

# China / HK Market Weekly

## No rerating yet, but technical rebound likely

Last week (10-14 Oct), global stock markets fell as US rate hike concerns deepened further after US CPI topped estimates. HK market underperformed and turnover stayed low. The opening of the 20<sup>th</sup> CPC Congress did not offer much rerating catalyst for stocks, maintaining zero-Covid strategy and anti-speculation on the property market. However, we do see the potential for short-term technical rebounds in the HSI.

- **Market recap:** The HSI / CSI 300 / S&P 500 were -6.5% / +1.0% / -1.6% last week (Fig. 3), as US rate hike concerns hurt global stock markets, but A-shares rose ahead of the 20<sup>th</sup> CPC Congress. By sector, IT & Consumer Discretionary led declines in HK, while Healthcare managed to rise (Fig. 5).
- **Interest rates:** US interest rate hike expectations kept rising, after the US core CPI inflation increased and topped estimates. Implied Fed funds rate for Mar 2023 jumped 30 bps in the week, nearing 5.0% (Fig. 11 & 12).
- **Stock Connect:** Trading resumed after China's National Holiday. Southbound net buying increased, and has been rising since early-Sep (Fig. 13 & 15). On the contrary, Northbound buying remained weak. With A-H premium widened to YTD high 52%, Southbound buying might increase further.
- **Sentiment:** HK stock market has been oversold for some time, to the point that a short-term rebound may be imminent. The HSI Volatility Index (VHSI) surged to 36. When VHSI reached such panic level, HSI often had short-term rebounds (Fig. 1). Short-squeeze is also possible, as short-sell ratio on HK mainboard stayed at above 20% in the previous week (Fig. 18). Technically, the HSI is showing RSI Triple Divergence, a bullish signal (Fig. 2).
- **Market outlook:** HK stock market is cheap, but we do not see significant rerating catalysts yet, as 1) the 20<sup>th</sup> CPC Congress has not signalled meaningful policy changes, particularly regarding zero-COVID, property market and common prosperity, and 2) US rate hike concerns will remain an overhang, at least until the FOMC meeting on 1-2 Nov. All in all, **while occasional rebounds are likely, the HSI will probably stay in a relatively low trading zone in the coming 2-3 weeks.**
- **Sector view:** We do not have strong preference between growth & value styles in HK, as their relative strength showed mixed performance among growth & value sectors, with Energy, Materials & Healthcare leading, and IT, Property & Consumer Discretionary lagging (Fig. 6). Considering China's policy impact (lack of good news from the Party Congress), Consumer Discretionary & Property may underperform.
- **Things to watch this week:**
  - Wednesday: US Fed's Beige Book.
  - Thursday: China Loan Prime Rate (LPR).
  - Saturday: Chinese Communist Party's 20th Congress closing.
  - US stocks' earnings, and Chinese stocks' profit alerts (3Q)

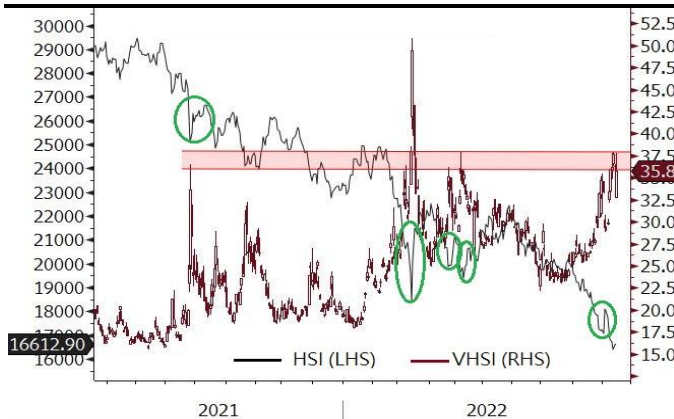
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## Charts of the Week

**Figure 1: HSI Volatility Index (VHSI) surged to 36. When VHSI reached this panic zone, HSI often had short-term rebounds**



Source: Bloomberg, CMBIGM

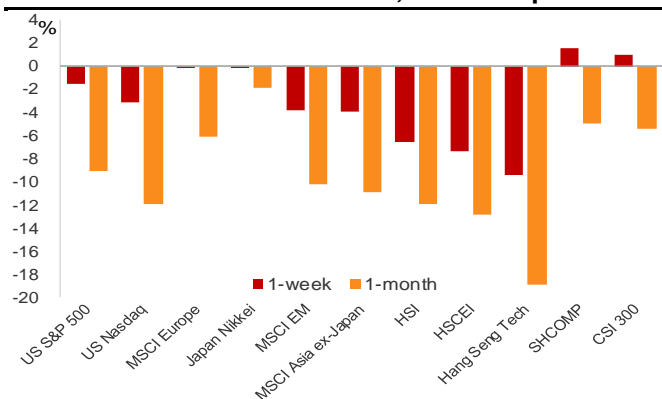
**Figure 2: HSI is on the verge of technical rebound, after falling to the bottom of downward channel, and with an RSI Triple Divergence**



Source: Bloomberg, CMBIGM, as of 2:10pm on 17 Oct

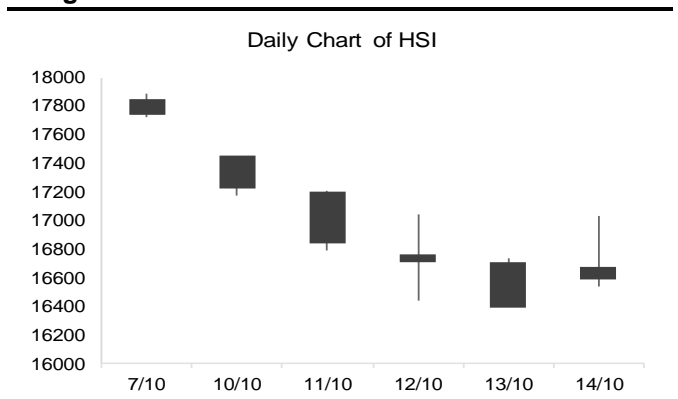
## Market Recap

**Figure 3: Weekly global markets' returns: US rate hike concerns hurt sentiments; HK underperformed**



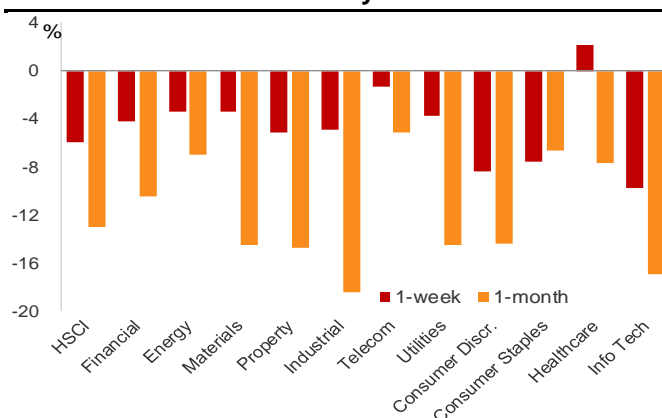
Source: Bloomberg, CMBIGM

**Figure 4: HSI dropped >1,000 pts again, nearing the trough 16170 in 2011**



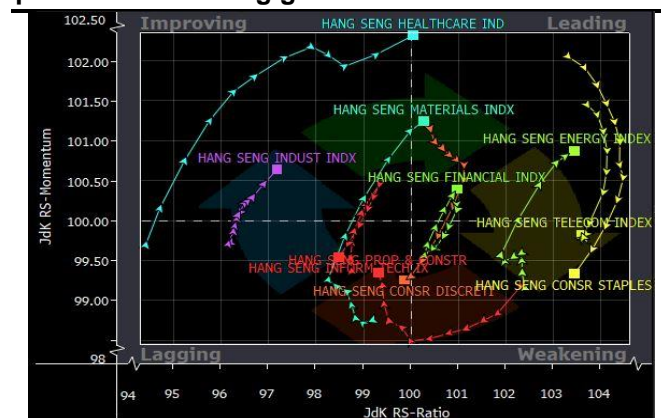
Source: Bloomberg, CMBIGM

**Figure 5: Hang Seng Composite Index sectors: IT & Consumer Discretionary led declines**



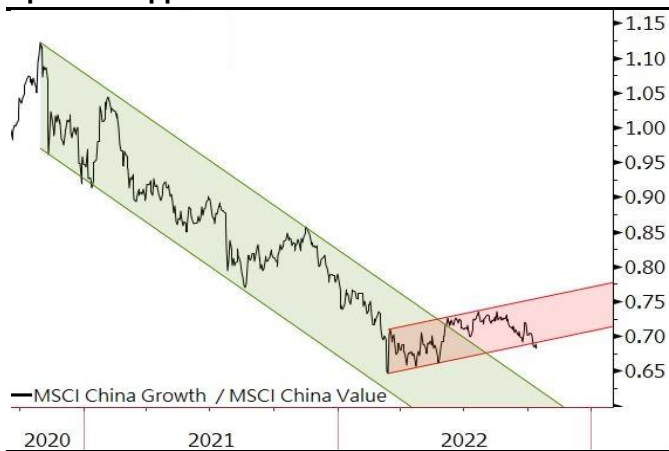
Source: Bloomberg, CMBIGM

**Figure 6: Daily RRG of HSCI shows mixed performance among growth and value sectors**

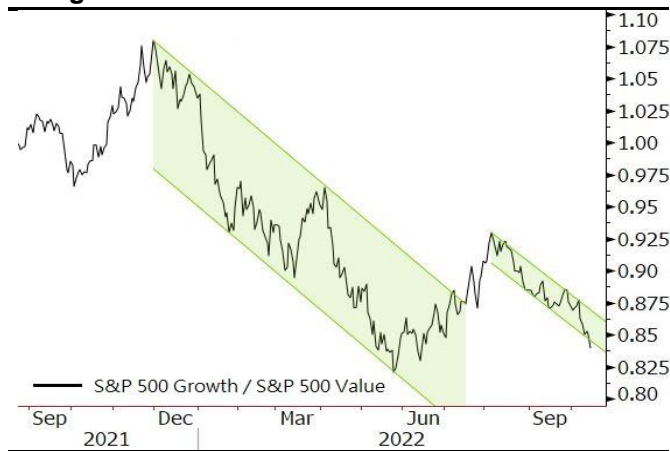


Source: Bloomberg, CMBIGM

**Figure 7: China Growth stocks have confirmed weakness relative to Value stocks, breaking the uptrend support**

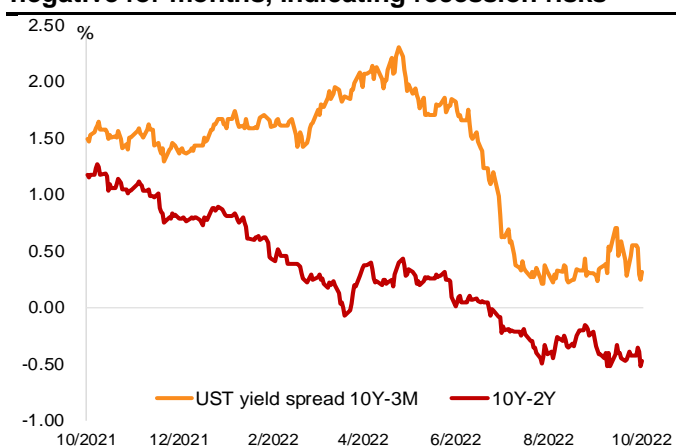


**Figure 8: US Growth stocks formed another downward channel relative to Value stocks, as rising interest rates bode ill for Growth stocks**

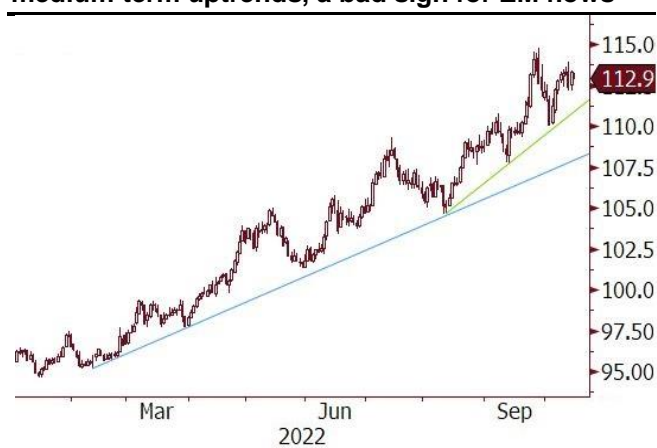


## Fund Flows

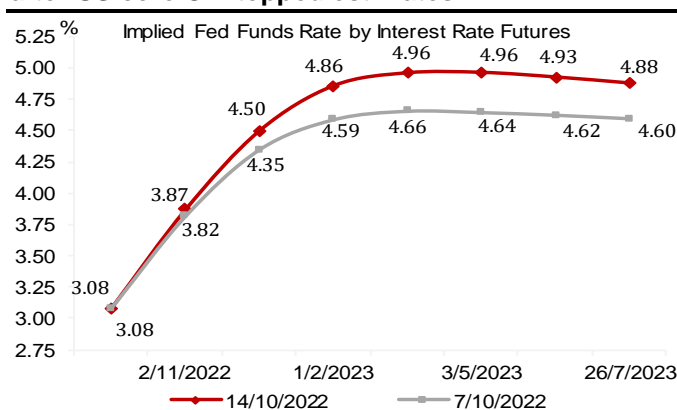
**Figure 9: UST 10-yr & 2-yr spread have been negative for months, indicating recession risks**



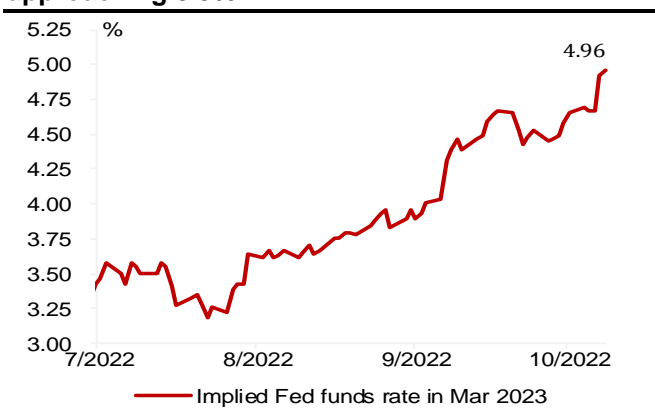
**Figure 10: USD Index still hold above short- & medium-term uptrends, a bad sign for EM flows**



**Figure 11: Fed rate hike concerns deepened further after US core CPI topped estimates**

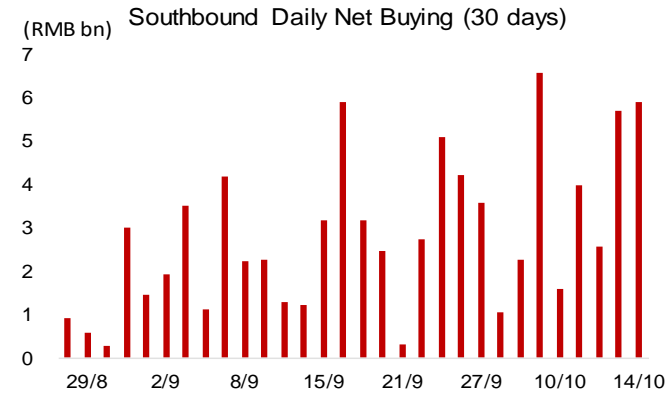


**Figure 12: Implied Fed funds rate in Mar 2023 approaching 5.0%**



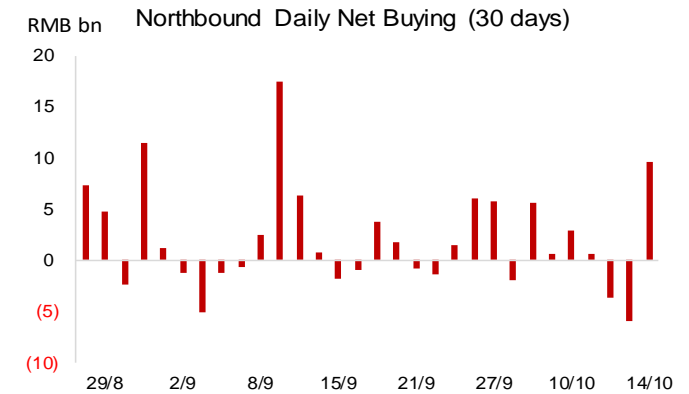
## SH/SZ-HK Stock Connect

**Figure 13: Southbound inflows rebounded in recent weeks**



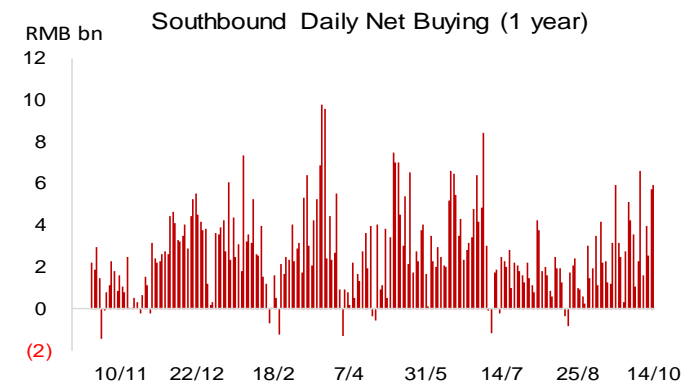
Source: Bloomberg, CMBIGM

**Figure 14: Northbound inflows fluctuated after National Holiday**



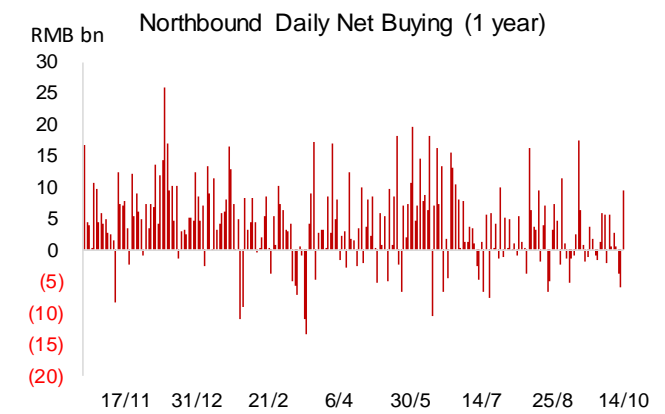
Source: Bloomberg, CMBIGM

**Figure 15: Southbound net buying rebounding since Sep**



Source: Bloomberg, CMBIGM

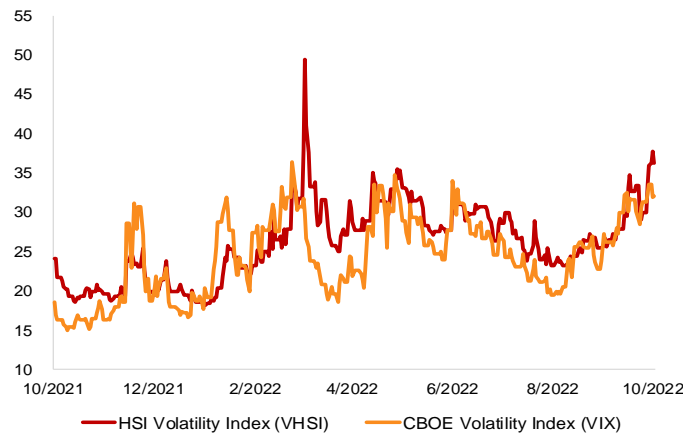
**Figure 16: Northbound inflows shrinking**



Source: Bloomberg, CMBIGM

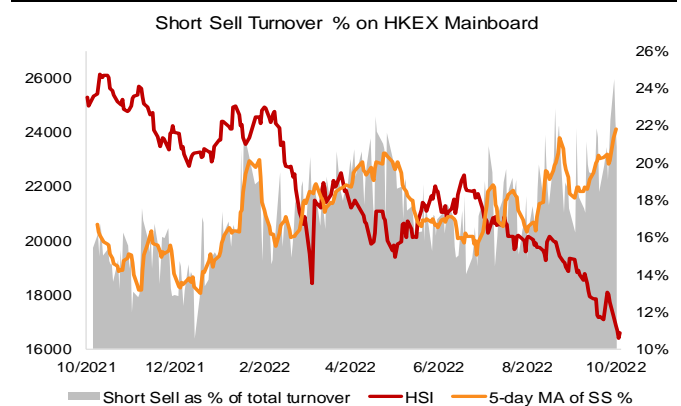
## Sentiments

**Figure 17: "Fear Index" VHSI surged to above 36**

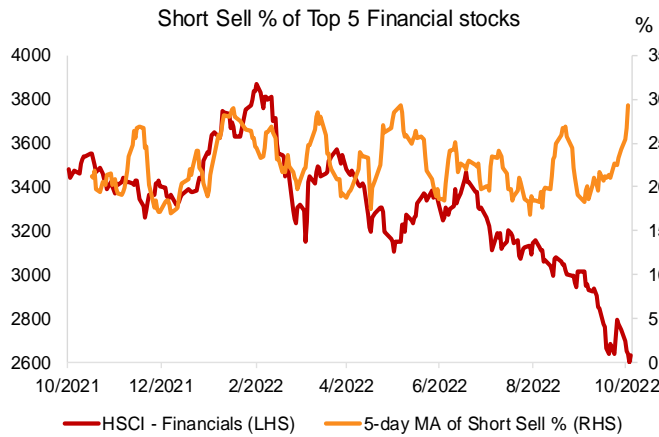


Source: Bloomberg, CMBIGM

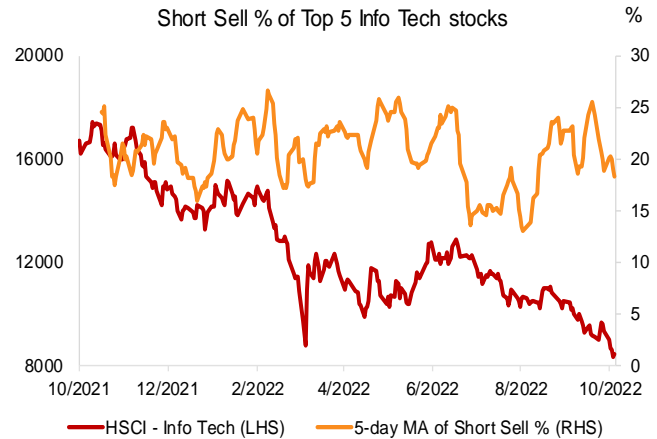
**Figure 18: Short sell % on HK mainboard still at elevated levels around 20%**



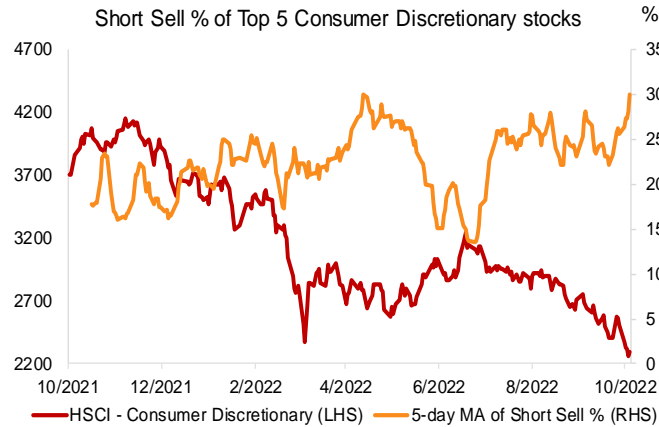
Source: Bloomberg, CMBIGM

**Figure 19: Short sell % in HK - Financials**

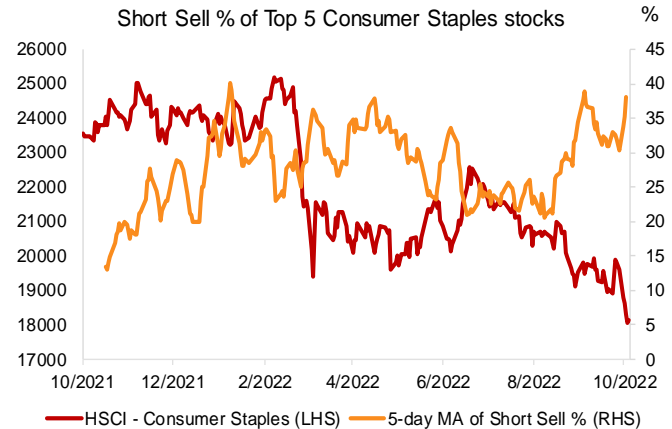
Source: Bloomberg, CMBIGM

**Figure 20: Short sell % in HK – Info Tech**

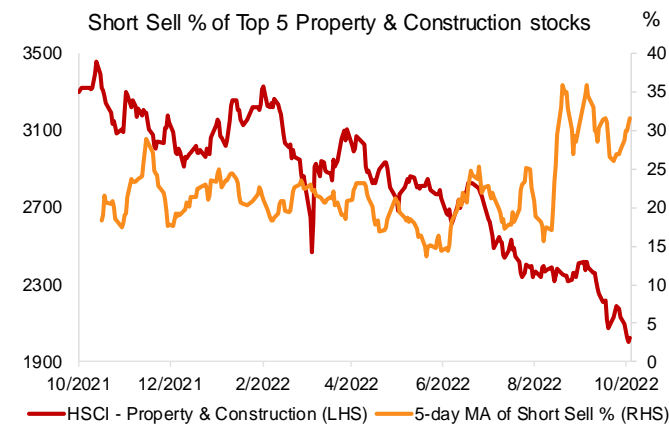
Source: Bloomberg, CMBIGM

**Figure 21: Short sell % in HK – Consumer Discretion.**

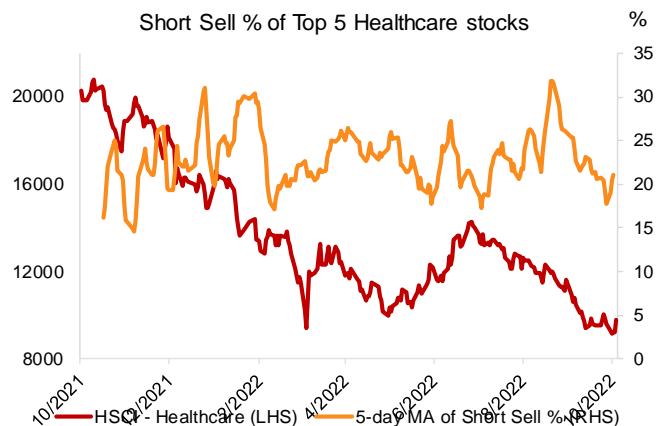
Source: Bloomberg, CMBIGM

**Figure 22: Short sell % in HK – Consumer Staples**

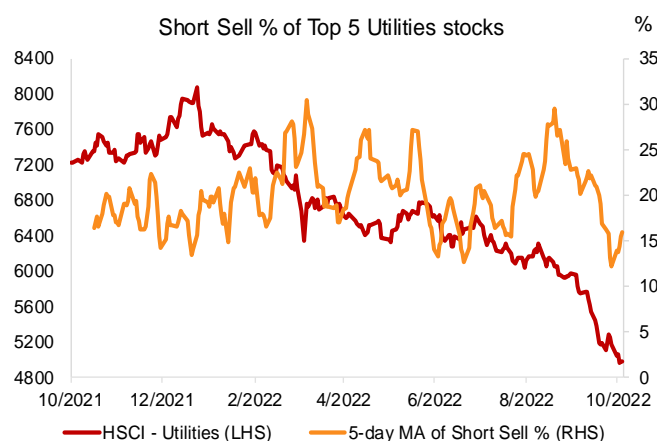
Source: Bloomberg, CMBIGM

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

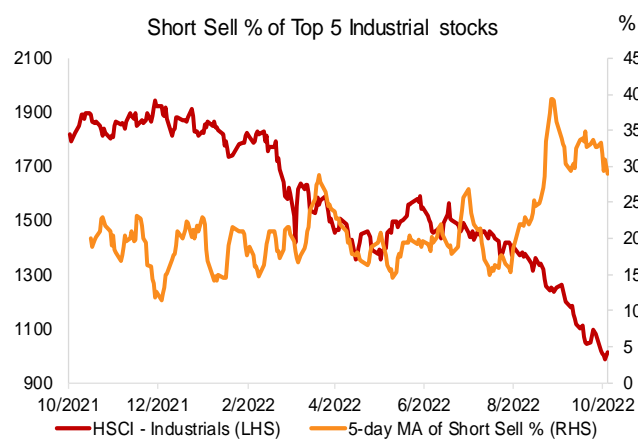
Source: Bloomberg, CMBIGM

**Figure 24: Short sell % in HK – Healthcare**

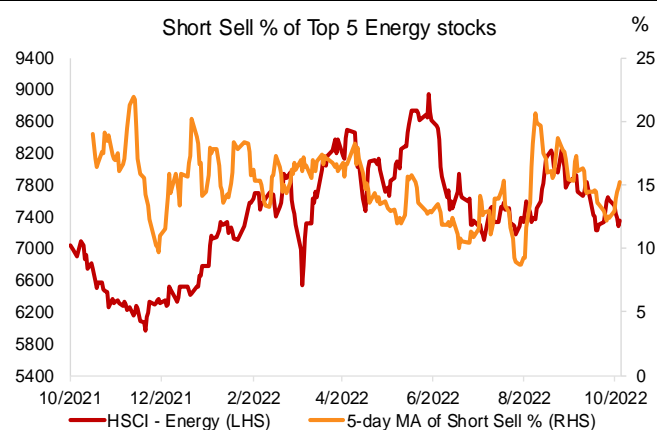
Source: Bloomberg, CMBIGM

**Figure 25: Short sell % in HK – Utilities**

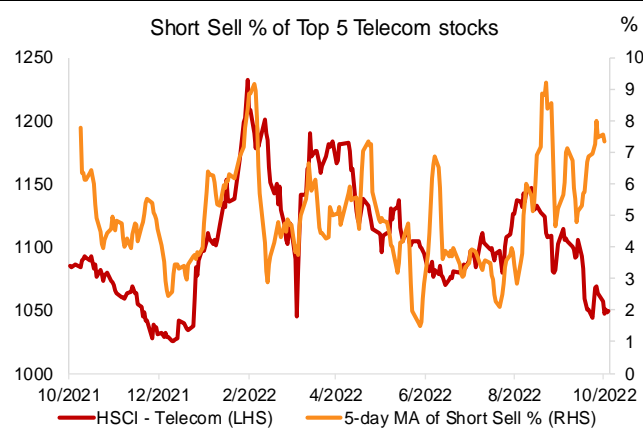
Source: Bloomberg, CMBIGM

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

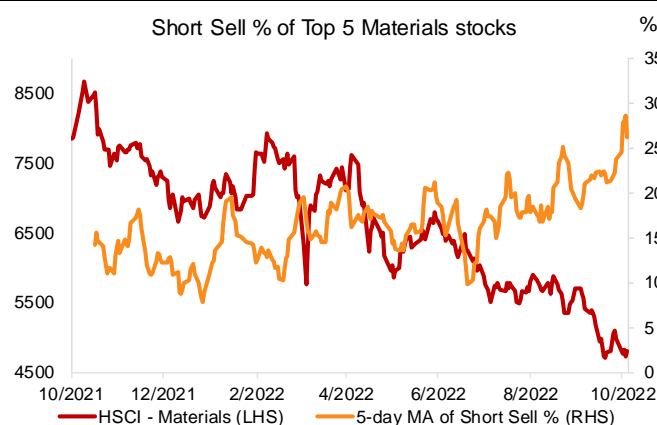
Source: Bloomberg, CMBIGM

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

Source: Bloomberg, CMBIGM

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

Source: Bloomberg, CMBIGM

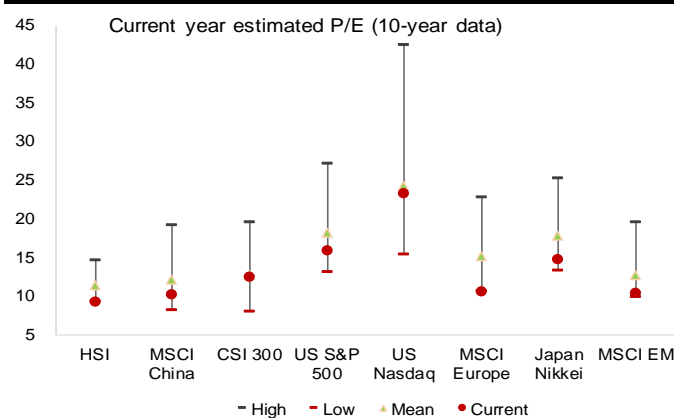
**Figure 29: Short sell % in HK – Materials**

Source: Bloomberg, CMBIGM



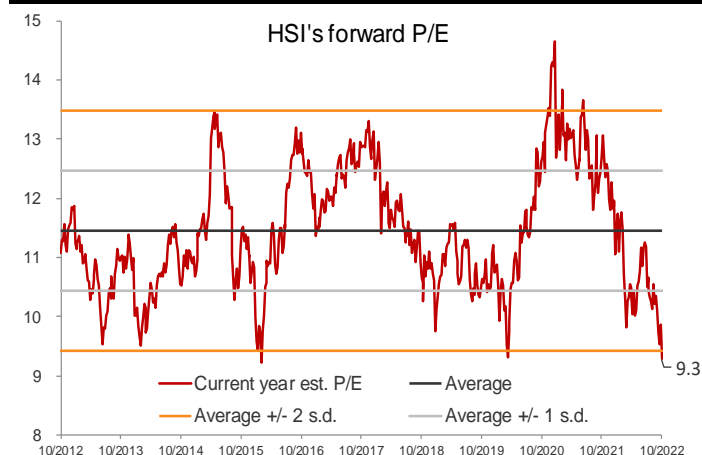
## Earnings & Valuations

**Figure 30: Major stock markets' forward P/E vs. 10-yr history**



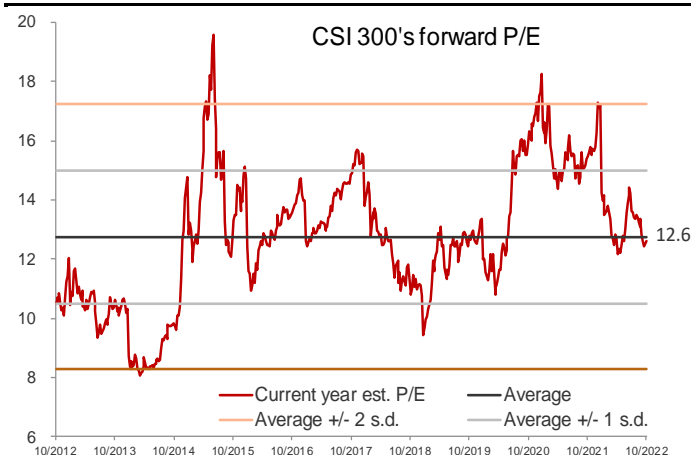
Source: Bloomberg, CMBIGM

**Figure 31: HSI's forward P/E at 2 s.d. below average**



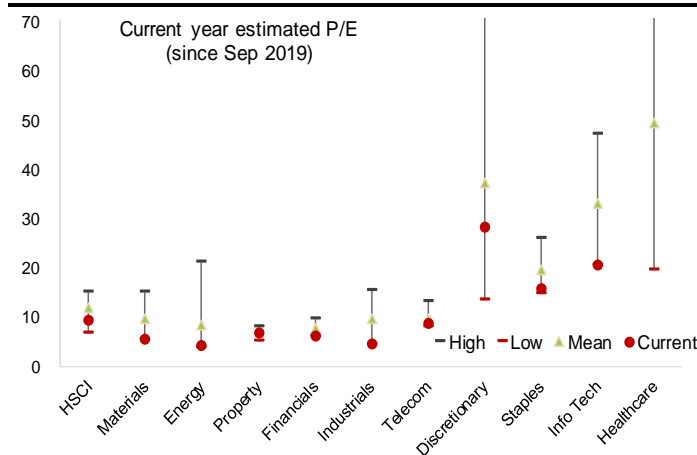
Source: Bloomberg, CMBIGM

**Figure 32: CSI 300's forward P/E at 10-yr mean**



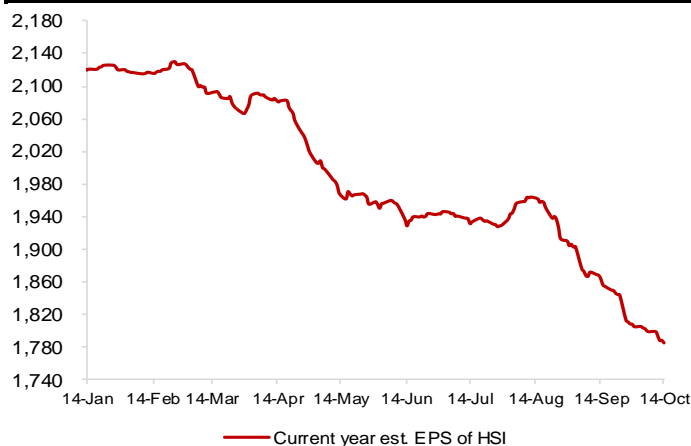
Source: Bloomberg, CMBIGM

**Figure 33: Many HSCI sectors' P/E are near troughs**



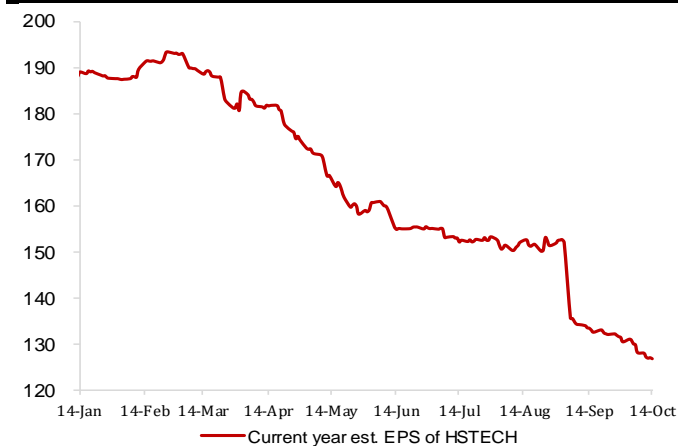
Source: Bloomberg, CMBIGM

**Figure 34: EPS estimates of HSI were revised down by 0.8% last week, due largely to RMB depreciation**



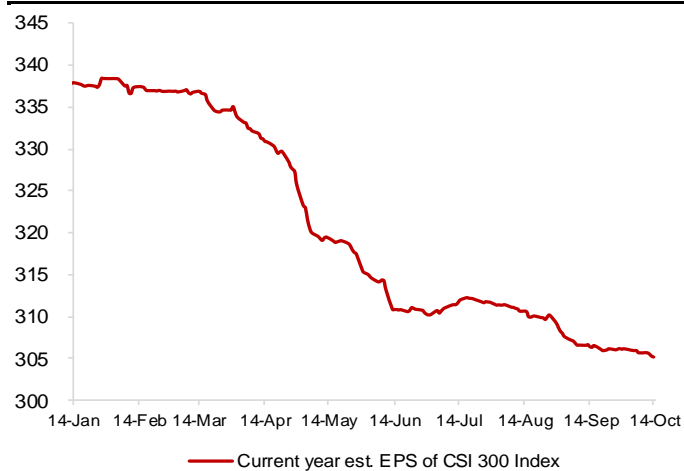
Source: Bloomberg, CMBIGM

**Figure 35: EPS estimates of HSTECH Index were revised down by 1.0% last week**



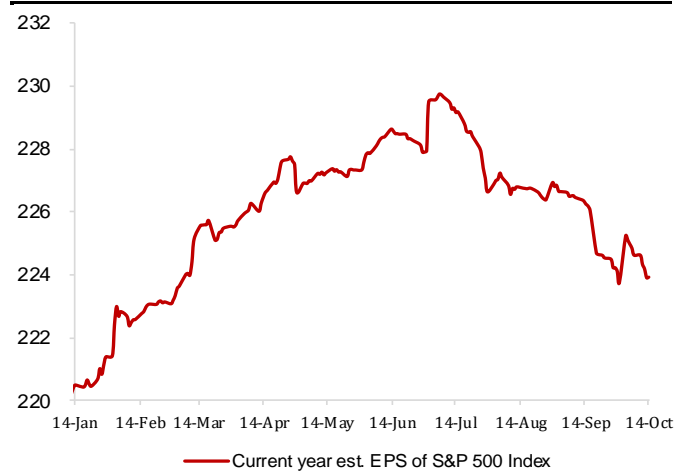
Source: Bloomberg, CMBIGM

**Figure 36: EPS estimates of A-shares were revised down by 0.2% last week**



Source: Bloomberg, CMBIGM

**Figure 37: EPS estimates of US S&P 500 were revised down by 0.3% last week**



Source: Bloomberg, CMBIGM



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