

# China / HK Market Weekly

## Consumer staples' margin pressure easing

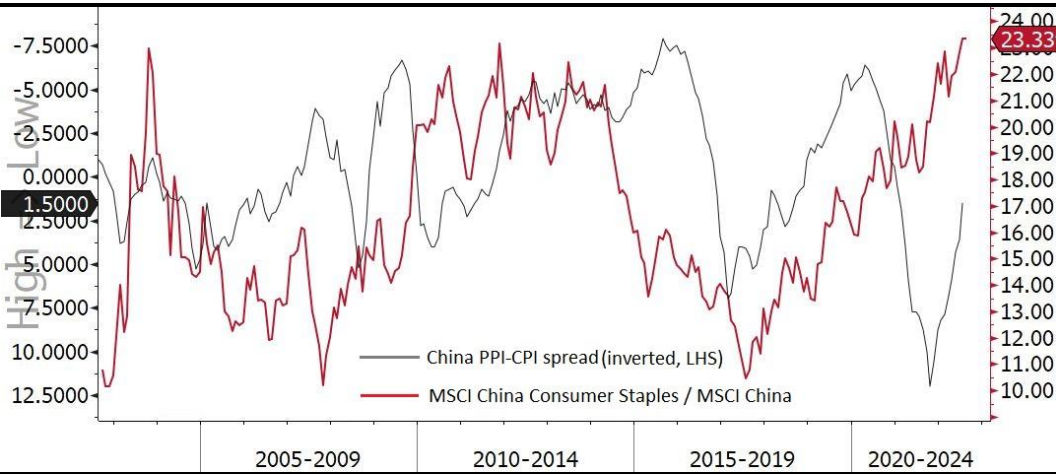
Last week (15-19 Aug), China / HK stock markets dropped along with the US market, as a strong USD dented sentiment. Investors will closely watch the US core PCE inflation and Fed Chair Powell's speech at the Jackson Hole Symposium this Friday for clues on interest rate outlook. We believe upside in China / HK stock markets is limited in the short term, due to risks in China's property market, COVID resurgence and China-US tension. Chinese Consumer Staples sector may outperform as China's narrowing PPI-CPI gap may bring some relief to profit margin pressure.

- **Market recap:** The HSI / CSI 300 were -2.0% / -1.0% last week, and turnover in HK remained low. By sector, both value and growth stocks were under pressure in HK, while Telecom & Utilities gained as safe havens (Fig. 2 & 4). China Internet ETF recorded outflows for six weeks in a row (Fig. 13).
- **Interest rates:** The US inflation expectations fell further last week, but implied Fed funds rate stayed unchanged (Fig. 9, 11 & 12). Investors will closely watch the US core PCE inflation and Jerome Powell's speech at Jackson Hole this Friday for clues on interest rate outlook.
- **Sentiment:** Risk indicators were mixed in HK stock market, as "Fear Index" VHSI stayed at six-month low, but the short-sell ratio on HK mainboard rebounded to almost 18% (Fig. 21 & 22). By sector, short-sell ratio increased in Energy, Telecom, IT & Industrials, and dropped in Property & Utilities.
- **Earnings:** FY22E EPS consensus of HSI / HSTECH / CSI 300 were revised down by 0.6% / 1.8% / 0.1% last week (Fig. 38-40). The cut in HSI EPS consensus was partly due to RMB depreciation, in our view. By sector in HK, Property & Consumer Discretionary were revised down, while Healthcare got upward revision (Fig. 42).
- **Market outlook & sector views:** We believe **upside in China / HK stock markets is limited in the short term**, due to overhang in China's property market, COVID resurgence and China-US tension. **Chinese Consumer Staples sector may outperform in the short term**, as China's PPI-CPI gap is narrowing and will probably narrow further, easing the profit margin pressure for consumer stocks. Historically, Consumer Staples tended to outperform when PPI-CPI spread narrowed (Fig. 1). Prefer industry leaders which should have better pricing power amidst a lukewarm economic recovery.
- **Things to watch this week:**
  - Monday: PBOC announcement of Loan Prime Rate (LPR).
  - Tuesday: S&P Global PMIs of US & Europe in Aug.
  - Friday: US Core PCE Price Index in Jul.
  - Friday: Fed Chair Powell's speech at Jackson Hole Symposium.
  - HK & US stocks' earnings reports.

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## Chart of the Week

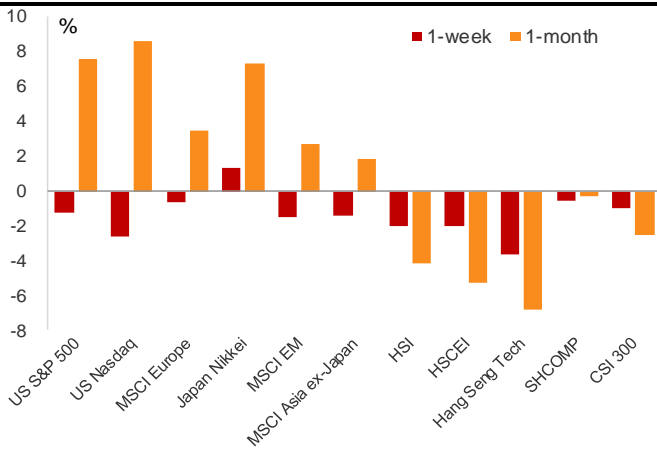
**Figure 1: China Consumer Staples tended to outperform when PPI-CPI spread narrowed**



Source: Bloomberg, CMBIGM

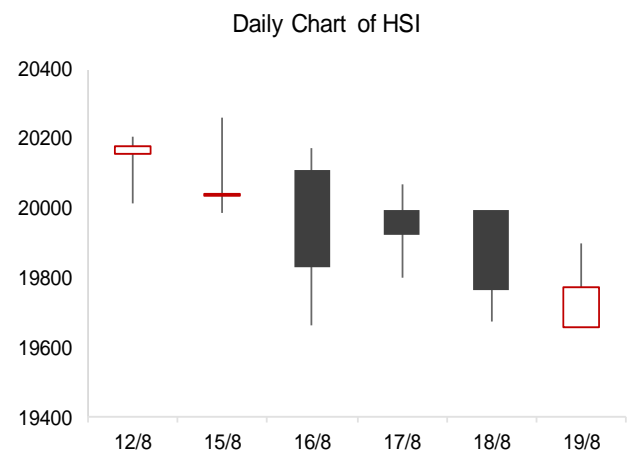
## Market Recap

**Figure 2: Weekly global markets' returns: China/HK stocks dropped last week along with the US**



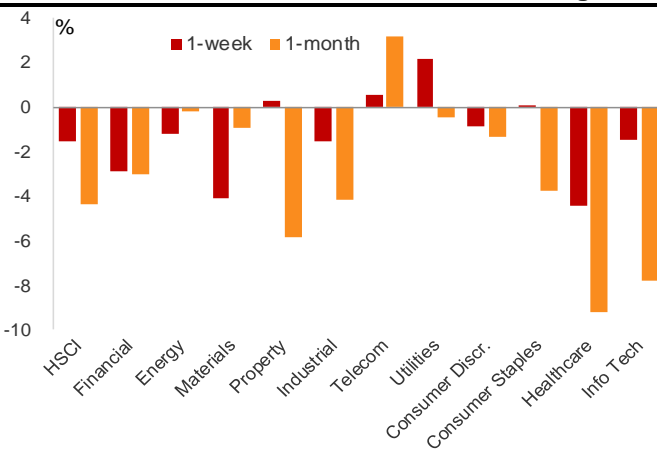
Source: Bloomberg, CMBIGM

**Figure 3: HSI still hovering around 20,000**



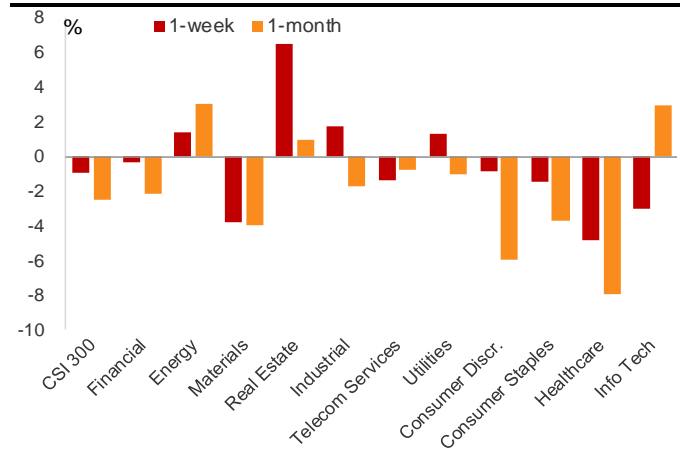
Source: Bloomberg, CMBIGM

**Figure 4: Hang Seng Composite Index sectors: defensive stocks such as Telecom & Utilities gained**



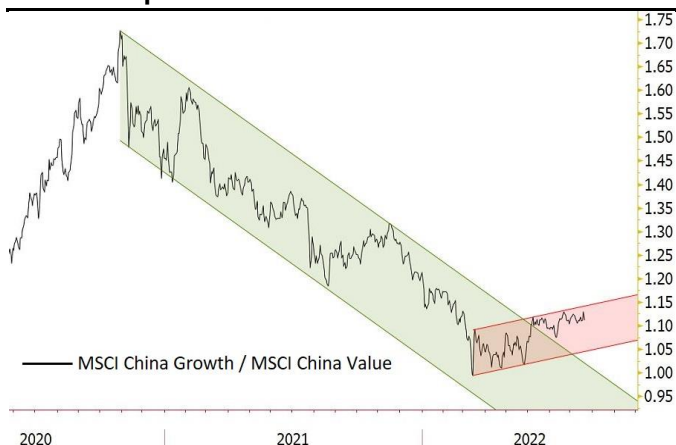
Source: Bloomberg, CMBIGM

**Figure 5: CSI 300 Index sectors: Real Estate rebounded**



Source: Bloomberg, CMBIGM

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



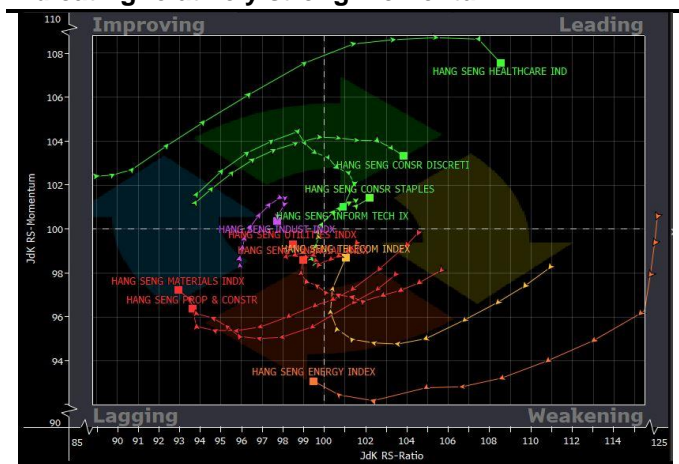
Source: Bloomberg, CMBIGM

**Figure 7: US Growth stocks outperformed Value in recent months, breaking a downtrend on the chart of relative performance**



Source: Bloomberg, CMBIGM

**Figure 8: IT, Healthcare & Consumer sectors in "Leading" zone in weekly Relative Rotation Graph, indicating relatively strong momentum**



Source: Bloomberg, CMBIGM

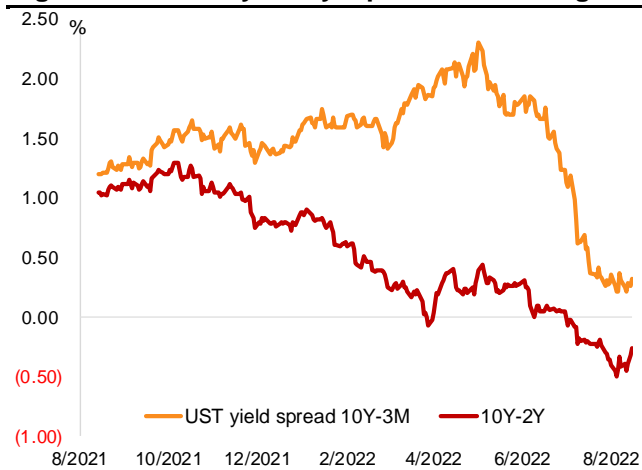
## Fund Flows

**Figure 9: US inflation expectations easing since Apr**



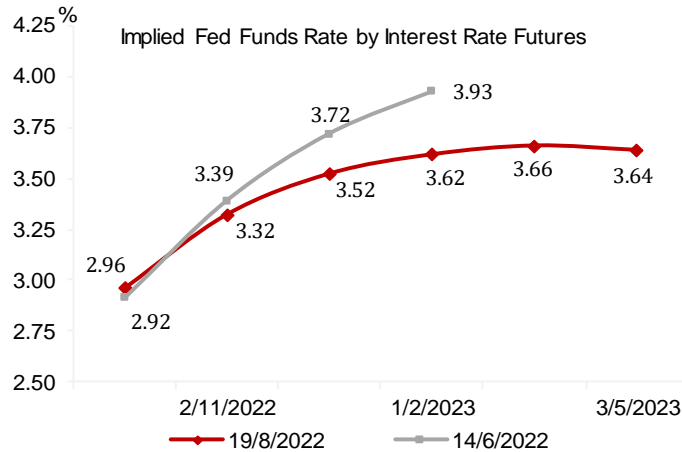
Source: Bloomberg, CMBIGM

**Figure 10: UST 10-yr & 2-yr spread sank to negative**



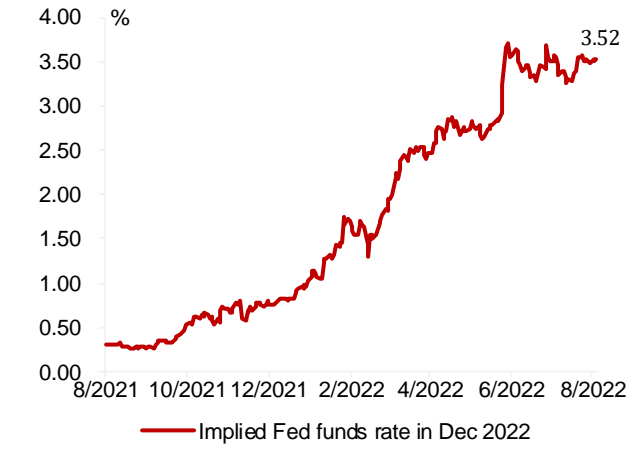
Source: Bloomberg, CMBIGM

**Figure 11: Fed funds rate may peak in 1Q 2023, implied by interest rate futures**



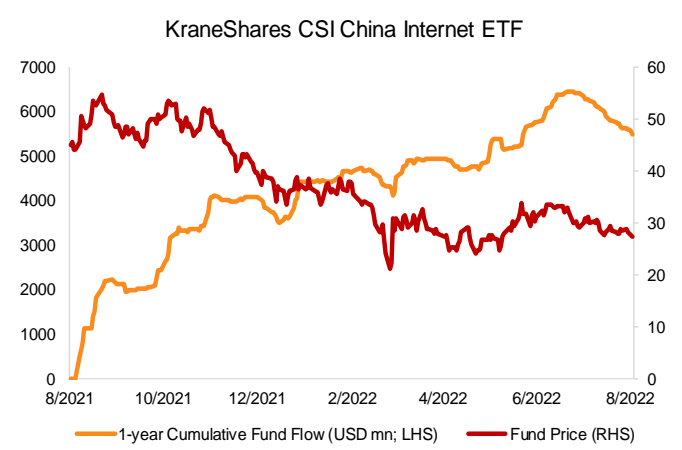
Source: Bloomberg, CMBIGM

**Figure 12: Implied Fed funds rate in Dec 2022 stay unchanged last week**



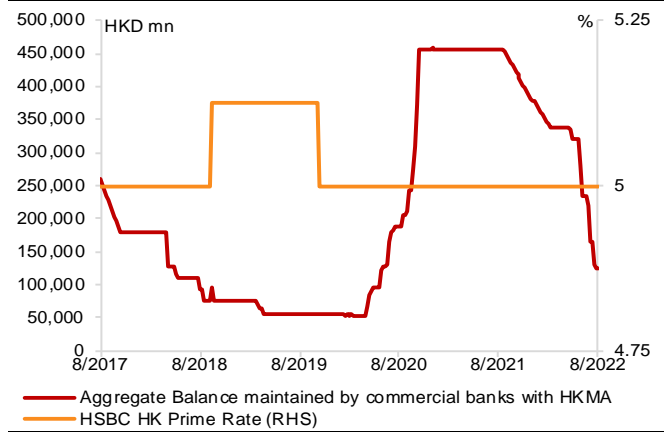
Source: Bloomberg, CMBIGM

**Figure 13: KWEB, the largest China Internet ETF, recorded outflows in the past six weeks**



Source: Bloomberg, CMBIGM

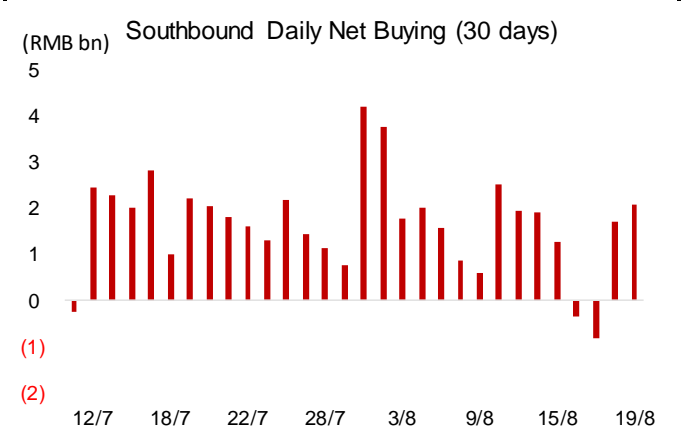
**Figure 14: HKMA aggregate balance dropped to HK\$125bn. Commercial banks might raise lending rates when the balance dropped to below HK\$100bn**



Source: Bloomberg, CMBIGM

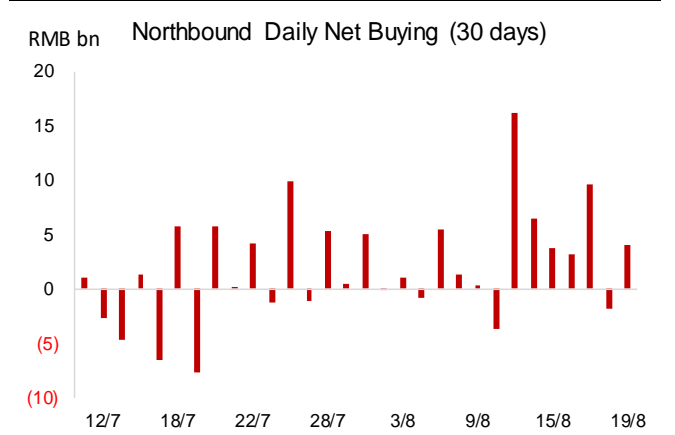
## SH/SZ-HK Stock Connect

**Figure 15: Southbound inflows remained mild**



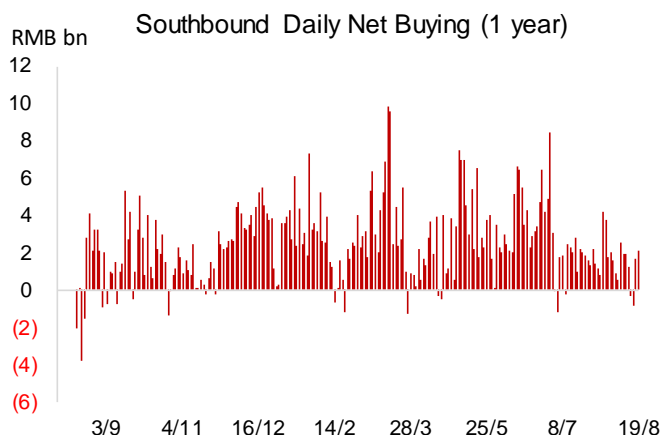
Source: Bloomberg, CMBIGM

**Figure 16: Northbound inflows were also mild**



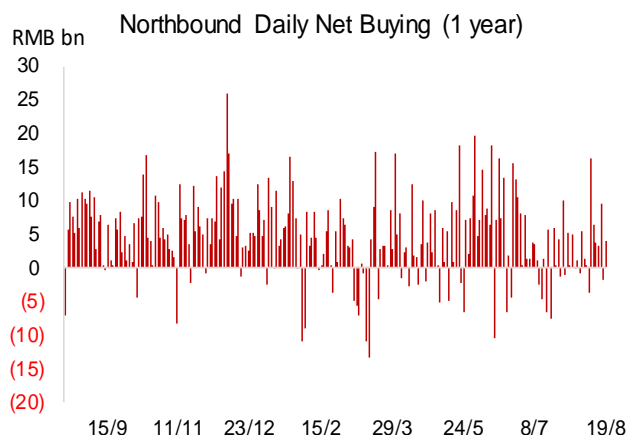
Source: Bloomberg, CMBIGM

**Figure 17: Southbound net buying slowed down since Jul**



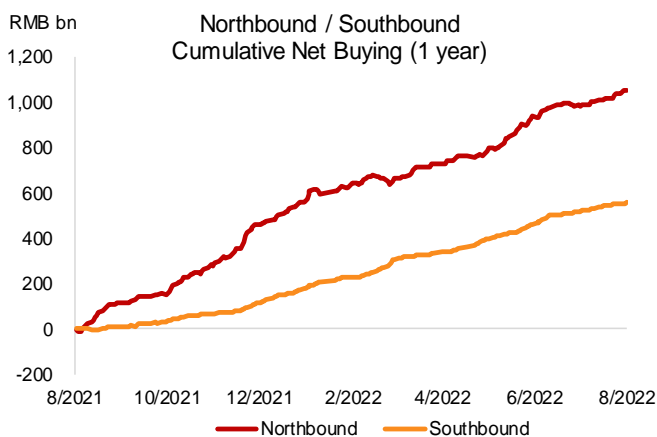
Source: Bloomberg, CMBIGM

**Figure 18: Northbound net buying slowed down since Jul**



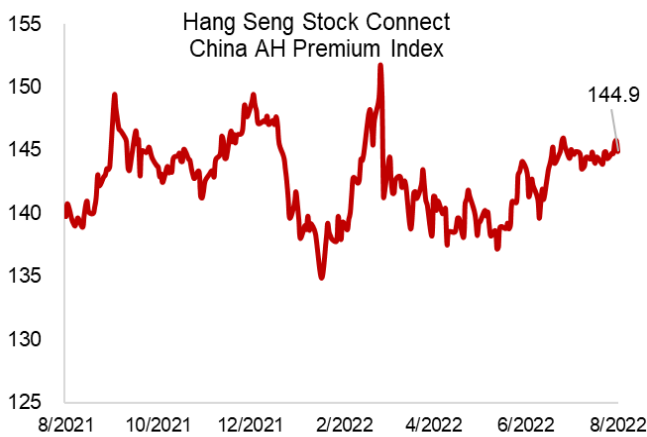
Source: Bloomberg, CMBIGM

**Figure 19: Northbound & Southbound cumulative inflows in the past 12 months**



Source: Bloomberg, CMBIGM

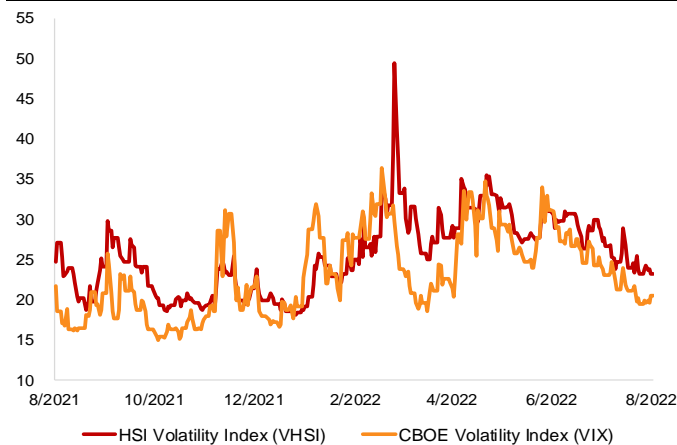
**Figure 20: AH premium widened by 0.6 ppt last week as H-shares underperformed A-shares**



Source: Bloomberg, CMBIGM

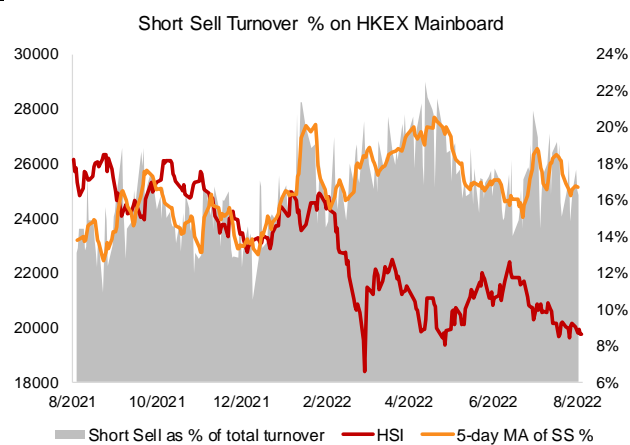
## Sentiments

**Figure 21: "Fear Index" VHSI stayed flat at 23.2, a six-month low, despite the HSI going down**



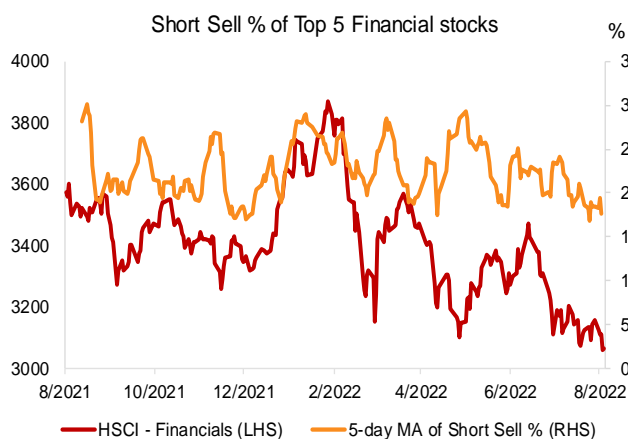
Source: Bloomberg, CMBIGM

**Figure 22: Short sell % on HK mainboard rebounded to almost 18%**



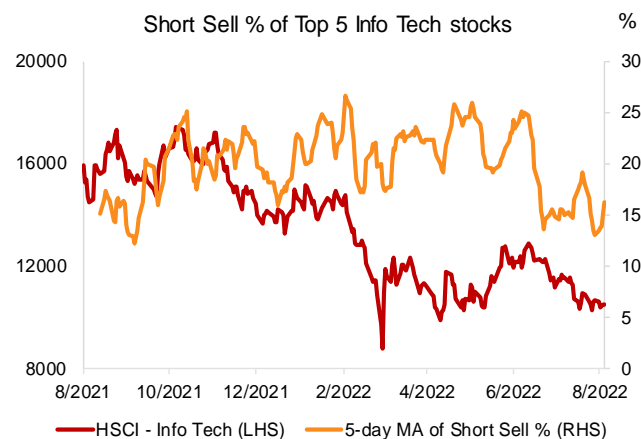
Source: Bloomberg, CMBIGM

**Figure 23: Short sell % in HK - Financials**



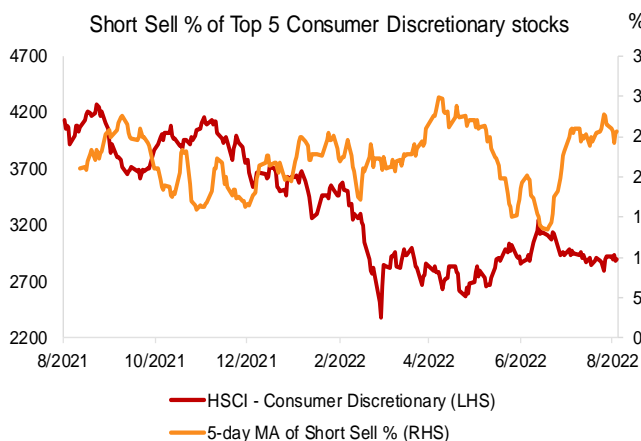
Source: Bloomberg, CMBIGM

**Figure 24: Short sell % in HK – Info Tech**



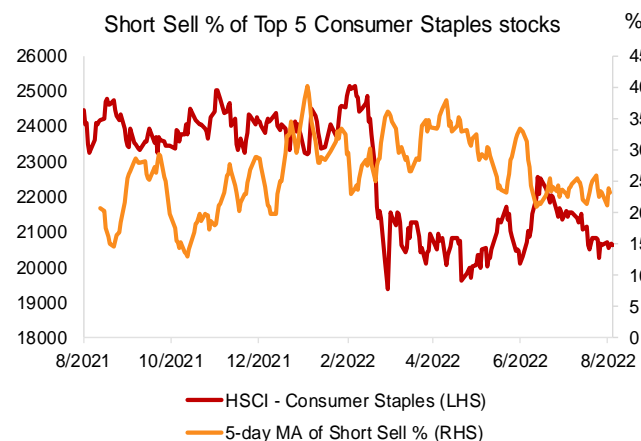
Source: Bloomberg, CMBIGM

**Figure 25: Short sell % in HK – Consumer Discretion.**



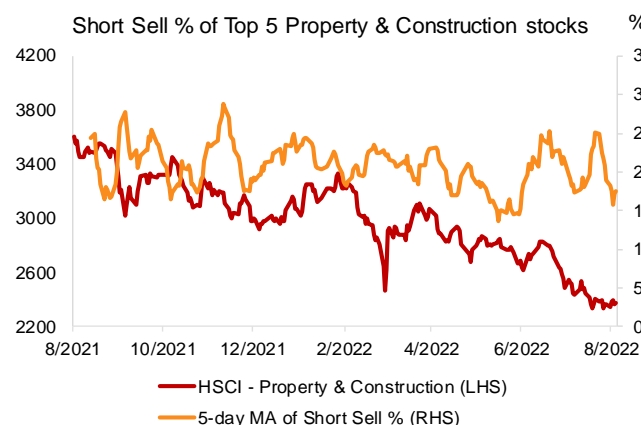
Source: Bloomberg, CMBIGM

**Figure 26: Short sell % in HK – Consumer Staples**



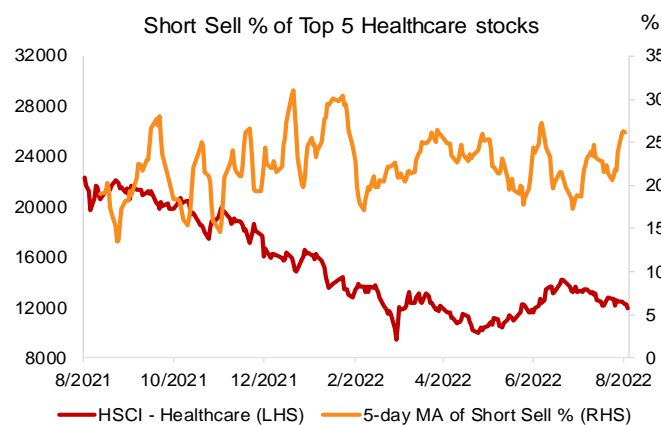
Source: Bloomberg, CMBIGM

**Figure 27: Short sell % in HK - Property**



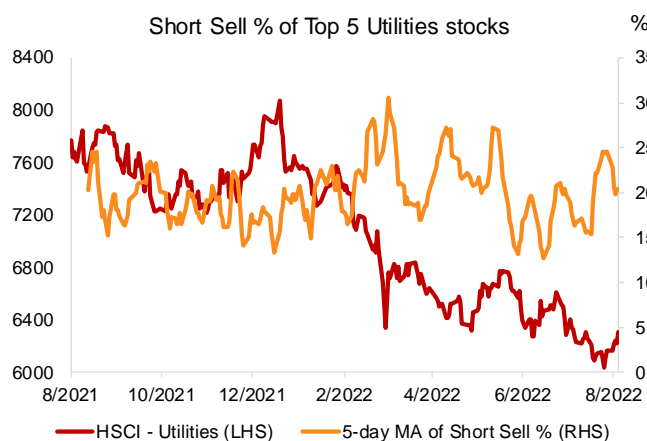
Source: Bloomberg, CMBIGM

**Figure 28: Short sell % in HK – Healthcare**



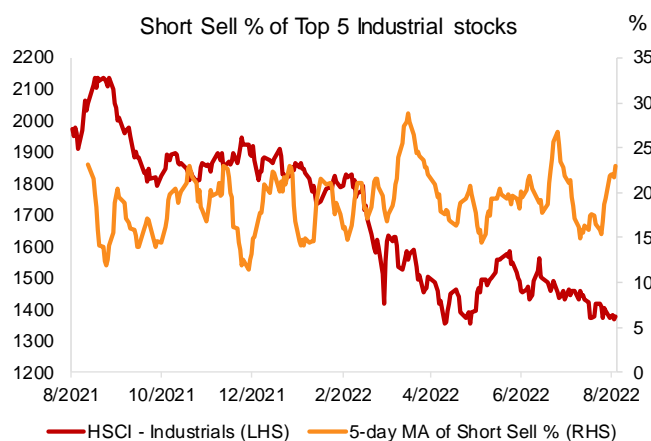
Source: Bloomberg, CMBIGM

**Figure 29: Short sell % in HK – Utilities**



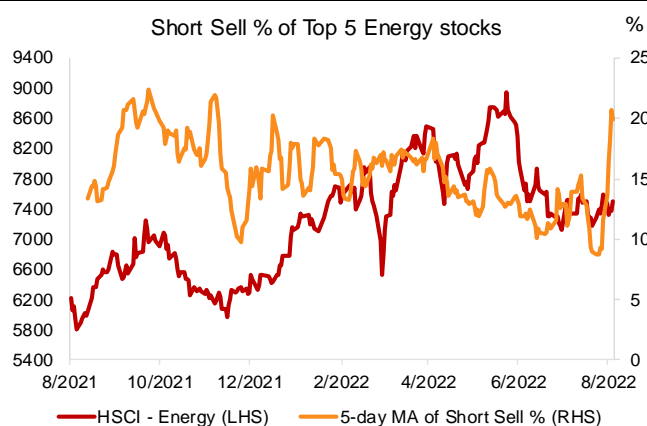
Source: Bloomberg, CMBIGM

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



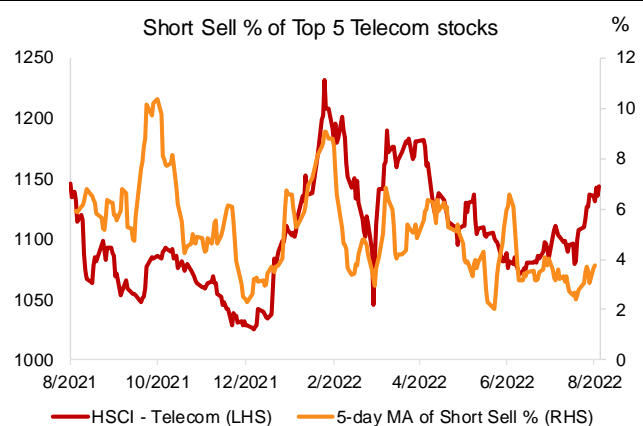
Source: Bloomberg, CMBIGM

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



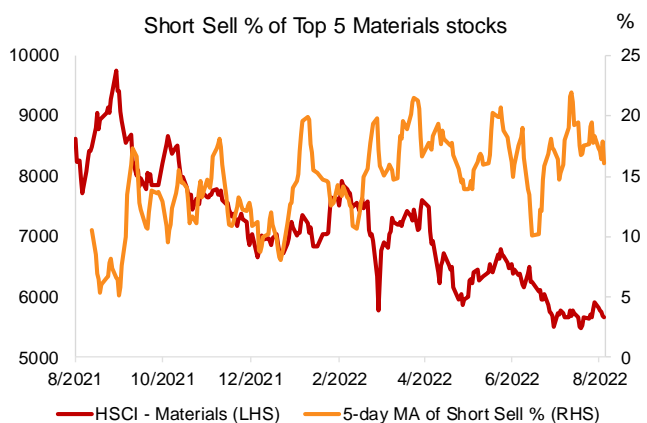
Source: Bloomberg, CMBIGM

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



Source: Bloomberg, CMBIGM

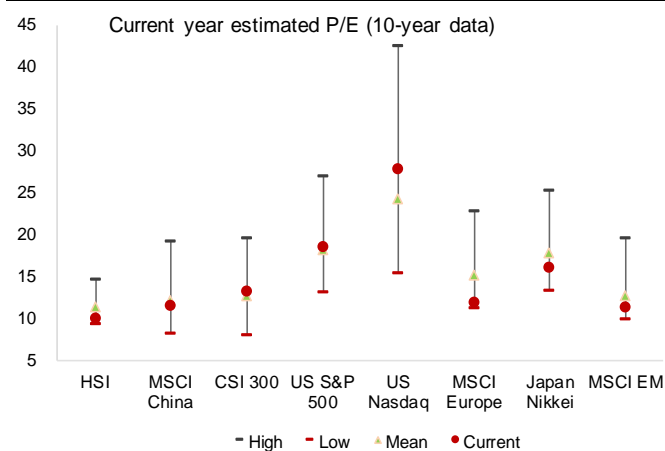
**Figure 33: Short sell % in HK – Materials**



Source: Bloomberg, CMBIGM

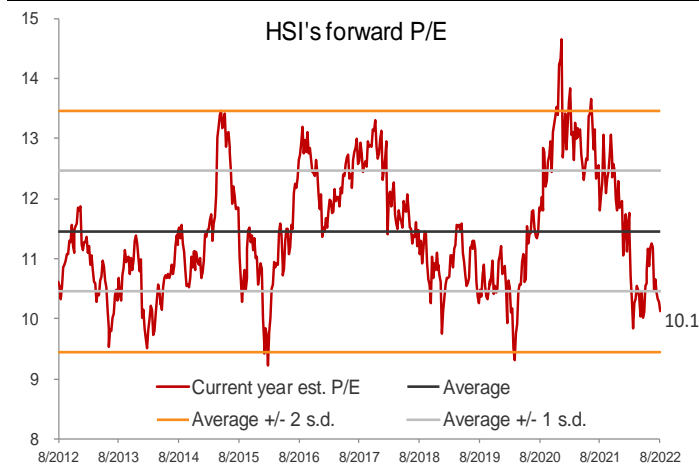
## Earnings & Valuations

**Figure 34: Major stock markets' forward P/E vs. 10-yr history**



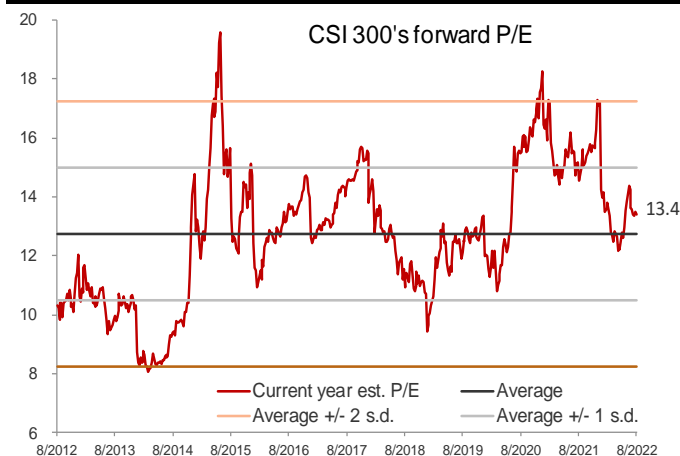
Source: Bloomberg, CMBIGM

**Figure 35: HSI's forward P/E lower than 10-yr mean minus 1 s.d.**



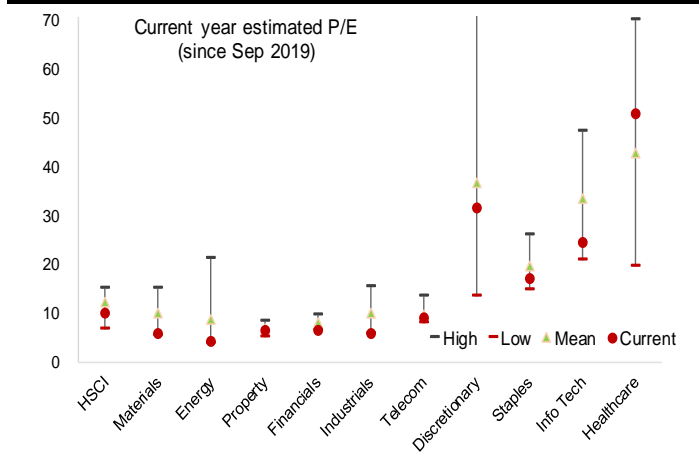
Source: Bloomberg, CMBIGM

**Figure 36: CSI 300's forward P/E above 10-yr mean**



Source: Bloomberg, CMBIGM

**Figure 37: Many HSCI sectors' P/E are near troughs**



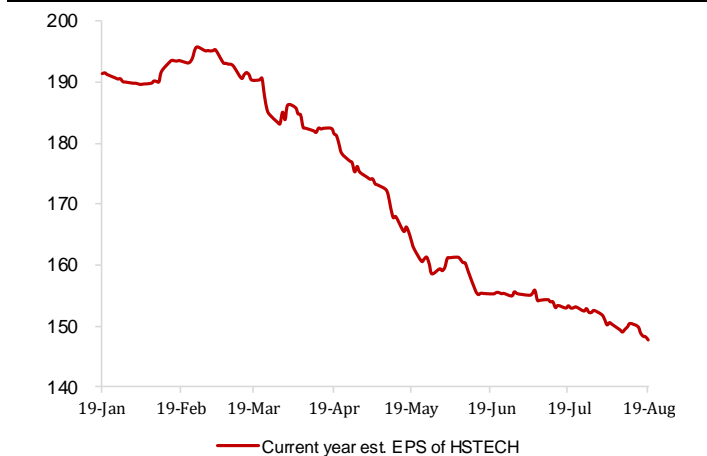
Source: Bloomberg, CMBIGM

**Figure 38: EPS estimates of HSI were down by 0.6% last week, after two weeks of upward revision**



Source: Bloomberg, CMBIGM

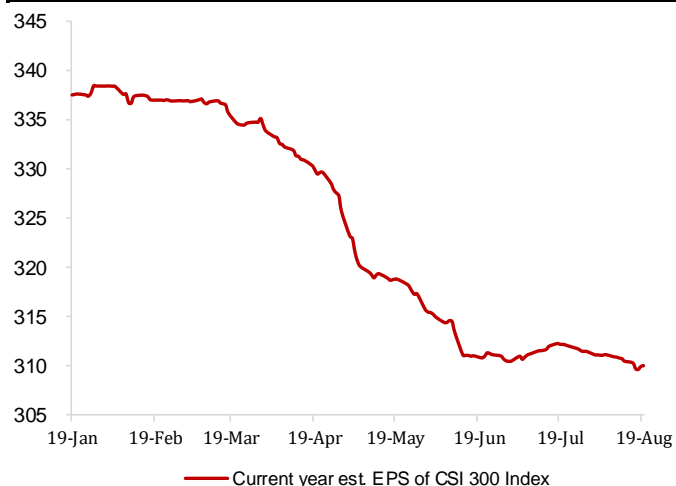
**Figure 39: EPS estimates of HSTECH Index were slashed by 1.8% last week**



Source: Bloomberg, CMBIGM

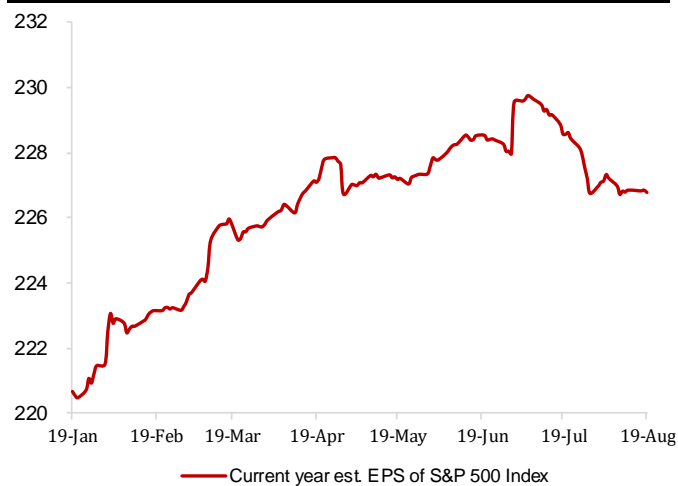


**Figure 40: EPS estimates of A-shares were tuned down by 0.1% last week**



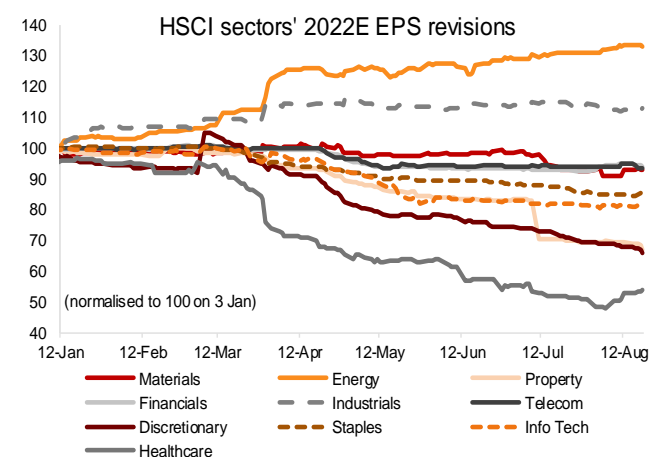
Source: Bloomberg, CMBIGM

**Figure 41: EPS estimates of US S&P 500 Index were flat last week, and 1.3% off the peak in early Jul**



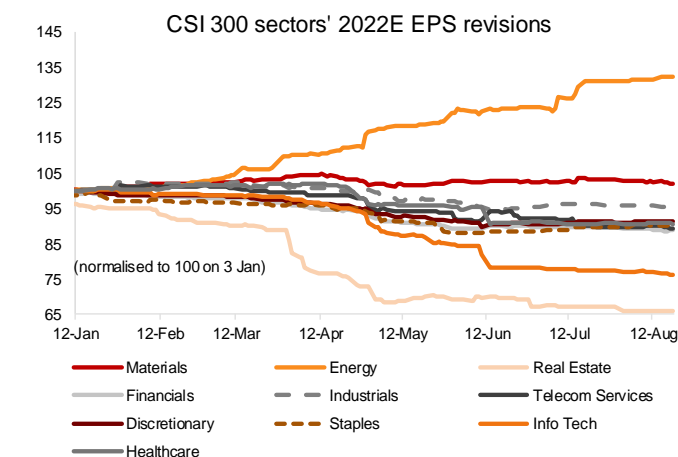
Source: Bloomberg, CMBIGM

**Figure 42: HK earnings revision: Property & Consumer Discretionary down; Healthcare up**



Source: Bloomberg, CMBIGM

**Figure 43: A-shares earnings revision: IT down; Consumer Staples up**



Source: Bloomberg, CMBIGM

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