

China / HK Market Weekly

HK market's rerating continues

Last week (13-17 Jun), US S&P 500 Index declined by over 5% for the second consecutive week, as the Fed raised interest rates by 75 bps bringing inflation down. China / HK stock markets outperformed. Looking ahead to this week, market focus will still be on central banks. The PBOC will announce LPR on Monday, and Fed Chair Powell will give a semi-annual testimony before the Congress on Wednesday & Thursday. China Internet, Healthcare & Consumer Discretionary stocks may remain volatile this week as investors digest Fed's tightening, but we continue to see medium-term re-rating potential. Among Value stocks, Financials are more defensive than Commodities.

- **Market recap:** The HSI / CSI 300 returned -3.4% / 1.7% last week, extending their strong runs relative to developed markets over the past few weeks. In HK, all major sectors declined, while in A-shares market, Healthcare & Consumer Discretionary led gains. China Growth stocks are on the verge of bucking an 18-month downtrend relative to Value stocks (Fig. 7).
- **Fund flows:** Global equity funds flew out of EM as higher-than-expected inflation in the US spiked faster tightening of the Fed. But equity fund flows to China continued to improve as the country was in the liquidity easing and economic resumption cycle. US equity funds continued to see withdrawals.
- **Stock Connect flows:** Weekly Northbound net inflows stayed high, and Southbound net inflows increased WoW (Fig. 16-17). By sector, Southbound funds flew into Consumer Discretionary, IT, Energy, Industrials and Healthcare, and out of Conglomerates and Financials. Northbound funds flew into Food, Beverage & Tobacco, Banking, Hardware & Equipment, Semiconductors and Software & Services, and out of Materials and Utilities.
- **Interest rates:** UST yield curve flattened as short yields jumped more on Fed rate hike bets. Implied Fed funds rate in Dec 2022 rose to 3.57%. HK dollar liquidity gradually tightened as USD/HKD reached the weak-side 7.85.
- **Sentiments:** Risk appetite mildly decreased in HK due to US rate hike. "Fear Index" VHSI rose to 31.1. Short-sell ratio on HK mainboard rebounded from 3-month low to 17.1%.
- **Earnings:** FY22E EPS consensus of the HSI / HSTECH / CSI 300 were revised down by 1.0% / 2.6% / 0.8% last week (Fig. 43-45). In HK, IT, Healthcare & Consumer Discretionary got earnings. In A-shares, Financials & Staples got upward revision, while IT & Healthcare was revised down.
- **Valuation** gaps between HK and other major markets have narrowed, as HSI's forward P/E is approaching 10-yr mean after earnings cuts and re-rating, while those of the US / Europe / Japan dropped to below 10-yr mean after recent weakness (Fig. 39).
- **Sector views:** China Growth stocks such as Internet, Healthcare & Consumer Discretionary may remain volatile this week as investors digest Fed's tightening, but we continue to see re-rating potential over the medium term. Among Value stocks, Financials are more defensive, but Commodities may underperform as investors become more concerned on global economic slowdown and higher interest rates.

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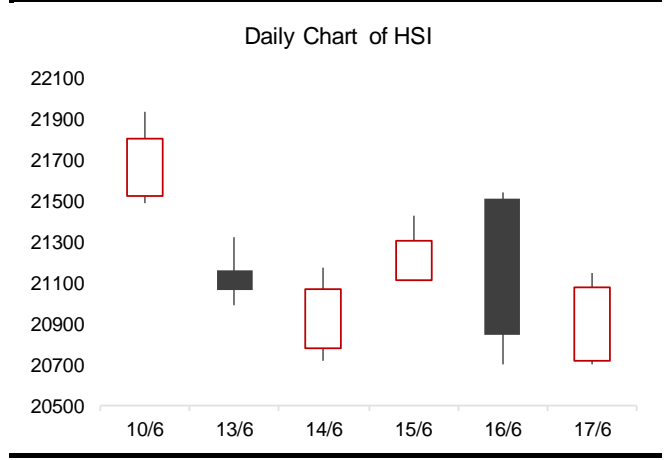
Market Recap

Figure 1: Weekly global markets returns: generally negative but China/HK outperformed



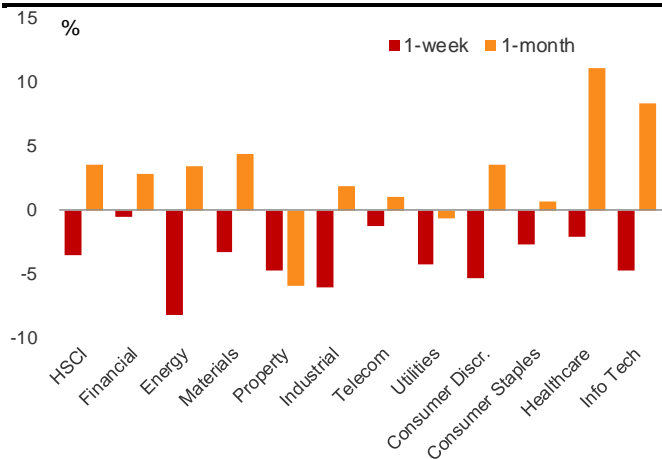
Source: Bloomberg, CMBIGM

Figure 2: HSI fell on Fed rate hike, and ranged bound between 20700-21500



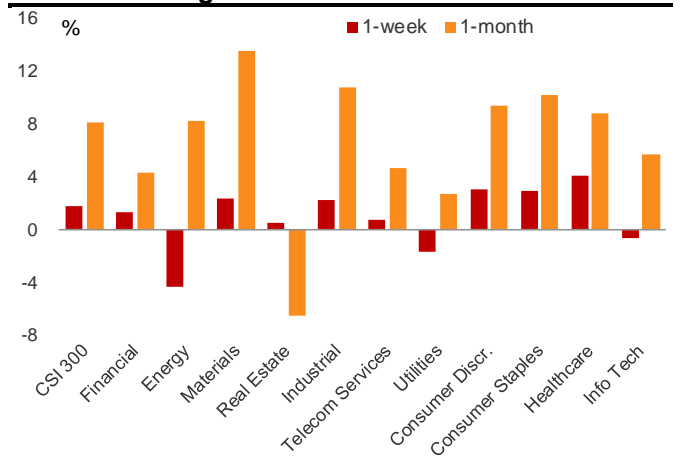
Source: Bloomberg, CMBIGM

Figure 3: Hang Seng Composite Index sectors: down across the board



Source: Bloomberg, CMBIGM

Figure 4: CSI 300 Index sectors: Healthcare & Consumer led gains



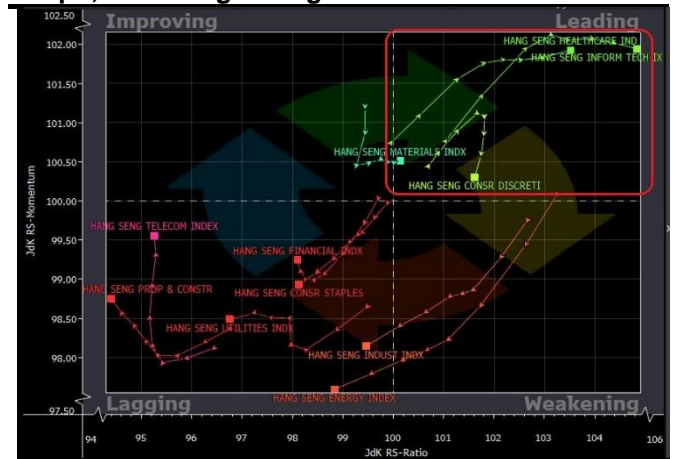
Source: Bloomberg, CMBIGM

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



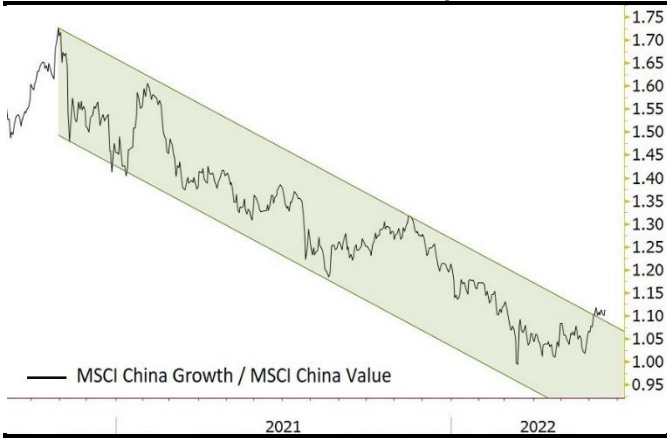
Source: Bloomberg, CMBIGM

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, on the verge of breaking a downtrend on the chart of relative performance



Fund Flows

Figure 8: Global Fund Flow to Emerging Market

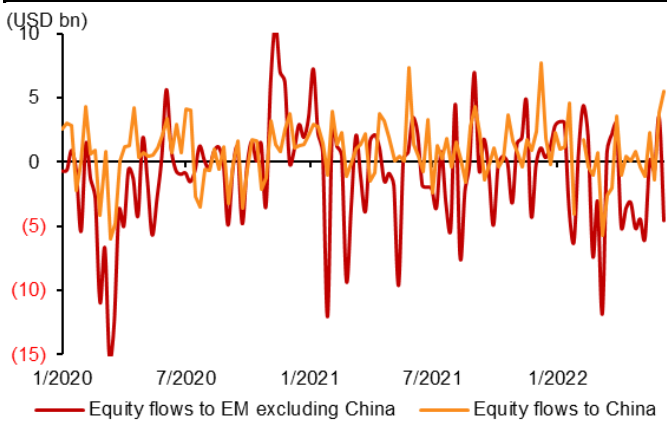


Figure 9: US Long-term Mutual Fund Flow

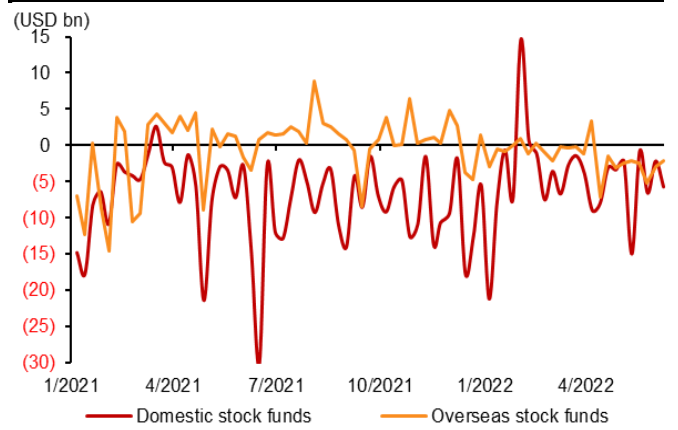


Figure 10: USD & HKD Interest Rates

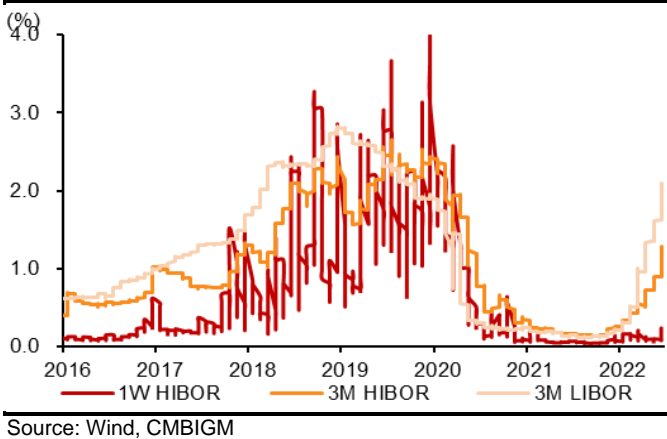


Figure 11: USD/HKD Rates & Interest Spreads

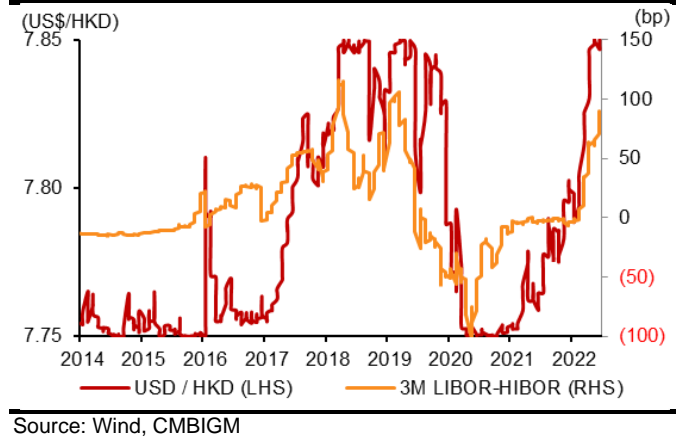
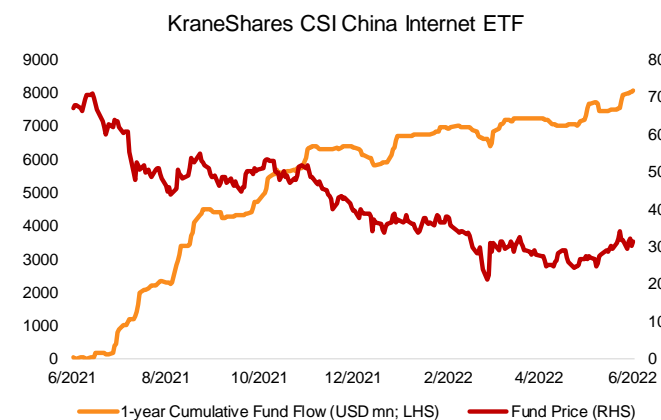
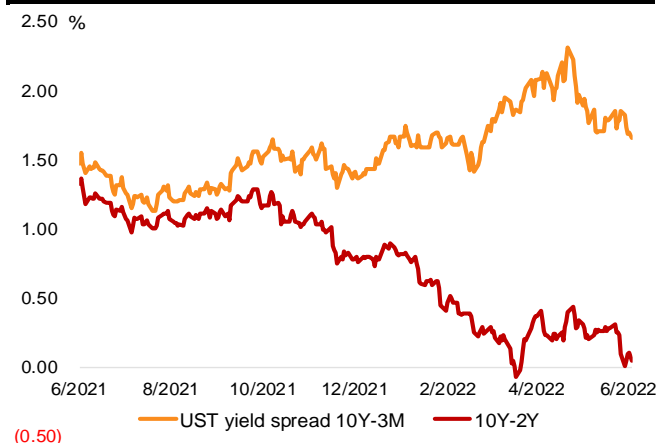


Figure 12: KWEB, the largest China Internet ETF, recorded inflows for three weeks in a row



Source: Bloomberg, CMBIGM

Figure 13: UST yield curve flattened as short yields jumped on Fed rate hike bets



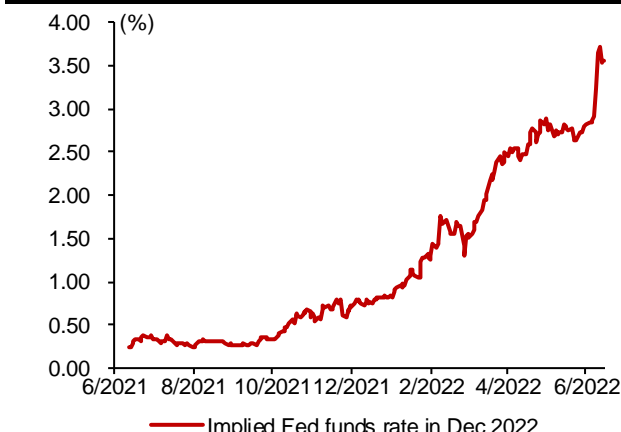
Source: Bloomberg, CMBIGM

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



Source: Bloomberg, CMBIGM

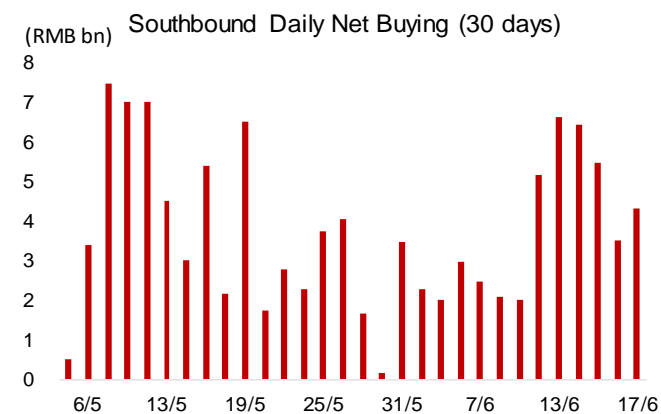
Figure 15: Implied Fed funds rate in Dec 2022 surged to 3.57%



Source: Bloomberg, CMBIGM

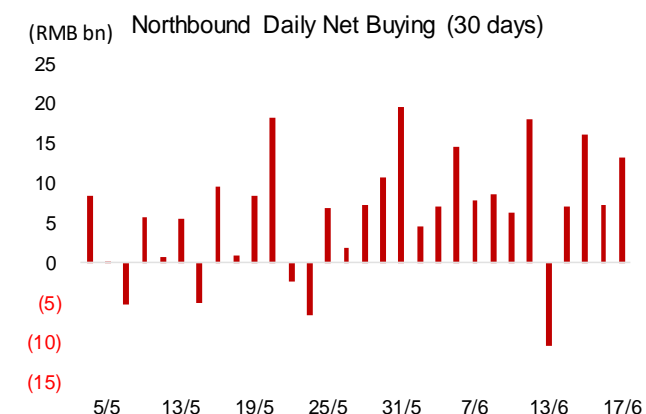
SH/SZ-HK Stock Connect

Figure 16: Southbound inflows increased WoW



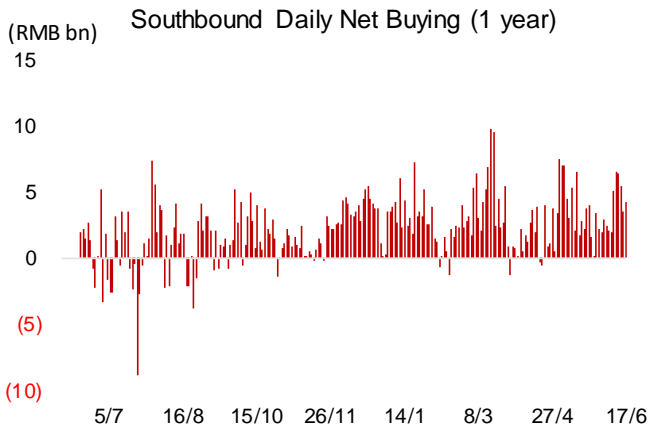
Source: Bloomberg, CMBIGM

Figure 17: Northbound inflows stayed high



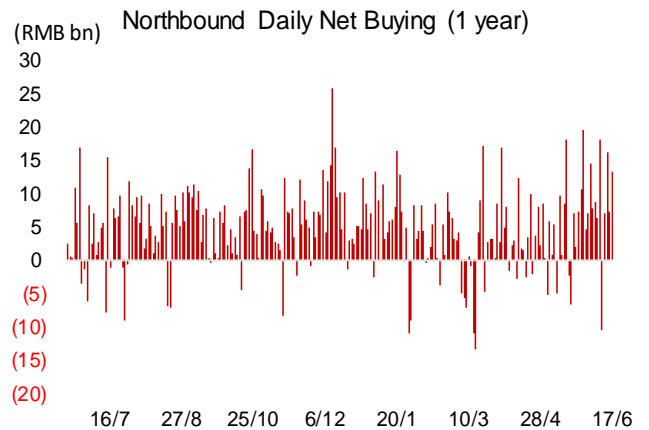
Source: Bloomberg, CMBIGM

Figure 18: Southbound net buying moderated vs. Q1



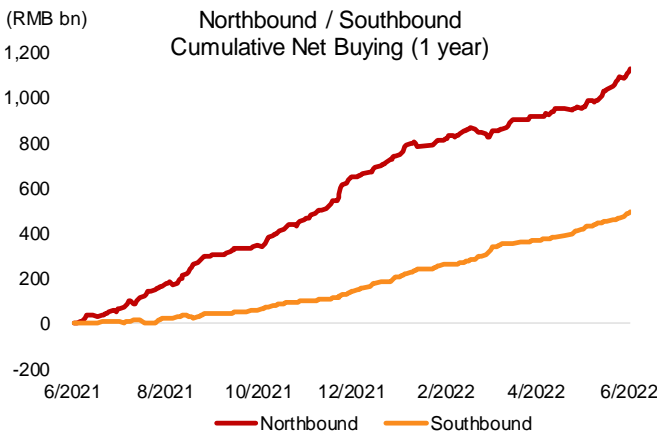
Source: Bloomberg, CMBIGM

Figure 19: Northbound flows increased recently



Source: Bloomberg, CMBIGM

Figure 20: Southbound inflows speeded up since early 2022, while Northbound inflows slowed down



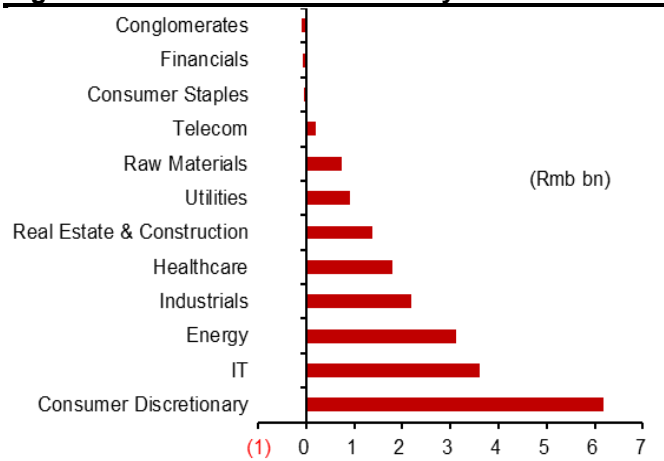
Source: Bloomberg, CMBIGM

Figure 21: AH premium widened to the highest since mid-Mar



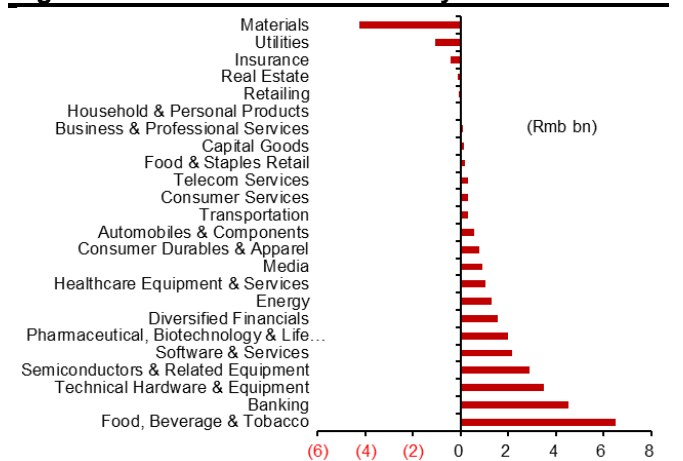
Source: Bloomberg, CMBIGM

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 | 13,060 | 996 |
| Meituan | 3690 HK | 13,933 | 1,706 |
| CNOOC | 883 HK | 7,133 | 2,053 |
| Kuaishou | 1024 HK | 6,596 | 833 |
| GCL Technology | 3800 HK | 2,473 | 963 |
| China Construction Bank | 939 HK | 377 | -246 |
| Sunny Optical | 2382 HK | 648 | -240 |
| Geely Automobile | 175 HK | 270 | 185 |
| China Shenhua Energy | 1088 HK | 1,052 | -84 |
| Xiaomi | 1810 HK | 1,293 | 323 |

Source: Wind, CMBIGM

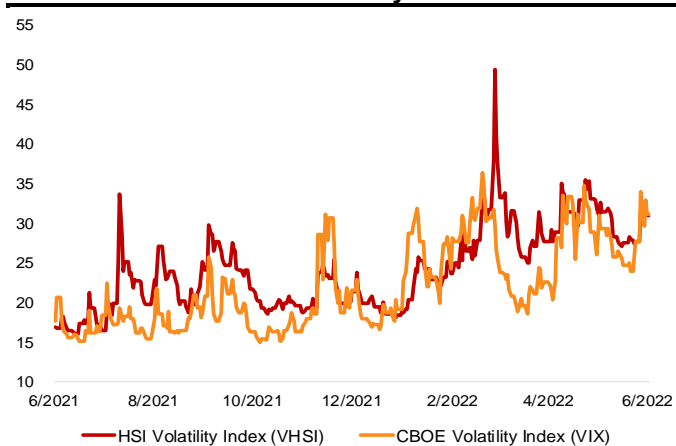
Figure 25: Northbound (SH) Top 10 active stocks

| (RMB mn, cumulative) | | Turnover | Net Buying |
|-------------------------|-----------|----------|------------|
| Kweichow Moutai | 600519 CH | 8,026 | -456 |
| Inner Mongolia Yili | 600887 CH | 4,544 | 2,260 |
| LONGi Green Energy | 601012 CH | 5,230 | 7 |
| China Merchants Bank | 600036 CH | 4,669 | 521 |
| Ping An Insurance Group | 601318 CH | 4,331 | -282 |
| Industrial Bank | 601166 CH | 2,408 | -309 |
| TBEA | 600089 CH | 4,117 | 1,404 |
| CITIC Securities | 600030 CH | 2,306 | -101 |
| Tongwei | 600438 CH | 3,206 | 597 |
| Shaanxi Coal Industry | 601225 CH | 660 | 323 |

Source: Wind, CMBIGM

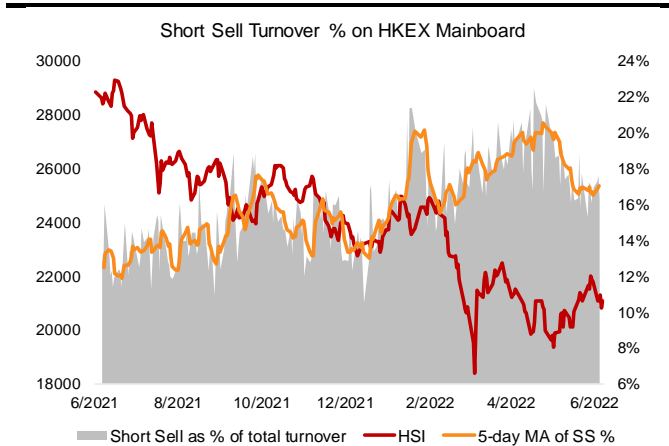
Sentiments

Figure 26: "Fear Indexes" VHSI & VIX rose to 31.1 as a hawkish Fed caused volatility



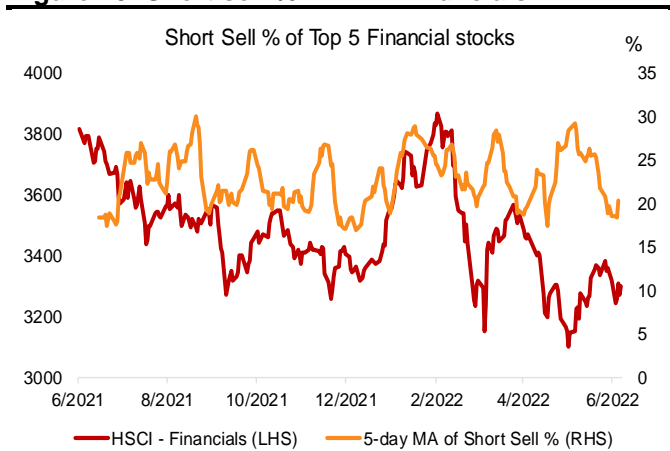
Source: Bloomberg, CMBIGM

Figure 27: Short sell % on HK mainboard rebounded to above 17%



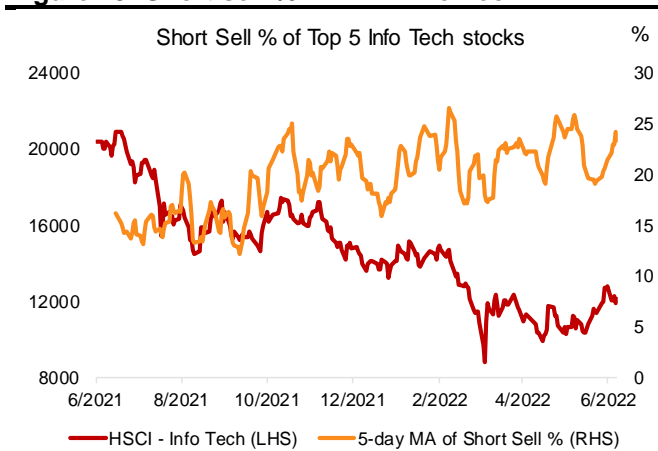
Source: Bloomberg, CMBIGM

Figure 28: Short sell % in HK - Financials



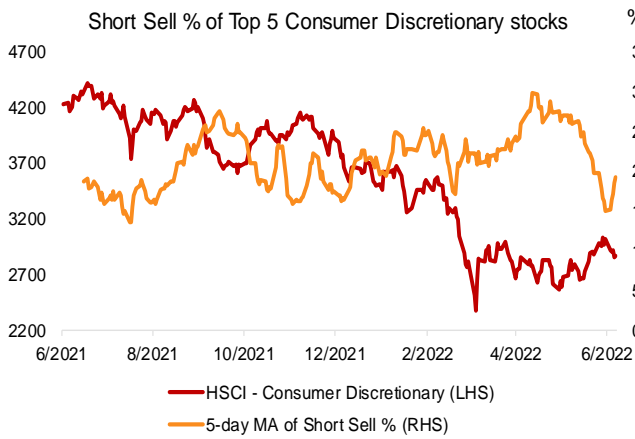
Source: Bloomberg, CMBIGM

Figure 29: Short sell % in HK - Info Tech



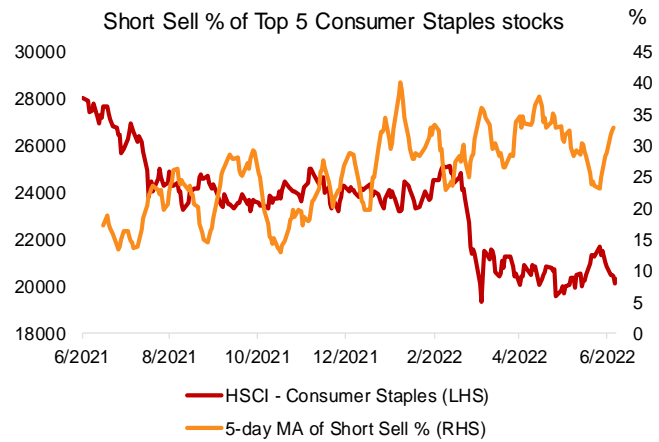
Source: Bloomberg, CMBIGM

Figure 30: Short sell % in HK – Consumer Discretion



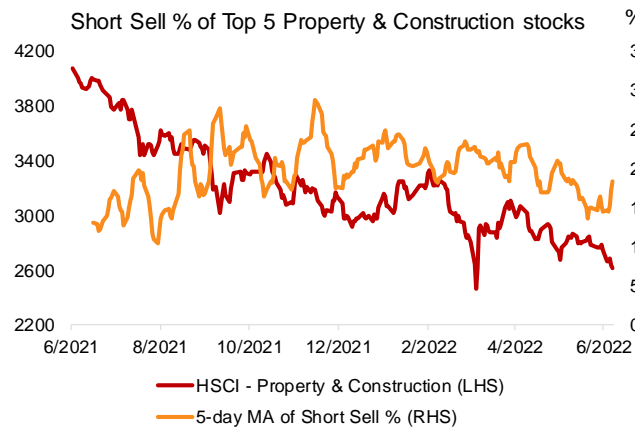
Source: Bloomberg, CMBIGM

Figure 31: Short sell % in HK – Consumer Staples



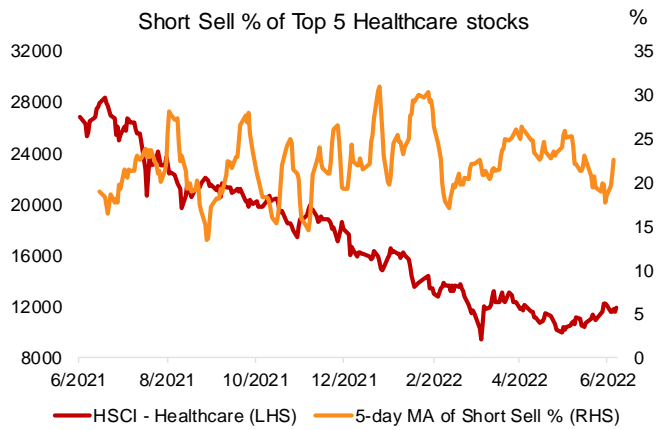
Source: Bloomberg, CMBIGM

Figure 32: Short sell % in HK - Property



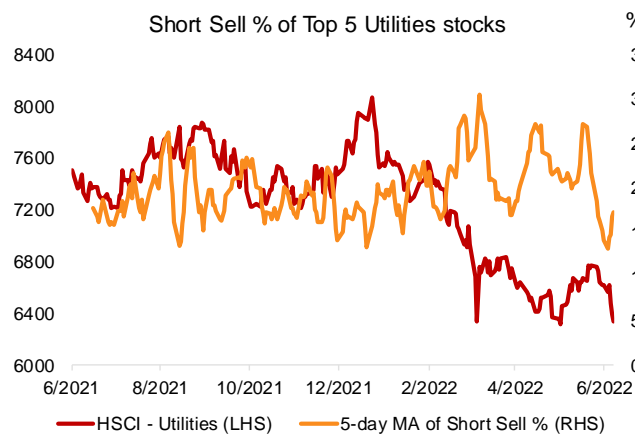
Source: Bloomberg, CMBIGM

Figure 33: Short sell % in HK – Healthcare



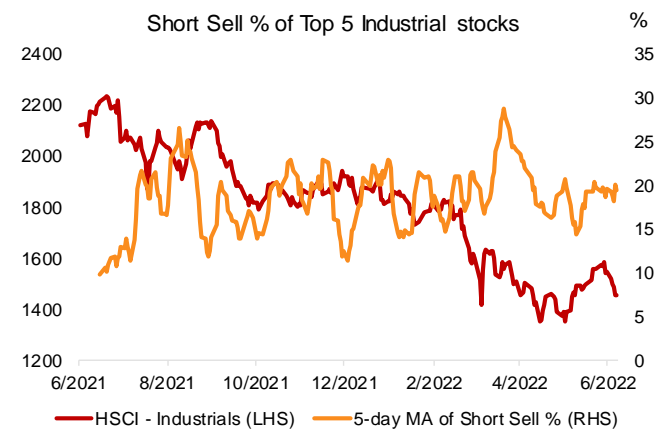
Source: Bloomberg, CMBIGM

Figure 34: Short sell % in HK – Utilities



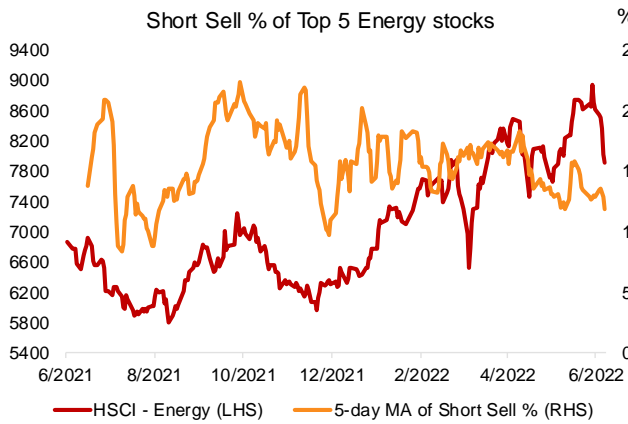
Source: Bloomberg, CMBIGM

Figure 35: Short sell % in HK – Industrials



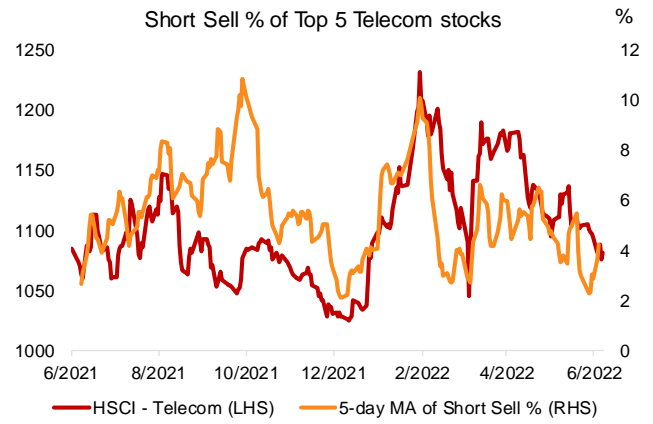
Source: Bloomberg, CMBIGM

Figure 36: Short sell % in HK – Energy



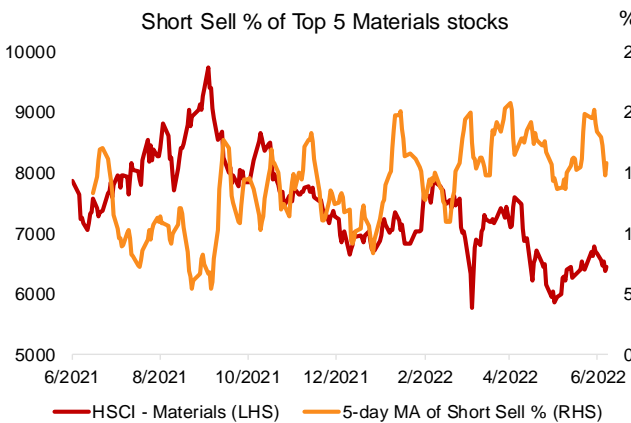
Source: Bloomberg, CMBIGM

Figure 37: Short sell % in HK – Telecom



Source: Bloomberg, CMBIGM

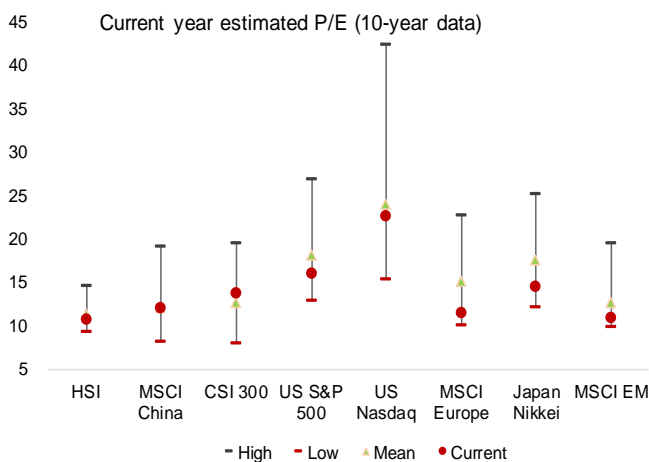
Figure 38: Short sell % in HK – Materials



Source: Bloomberg, CMBIGM

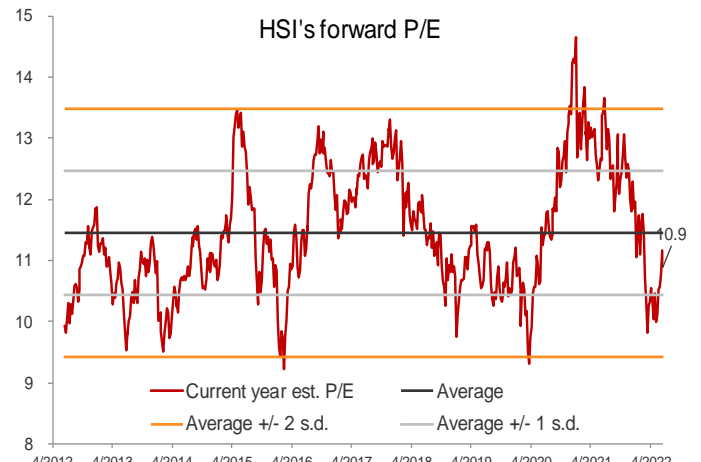
Earnings & Valuations

Figure 39: Forward P/E of the US/Europe/Japan dropped to below 10-yr mean after recent weakness



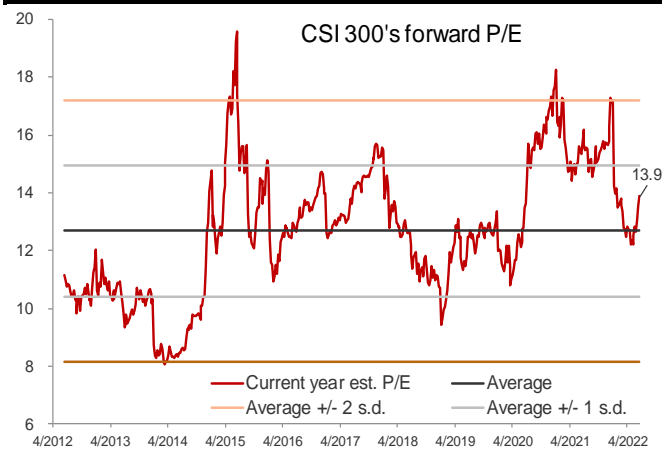
Source: Bloomberg, CMBIGM

Figure 40: HSI' forward P/E approaching 10-yr mean, after earnings cuts and re-rating



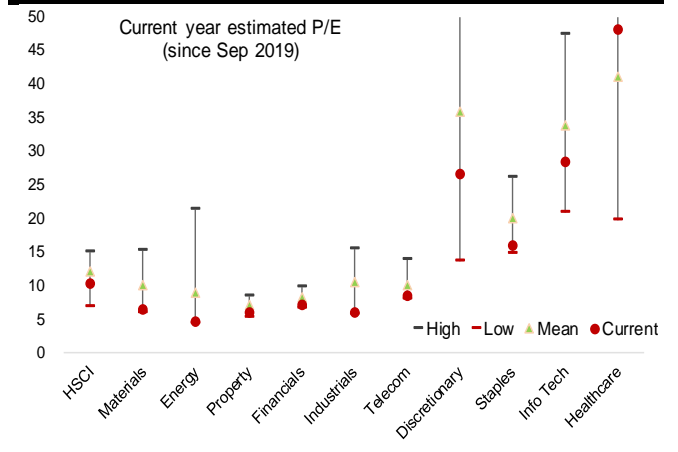
Source: Bloomberg, CMBIGM

Figure 41: CSI 300's P/E returned to above 10-yr mean



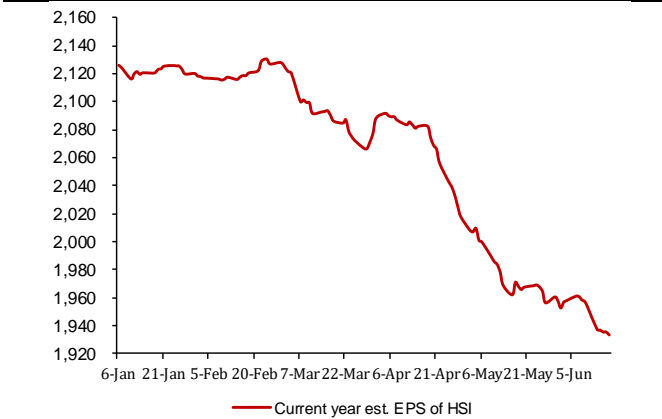
Source: Bloomberg, CMBIGM

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



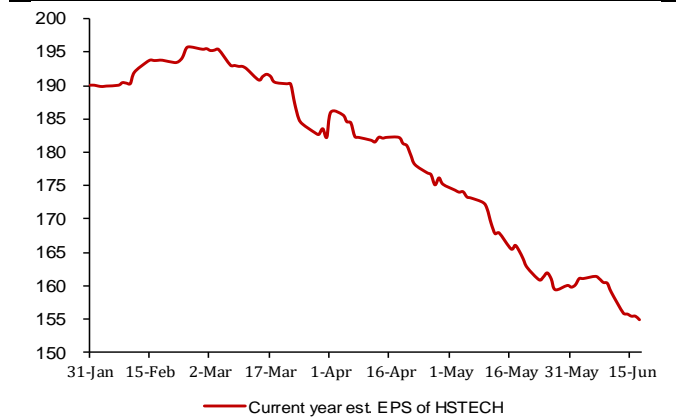
Source: Bloomberg, CMBIGM

Figure 43: EPS estimates of HSI were revised down by 1.0% last week



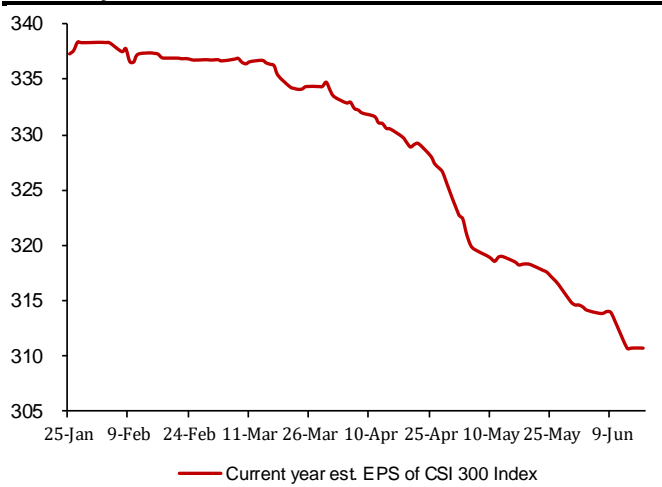
Source: Bloomberg, CMBIGM

Figure 44: EPS estimates of HSTECH Index were revised down by 2.6% last week



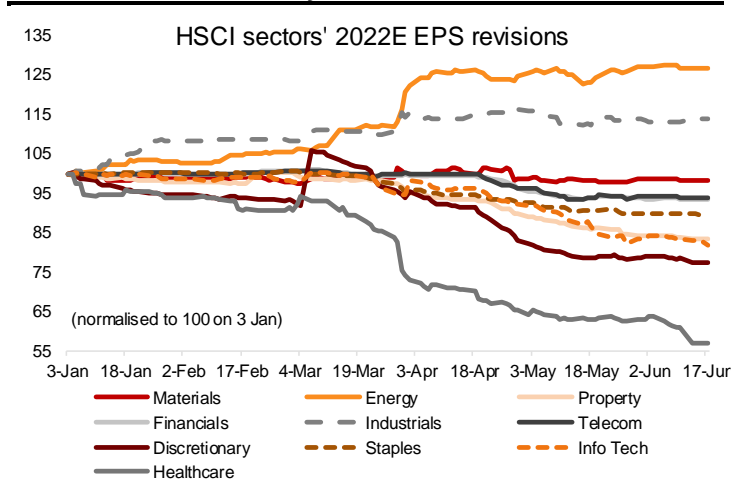
Source: Bloomberg, CMBIGM

Figure 45: EPS estimates of A-shares were revised down by 0.8% last week



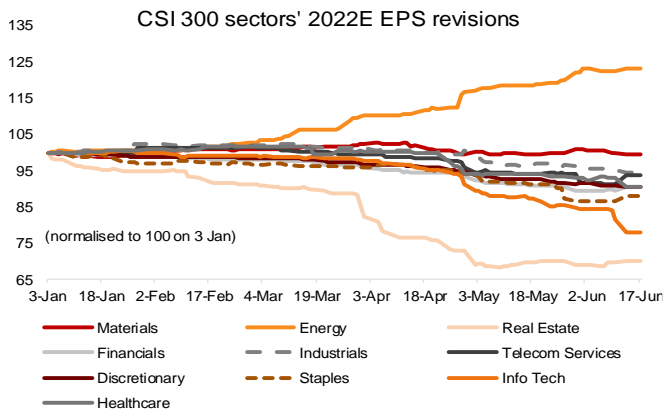
Source: Bloomberg, CMBIGM

Figure 46: HK earnings revision: IT, Healthcare & Consumer Discretionary down



Source: Bloomberg, CMBIGM

Figure 47: A-shares earnings revision: Financials & Staples up, IT & Healthcare down



Source: Bloomberg, CMBIGM

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