

China / HK Market Weekly

Turnover dwindled amidst uncertainties

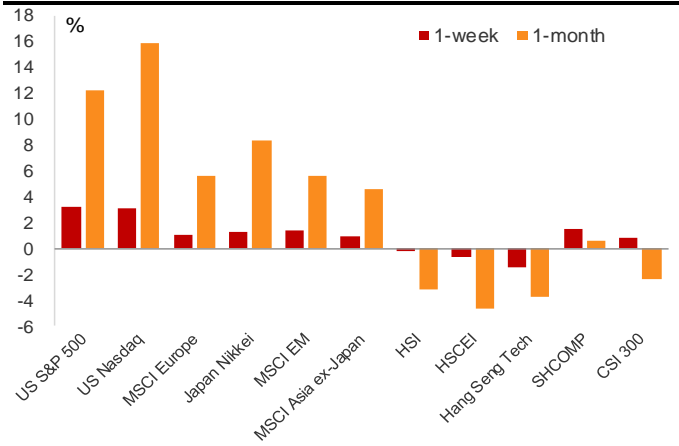
Last week (8-12 Aug), China / HK stock markets underperformed the US market again with turnover shrinking. We believe short-term upside in Chinese stocks is limited, due to property market risk, COVID resurgence and China-US tension. On the plus side, earnings consensus of the HSI bottoming out and undemanding valuations should offer some downside protection. Commodity, Industrial & Technology Hardware stocks may outperform in the short term, while we remain cautious on Chinese Property & Banking sectors.

- **Market recap:** The HSI / CSI 300 were -0.1% / +0.8% last week, underperforming the US market for the sixth straight week (Fig. 1). Turnover in HK has been anaemic over the past few weeks, and fell to three-month low last Friday. By sector, Energy & Materials gained as commodity prices rebounded, and Telecom also outperformed on strong interim results (Fig. 3-4). China Internet ETF recorded outflows for five weeks in a row (Fig. 11).
- **Interest rates:** The US inflation expectations fell slightly further last week, as both CPI & PPI inflations were below estimates in Jul. But implied Fed funds rate did not change much (Fig. 7,9,10). The FOMC minutes to be released this Wednesday might shed some light on rate outlook.
- **Sentiment:** Risk indicators somewhat improved in HK stock market, as “Fear Index” VHSI retreated further to a six-month low, while the short-sell ratio on HK mainboard dropped to below 17% (Fig. 19 & 20). By sector, short-sell ratio increased in Energy, Utilities & Industrials, and dropped in IT & Property.
- **Earnings:** FY22E EPS consensuses of the HSI were revised up for two weeks in a row, by 0.3% last week (Fig. 36), driven by Healthcare, Commodities & Telecom sectors (Fig. 40). On the contrary, EPS estimates of the US S&P 500 were revised down by 0.2%, and is 1.3% off the peak in early Jul (Fig. 39).
- **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, resurgence in COVID cases in China, and China-US tension (highlighted by five large SOEs’ announced plan last Friday of delisting from the US). On the plus side, earnings consensus of the HSI seems to be bottoming out, and coupled with undemanding valuations, should offer some downside protection. **Chinese Commodity, Industrial & Technology Hardware stocks may outperform in the short term**, thanks to upbeat US payrolls and consumer sentiment which eased recession fears. We **remain cautious on Chinese Property & Banking sectors** before substantial supportive policies on the housing market are announced.
- **Things to watch this week:**
 - Monday: China’s FAI, industrial production & retail sales (Jul).
 - Wednesday: US FOMC minutes, retail sales (Jul), UK CPI & PPI (Jul).
 - Thursday: Eurozone CPI (Jul).
 - Friday: Results of quarterly review of the Hang Seng Family of Indexes.
 - HK & US stocks’ earnings reports.

Daniel So, CFA
 (852) 3900 0857
 danielso@cmbi.com.hk

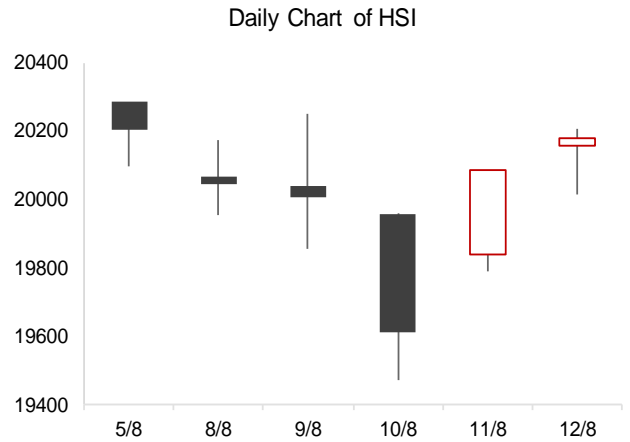
Market Recap

Figure 1: Weekly global markets' returns: US led gains; HK declined



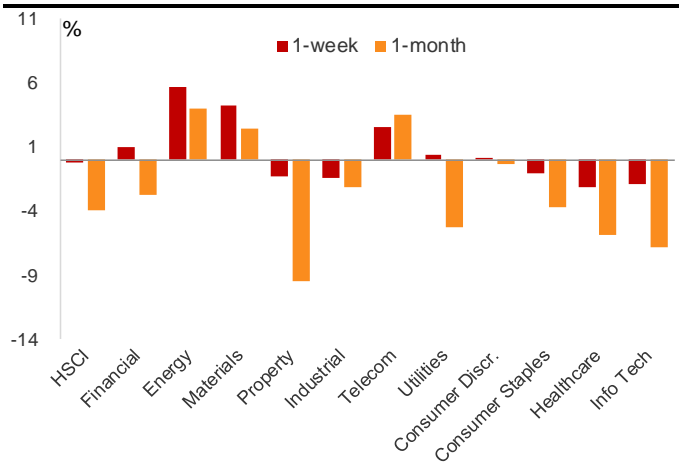
Source: Bloomberg, CMBIGM

Figure 2: HSI fluctuating at around 20,000



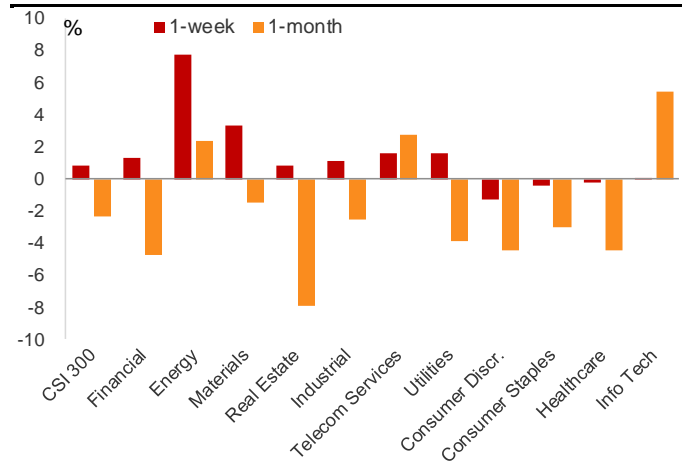
Source: Bloomberg, CMBIGM

Figure 3: Hang Seng Composite Index sectors: Telecom & Commodities gained



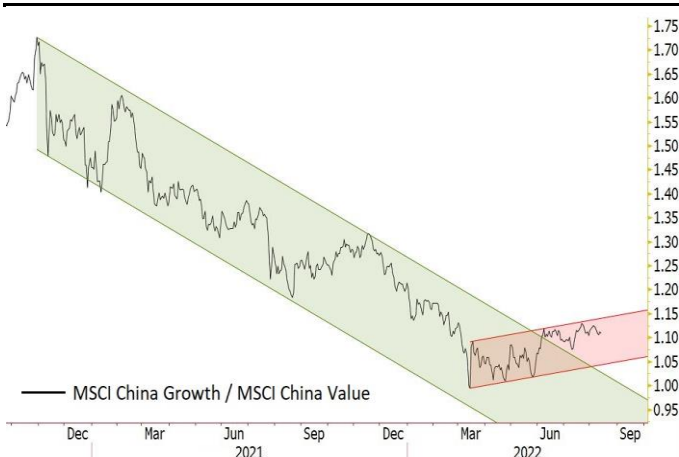
Source: Bloomberg, CMBIGM

Figure 4: CSI 300 Index sectors: Energy & Materials led gains



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

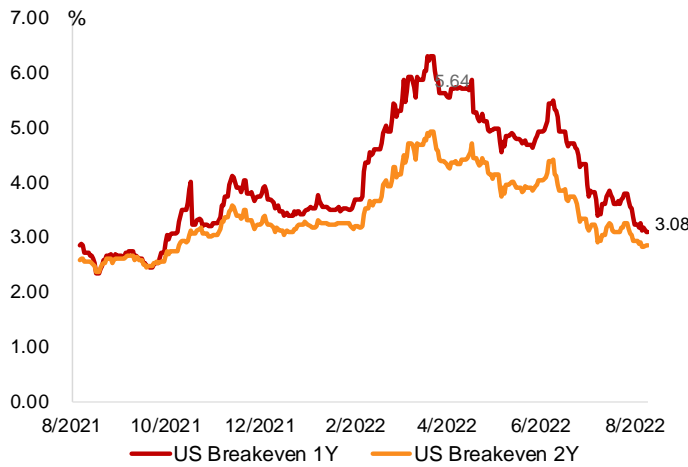
Figure 6: US Growth stocks outperformed Value in recent months, breaking a downtrend on the chart of relative performance



Source: Bloomberg, CMBIGM

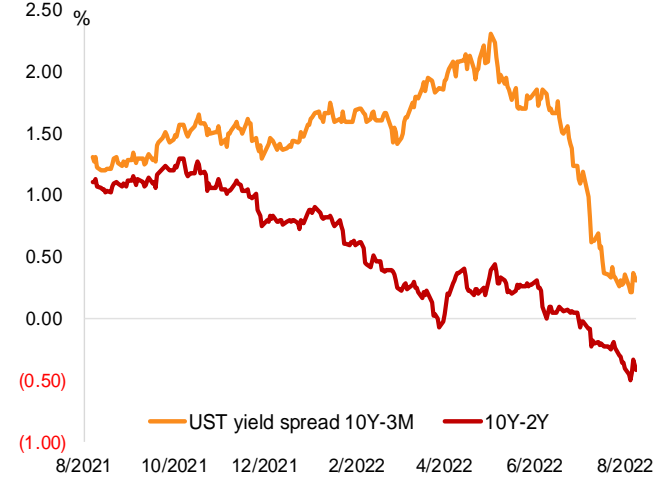
Fund Flows

Figure 7: US inflation expectations easing since Apr



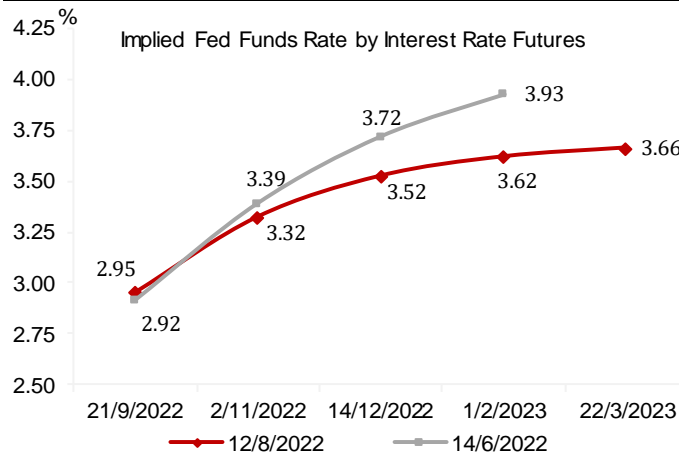
Source: Bloomberg, CMBIGM

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



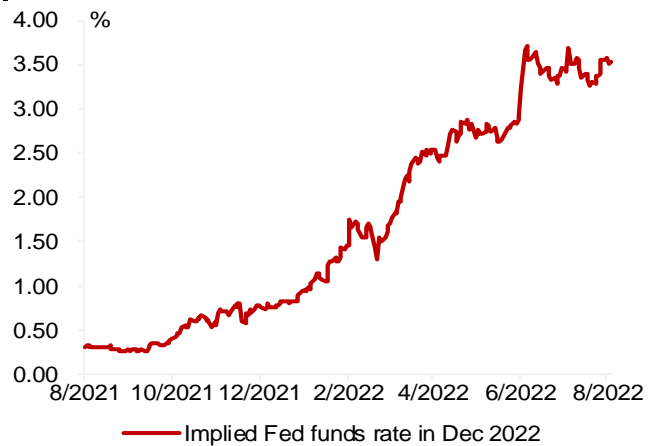
Source: Bloomberg, CMBIGM

Figure 9: Expectations of Fed funds rate hike cooled since mid-Jun



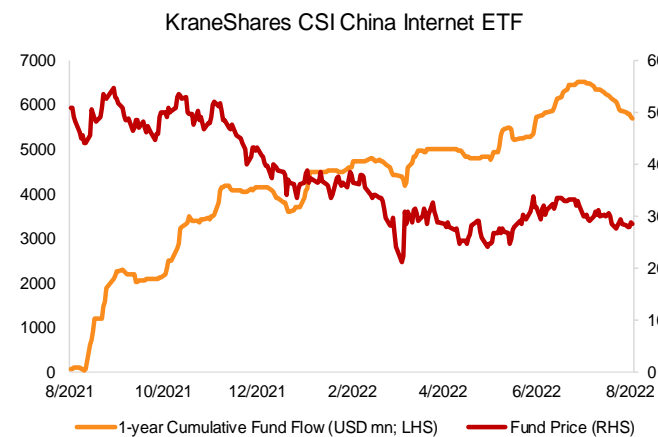
Source: Bloomberg, CMBIGM

Figure 10: Implied Fed funds rate in Dec 2022 fell by 4 bps last week to 3.52%



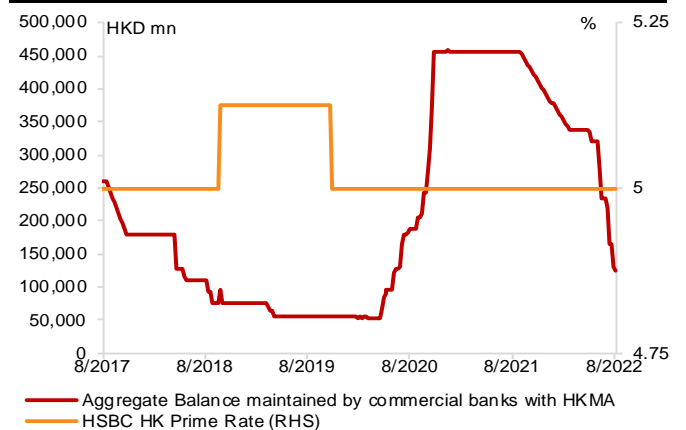
Source: Bloomberg, CMBIGM

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



Source: Bloomberg, CMBIGM

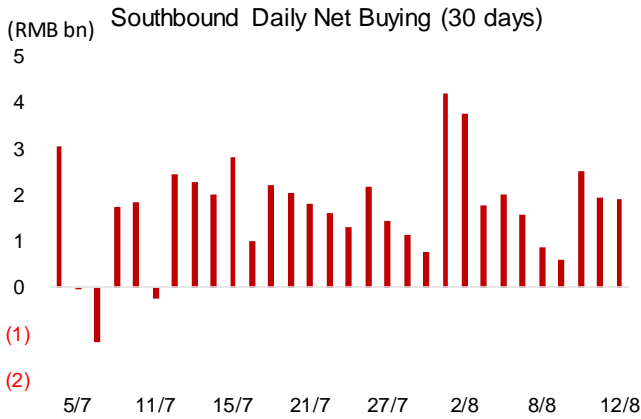
Figure 12: HKMA aggregate balance dropped to HK\$125bn. Commercial banks might raise lending rates when the balance dropped to below HK\$100bn



Source: Bloomberg, CMBIGM

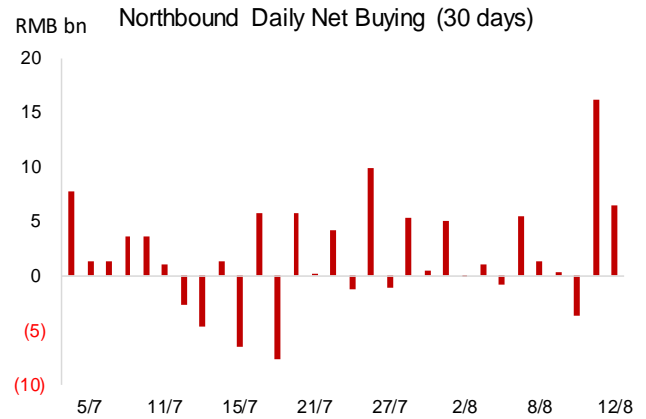
SH/SZ-HK Stock Connect

Figure 13: Southbound inflows remained mild



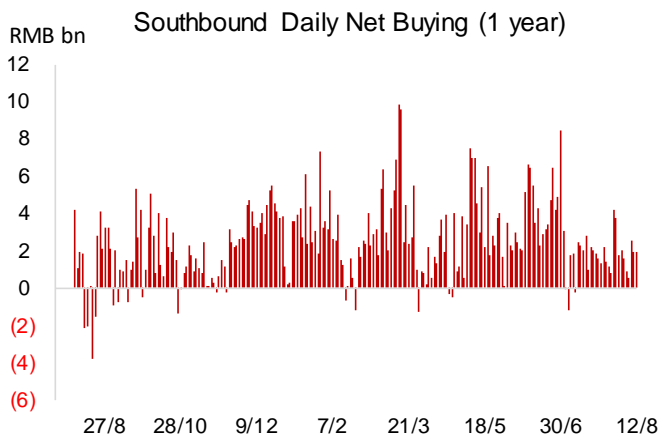
Source: Bloomberg, CMBIGM

Figure 14: Northbound inflows jumped last week



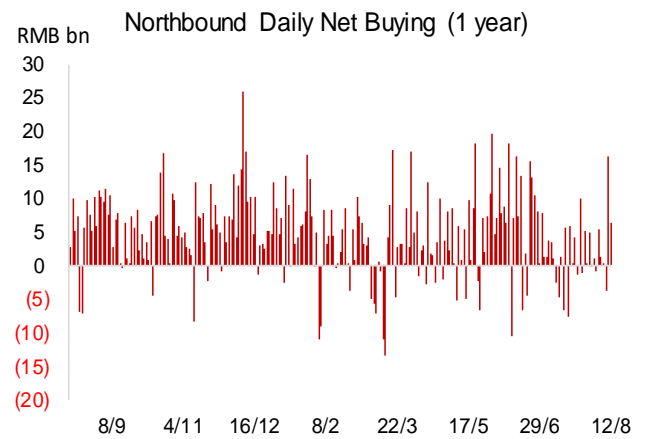
Source: Bloomberg, CMBIGM

Figure 15: Southbound net buying slowed down since Jul



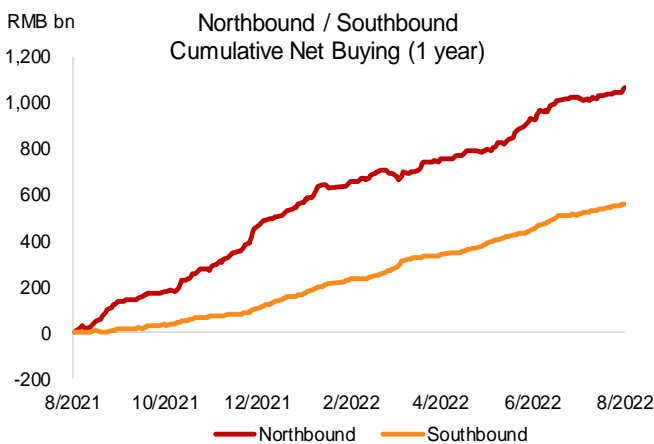
Source: Bloomberg, CMBIGM

Figure 16: Northbound net buying slowed down since Jul



Source: Bloomberg, CMBIGM

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



Source: Bloomberg, CMBIGM

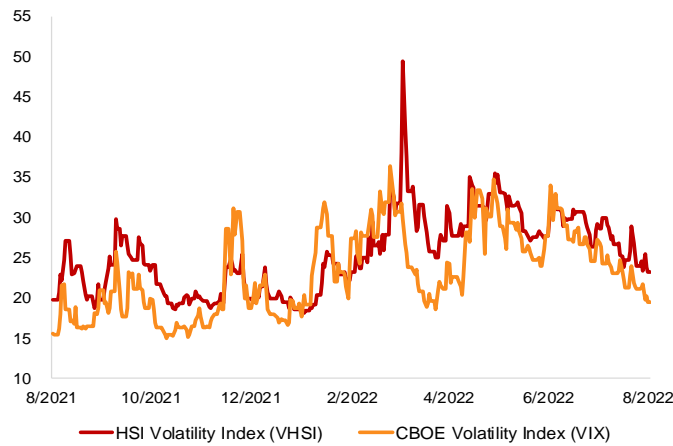
Figure 18: AH premium remained elevated



Source: Bloomberg, CMBIGM

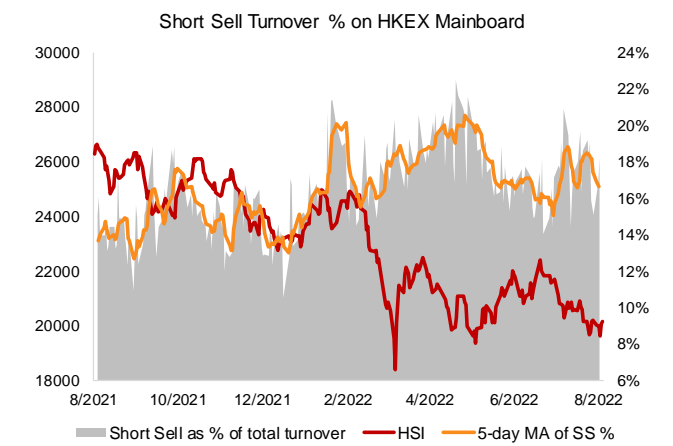
Sentiments

Figure 19: “Fear Index” VHSI retreated further to 23.2, a six-month low, despite the HSI going down



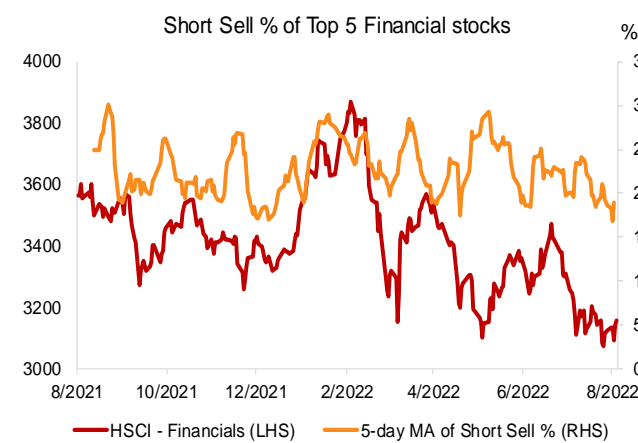
Source: Bloomberg, CMBIGM

Figure 20: Short sell % on HK mainboard dropped to below 17%



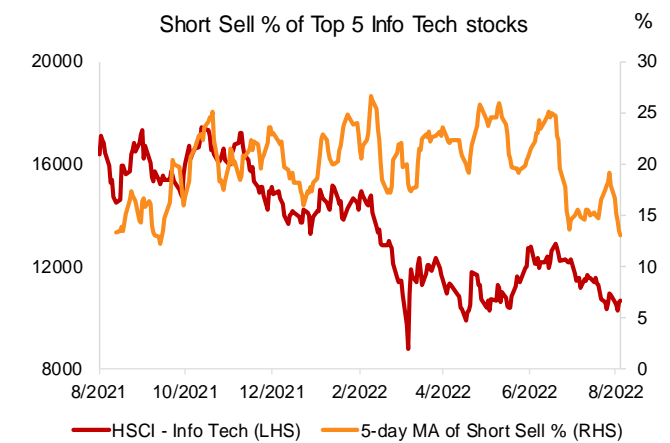
Source: Bloomberg, CMBIGM

Figure 21: Short sell % in HK - Financials



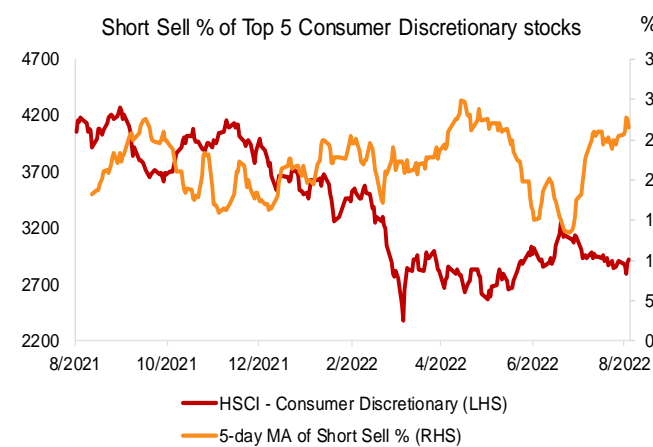
Source: Bloomberg, CMBIGM

Figure 22: Short sell % in HK – Info Tech



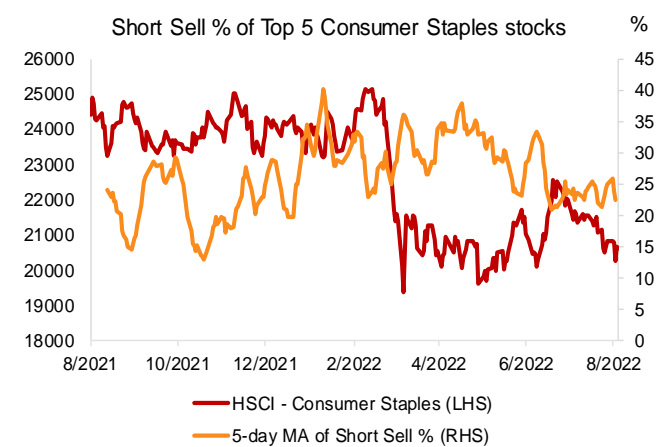
Source: Bloomberg, CMBIGM

Figure 23: Short sell % in HK – Consumer Discretionary



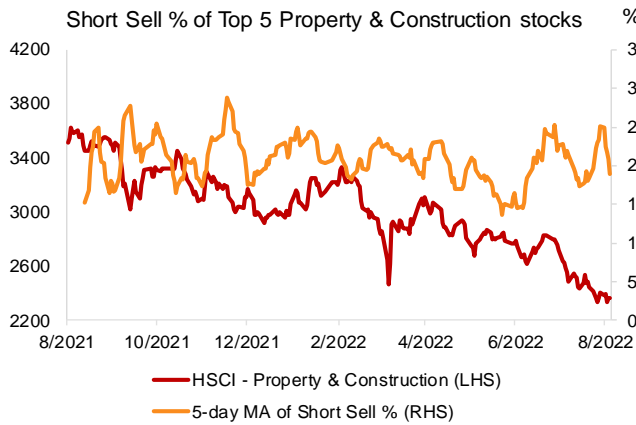
Source: Bloomberg, CMBIGM

Figure 24: Short sell % in HK – Consumer Staples



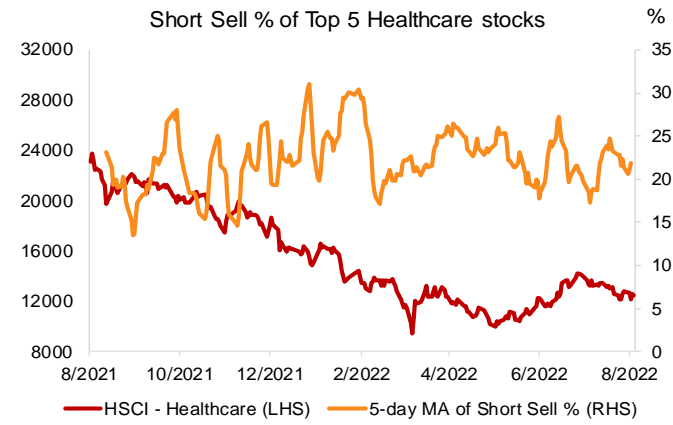
Source: Bloomberg, CMBIGM

Figure 25: Short sell % in HK - Property



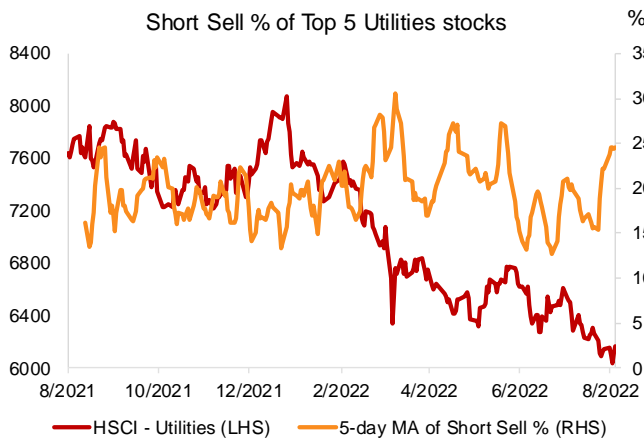
Source: Bloomberg, CMBIGM

Figure 26: Short sell % in HK – Healthcare



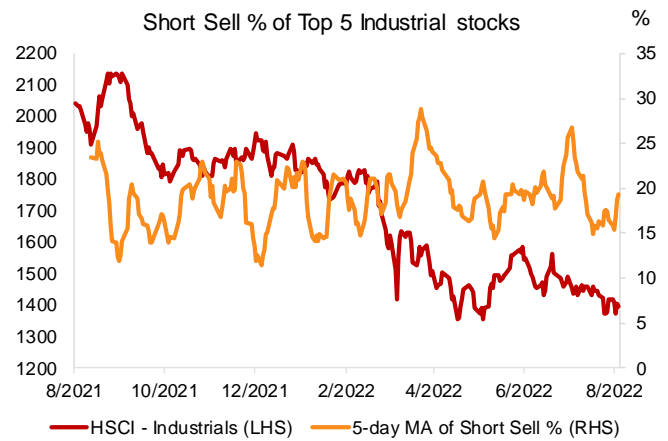
Source: Bloomberg, CMBIGM

Figure 27: Short sell % in HK – Utilities



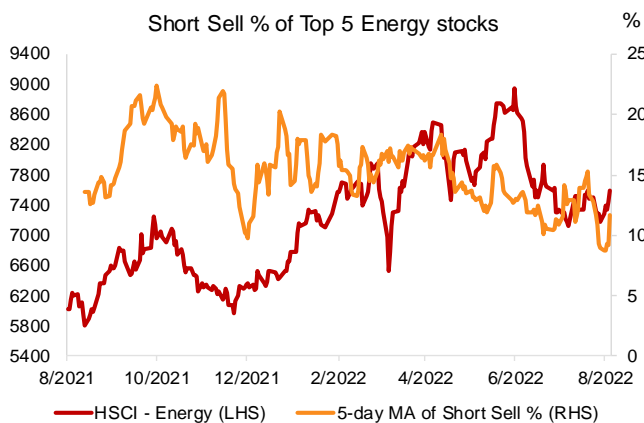
Source: Bloomberg, CMBIGM

Figure 28: Short sell % in HK – Industrials



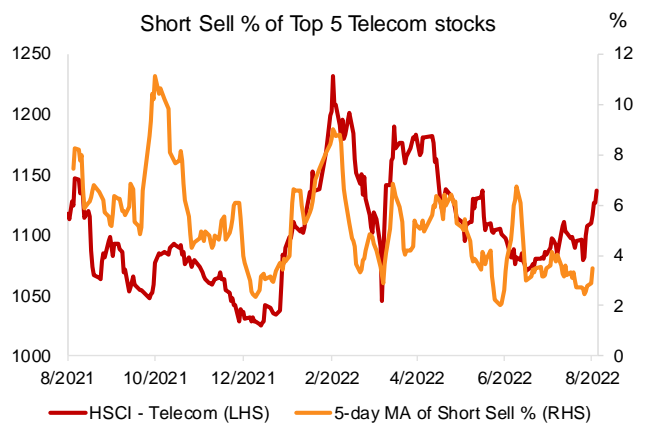
Source: Bloomberg, CMBIGM

Figure 29: Short sell % in HK – Energy



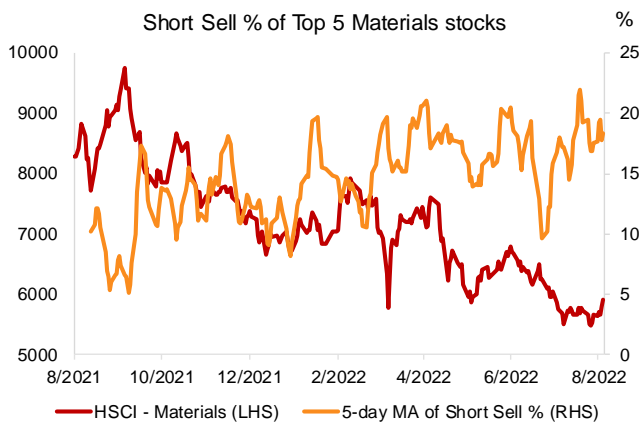
Source: Bloomberg, CMBIGM

Figure 30: Short sell % in HK – Telecom



Source: Bloomberg, CMBIGM

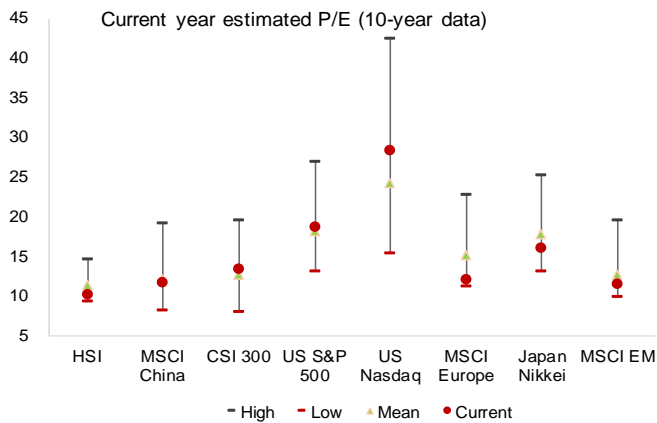
Figure 31: Short sell % in HK – Materials



Source: Bloomberg, CMBIGM

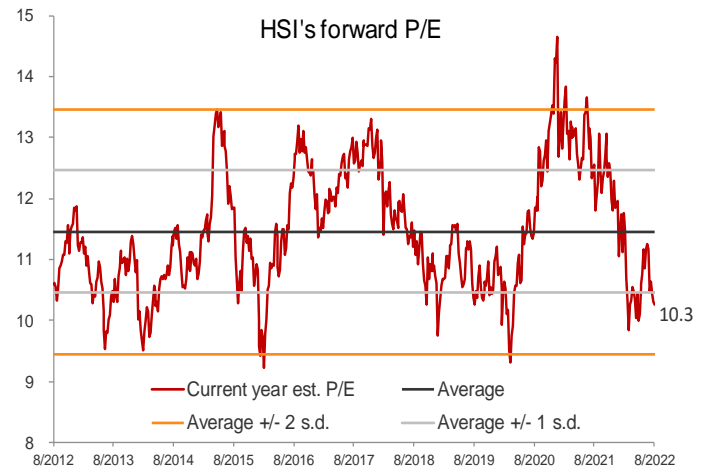
Earnings & Valuations

Figure 32: US stocks' P/E rose to above 10-yr mean again after gains in the past few weeks



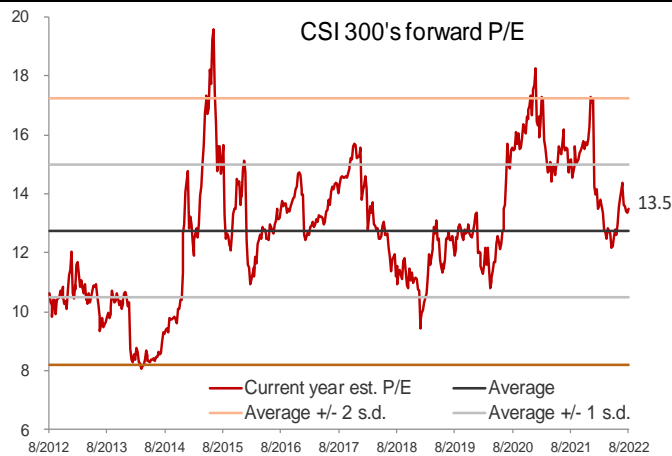
Source: Bloomberg, CMBIGM

Figure 33: HSI's forward P/E at 1 s.d. below 10-yr mean



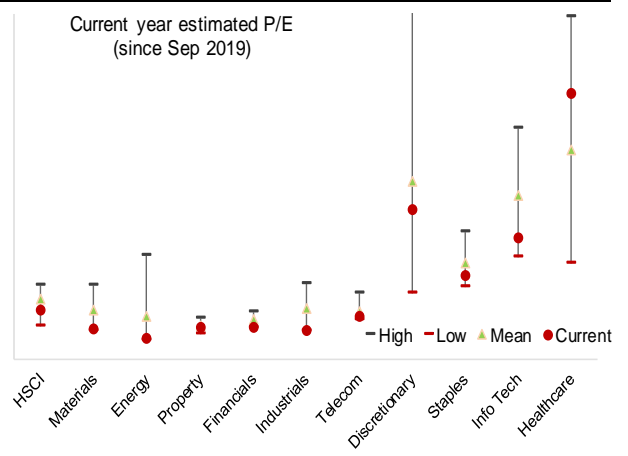
Source: Bloomberg, CMBIGM

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



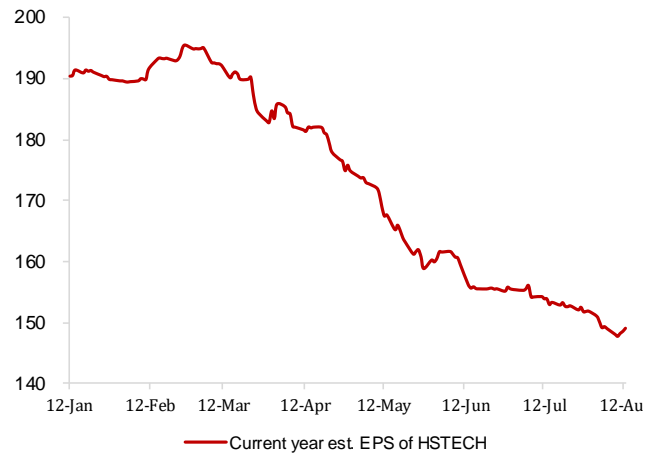
Source: Bloomberg, CMBIGM

Figure 36: EPS estimates of HSI were revised up for two weeks in a row, by 0.3% last week



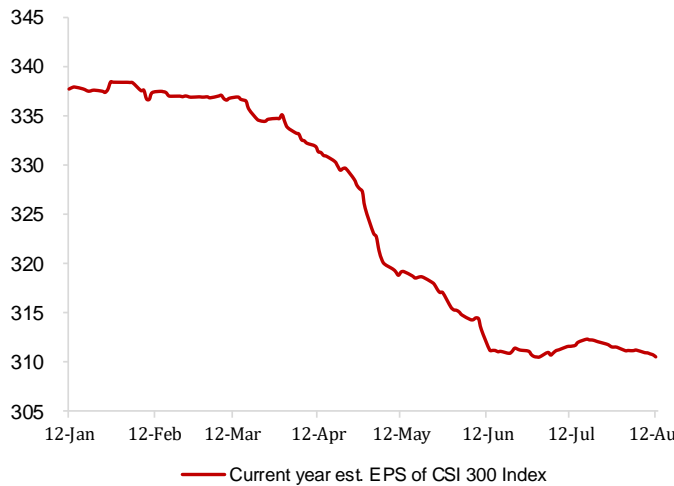
Source: Bloomberg, CMBIGM

Figure 37: EPS estimates of HSTECH Index were largely unchanged last week



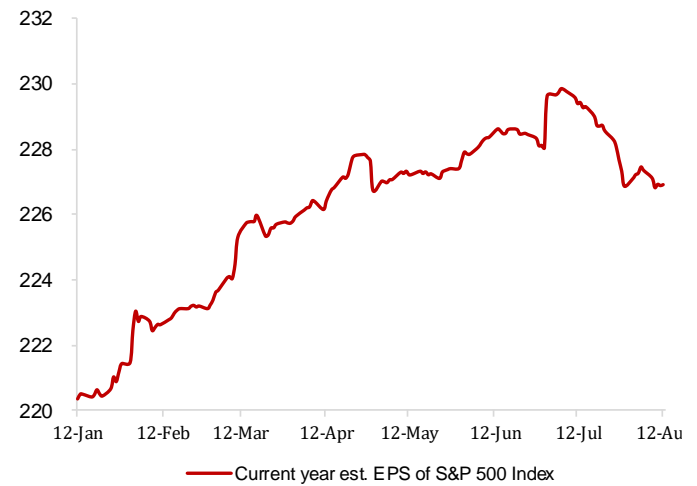
Source: Bloomberg, CMBIGM

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



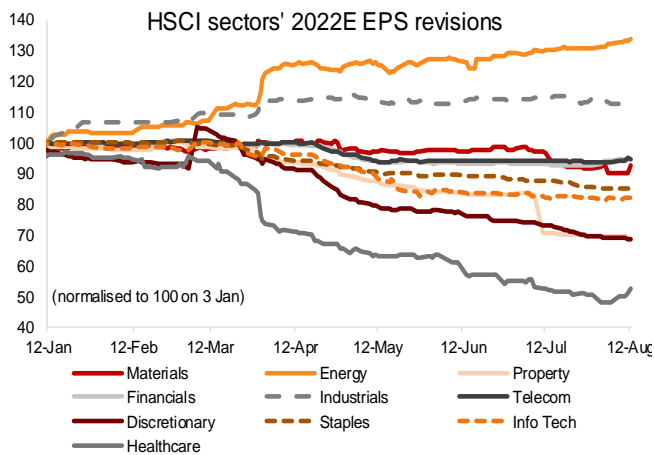
Source: Bloomberg, CMBIGM

Figure 39: EPS estimates of US S&P 500 went down by 0.2% last week, and 1.3% off the peak in early Jul



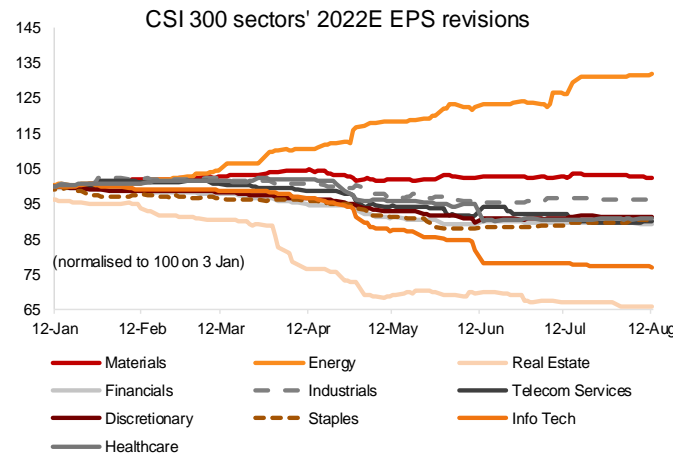
Source: Bloomberg, CMBIGM

Figure 40: HK earnings revision: Healthcare, Telecom & Commodities up



Source: Bloomberg, CMBIGM

Figure 41: A-shares earnings revision: Most sectors were largely unchanged



Source: Bloomberg, CMBIGM

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

BUY : Stock with potential return of over 15% over next 12 months
HOLD : Stock with potential return of +15% to -10% over next 12 months
SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIGM

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.