

China / HK Market Weekly

Audit deal bodes well for China Internet sector

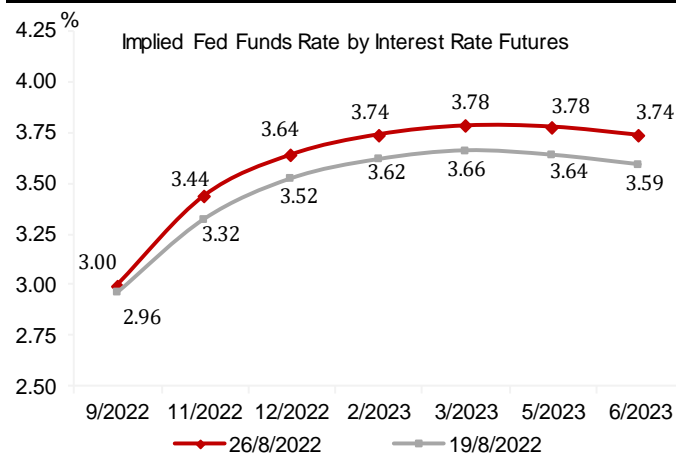
Last week (22-26 Aug), HK stock market gained as China's State Council rolled out targeted measures to tackle economic challenges, and China and the US struck an audit deal which eased delisting risks of US-listed Chinese stocks. This week, investors will monitor economic data of China and the US, in particular PMI and the US non-farm payrolls, to gauge the recovery momentum of China and Fed funds rate outlook. We prefer Chinese Internet and Consumer Staples stocks, and remain cautious on Property and Banking sectors.

- **Market recap:** The HSI / CSI 300 / S&P 500 were +2.0% / -1.1% / -4.0% last week (Fig. 3). By sector, Energy led gains in both H-shares and A-shares, while IT also surged in HK on the China-US audit deal (Fig. 5).
- **Interest rates:** Fed Chair Powell's speech at the Jackson Hole Symposium last Friday was seen as hawkish, and stoked up rate hike fears. He stressed that the *"costs of bringing down inflation are likely to increase with delay"*, that the Fed is *"taking forceful and rapid steps to moderate demand"*, and cautioned *"against prematurely loosening policy"*. Implied Fed funds rate in Dec 2022 surged to the highest since mid-Jun (Fig. 1 & 2).
- **Sentiment:** "Fear Index" VHSI rebounded from a six-month low, while the short-sell ratio on HK Main Board rose to above 19%, a three-month high (Fig. 20 & 21). By sector, short-sell ratio increased notably in Financials, IT, Property & Utilities, and dropped in Energy.
- **Earnings:** FY22E EPS consensus of HSI / HSTECH / CSI 300 were revised down by 1.7% / 0.4% / 0.2% last week (Fig. 37-39). The cut in HSI EPS consensus was partly due to a 1% depreciation in RMB, in our view. By sector in HK, Financials, Property, Healthcare & Consumer were revised down, while Energy got upward revision (Fig. 41).
- **Market outlook & sector views:** Following the China-US audit agreement, we believe the **sentiment in China Internet sector would improve**, and investors can shift their focus on earnings recovery in 2H, but we do note that some uncertainties remain in the execution of the agreement in the coming months. **We also like Consumer Staples sector**, as China's PPI-CPI gap is narrowing which should ease the profit margin pressure for consumer stocks. On the flip side, **China's property market weakness still poses risks to Property and Banking sectors**.
- **Things to watch this week:**
 - Wednesday: China NBS manufacturing PMI (Aug).
 - Thursday: China Caixin manufacturing PMI (Aug); US ISM manufacturing PMI (Aug).
 - Friday: US non-farm payrolls & unemployment rate (Aug).
 - HK stocks' earnings reports.

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

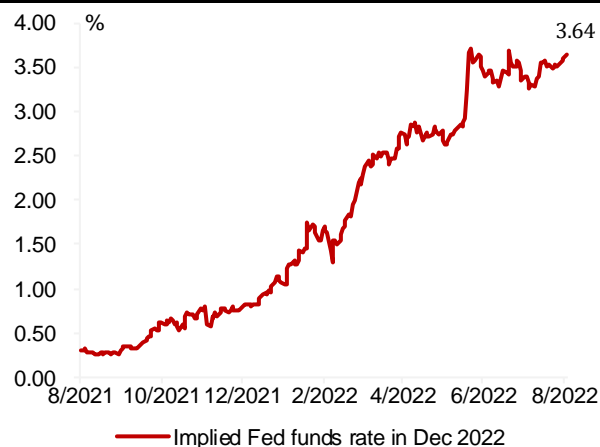
Charts of the Week

Figure 1: Fed Chair Powell’s speech at Jackson Hole stoked up rate hike fears



Source: Bloomberg, CMBIGM

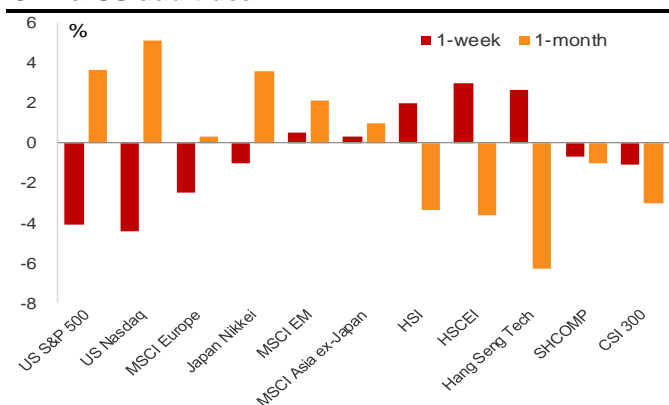
Figure 2: Implied Fed funds rate in Dec 2022 surged to highest since mid-Jun



Source: Bloomberg, CMBIGM

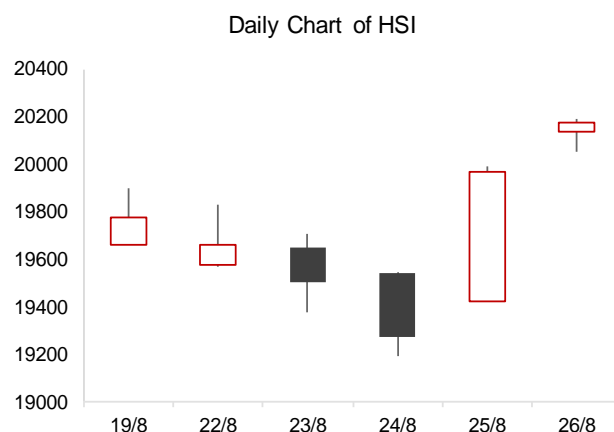
Market Recap

Figure 3: Weekly global markets’ returns: HK stocks gained on China’s pro-growth policies and China-US audit deal



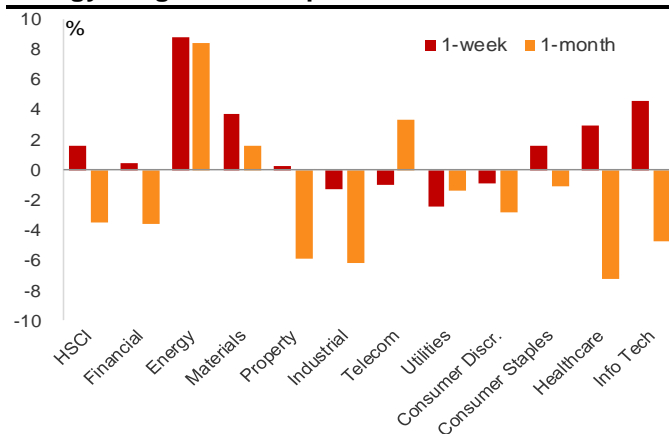
Source: Bloomberg, CMBIGM

Figure 4: HSI still hovering around 20,000



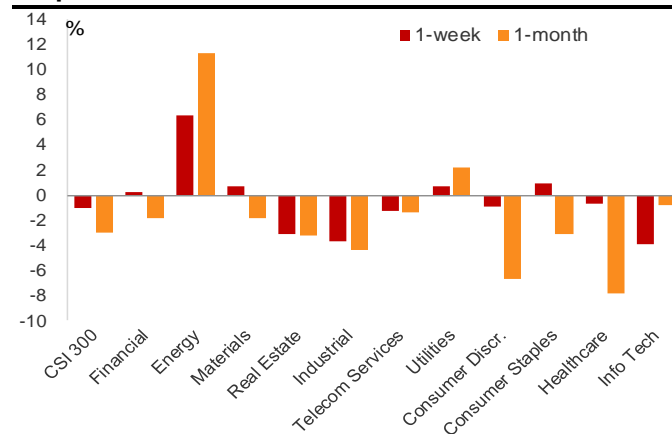
Source: Bloomberg, CMBIGM

Figure 5: Hang Seng Composite Index sectors: Energy led gains as oil prices rebounded



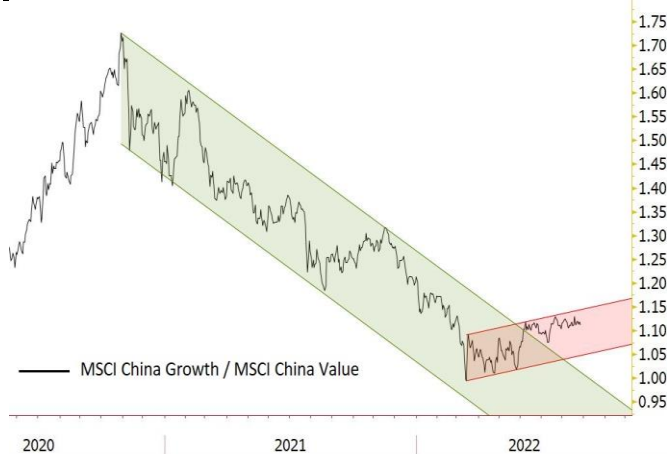
Source: Bloomberg, CMBIGM

Figure 6: CSI 300 Index sectors: Energy led gains as oil prices rebounded



Source: Bloomberg, CMBIGM

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



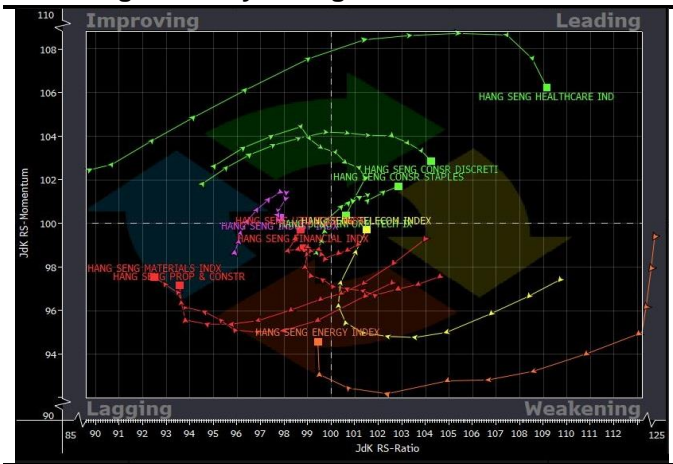
Source: Bloomberg, CMBIGM

Figure 8: US Growth stocks outperformed Value in recent months, breaking a downtrend on the chart of relative performance



Source: Bloomberg, CMBIGM

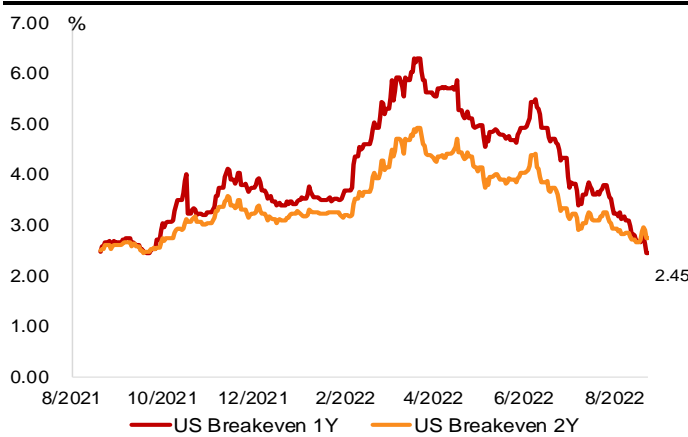
Figure 9: Healthcare, Consumer & IT sectors in "Leading" zone in weekly Relative Rotation Graph, indicating relatively strong momentum



Source: Bloomberg, CMBIGM

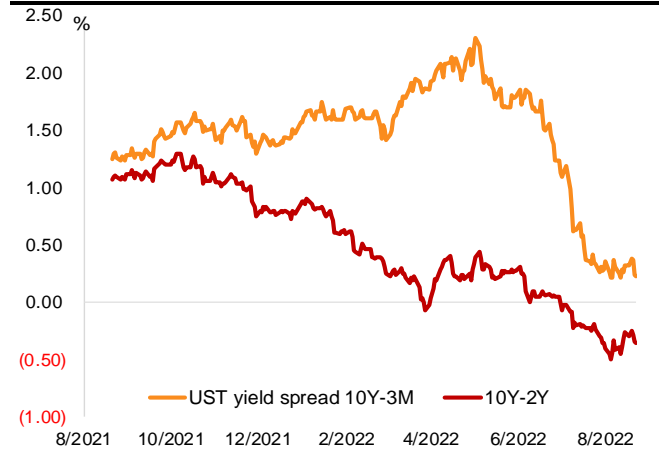
Fund Flows

Figure 10: US inflation expectations easing since Apr



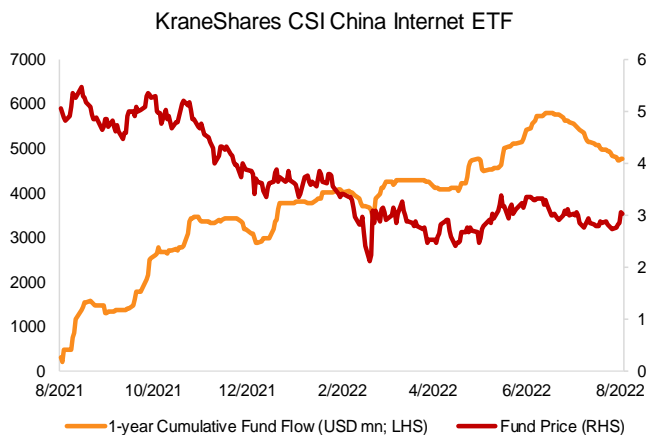
Source: Bloomberg, CMBIGM

Figure 11: UST 10-yr & 2-yr spread sank to negative



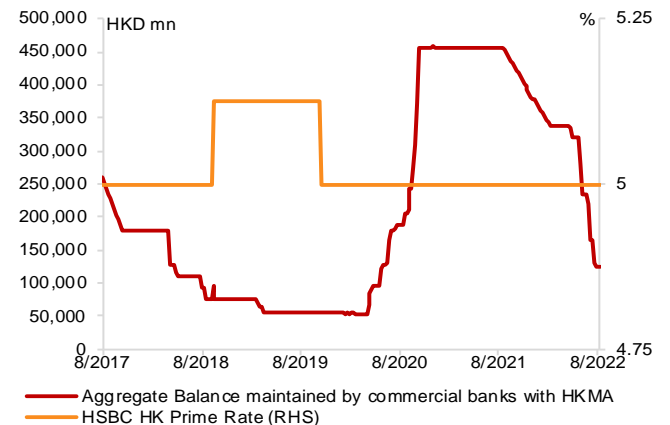
Source: Bloomberg, CMBIGM

Figure 12: KWEB, the largest China Internet ETF, recorded outflows in the past seven weeks



Source: Bloomberg, CMBIGM

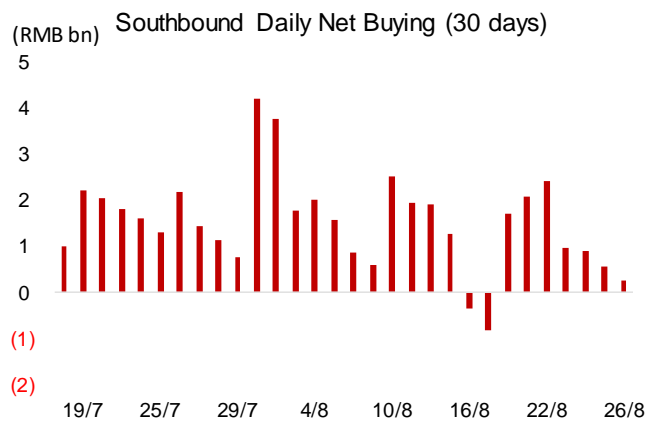
Figure 13: HKMA aggregate balance dropped to HK\$125bn. Commercial banks might raise lending rates when this dropped to below HK\$100bn



Source: Bloomberg, CMBIGM

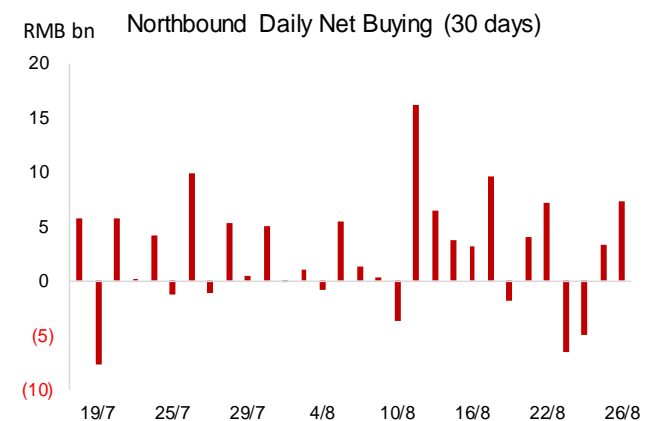
SH/SZ-HK Stock Connect

Figure 14: Southbound inflows remained mild



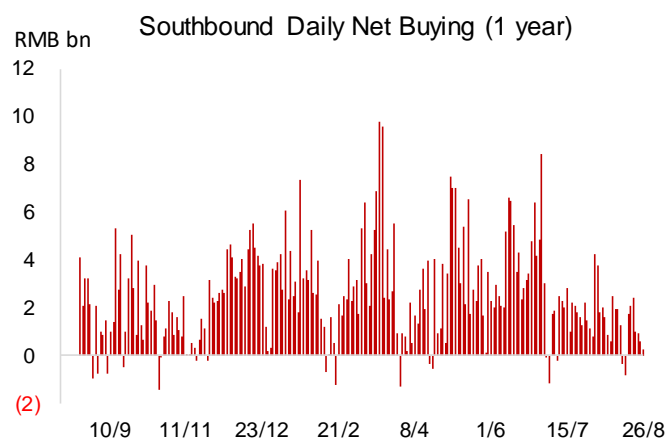
Source: Bloomberg, CMBIGM

Figure 15: Northbound inflows were also mild



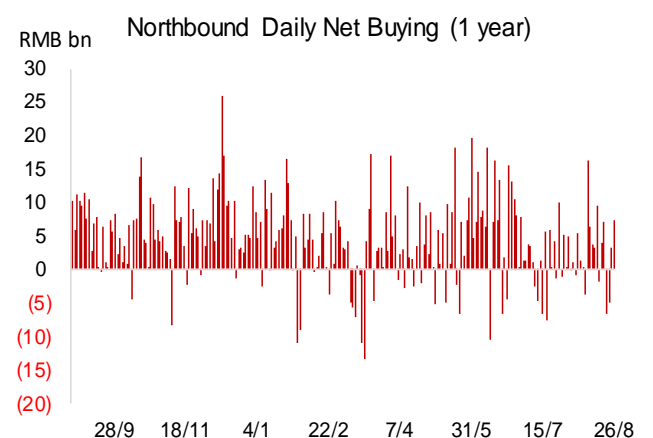
Source: Bloomberg, CMBIGM

Figure 16: Southbound net buying slowed down since Jul



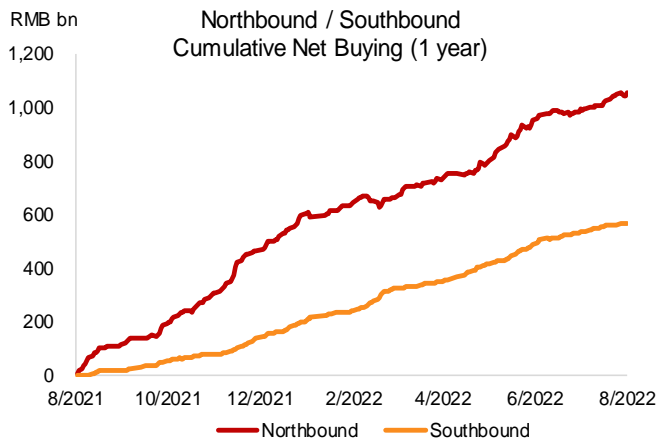
Source: Bloomberg, CMBIGM

Figure 17: Northbound net buying slowed down since Jul



Source: Bloomberg, CMBIGM

Figure 18: Northbound & Southbound cumulative inflows in the past 12 months



Source: Bloomberg, CMBIGM

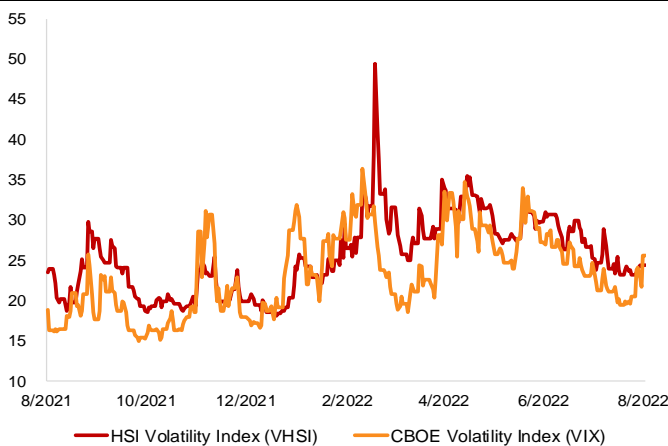
Figure 19: AH premium narrowed by 1.3 ppt last week as H-shares outperformed A-shares



Source: Bloomberg, CMBIGM

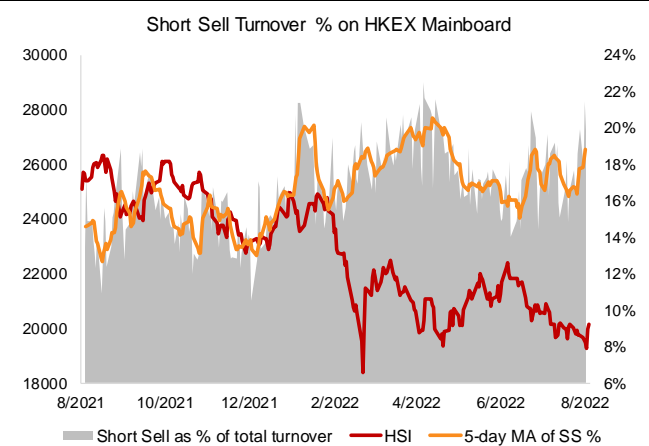
Sentiments

Figure 20: “Fear Index” VHSI rebounded from a six-month low to 24.5



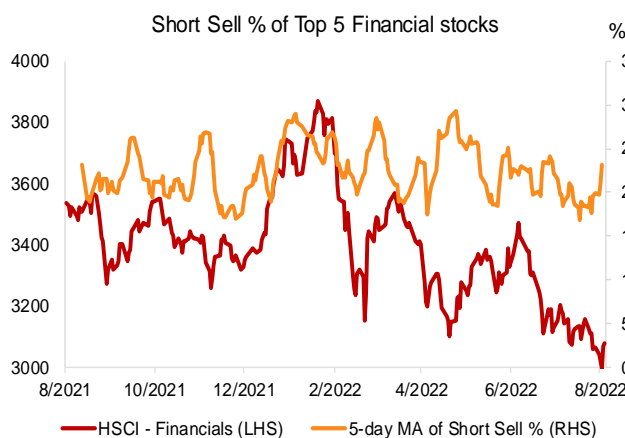
Source: Bloomberg, CMBIGM

Figure 21: Short sell % on HK mainboard rose further to above 19%, a three-month high



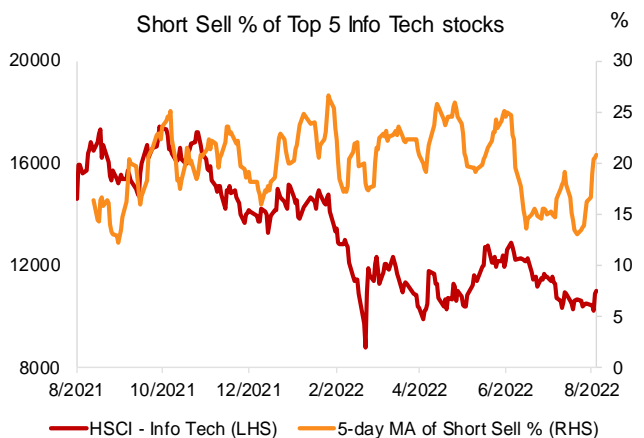
Source: Bloomberg, CMBIGM

Figure 22: Short sell % in HK - Financials



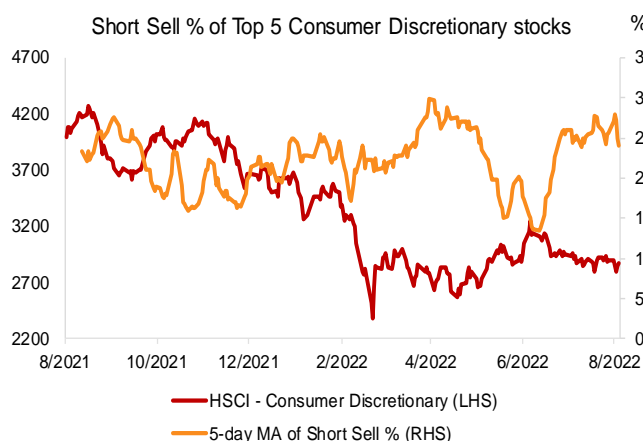
Source: Bloomberg, CMBIGM

Figure 23: Short sell % in HK – Info Tech



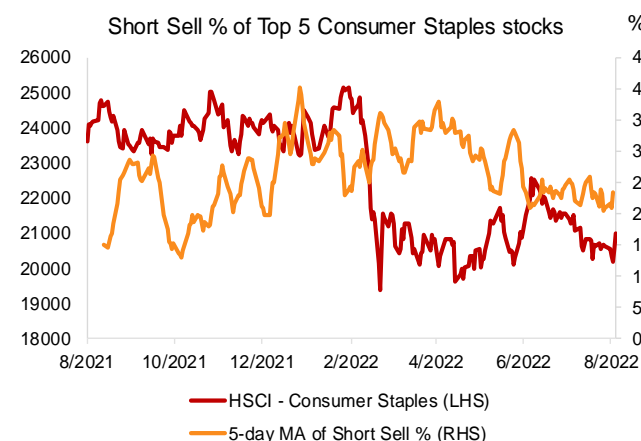
Source: Bloomberg, CMBIGM

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



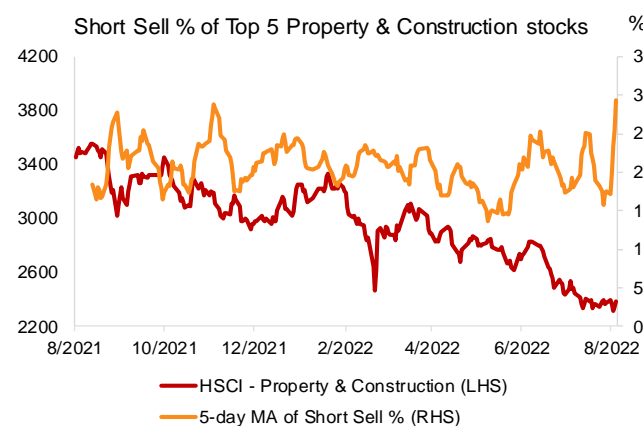
Source: Bloomberg, CMBIGM

Figure 25: Short sell % in HK – Consumer Staples



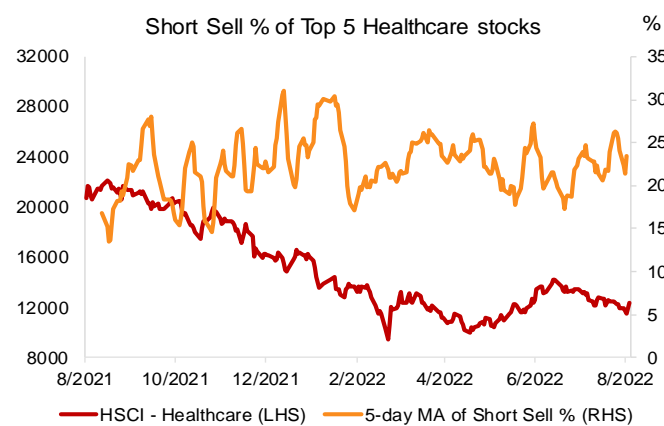
Source: Bloomberg, CMBIGM

Figure 26: Short sell % in HK - Property



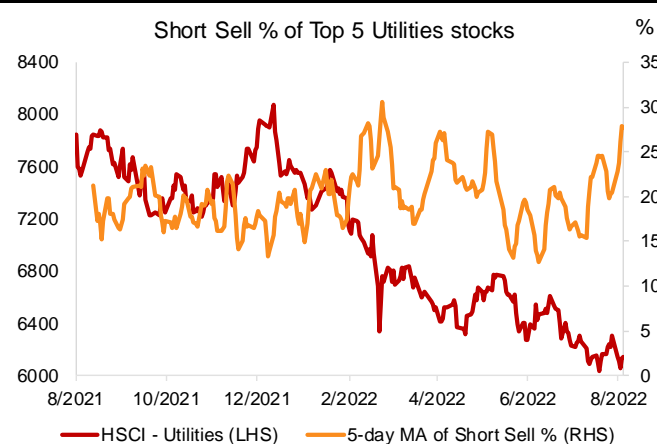
Source: Bloomberg, CMBIGM

Figure 27: Short sell % in HK – Healthcare



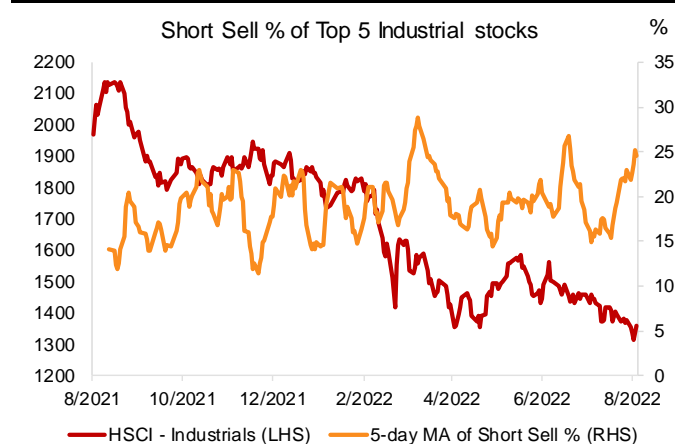
Source: Bloomberg, CMBIGM

Figure 28: Short sell % in HK – Utilities



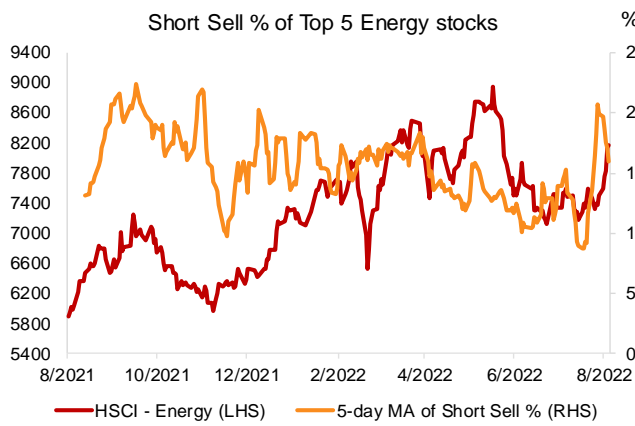
Source: Bloomberg, CMBIGM

Figure 29: Short sell % in HK – Industrials



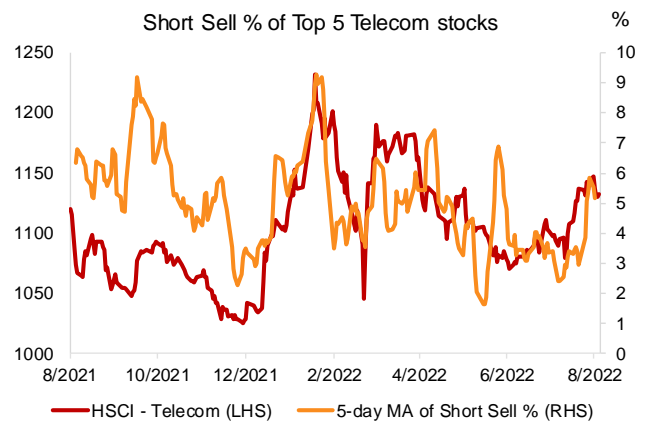
Source: Bloomberg, CMBIGM

Figure 30: Short sell % in HK – Energy



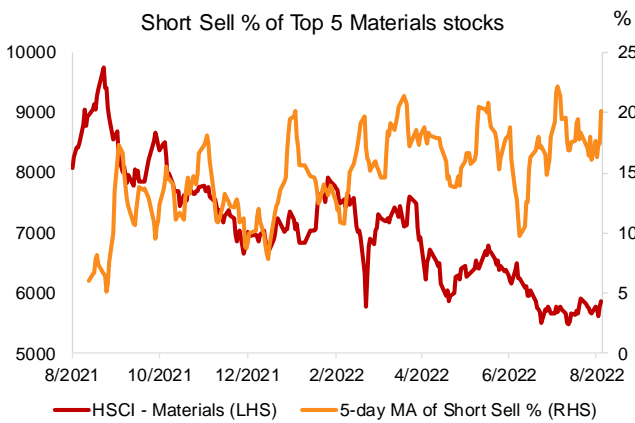
Source: Bloomberg, CMBIGM

Figure 31: Short sell % in HK – Telecom



Source: Bloomberg, CMBIGM

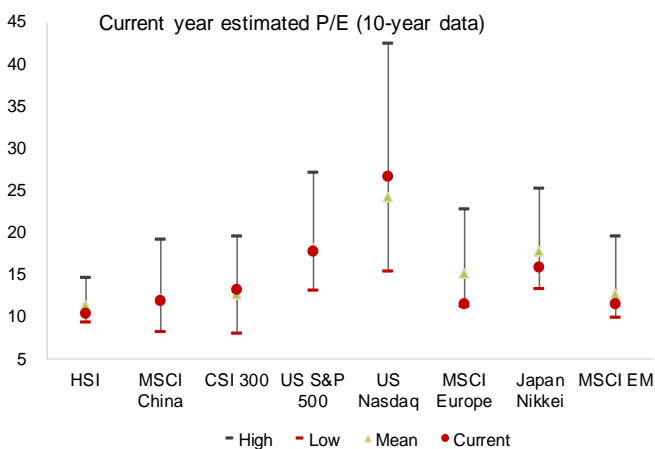
Figure 32: Short sell % in HK – Materials



Source: Bloomberg, CMBIGM

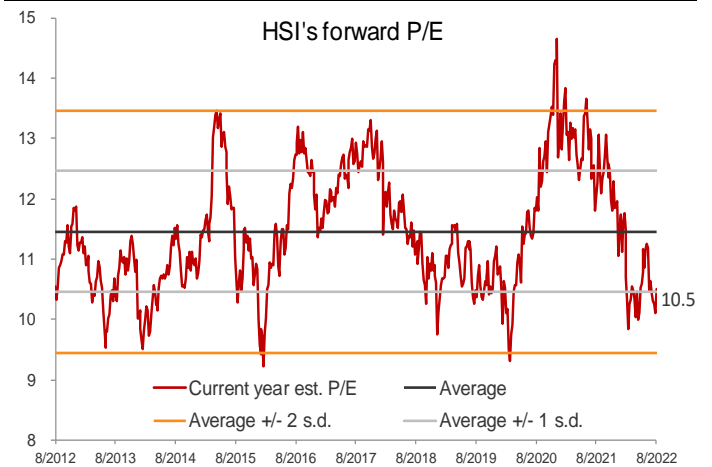
Earnings & Valuations

Figure 33: Major stock markets' forward P/E vs. 10-yr history



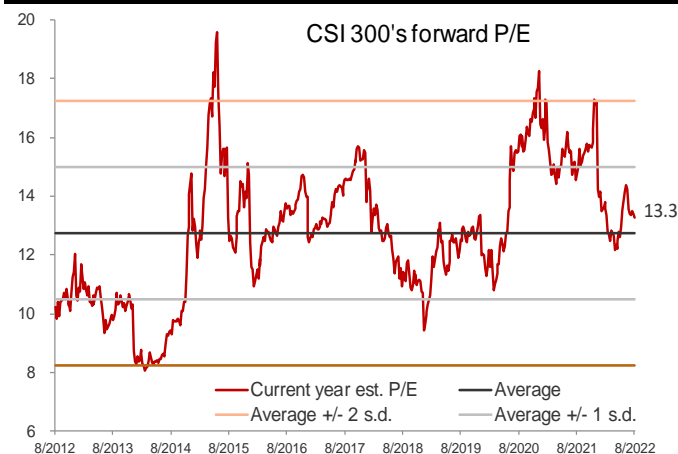
Source: Bloomberg, CMBIGM

Figure 34: HSI's forward P/E at 10-yr mean minus 1 s.d.



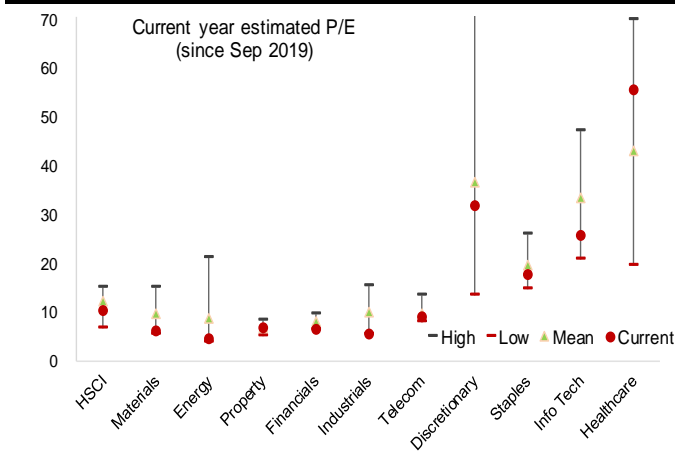
Source: Bloomberg, CMBIGM

Figure 35: CSI 300's forward 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 were down by 1.7% last week, partly due to RMB depreciation



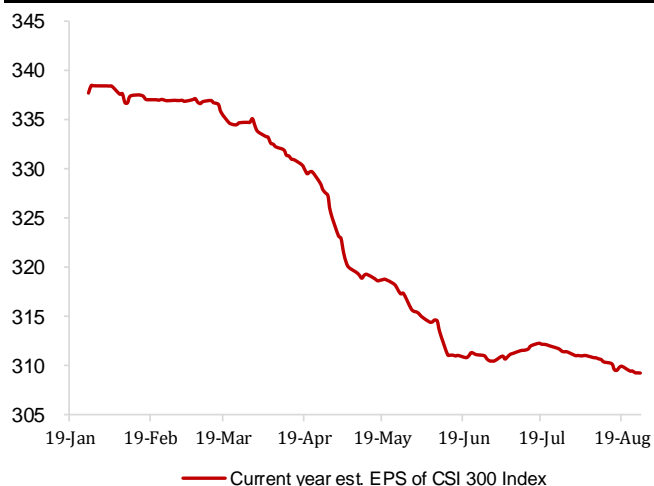
Source: Bloomberg, CMBIGM

Figure 38: EPS estimates of HSTECH Index were revised down by 0.4% last week



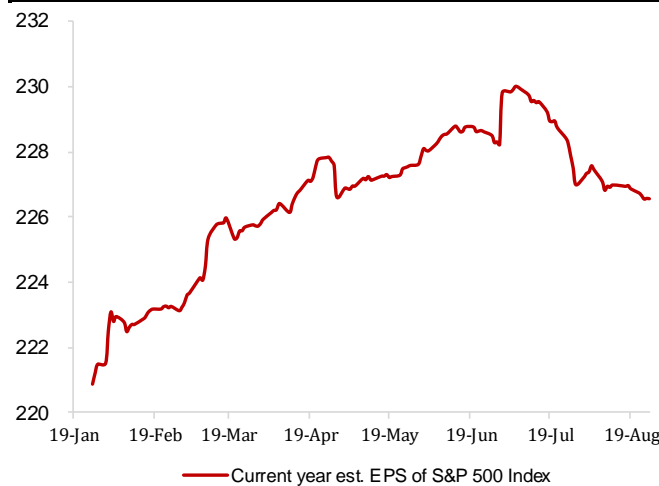
Source: Bloomberg, CMBIGM

Figure 39: EPS estimates of A-shares were tuned down by 0.2% last week



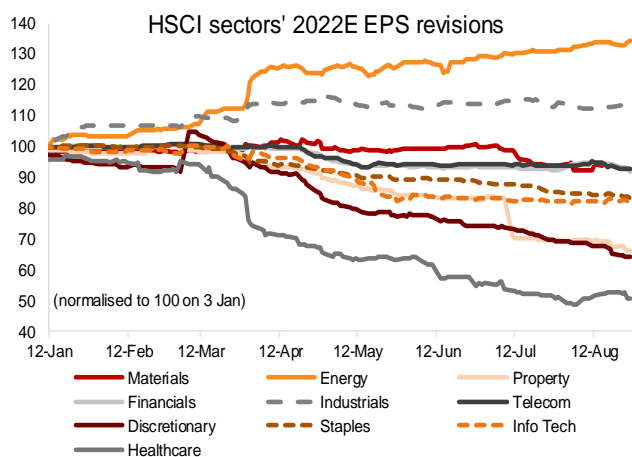
Source: Bloomberg, CMBIGM

Figure 40: EPS estimates of US S&P 500 were down by 0.1% last week, and 1.4% off the peak in early Jul



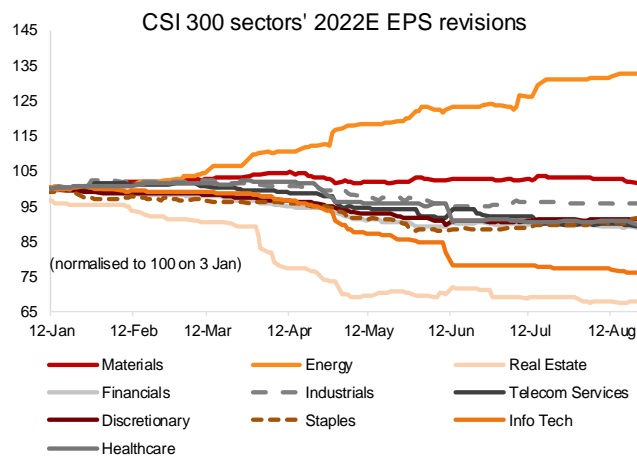
Source: Bloomberg, CMBIGM

Figure 41: HK earnings revision: Financials, Property, Healthcare & Consumer down



Source: Bloomberg, CMBIGM

Figure 42: A-shares earnings revision: Energy up, Healthcare down



Source: Bloomberg, CMBIGM

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CMB International Global Markets Limited

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

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