

China / HK Market Weekly

China's policy adjustments lift sentiment

Last week (7-11 Nov), global stock markets rallied as US rate hike concerns eased after US CPI inflation was lower than expected. HK market also benefited from China's adjustment in COVID control policies. Reports of supportive policy on China's housing market is likely to boost HK stock market's sentiment further. We prefer Internet & Consumer sectors, while expect Energy, Telecom & Utilities to underperform in the short term as risk appetite improves.

- **Market recap:** The HSI / CSI 300 / S&P 500 were +7.2% / +0.5% / +5.9% last week (Fig. 5), as a lower-than-expected US CPI eased rate hike concerns. China's adjustment in COVID control policies gave another boost to HK stock market. By sector, Materials & IT led gains in HK (Fig. 7).
- **Interest rates:** US interest rate hike bets cooled markedly. Implied Fed funds rate for May 2023 dropped 20 bps in the week to 4.89% (Fig. 11 & 12). USD Index and US Treasury yields slumped, along with rate hike expectations, and broke uptrends (Fig. 1 & 2), which should bode well for risky assets especially EM equities and growth sectors.
- **China's adjustments in COVID & real estate policies:** Stringent COVID control protocols and housing market weakness have been among the major overhangs on Chinese stock markets. Over the past few days, policies are turning more positive. The central government laid out 20 key measures in its latest modifications to COVID policy, such as shortening quarantine time and limiting contact tracing. According to media reports, the PBOC & CBIRC outlined 16 steps to support the property sector, including loan repayment extensions.
- **Stock Connect:** Southbound buying have strengthened since early-Oct, but cooled last week. At the same time, Northbound buying rebounded (Fig. 13 & 14). Such reversals might be due to the narrowing A-H premium from 55% to 47% MTD, making H-shares less attractive than before (although A-H premium is still very high compared to historical data).
- **Sentiment:** Short-sell ratio on HK stock market came down from 20%+ to below 15% (Fig. 18). With short-sell ratio now at the lowest since early-Jan, it is unlikely to see further short-squeezing to drive up the HSI.
- **Market outlook:** China's policy adjustments may be interpreted by investors as top officials are placing more emphasis on economic growth, which along with easing US rate hike concerns, should help HK stock market to rebound further. On Monday morning, the HSI has broken a short-term downtrend resistance, and may target around 19000 (Fig. 4).
- **Sector view:** Although airlines & travel are obviously the beneficiary sectors from COVID policy adjustments, they have significantly outperformed YTD, which suggests the re-opening theme has been partly priced in. We prefer Internet & Consumer sectors because they 1) benefit from the improving China's economic outlook, 2) enjoy re-rating as US rate hike concerns eased, 3) are showing relatively strong momentum (Fig. 8). Expect Energy, Telecom & Utilities, which acted as safe havens in recent months, to underperform in the short term as risk appetite improves.
- **Things to watch this week:** Monday: President Xi and President Biden will sit down for talks, on the sidelines of the Group of 20 meeting. Tuesday & Wednesday: G20 Summit. Tuesday: China's FAI, Industrial Production & Retail Sales (Oct). Wednesday: US Retail Sales (Oct). Chinese internet giants' 3Q earnings.

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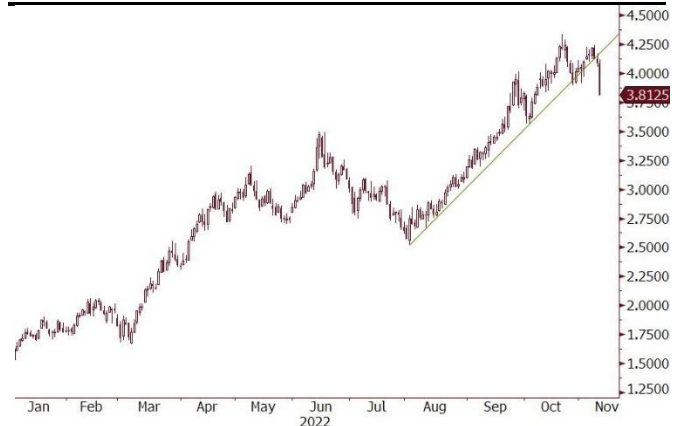
Charts of the Week

Figure 1: USD Index broke below its YTD uptrend after the US reported lower-than-expected CPI



Source: Bloomberg, CMBIGM

Figure 2: US 10-year Treasury yield broke below an uptrend as US CPI surprise eased rate hike fears



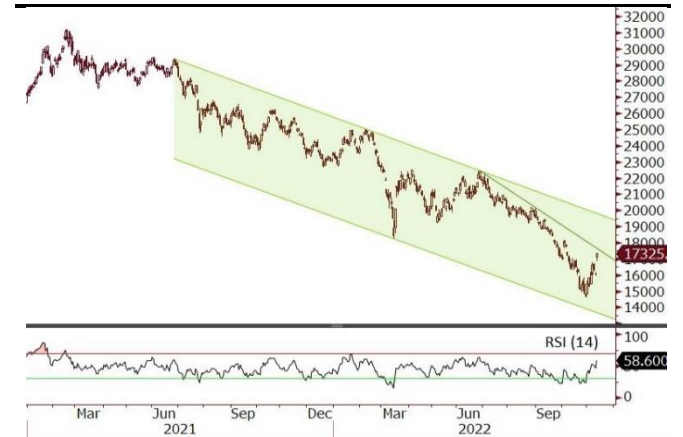
Source: Bloomberg, CMBIGM

Figure 3: HSI returned to above long-term uptrend



Source: Bloomberg, CMBIGM

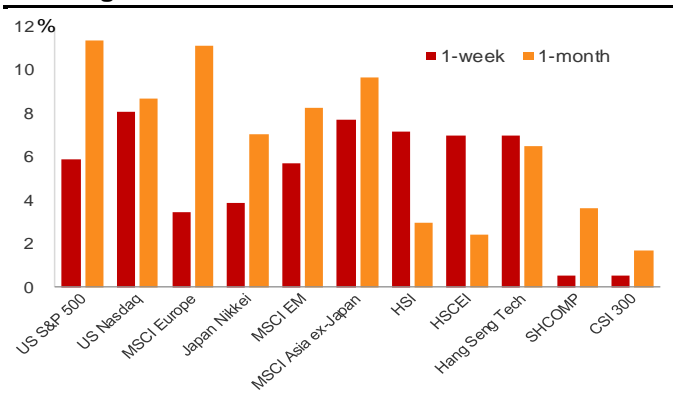
Figure 4: HSI testing short-term downtrend, with next resistance at top of downward channel



Source: Bloomberg, CMBIGM

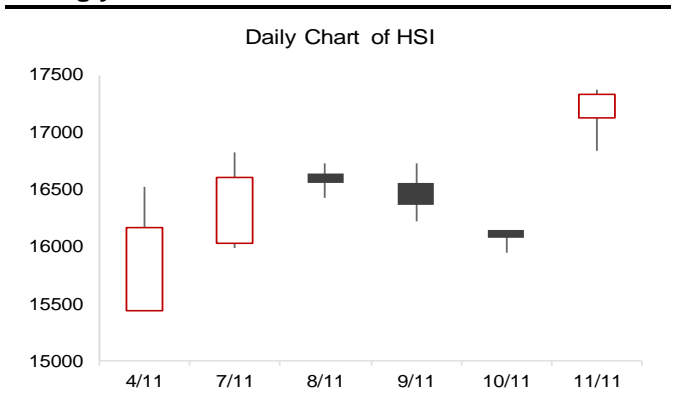
Market Recap

Figure 5: Weekly global markets' returns: Global stocks gained as US rate hike concerns eased



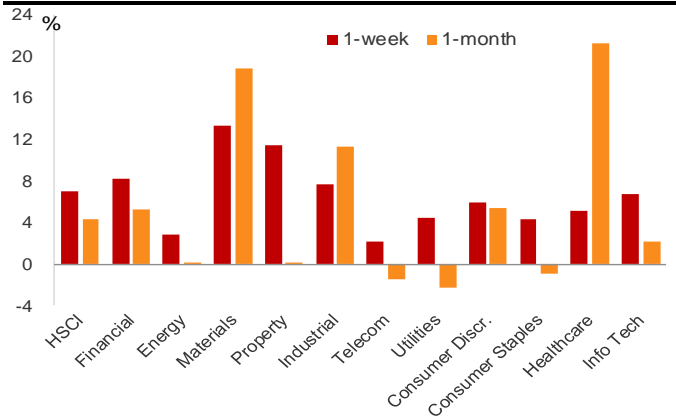
Source: Bloomberg, CMBIGM

Figure 6: HSI gained 7.2% last week, rebounding strongly for the second week in a row



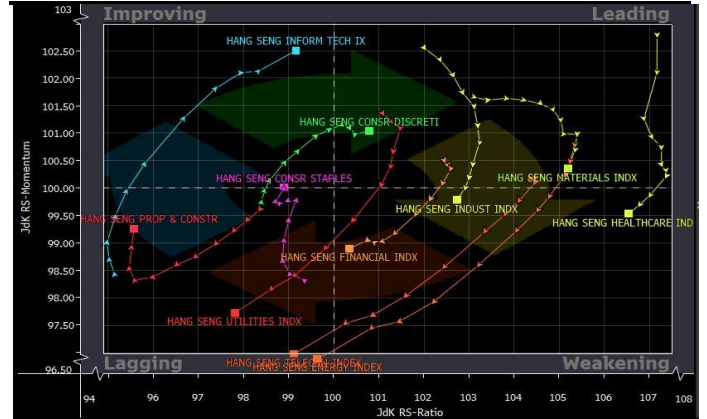
Source: Bloomberg, CMBIGM

Figure 7: Hang Seng Composite Index sectors: Materials & Property led gains



Source: Bloomberg, CMBIGM

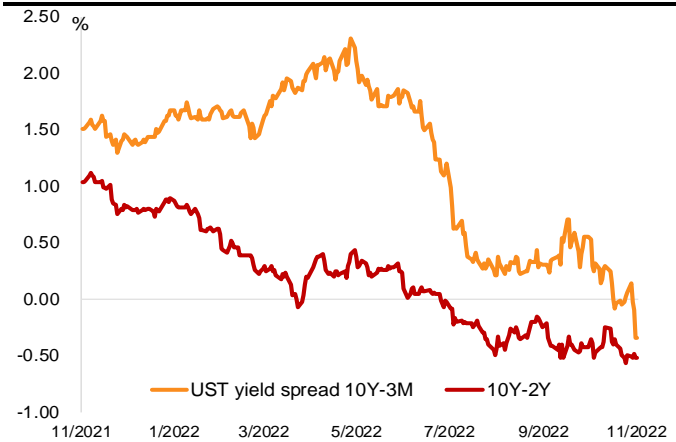
Figure 8: Daily RRG of HSCI shows improving performance in IT & Consumer



Source: Bloomberg, CMBIGM

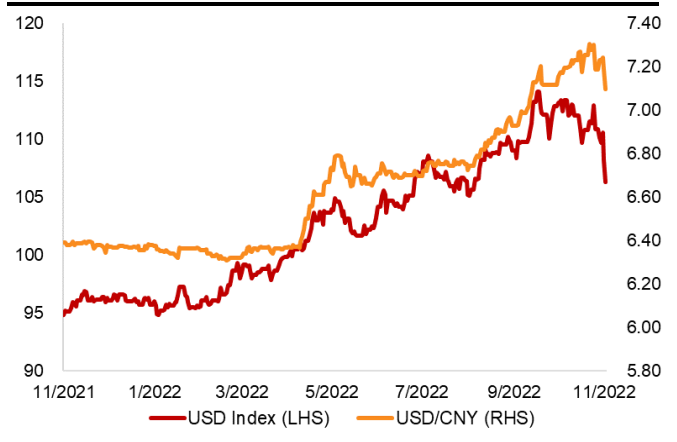
Fund Flows

Figure 9: UST 10-yr/2-yr & 10-yr/3-mth spreads are negative, indicating recession risks



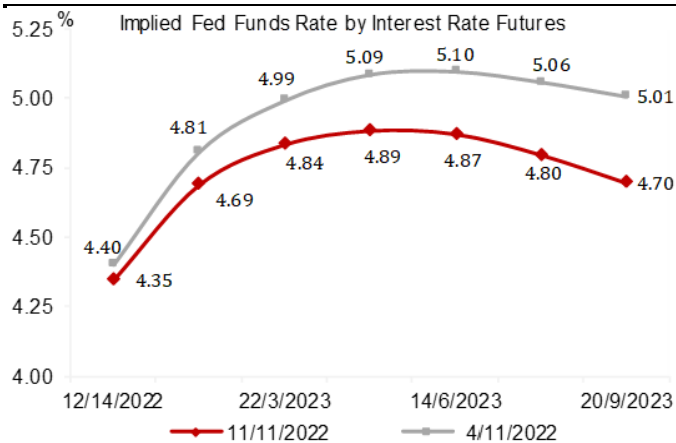
Source: Bloomberg, CMBIGM

Figure 10: CNY strengthened to 7.10 as USD retreated after lower-than-expected US CPI



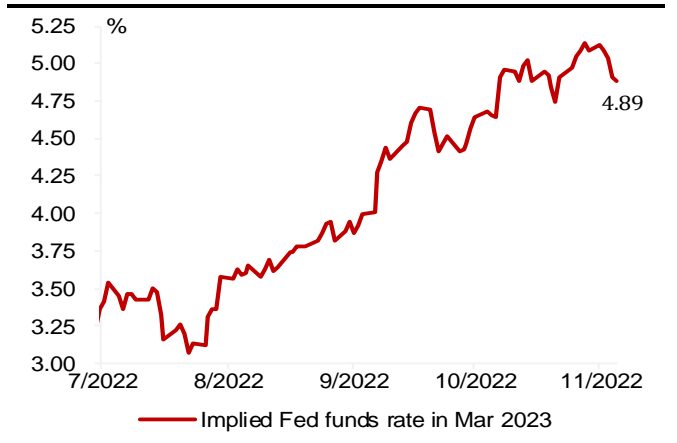
Source: Bloomberg, CMBIGM

Figure 11: Fed rate hike expectations eased significantly



Source: Bloomberg, CMBIGM

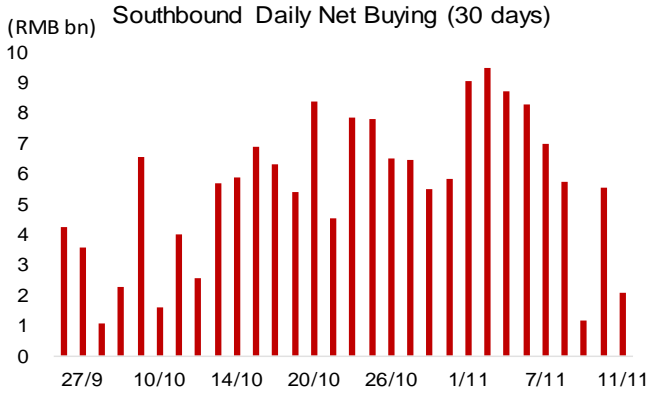
Figure 12: Implied Fed funds rate in May 2023 retreated from as high as 5.14% to below 4.89%



Source: Bloomberg, CMBIGM

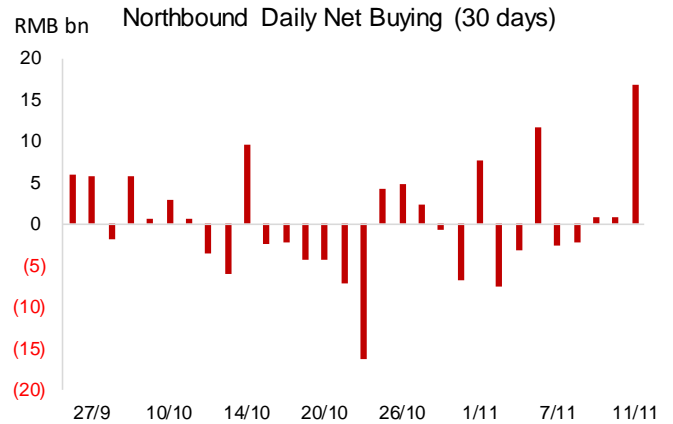
SH/SZ-HK Stock Connect

Figure 13: Southbound net buying decreased last week after weeks of strong inflows



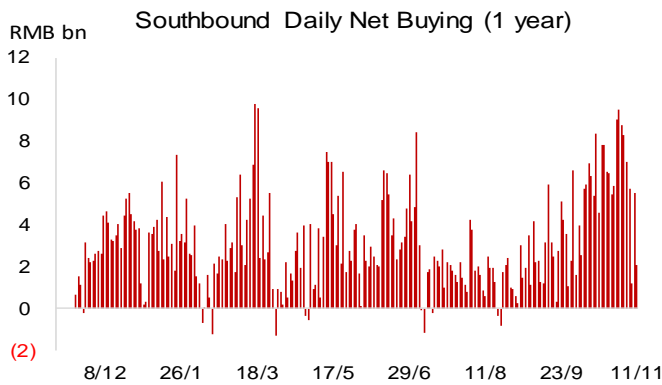
Source: Bloomberg, CMBIGM

Figure 14: Northbound inflows surged last Friday



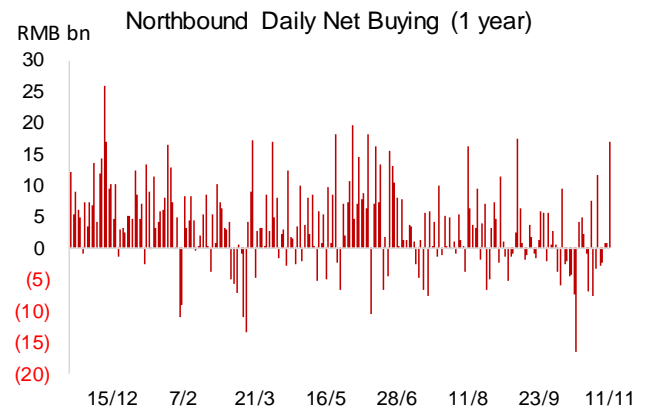
Source: Bloomberg, CMBIGM

Figure 15: Southbound net buying rebounding since Sep



Source: Bloomberg, CMBIGM

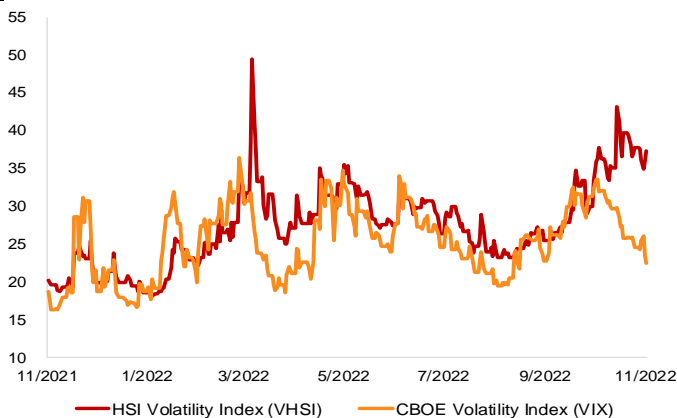
Figure 16: Northbound inflows shrinking



Source: Bloomberg, CMBIGM

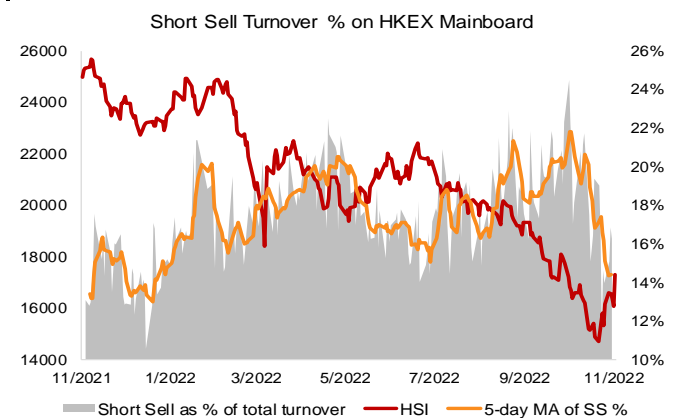
Sentiments

Figure 17: "Fear Index" VHSI is still high at above 37 even after the recent rebound in the HSI



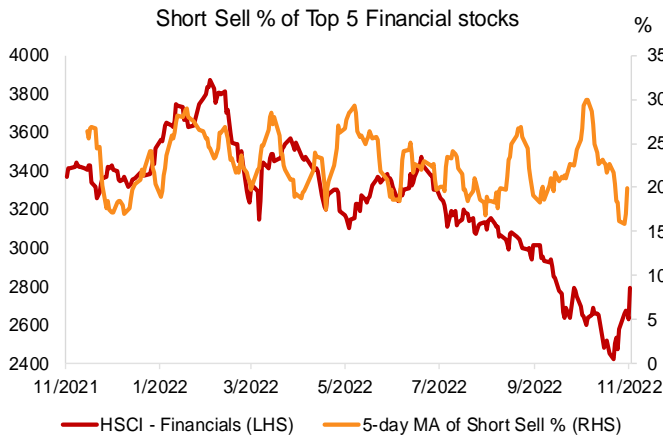
Source: Bloomberg, CMBIGM

Figure 18: Short sell % on HK mainboard dropped significantly in Nov



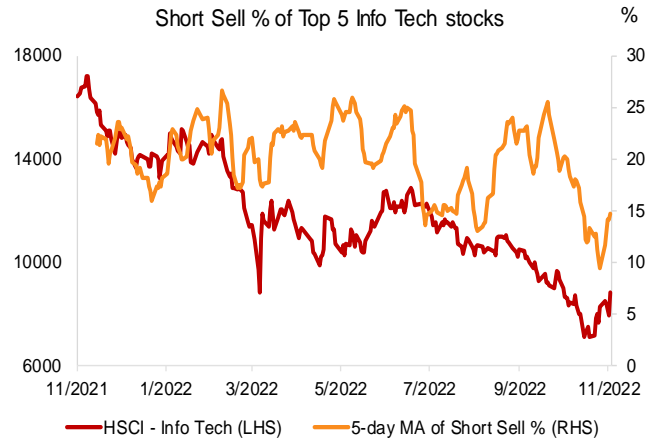
Source: Bloomberg, CMBIGM

Figure 19: Short sell % in HK - Financials



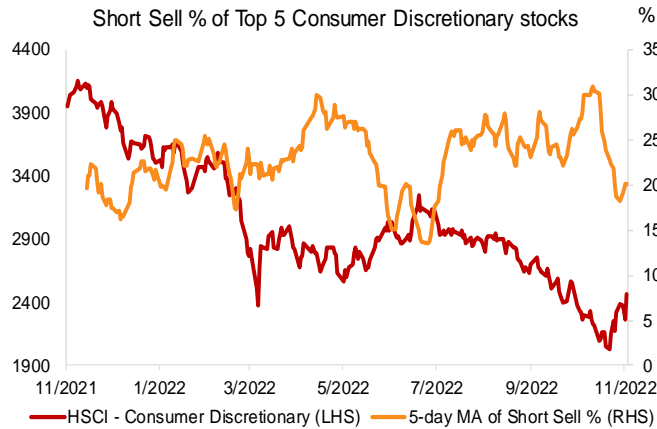
Source: Bloomberg, CMBIGM

Figure 20: Short sell % in HK – Info Tech



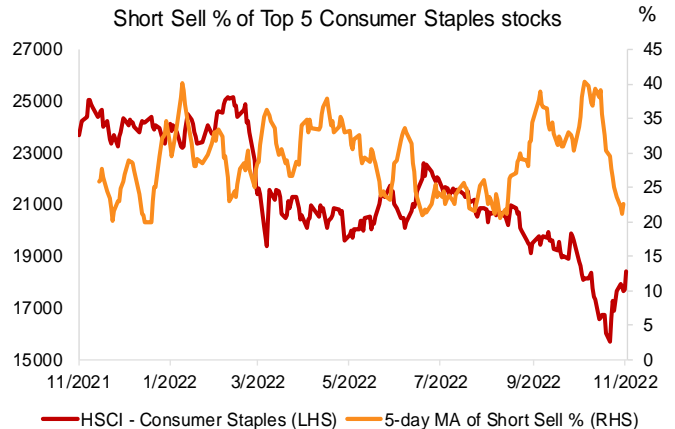
Source: Bloomberg, CMBIGM

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



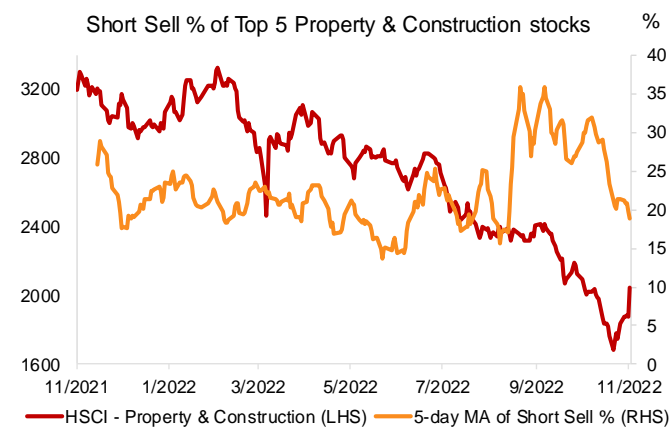
Source: Bloomberg, CMBIGM

Figure 22: Short sell % in HK – Consumer Staples



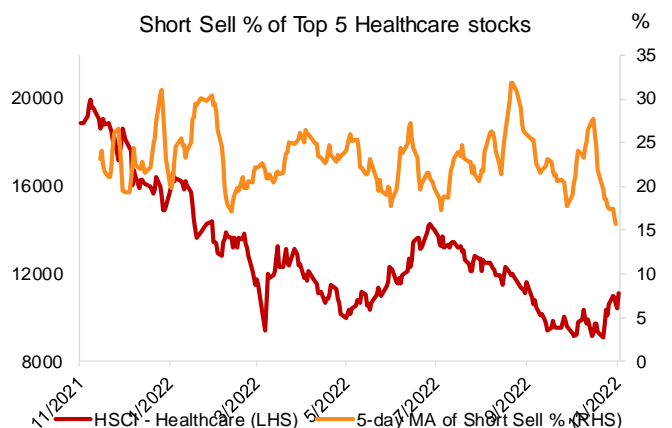
Source: Bloomberg, CMBIGM

Figure 23: Short sell % in HK - Property



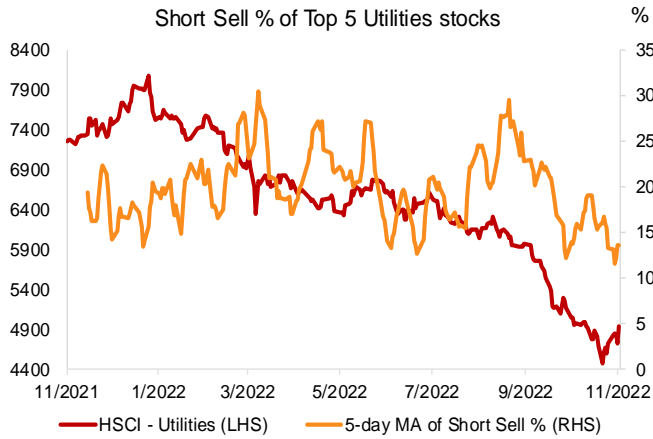
Source: Bloomberg, CMBIGM

Figure 24: Short sell % in HK – Healthcare



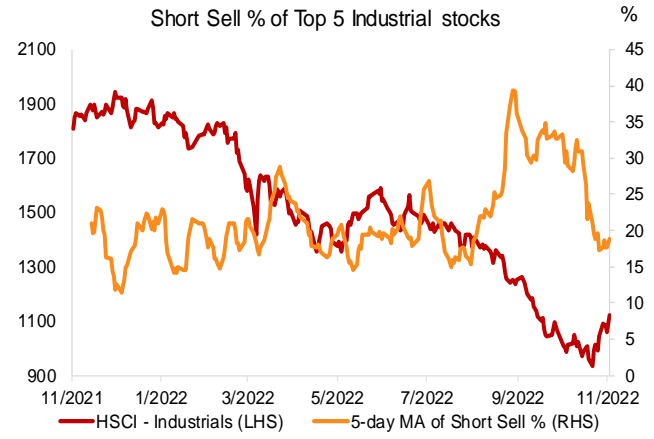
Source: Bloomberg, CMBIGM

Figure 25: Short sell % in HK – Utilities



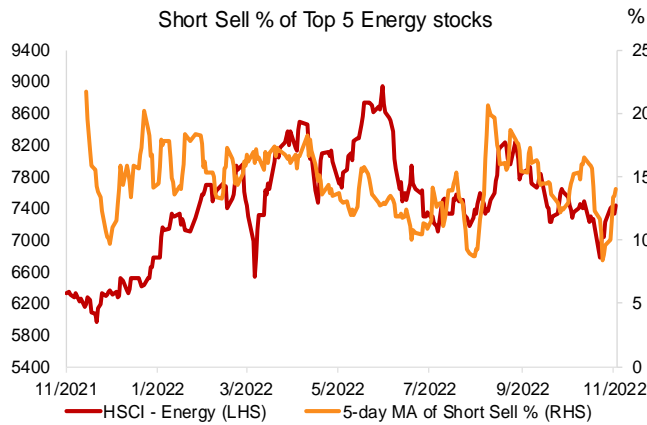
Source: Bloomberg, CMBIGM

Figure 26: Short sell % in HK – Industrials



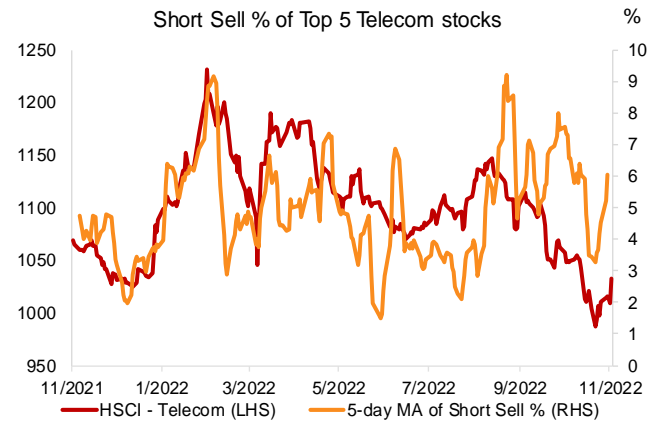
Source: Bloomberg, CMBIGM

Figure 27: Short sell % in HK – Energy



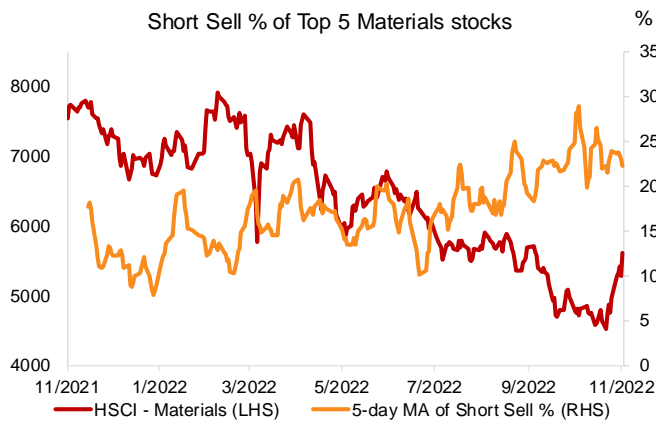
Source: Bloomberg, CMBIGM

Figure 28: Short sell % in HK – Telecom



Source: Bloomberg, CMBIGM

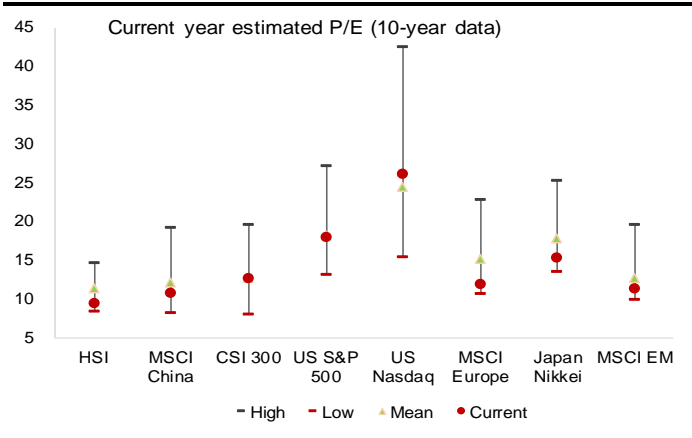
Figure 29: Short sell % in HK – Materials



Source: Bloomberg, CMBIGM

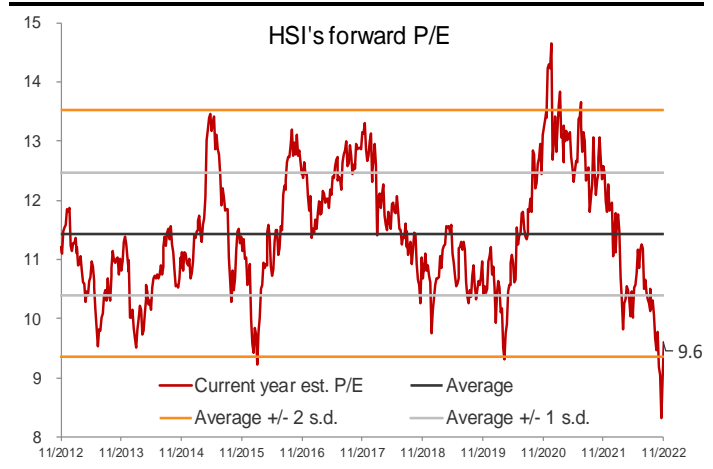
Earnings & Valuations

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



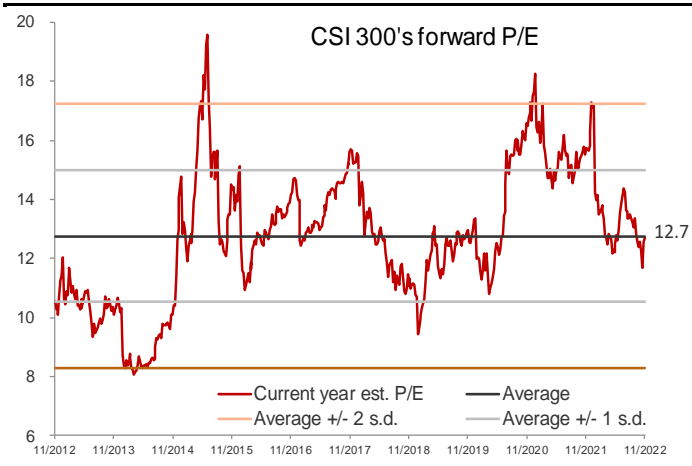
Source: Bloomberg, CMBIGM

Figure 31: HSI's fwd P/E near 2 s.d. below average



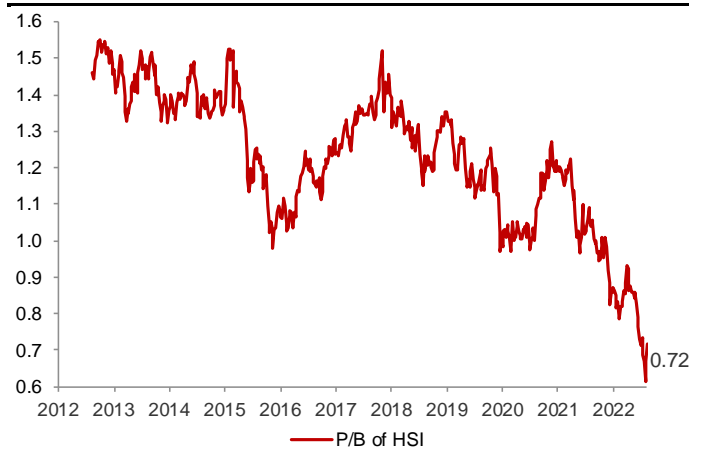
Source: Bloomberg, CMBIGM

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



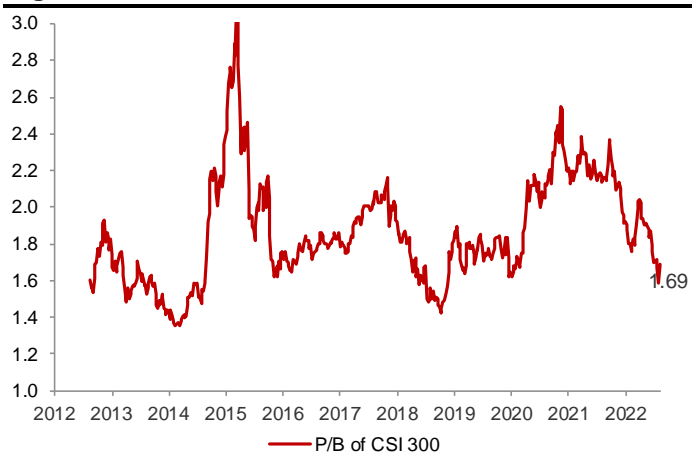
Source: Bloomberg, CMBIGM

Figure 33: HSI's P/B



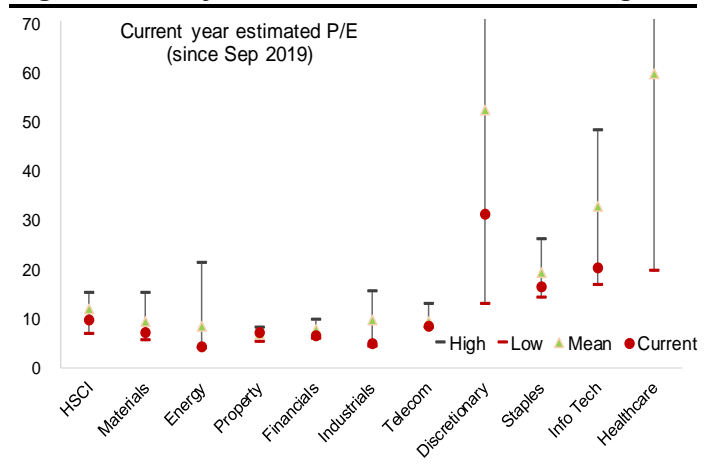
Source: Bloomberg, CMBIGM

Figure 34: CSI 300's P/B



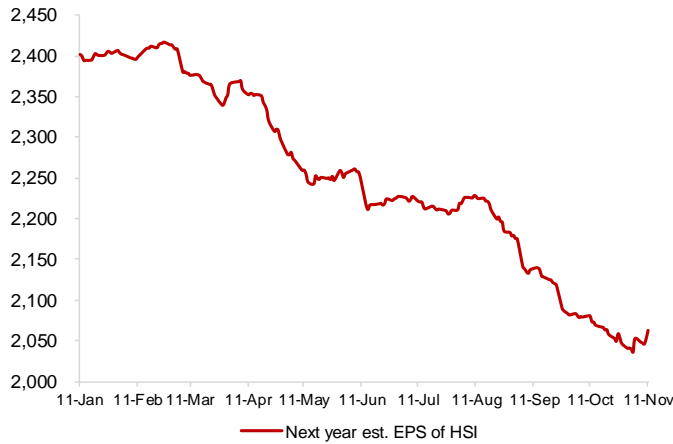
Source: Bloomberg, CMBIGM

Figure 35: Many HSCI sectors' P/E are near troughs



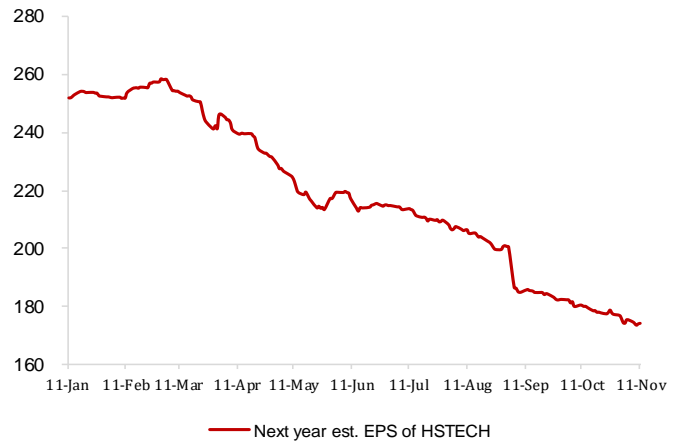
Source: Bloomberg, CMBIGM

Figure 36: EPS estimates of HSI were revised up by 0.5% last week, due largely to RMB appreciation



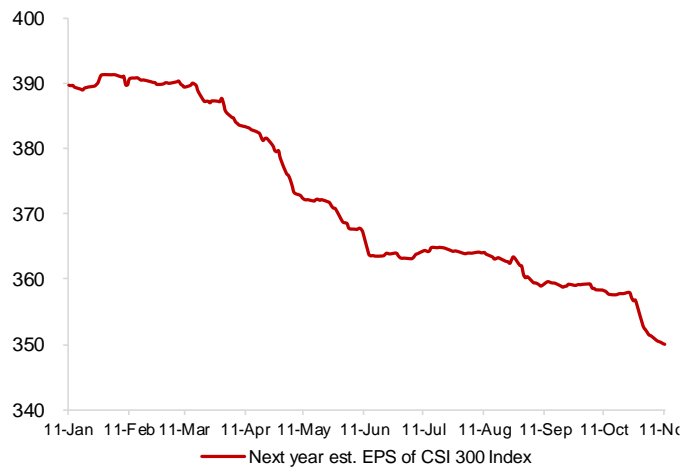
Source: Bloomberg, CMBIGM

Figure 37: EPS estimates of HSTECH Index were revised down by 0.7% last week



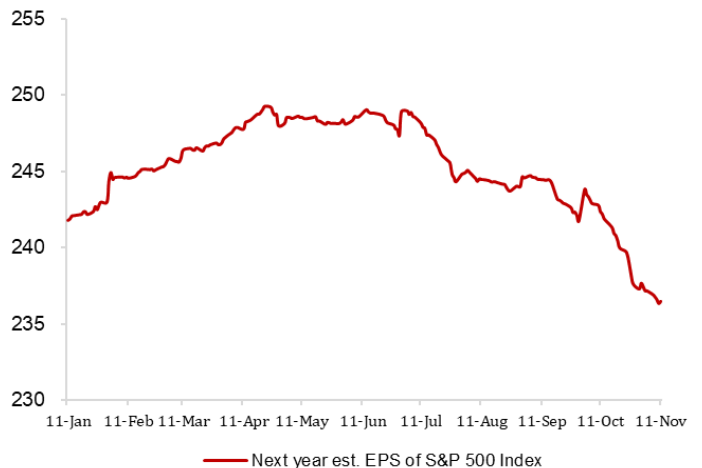
Source: Bloomberg, CMBIGM

Figure 38: EPS estimates of A-shares were revised down by 0.4% last week



Source: Bloomberg, CMBIGM

Figure 39: EPS estimates of US S&P 500 were revised down by 0.3% last week



Source: Bloomberg, CMBIGM

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