

China / HK Market Weekly

Outperforming due to different cycles

Last week (27 Jun – 1 Jul), China / HK stock markets gained against the rest of the world, as China's manufacturing PMI in Jun returned to expansion territory. Meanwhile, the US S&P 500 Index declined by 2.2% to cap off its worst 1H performance (-20.6%) since 1970. Looking ahead to this week, the focus will be on the FOMC minutes & US employment reports. We expect China / HK markets to continue to outperform the US in the coming weeks due to the difference in economic and monetary cycles. We continue to prefer growth stocks such as Internet, Healthcare & Consumer Discretionary which should enjoy re-rating thanks to economic recovery and easing regulatory concerns.

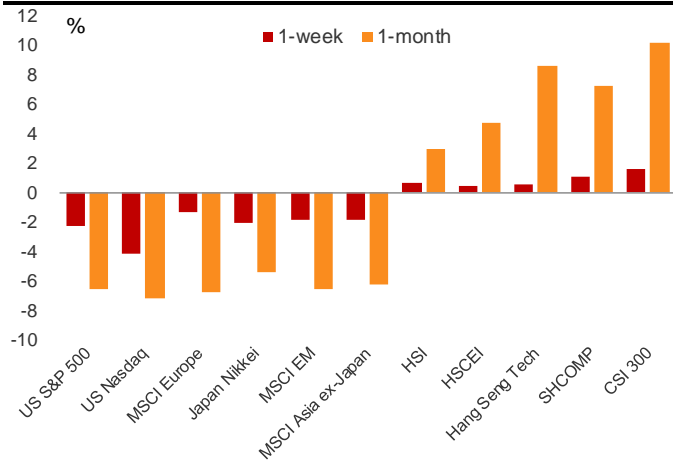
- **Market recap:** The HSI / CSI 300 gained 0.7% / 1.6% last week, extending their recent outperformance versus other major stock markets (Fig. 1). A-shares rose for five consecutive weeks, while the US stocks posted their fourth down week in five. In HK, Consumer & Property led gains, while IT & Healthcare pulled back. In A-shares, Real Estate, Energy & Consumer outperformed (Fig. 3-4).
- **Fund flows:** China Internet ETF listed in the US have been recording strong inflows over the past few weeks (Fig. 7). Under the Stock Connect, weekly Southbound net inflows increased WoW despite having only four trading days due to a holiday (Fig. 12).
- **Interest rates:** Fears for Fed rate hike have cooled somewhat in the past two weeks following the release of some US economic data (e.g. lower-than-expected ISM manufacturing index & core PCE price index). The interest rate at the end of 2022 implied by futures peaked at 3.72% on 14 Jun and has now retreated to 3.32% (Fig. 10-11).
- **Sentiment:** Risk appetite did not change much in HK, as "Fear Index" VHSI & short-sell ratio on HK mainboard stayed largely unchanged (Fig. 20 & 21). By sector, short-sell ratio decreased in IT, Healthcare, Consumer Discretionary, Utilities & Materials, and increased in Property.
- **Valuation:** Since China / HK stocks have recently outperformed (HSI / CSI 300 beat S&P 500 by 10 & 17 pts over the past month), valuations gaps between HK and other major markets have narrowed. HSI's forward P/E is approaching 10-yr mean, while those of the US / Europe / Japan dropped to around 10-yr mean after recent weakness (Fig. 33).
- **Earnings:** After four months of earnings downgrades, FY22E EPS consensus of the HSI / HSTECH / CSI 300 were largely unchanged in the past two weeks (Fig. 37-39), and might remain relatively stable before the 2Q earning season kicks start in late-Jul.
- **Market outlook & sector views:** We expect **China / HK markets to continue to outperform the US in the coming weeks due to the difference in economic and monetary cycles** (US economy slowing down & monetary tightening aggressively vs. China economy recovering & monetary easing slightly). We continue to **prefer growth stocks such as Internet, Healthcare & Consumer Discretionary** which should enjoy re-rating thanks to economic recovery and regulatory concerns easing.

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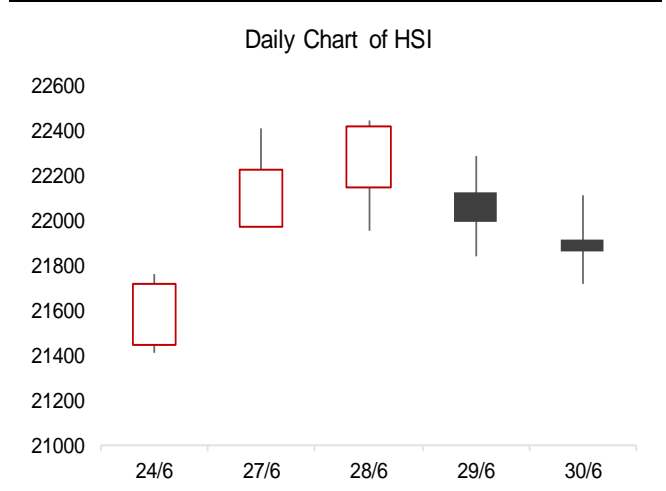
Market Recap

Figure 1: Weekly global markets returns: China / HK gained while the rest of the world declined



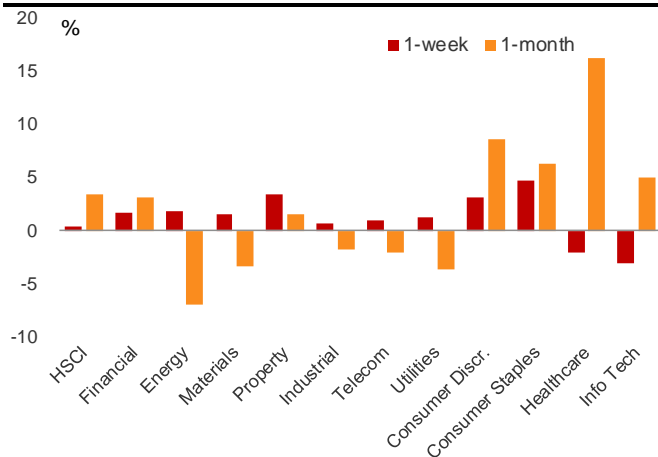
Source: Bloomberg, CMBIGM

Figure 2: HSI surged before some profit-taking



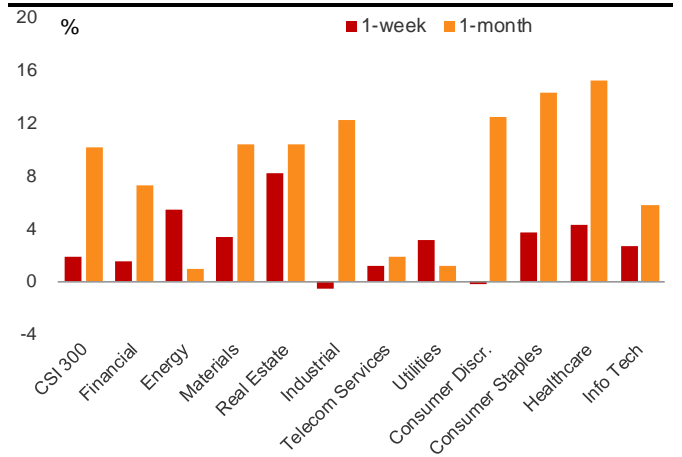
Source: Bloomberg, CMBIGM

Figure 3: Hang Seng Composite Index sectors: Consumer & Property led gains



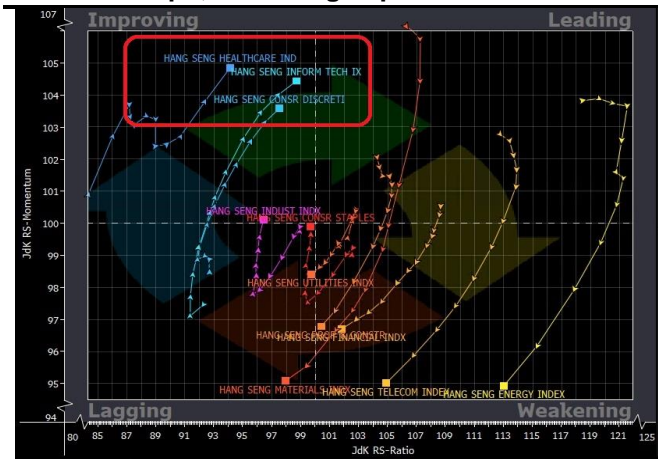
Source: Bloomberg, CMBIGM

Figure 4: CSI 300 Index sectors: Real Estate, Energy & Consumer led gains



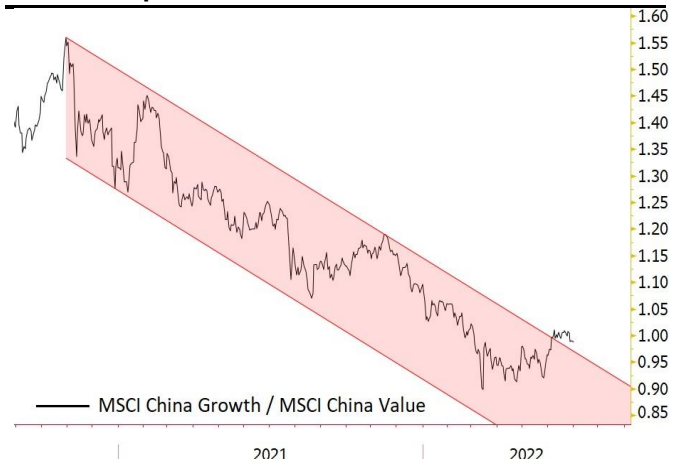
Source: Bloomberg, CMBIGM

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



Source: Bloomberg, CMBIGM

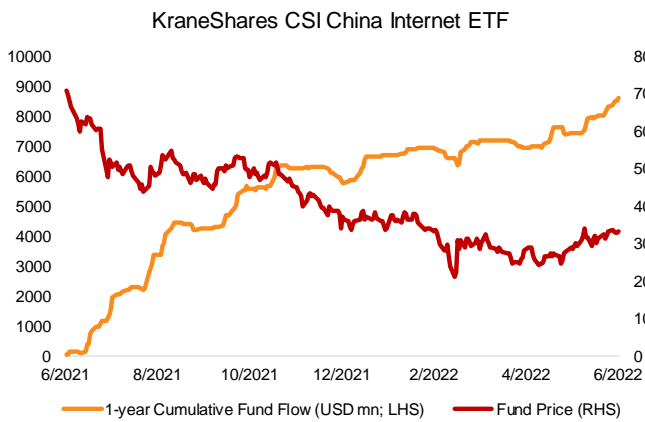
Figure 6: China Growth stocks outperformed Value in recent weeks, breaking a downtrend on the chart of relative performance



Source: Bloomberg, CMBIGM

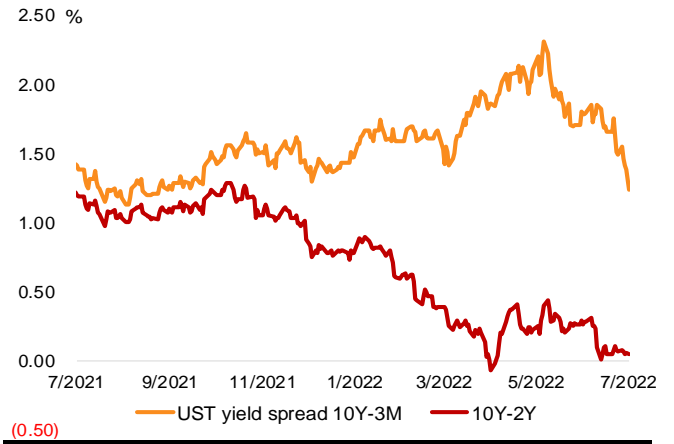
Fund Flows

Figure 7: KWEB, the largest China Internet ETF, recorded strong inflows in recent weeks



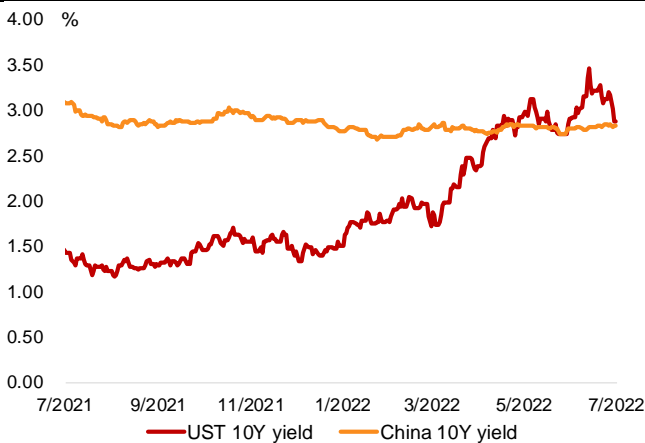
Source: Bloomberg, CMBIGM

Figure 8: UST yield curve flattened as 10-yr yield retreated



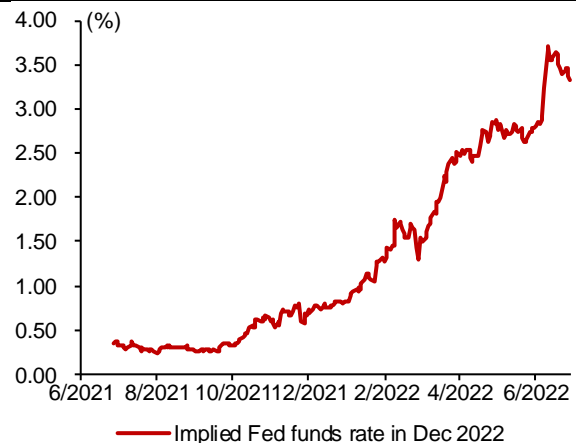
Source: Bloomberg, CMBIGM

Figure 9: US-China 10-year yield spread narrowed as US yield declined



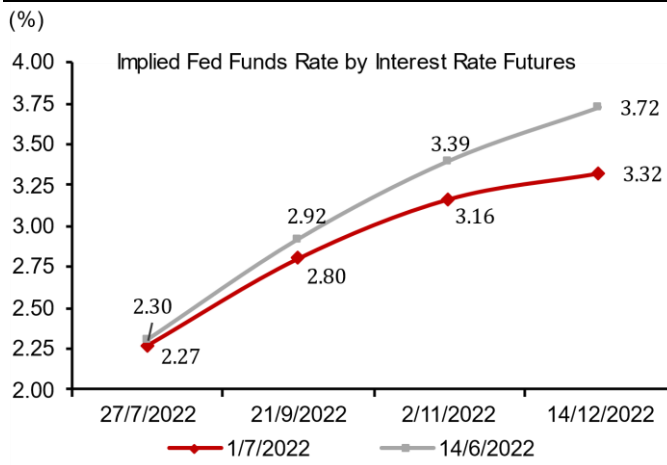
Source: Bloomberg, CMBIGM

Figure 10: Implied Fed funds rate in Dec 2022 retreated to 3.32%



Source: Bloomberg, CMBIGM

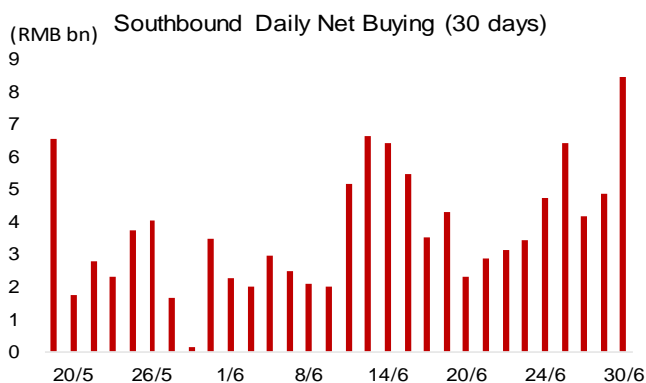
Figure 11: Implied Fed funds rate retreated from the peak in mid-Jun



Source: Bloomberg, CMBIGM

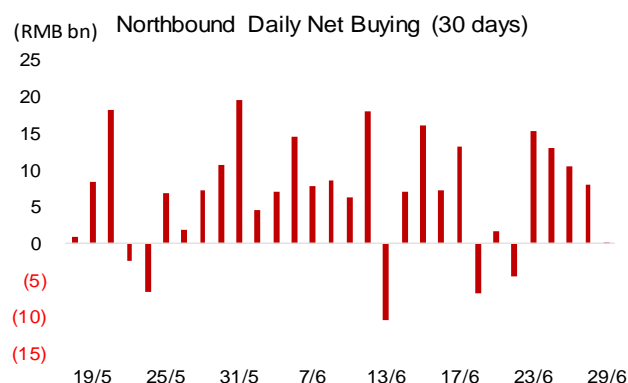
SH/SZ-HK Stock Connect

Figure 12: Southbound net inflows increased WoW despite having only four trading days



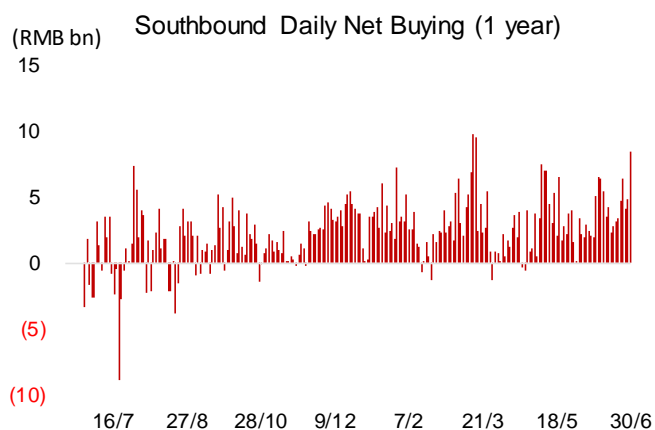
Source: Bloomberg, CMBIGM

Figure 13: Northbound inflows rebounded moderately last week



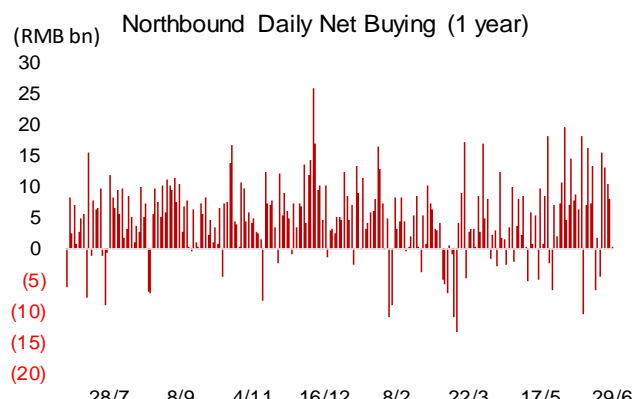
Source: Bloomberg, CMBIGM

Figure 14: Southbound net buying moderated vs. Q1



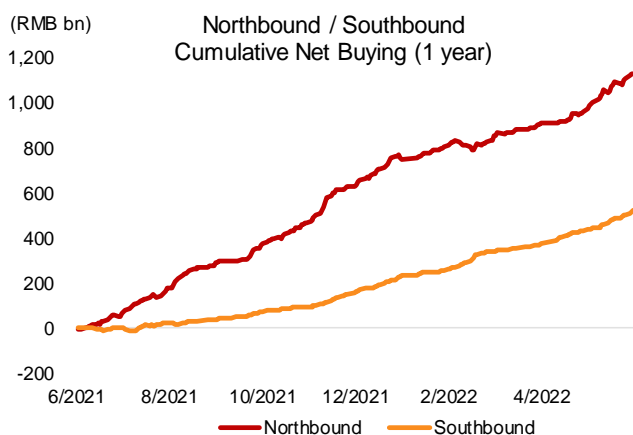
Source: Bloomberg, CMBIGM

Figure 15: Northbound flows increased over the past few weeks



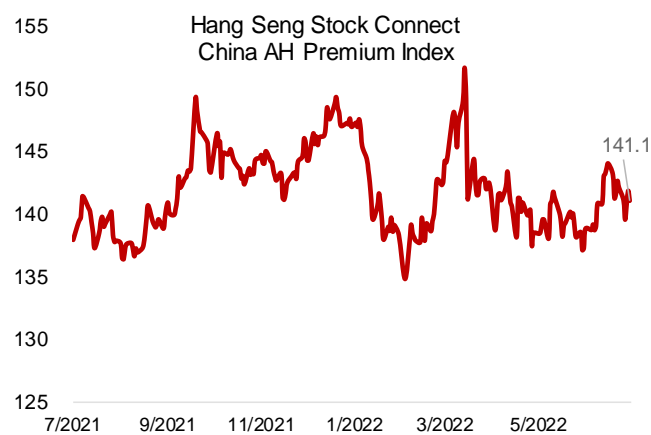
Source: Bloomberg, CMBIGM

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



Source: Bloomberg, CMBIGM

Figure 17: AH premium narrowed by 1.0 ppt last week



Source: Bloomberg, CMBIGM

Figure 18: Southbound weekly Top 10 active stocks

(HKD mn, cumulative)		Turnover	Net Buying
Tencent	700 HK	28,073	566
Meituan	3690 HK	12,597	-521
China Construction Bank	939 HK	1,067	1,028
Hong Kong Exchanges	388 HK	4,721	1,591
Li Ning	2331 HK	2,659	260
ANTA Sports	2020 HK	1,021	-31
ICBC	1398 HK	485	475
Geely Automobile	175 HK	4,540	1,727
Tsingtao Brewery	168 HK	843	483
XiaomiCorp	1810 HK	4,723	99

Source: Wind, CMBIGM

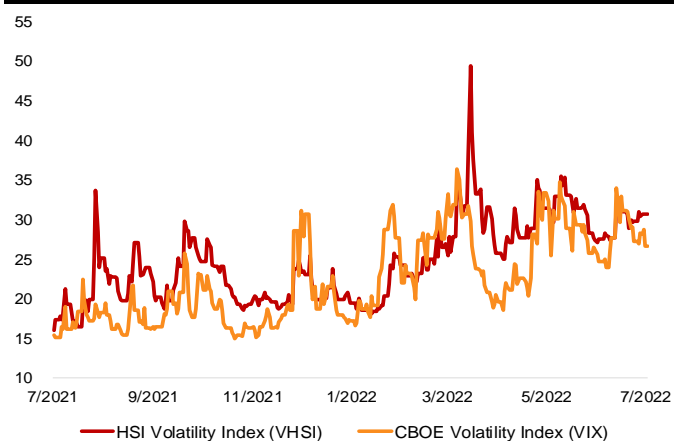
Figure 19: Northbound (SH) Top 10 active stocks

(RMB mn, cumulative)		Turnover	Net Buying
Kweichow Moutai	600519 CH	6,933	1,735
LONGi Green Energy	601012 CH	4,865	-579
CTG Duty Free	601888 CH	4,699	323
Will Semiconductor	603501 CH	3,054	-45
Tongwei	600438 CH	2,755	397
China Merchants Bank	600036 CH	2,710	796
Wanhua Chemical Group	600309 CH	768	225
Shanghai Int'l Airport	600009 CH	1,482	500
Jiangsu Hengrui Medicine	600276 CH	1,666	450
Zijin Mining	601899 CH	3,087	-1,438

Source: Wind, CMBIGM

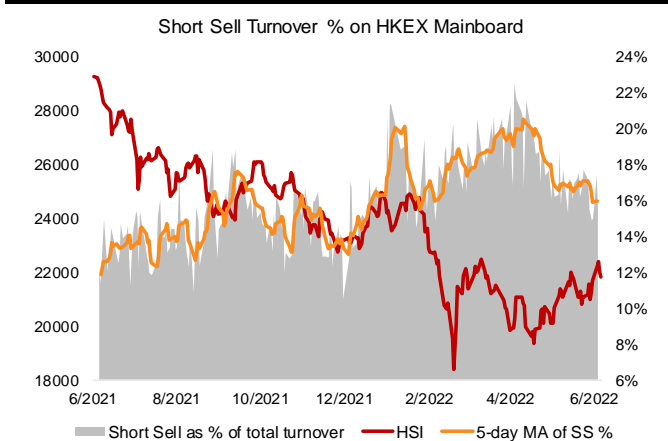
Sentiments

Figure 20: "Fear Index" VHSI retreated to below 30, as sentiments improved



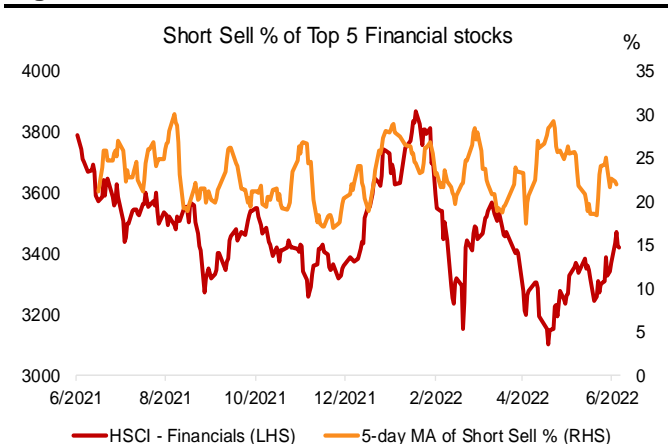
Source: Bloomberg, CMBIGM

Figure 21: Short sell % on HK mainboard dropped to 16%



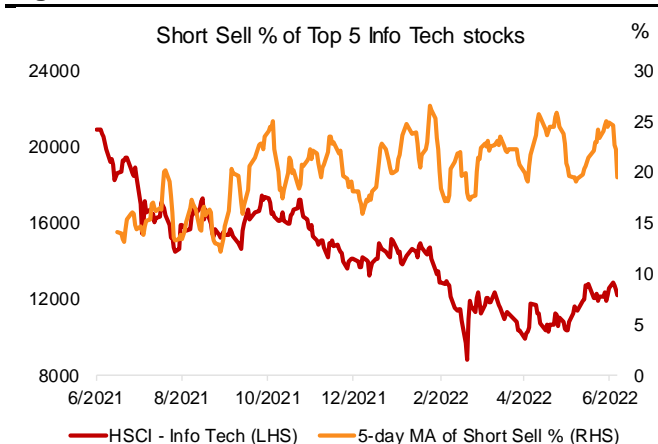
Source: Bloomberg, CMBIGM

Figure 22: Short sell % in HK - Financials



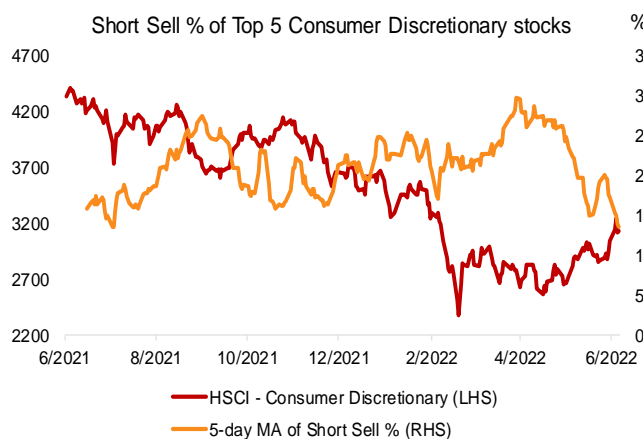
Source: Bloomberg, CMBIGM

Figure 23: Short sell % in HK - Info Tech



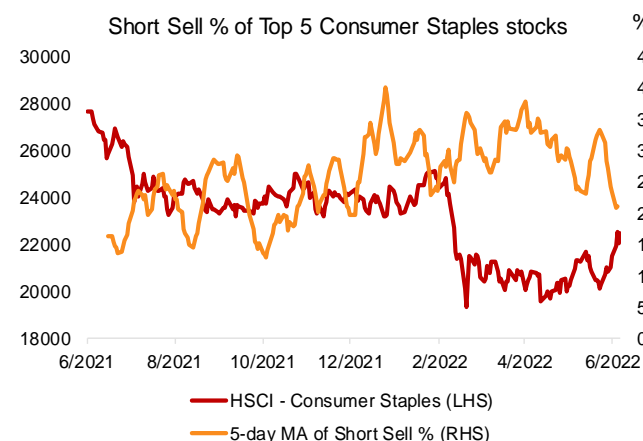
Source: Bloomberg, CMBIGM

Figure 24: Short sell % in HK – Consumer Discretion.



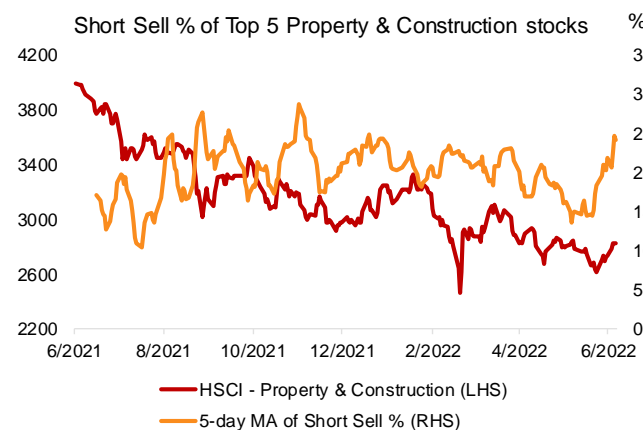
Source: Bloomberg, CMBIGM

Figure 25: Short sell % in HK – Consumer Staples



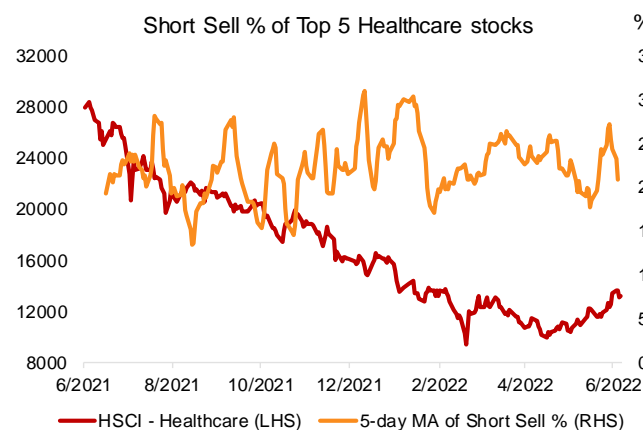
Source: Bloomberg, CMBIGM

Figure 26: Short sell % in HK - Property



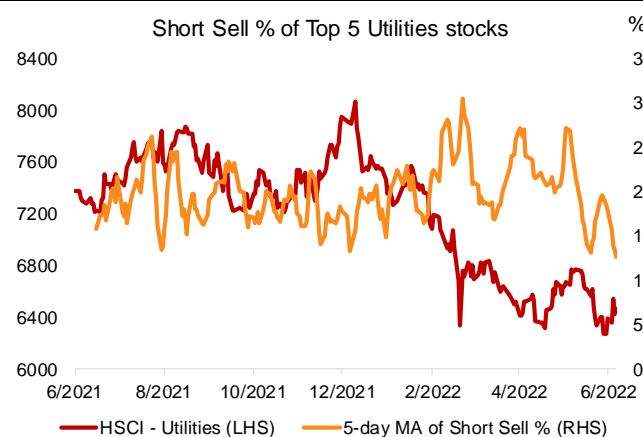
Source: Bloomberg, CMBIGM

Figure 27: Short sell % in HK – Healthcare



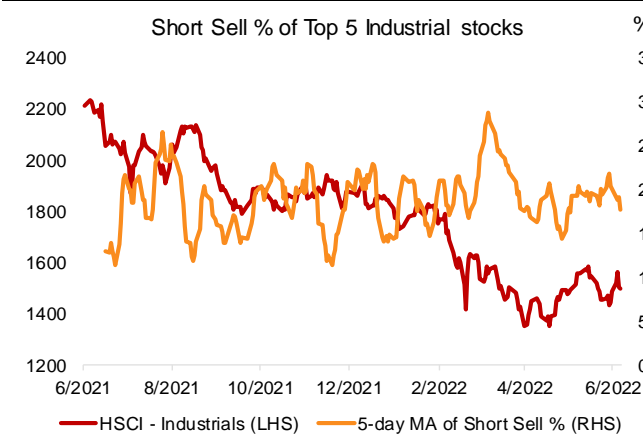
Source: Bloomberg, CMBIGM

Figure 28: Short sell % in HK – Utilities



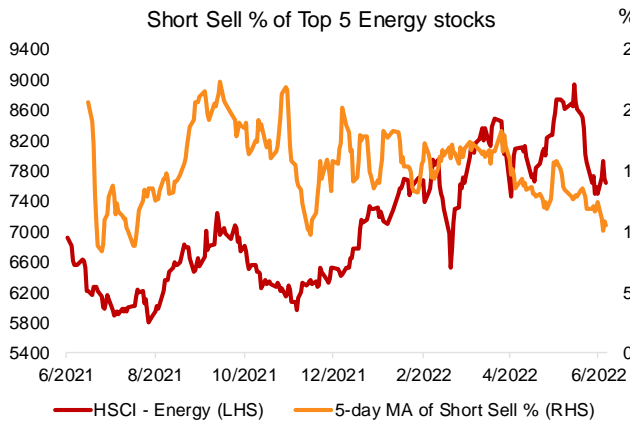
Source: Bloomberg, CMBIGM

Figure 29: Short sell % in HK – Industrials



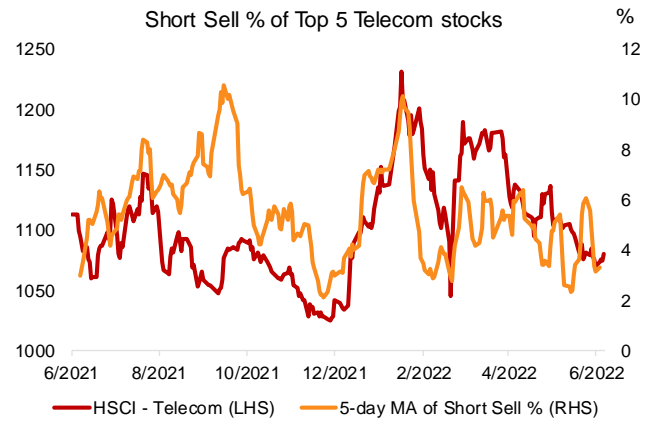
Source: Bloomberg, CMBIGM

Figure 30: Short sell % in HK – Energy



Source: Bloomberg, CMBIGM

Figure 31: Short sell % in HK – Telecom



Source: Bloomberg, CMBIGM

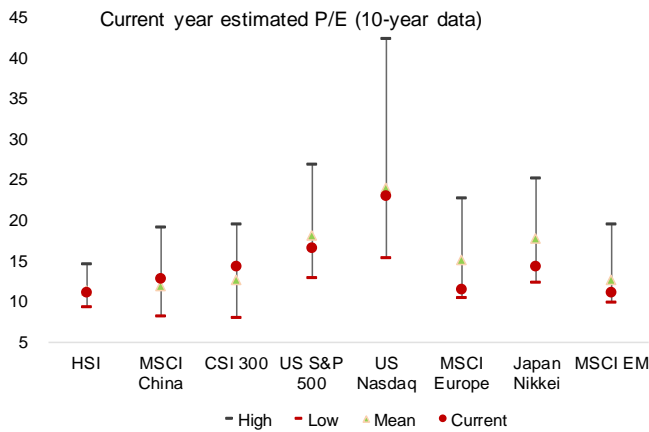
Figure 32: Short sell % in HK – Materials



Source: Bloomberg, CMBIGM

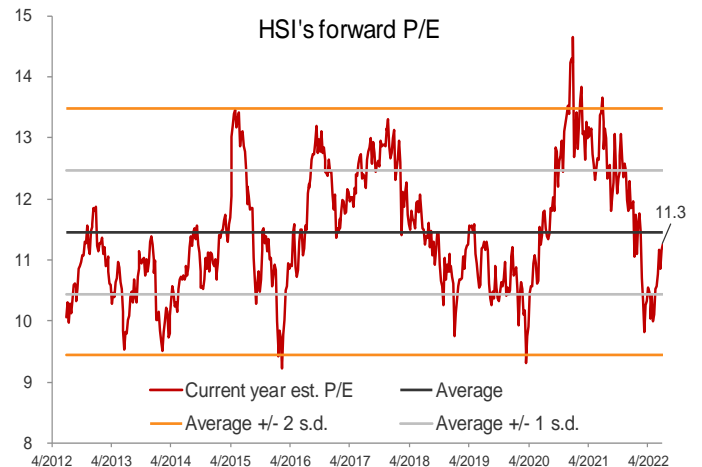
Earnings & Valuations

Figure 33: HK & US stocks' P/E moved closer to 10-yr mean after divergent performance in recent weeks



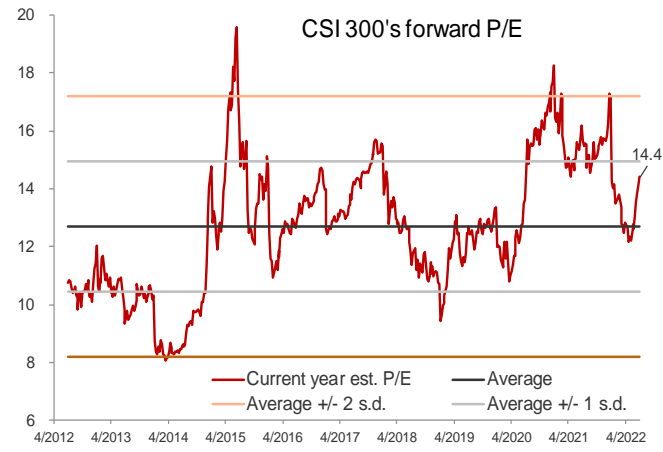
Source: Bloomberg, CMBIGM

Figure 34: HSI' forward P/E approaching 10-yr mean



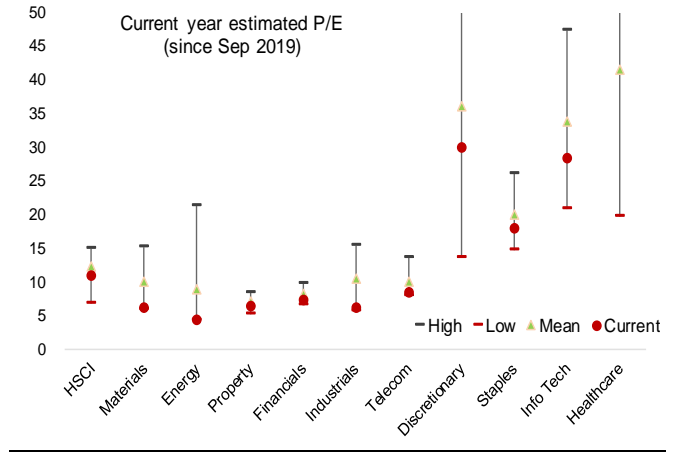
Source: Bloomberg, CMBIGM

Figure 35: CSI 300's P/E above 10-yr mean



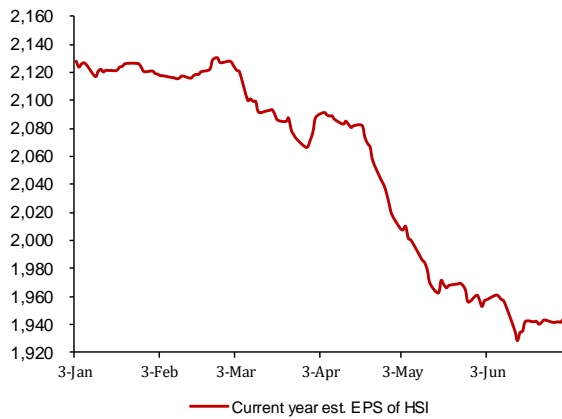
Source: Bloomberg, CMBIGM

Figure 36: Many HSCI sectors' P/E are near troughs



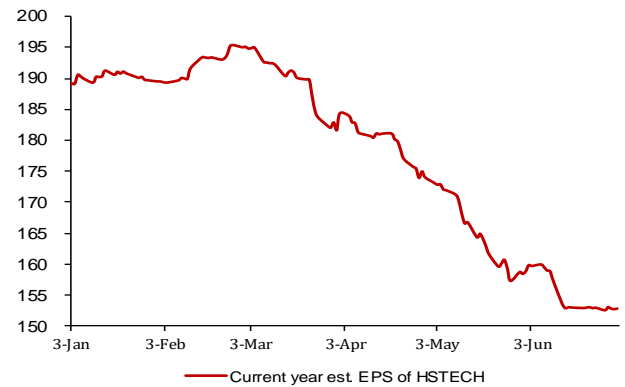
Source: Bloomberg, CMBIGM

Figure 37: EPS estimates of HSI are stabilising



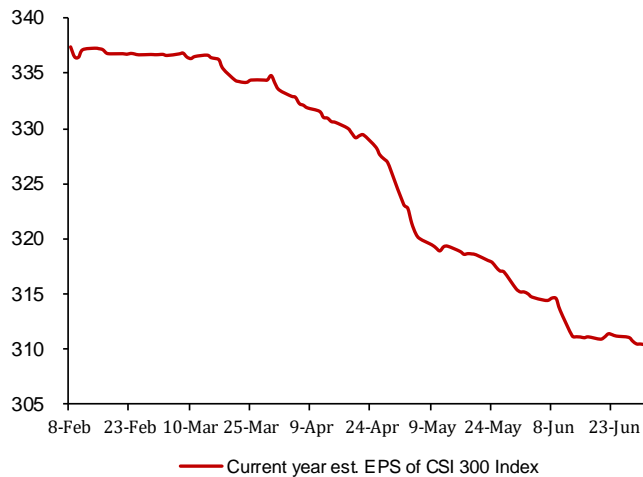
Source: Bloomberg, CMBIGM

Figure 38: EPS estimates of HSTECH Index are stabilising



Source: Bloomberg, CMBIGM

Figure 39: EPS estimates of A-shares are stabilising



Source: Bloomberg, CMBIGM

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