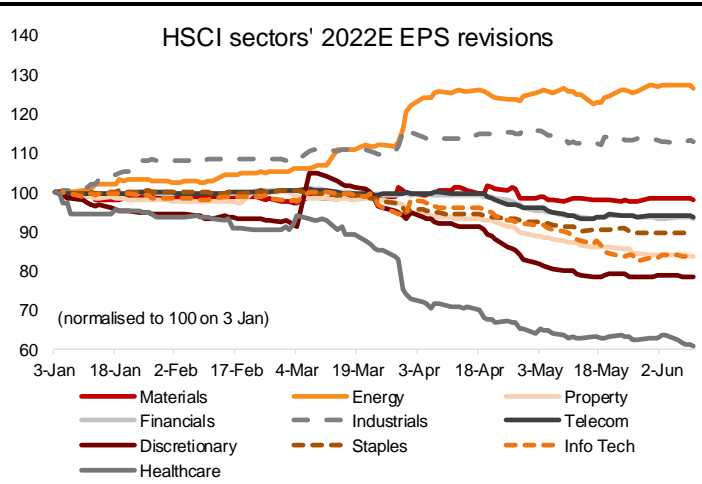
Source: Bloomberg, CMBIGM

Figure 45: EPS estimates of A-shares were revised down by 0.1% last week



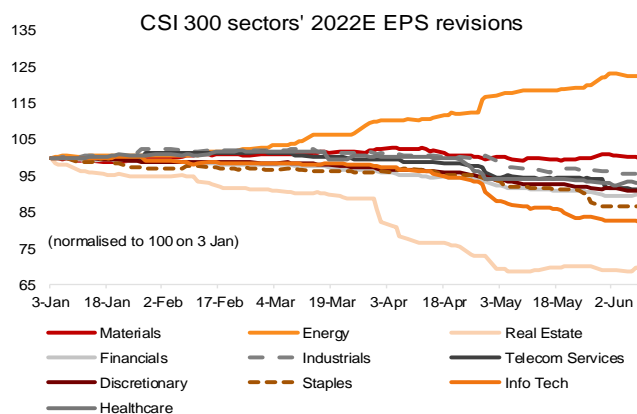
Source: Bloomberg, CMBIGM

Figure 46: HK earnings revision: Healthcare & Consumer Discretionary down again; others flat



Source: Bloomberg, CMBIGM

Figure 47: A-shares earnings revision: IT & Commodities down; Real Estate up



Source: Bloomberg, CMBIGM

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