

# China / HK Market Weekly

## Weak sentiment without new stimulus

Last week (25-29 Jul), China / HK stock markets underperformed the US market again, due to a lack of new pro-growth policies by Beijing and regulatory concerns on internet stocks. This week, investors' attention will turn to HK stocks' earnings and US economic data which might move expectations on interest rate and recession. We expect Chinese Consumer stocks to outperform in the short term on policy support and easing COVID epidemic. We remain cautious on Chinese Property & Banking sectors before substantial supportive policies on the housing market are announced.

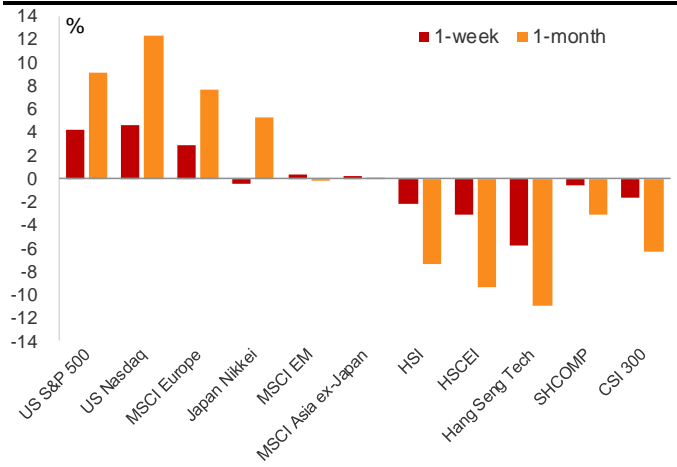
- **Market recap:** The HSI / CSI 300 fell by 2.2% / 0.5% last week, underperforming the US market for the fourth straight week (Fig. 1), as there were renewed regulatory concerns on internet stocks, and China's Politburo meeting signalled no big stimulus. Growth stocks such as IT & Healthcare led declines in HK, while Real Estate A-shares rebounded (Fig. 3-4). China Internet ETF recorded outflows in the past three weeks (Fig. 11).
- **Interest rates:** The US inflation expectations rebounded moderately last week, but have been on a downtrend since Apr (Fig. 7). Implied Fed fund rates dropped slightly further, and the Fed may stop raising rates in 1Q23, as implied by interest rate futures (Fig. 9-10). The UST yield curve flattened / inverted further as long rates declined (Fig. 8). In HK, the aggregate balance maintained by commercial banks with the central bank has been falling over the past 12 months, to HK\$165bn now. Banks are widely expected to raise lending rates when the balance dropped to below HK\$100bn (Fig. 12).
- **Sentiment:** Risk indicators showed mixed signals in HK stock market, as "Fear Index" VHSI retreated further to a five-month low, while the short-sell ratio on HK mainboard rebounded to 18% (Fig. 19 & 20). By sector, short-sell ratio jumped in Energy & Materials, and dropped in Financials & Industrials.
- **Earnings:** FY22E EPS consensus of the HSI / HSTECH / CSI 300 were revised by -0.2% / -0.3% / -0.2% last week (Fig. 36-38). By sector, estimates of Healthcare, Consumer & Materials went down in HK.
- **Market outlook & sector views: Chinese Consumer stocks may outperform in the short term**, as the State Council Executive Meeting last Friday reiterated that "consumption should still be the main driver for stabilising growth", and new COVID cases in China started falling over the past few days. We **remain cautious on Chinese Property & Banking sectors** before substantial supportive policies on the housing market are announced. Over the medium term, we continue to see re-rating potential in Internet stocks, but they may stay volatile this week due to quarterly results and regulatory news flows.
- **Things to watch this week:**
  - Key US economic data in Jul: ISM Manufacturing PMI (Tue), employment report (Fri).
  - HK stocks' earnings & profit alerts.
  - Central banks' interest rate decisions: Australia (Tue) & England (Thu) are expected to hike.

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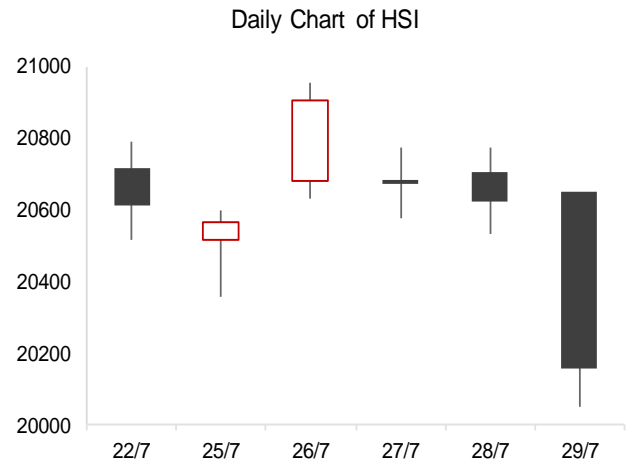
## Market Recap

**Figure 1: Weekly global markets' returns: China/HK underperformed in Jul**



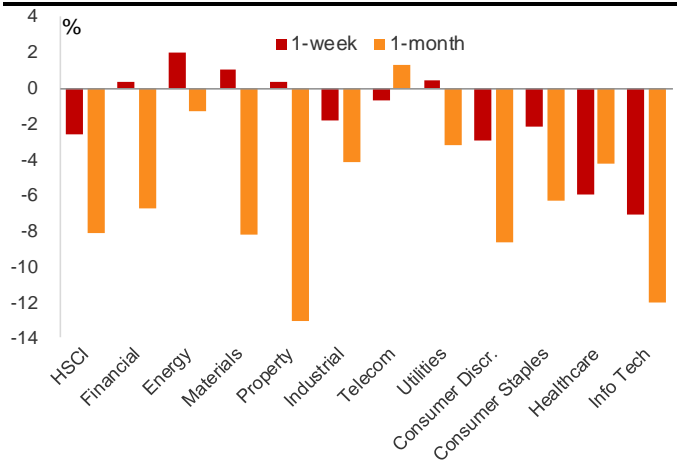
Source: Bloomberg, CMBIGM

**Figure 2: HSI falling towards 20,000**



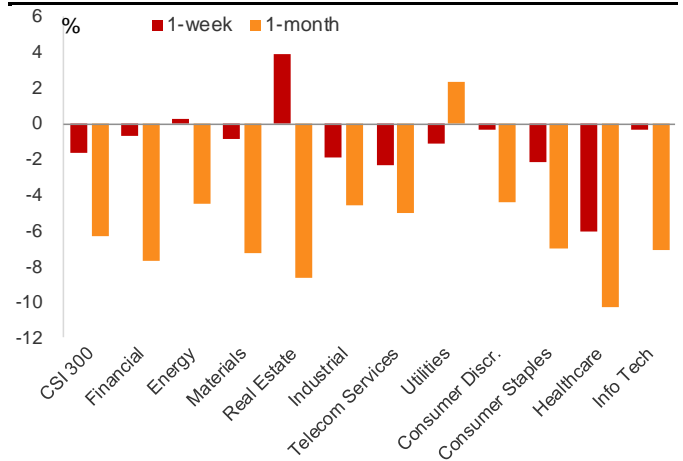
Source: Bloomberg, CMBIGM

**Figure 3: Hang Seng Composite Index sectors: Growth stocks led declines; Commodities gained**



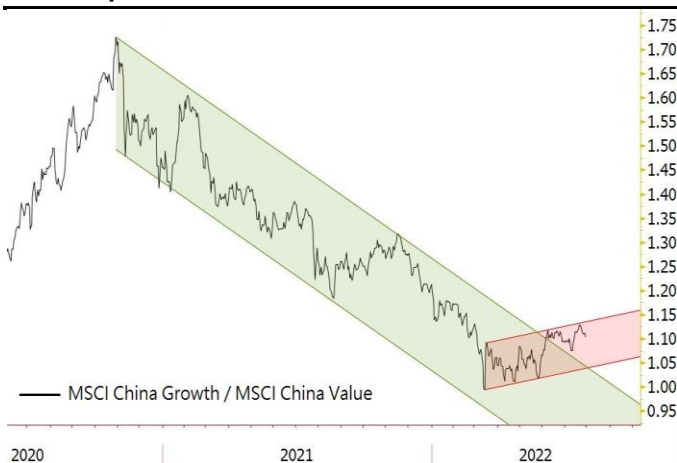
Source: Bloomberg, CMBIGM

**Figure 4: CSI 300 Index sectors: Real Estate rebounded**



Source: Bloomberg, CMBIGM

**Figure 5: China Growth stocks outperformed Value in recent months, breaking a downtrend on the chart of relative performance**



Source: Bloomberg, CMBIGM

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



Source: Bloomberg, CMBIGM

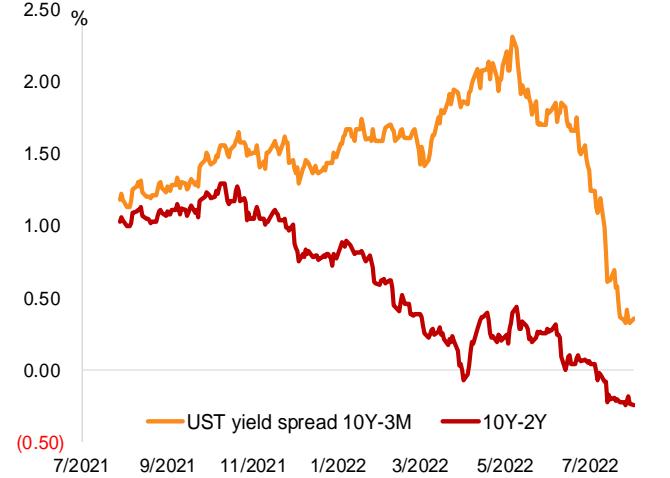
**Fund Flows**

**Figure 7: US inflation expectations easing since Apr**



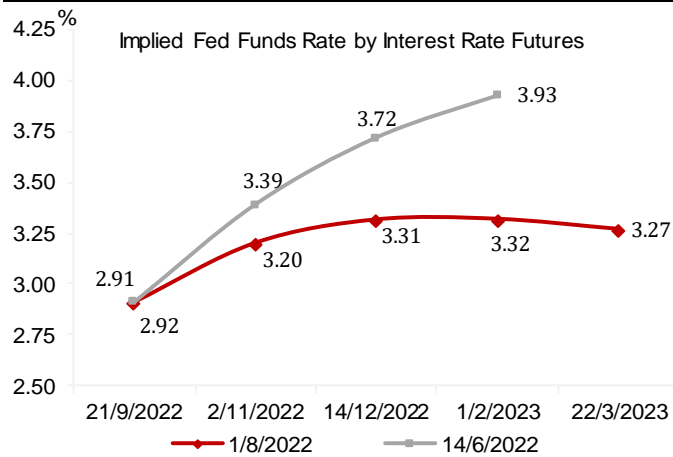
Source: Bloomberg, CMBIGM

**Figure 8: UST 10-yr & 2-yr spread sank to negative**



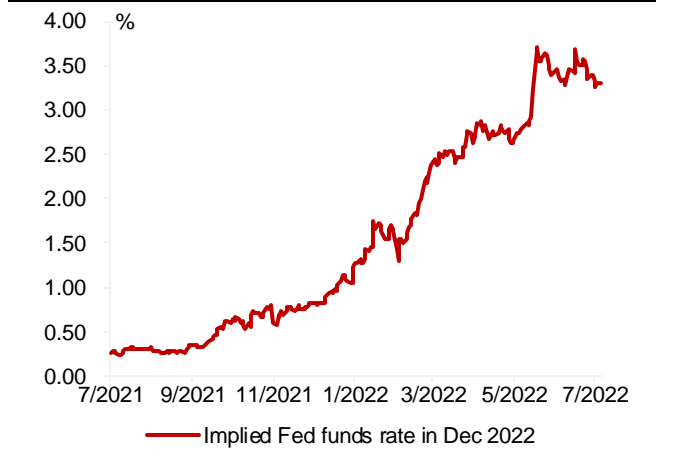
Source: Bloomberg, CMBIGM

**Figure 9: Fed funds rate may peak in 1Q 2023, implied by interest rate futures**



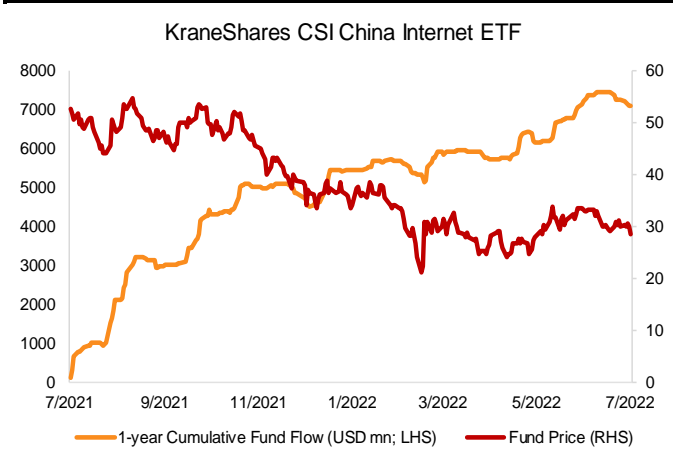
Source: Bloomberg, CMBIGM

**Figure 10: Implied Fed funds rate in Dec 2022 fell by 5 bps last week to 3.31%**



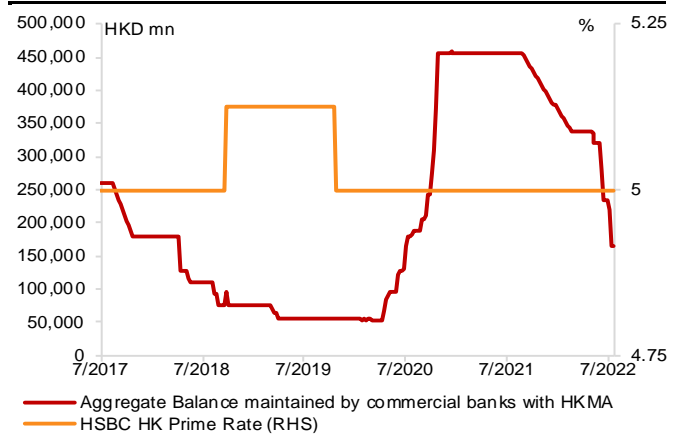
Source: Bloomberg, CMBIGM

**Figure 11: KWEB, the largest China Internet ETF, recorded outflows in the past three weeks**



Source: Bloomberg, CMBIGM

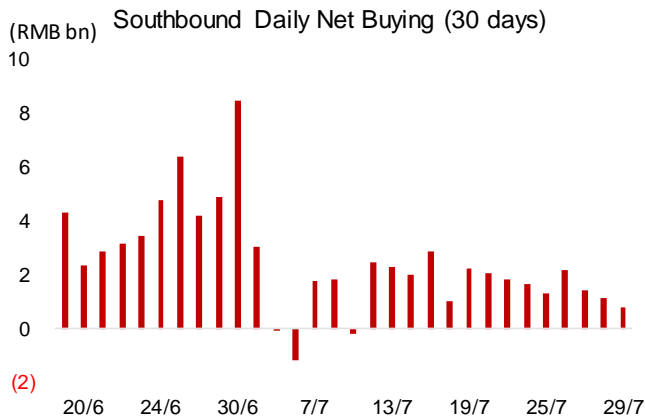
**Figure 12: HKMA aggregate balance dropped to HK\$165bn. Commercial banks might raise lending rates when the balance dropped to below HK\$100bn**



Source: Bloomberg, CMBIGM

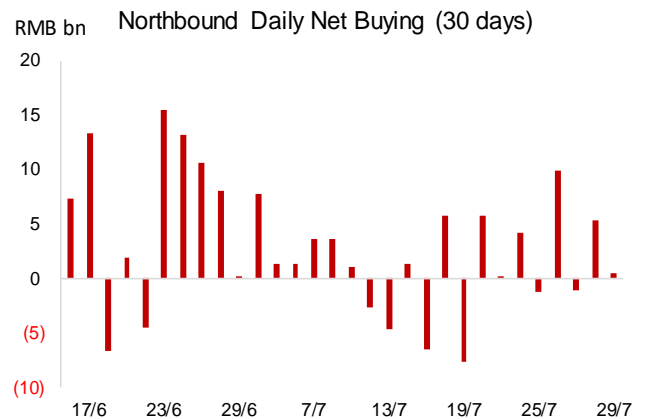
## SH/SZ-HK Stock Connect

**Figure 13: Southbound inflows were mild in Jul**



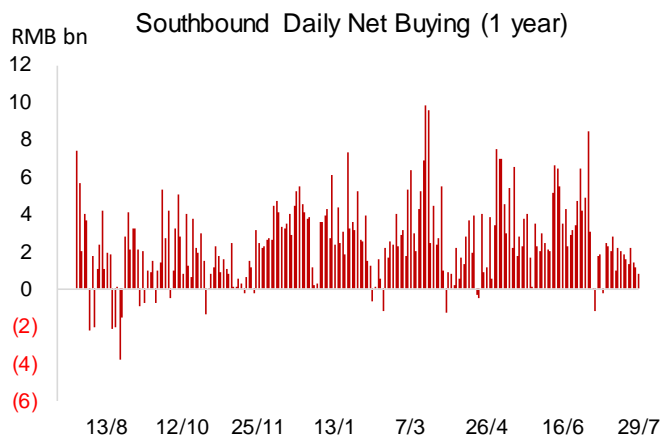
Source: Bloomberg, CMBIGM

**Figure 14: Northbound inflows shrank too**



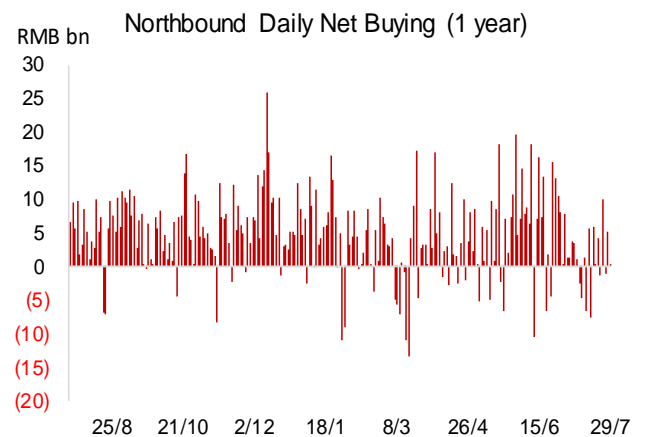
Source: Bloomberg, CMBIGM

**Figure 15: Southbound net buying slowing down compared to Jun**



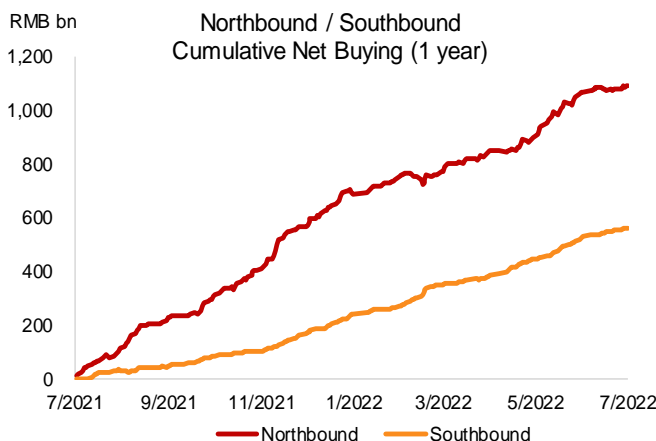
Source: Bloomberg, CMBIGM

**Figure 16: Northbound net buying slowing down compared to Jun**



Source: Bloomberg, CMBIGM

**Figure 17: Northbound & Southbound cumulative inflows in the past 12 months**



Source: Bloomberg, CMBIGM

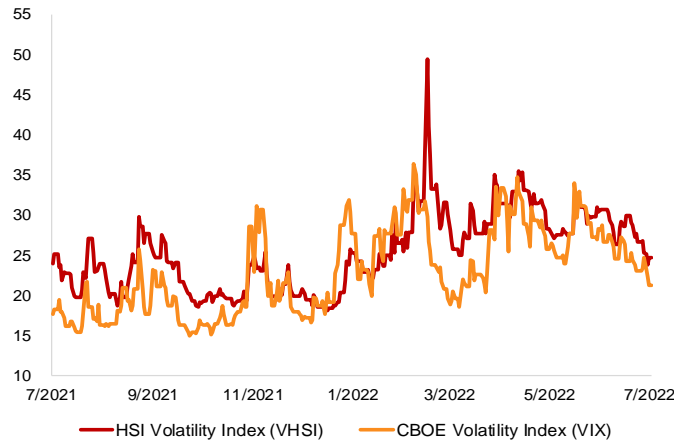
**Figure 18: AH premium shrank by 0.5 ppt last week as H-shares outperformed A-shares**



Source: Bloomberg, CMBIGM

## Sentiments

**Figure 19: “Fear Index” VHSI retreated further to 24.7, a five-month low, despite the HSI going down**



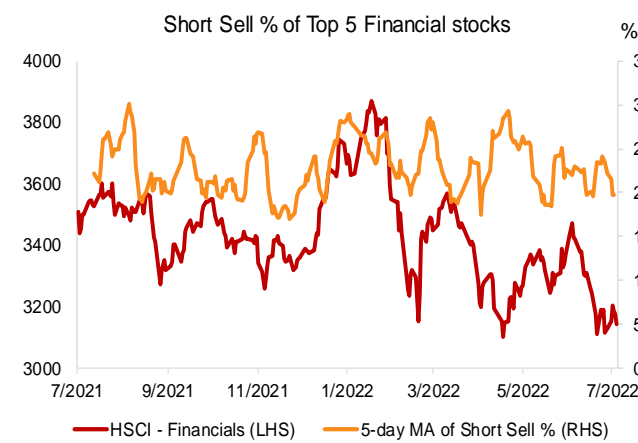
Source: Bloomberg, CMBIGM

**Figure 20: Short sell % on HK mainboard rebounded to 18%**



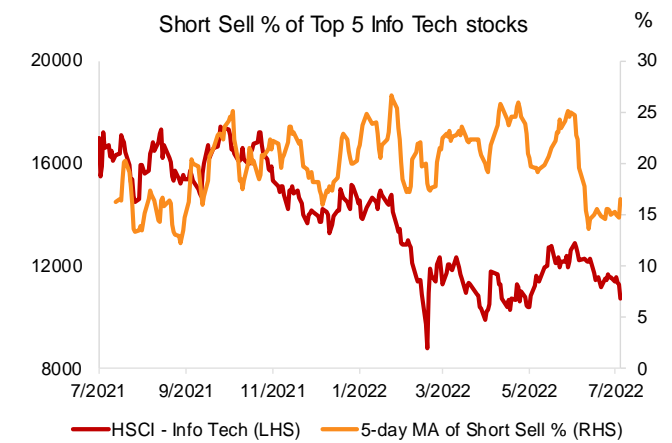
Source: Bloomberg, CMBIGM

**Figure 21: Short sell % in HK - Financials**



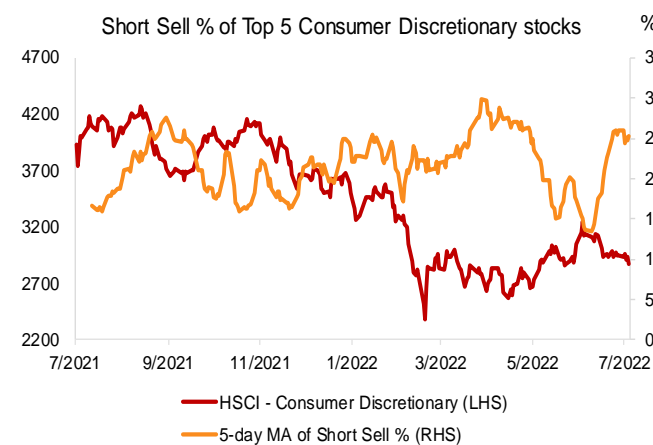
Source: Bloomberg, CMBIGM

**Figure 22: Short sell % in HK – Info Tech**



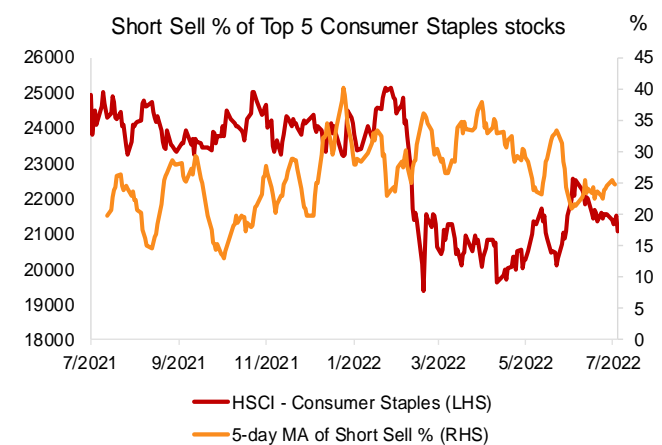
Source: Bloomberg, CMBIGM

**Figure 23: Short sell % in HK – Consumer Discretionary**



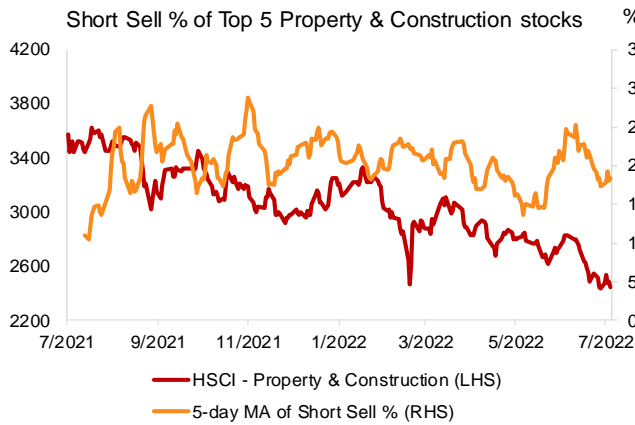
Source: Bloomberg, CMBIGM

**Figure 24: Short sell % in HK – Consumer Staples**



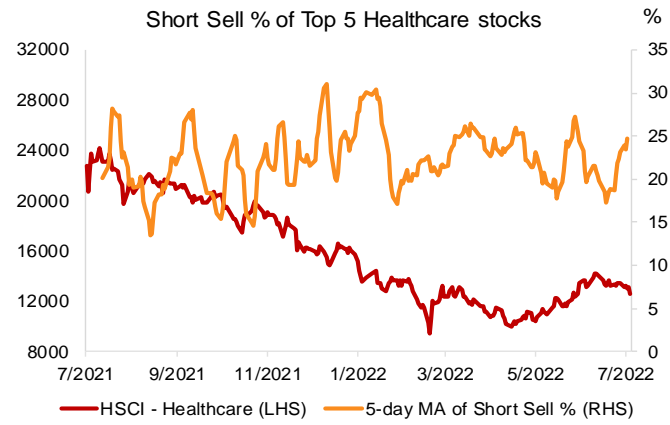
Source: Bloomberg, CMBIGM

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



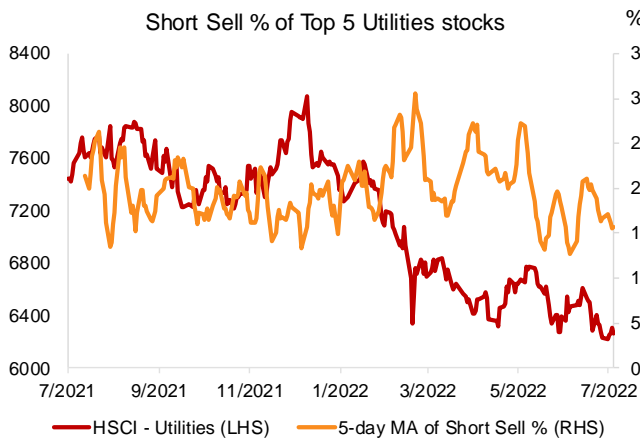
Source: Bloomberg, CMBIGM

**Figure 26: Short sell % in HK – Healthcare**



Source: Bloomberg, CMBIGM

**Figure 27: Short sell % in HK – Utilities**



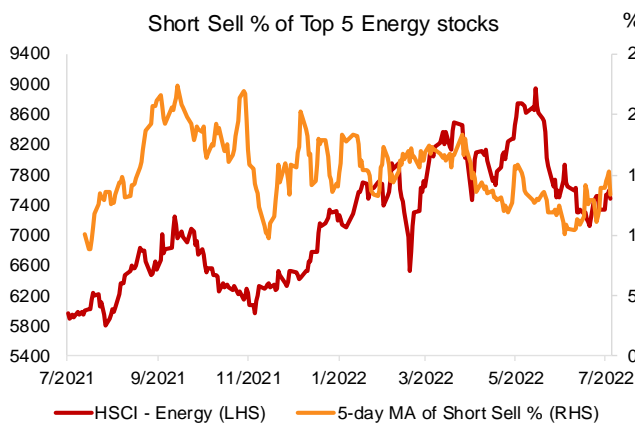
Source: Bloomberg, CMBIGM

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



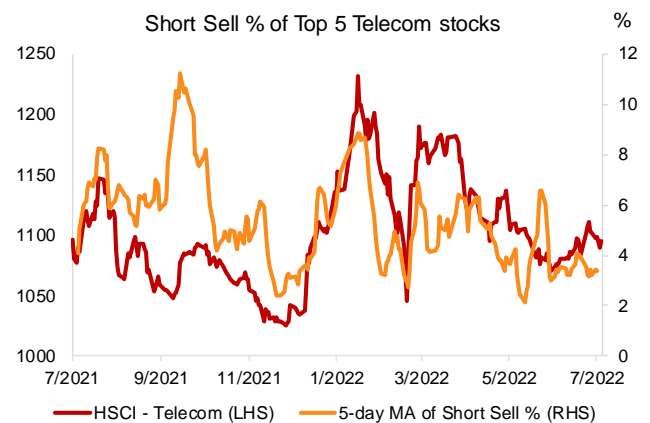
Source: Bloomberg, CMBIGM

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



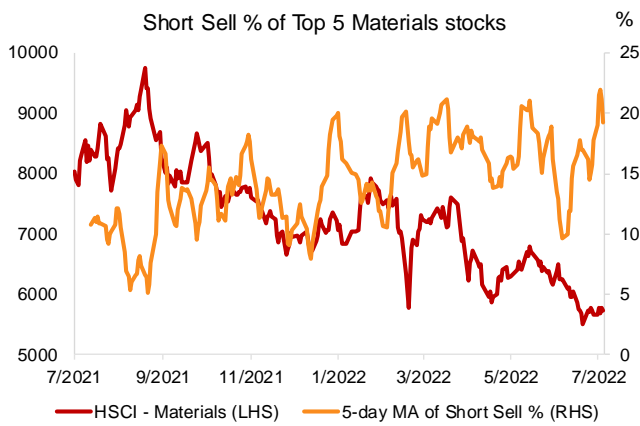
Source: Bloomberg, CMBIGM

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



Source: Bloomberg, CMBIGM

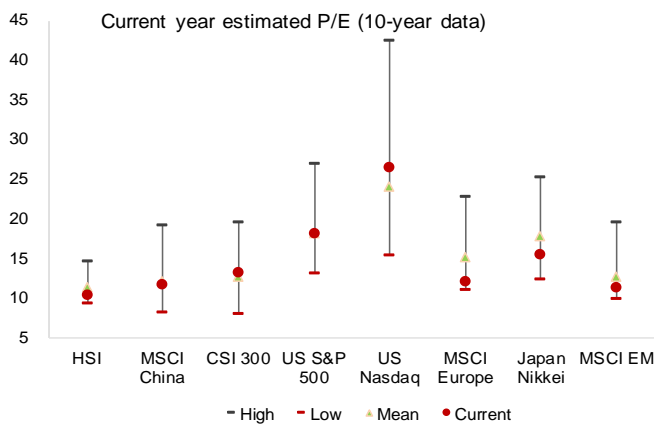
**Figure 31: Short sell % in HK – Materials**



Source: Bloomberg, CMBIGM

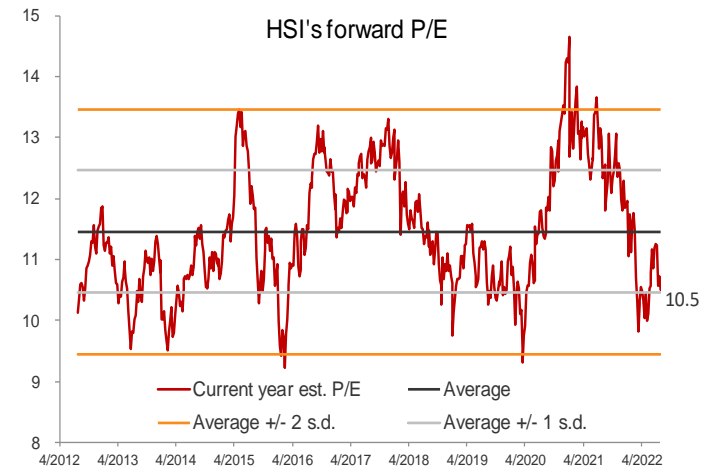
## Earnings & Valuations

**Figure 32: HK & US stocks' P/E moved closer to 10-yr mean in recent months**



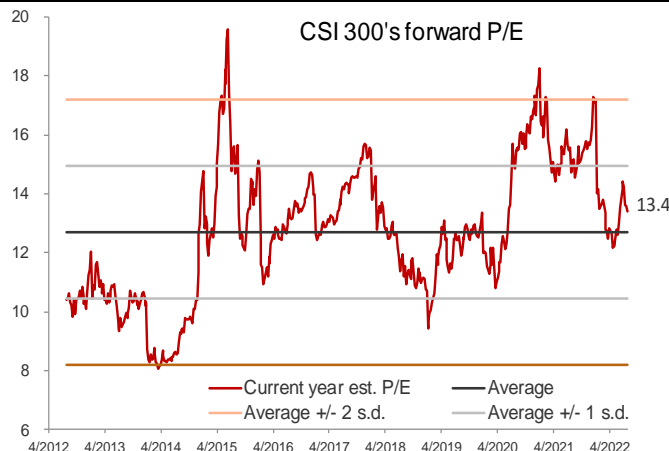
Source: Bloomberg, CMBIGM

**Figure 33: HSI's forward P/E still lower than 10-yr mean**



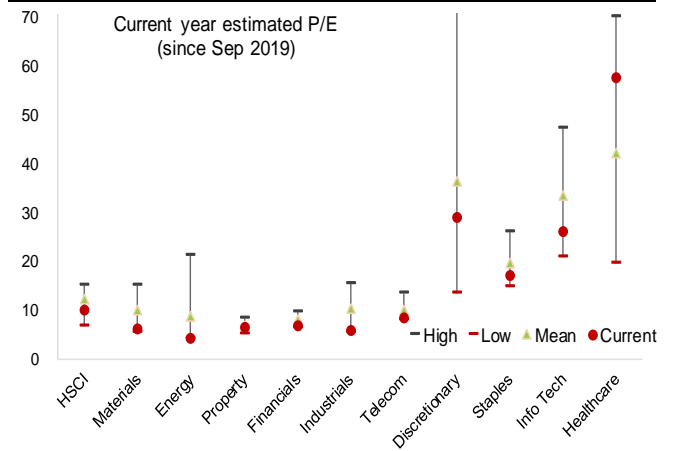
Source: Bloomberg, CMBIGM

**Figure 34: CSI 300's forward P/E above 10-yr mean**



Source: Bloomberg, CMBIGM

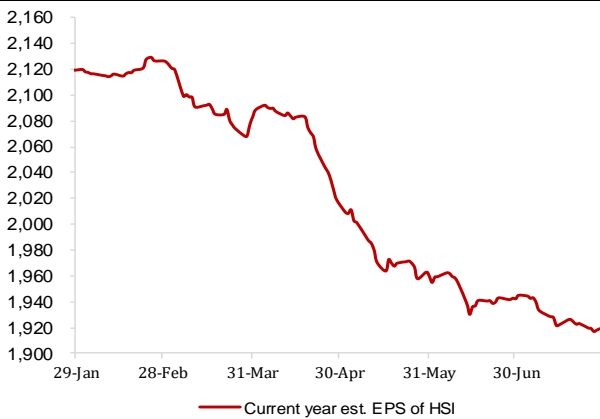
**Figure 35: Many HSCI sectors' P/E still at troughs**



Source: Bloomberg, CMBIGM

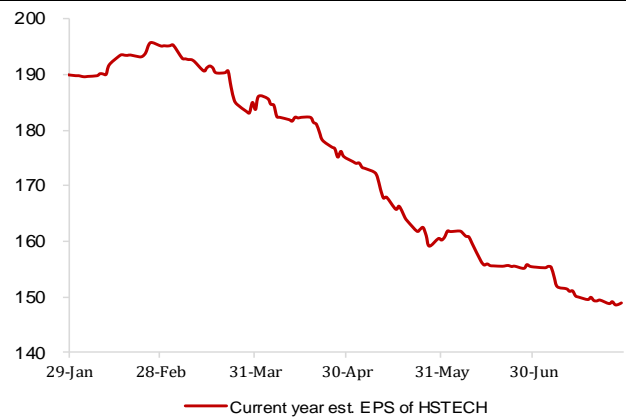


**Figure 36: EPS estimates of HSI were revised down by 0.2% last week**



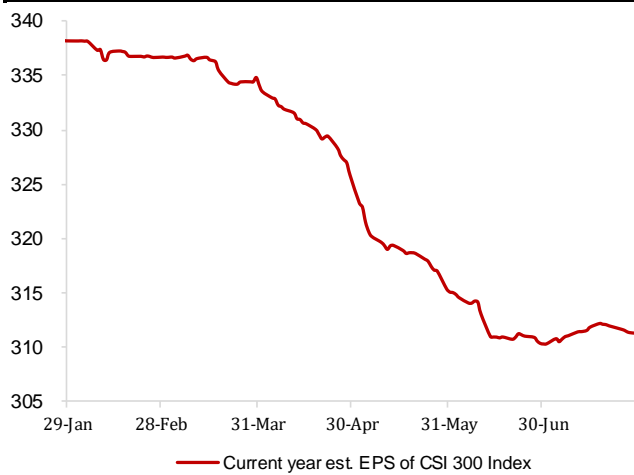
Source: Bloomberg, CMBIGM

**Figure 37: EPS estimates of HSTECH Index were revised down by 0.3% last week**



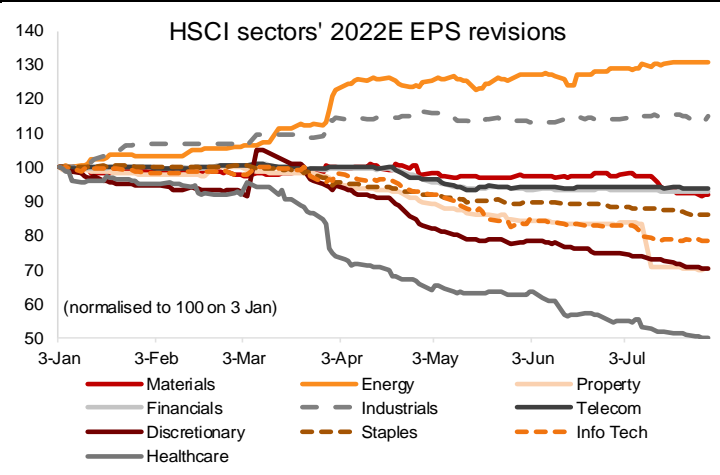
Source: Bloomberg, CMBIGM

**Figure 38: EPS estimates of A-shares were revised down by 0.2% last week**



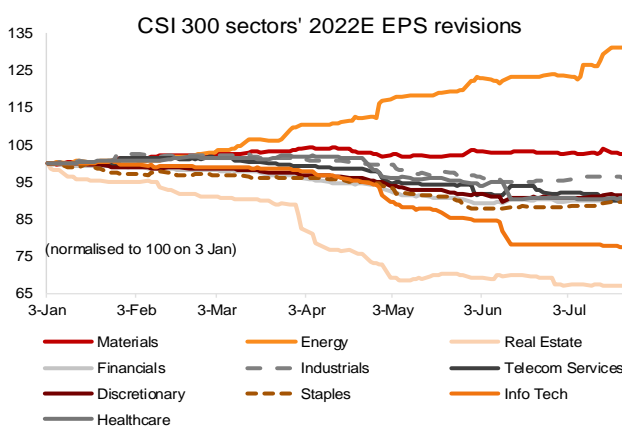
Source: Bloomberg, CMBIGM

**Figure 39: HK earnings revision: Healthcare, Consumer & Materials down**



Source: Bloomberg, CMBIGM

**Figure 40: A-shares earnings revision: Healthcare up, Consumer Discretionary & Industrials down**



Source: Bloomberg, CMBIGM



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