

China / HK Market Weekly

Mortgage boycotts dent confidence

Last week (11-15 Jul), China / HK stock markets pulled back further due to rising concerns on China's property market. Sentiments worsened in HK with volatility index and short-sell ratio moving up. Looking ahead to this week, investors will focus on how the mortgage boycotts and COVID epidemic in China will unfold, as well as the US 2Q earnings and profit alerts in China / HK markets. We expect sector rotation from Chinese Financials & Property to growth stocks such as Internet, Healthcare & Consumer, as potentially more accommodative policies would lend support to growth stocks' valuation.

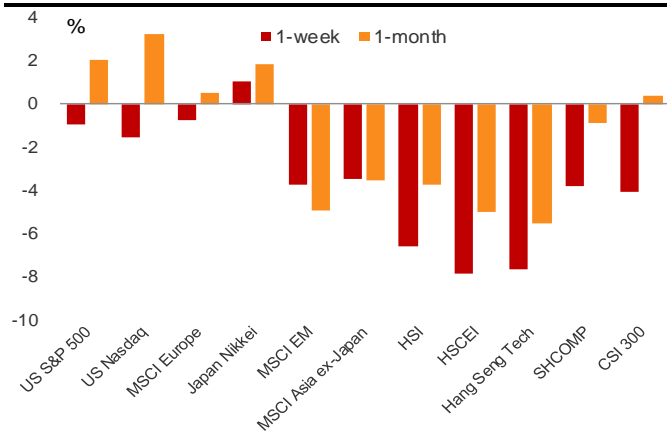
- **Market recap:** The HSI / CSI 300 tumbled by 6.6% / 4.1% last week, significantly underperforming other major markets (Fig. 1), as the "stop mortgage repayment" movement in some Chinese provinces has dented investor confidence in China's property market and banks' asset quality. By sector, Financial & Property led declines in both H and A-shares, while IT H-shares also suffered (Fig. 3-4).
- **Interest rates:** Expectations of Fed rate hikes further rebounded after the US core CPI rose 5.9% in Jun (vs. 5.7% estimates). The implied Fed funds rate by the end of 2022 is now 3.51%, still lower than the peak seen in mid-Jun by 21 bps, and the implied rates would peak in Feb 2023 (Fig. 10-11). The UST yield curve flattened as short rates jumped (Fig. 8).
- **Sentiment:** Risk indicators worsened in HK stock market, as "Fear Index" VHSE rebounded to 30 from a three-month low, and the short-sell ratio on HK mainboard jumped to above 18%, near a two-month high (Fig. 18 & 19). By sector, short-sell ratio increased in Financials, Commodities and Consumer Discretionary, and decreased in Industrials.
- **Earnings:** FY22E EPS consensus of the HSI / HSTECH / CSI 300 were revised by -0.8% / -1.5% / +0.3% last week (Fig. 37-39). By sector, estimates of Property got slashed in HK, and Materials, IT & Healthcare were also revised down. In A-shares, estimates of Commodities stocks were up.
- **Market outlook & sector views:** The latest mortgage boycott incidents threaten to derail the nascent recovery in China's housing market. Property & Banking stocks may remain under pressure until there are some solutions from the government and banks. On the plus side, monetary policies may remain accommodative and investors might look forward to more fiscal stimuli to counter the negative impact from mortgage boycotts. All in all, these could trigger **sector rotation from Financials & Property to growth stocks** as the latter might enjoy rerating from potentially more accommodative policies. We **remain positive on the medium-term outlook of China growth stocks such as Internet, Healthcare & Consumer**. Among Consumer stocks, we prefer sub-sectors which are less vulnerable to COVID resurgence such as sportswear and beer.

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



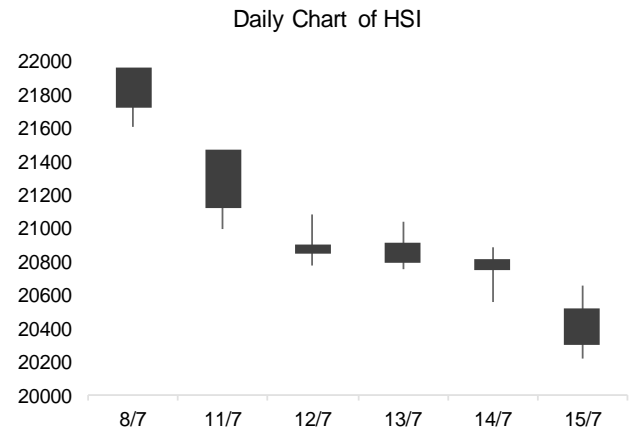
Market Recap

Figure 1: Weekly global markets returns: China / HK tumbled on weak GDP and housing market



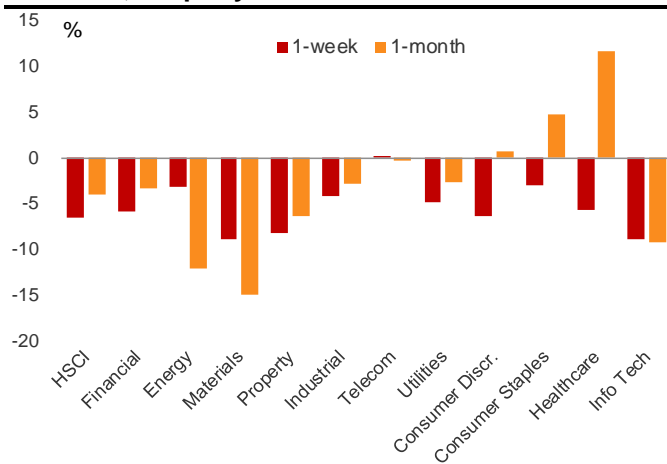
Source: Bloomberg, CMBIGM

Figure 2: HSI dropped for five straight days



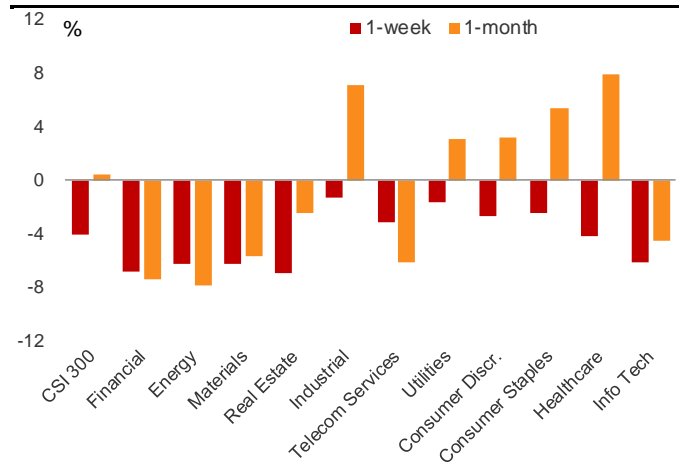
Source: Bloomberg, CMBIGM

Figure 3: Hang Seng Composite Index sectors: Materials, Property & IT led declines



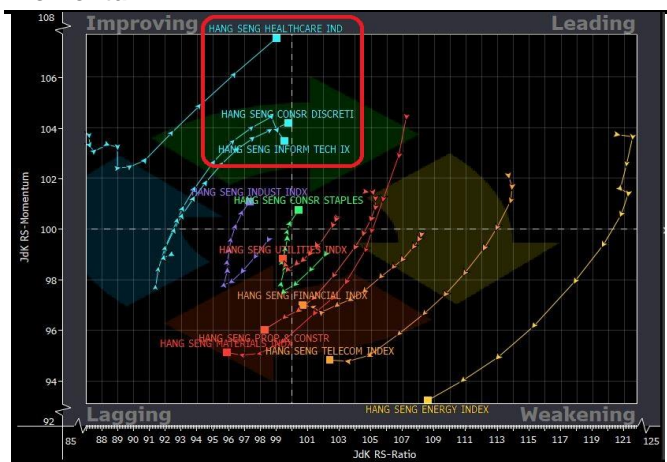
Source: Bloomberg, CMBIGM

Figure 4: CSI 300 Index sectors: Financial & Property led declines



Source: Bloomberg, CMBIGM

Figure 5: Weekly Relative Rotation Graph of HSCI: IT, Healthcare & Consumer Discretionary remained in "Improving" zone, indicating strong medium-term momentum



Source: Bloomberg, CMBIGM

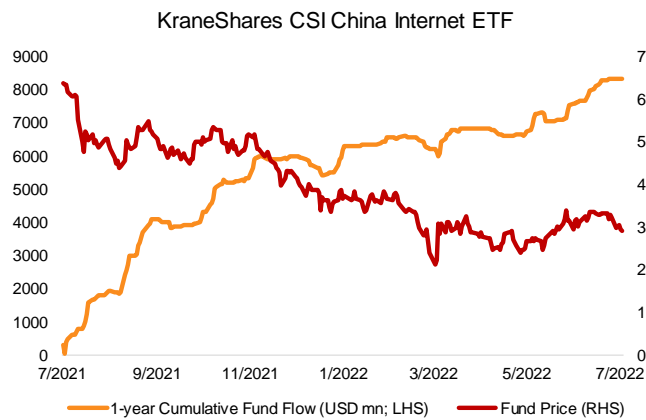
Figure 6: Daily Relative Rotation Graph of HSCI: IT, Healthcare & Consumer Discretionary around "Weakening" zone, indicating weakened short-term momentum



Source: Bloomberg, CMBIGM

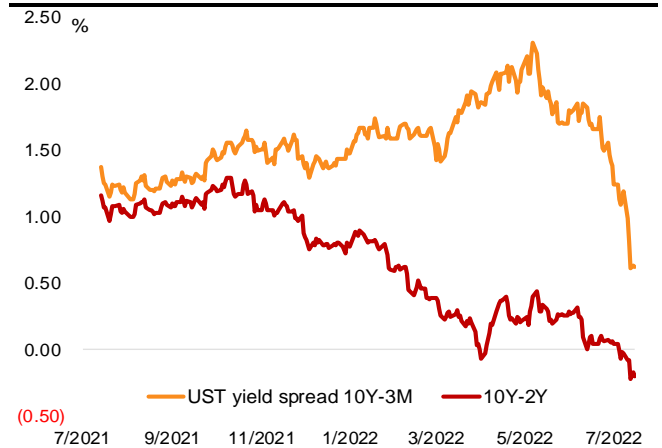
Fund Flows

Figure 7: KWEB, the largest China Internet ETF, recorded slight outflows, after recent strong inflows



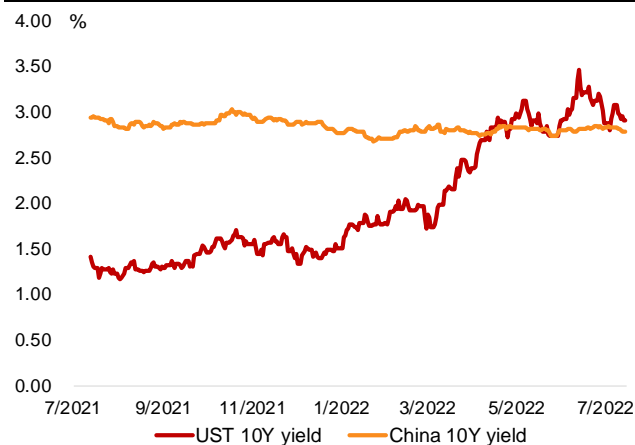
Source: Bloomberg, CMBIGM

Figure 8: UST yield curve flattened as short rates jumped



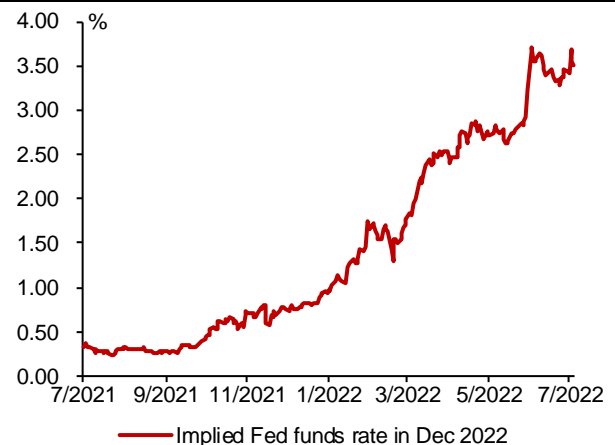
Source: Bloomberg, CMBIGM

Figure 9: US-China 10-year yield spread little changed as both declined



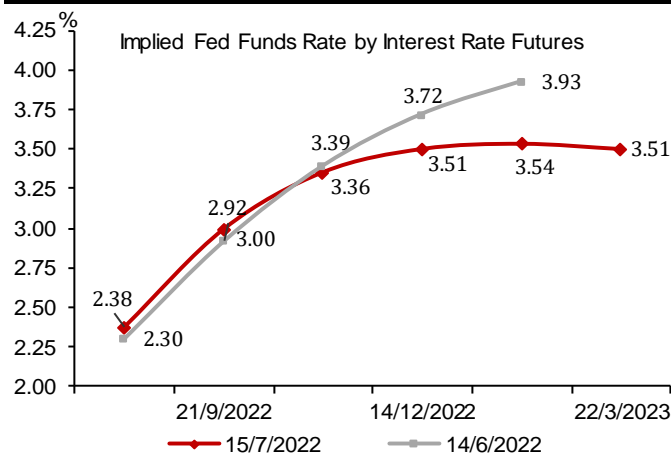
Source: Bloomberg, CMBIGM

Figure 10: Implied Fed funds rate in Dec 2022 rebounded further by 4 bps last week to 3.51%



Source: Bloomberg, CMBIGM

Figure 11: Interest rate futures implied Fed funds rate to peak in Feb 2023



Source: Bloomberg, CMBIGM

SH/SZ-HK Stock Connect

Figure 12: Southbound inflows rebounded last week

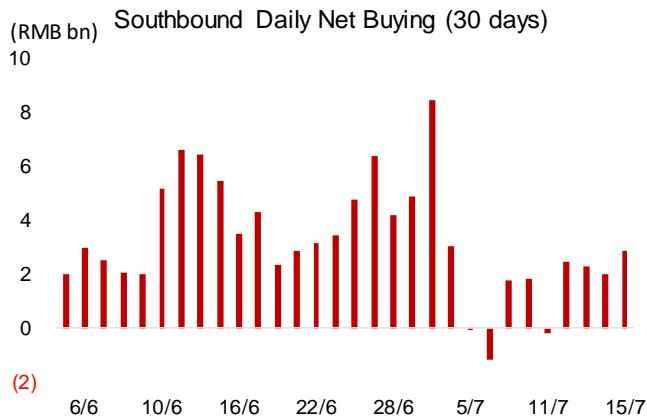


Figure 13: Northbound inflows sank to negative

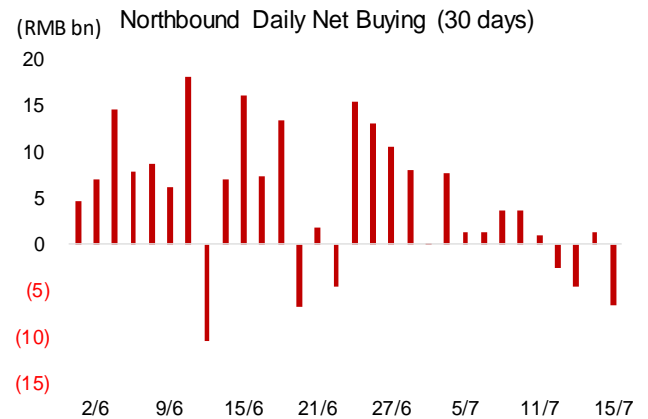


Figure 14: Southbound net buying shrank in Jul

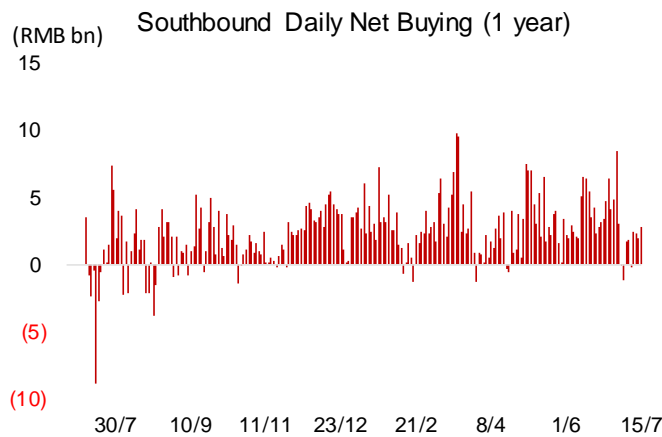


Figure 15: Northbound inflows shrinking

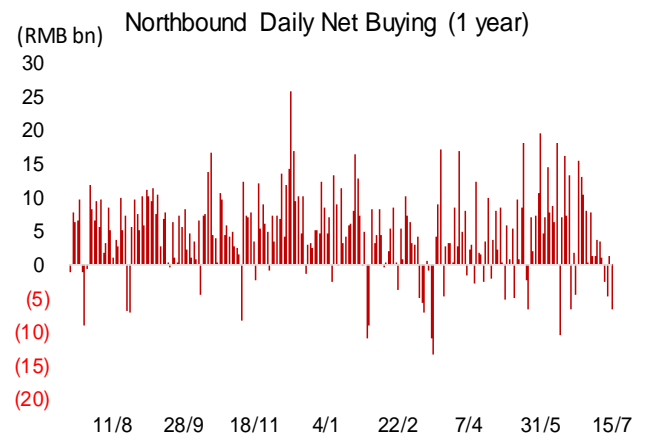


Figure 16: Both Northbound & Southbound inflows decreased recently

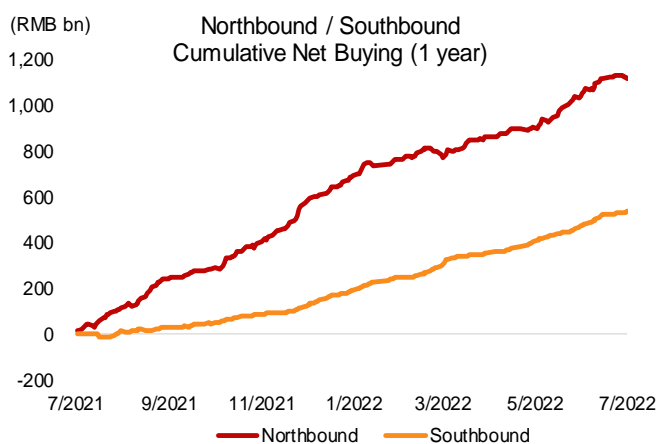
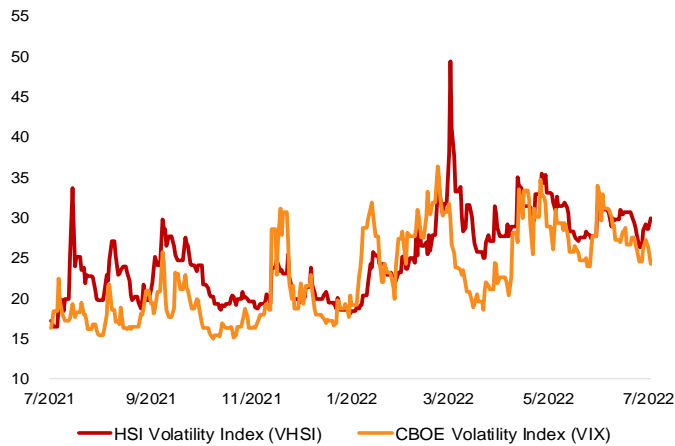


Figure 17: AH premium widened by 1.4 ppt last week as H-shares declined more than A-shares



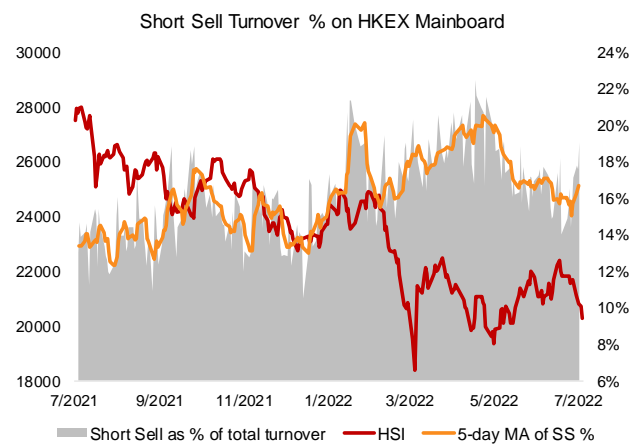
Sentiments

Figure 18: “Fear Index” VHSI rebounded to 30 from a three-month low



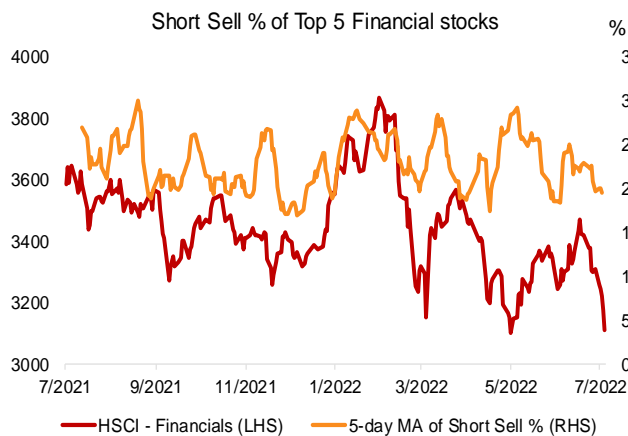
Source: Bloomberg, CMBIGM

Figure 19: Short sell % on HK mainboard jumped to above 18%, near a two-month high



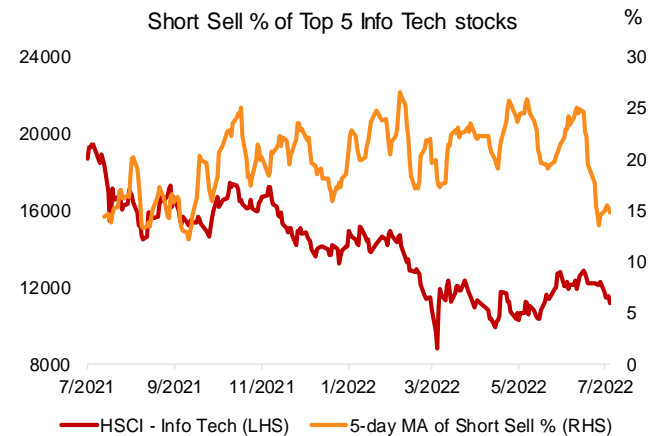
Source: Bloomberg, CMBIGM

Figure 20: Short sell % in HK - Financials



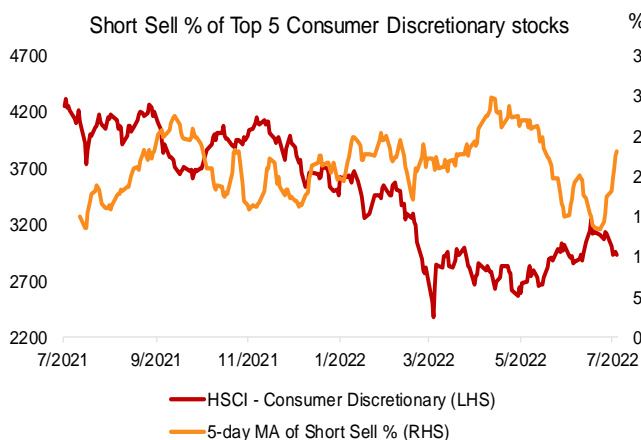
Source: Bloomberg, CMBIGM

Figure 21: Short sell % in HK – Info Tech



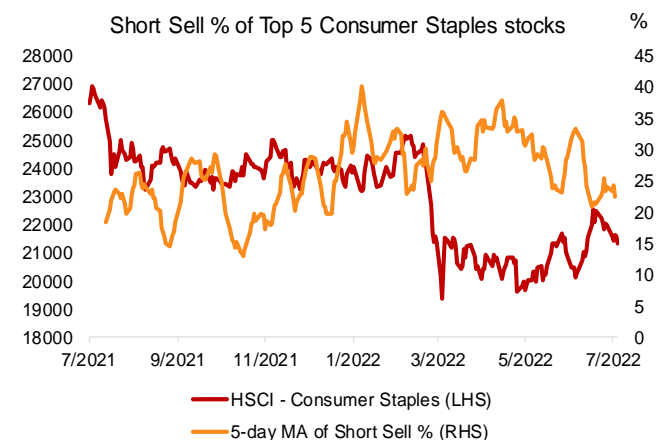
Source: Bloomberg, CMBIGM

Figure 22: Short sell % in HK – Consumer Discretionary

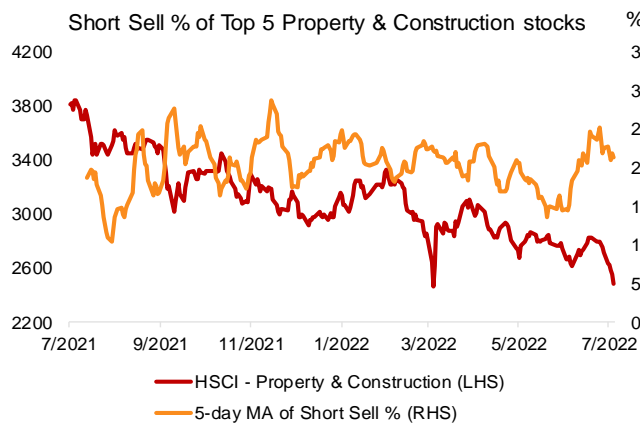


Source: Bloomberg, CMBIGM

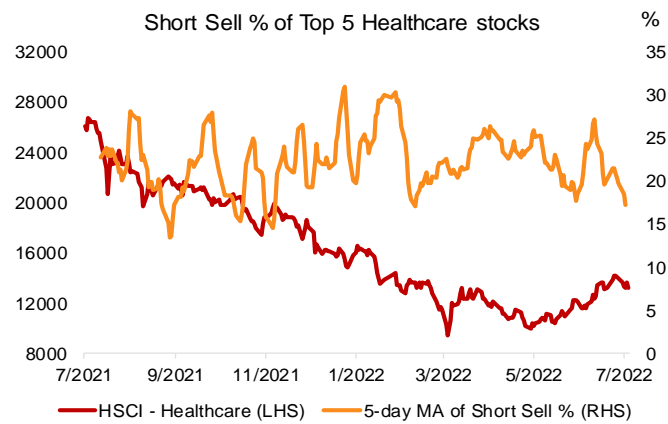
Figure 23: Short sell % in HK – Consumer Staples



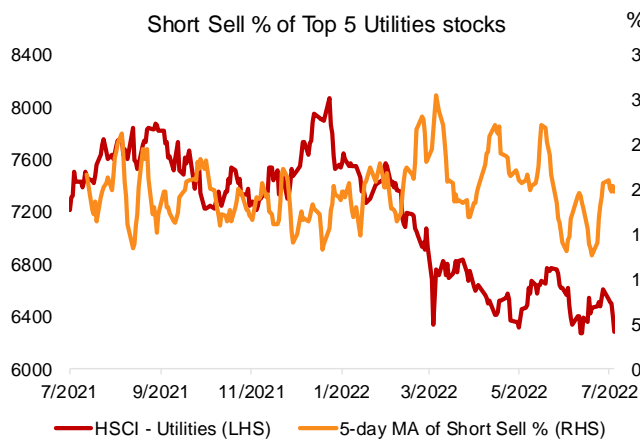
Source: Bloomberg, CMBIGM

Figure 24: Short sell % in HK - Property

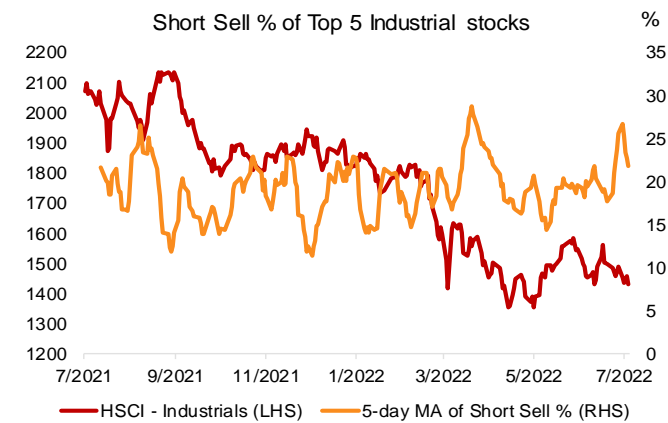
Source: Bloomberg, CMBIGM

Figure 25: Short sell % in HK – Healthcare

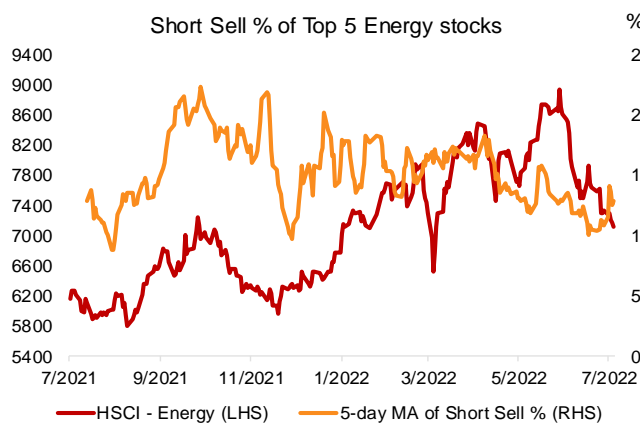
Source: Bloomberg, CMBIGM

Figure 26: Short sell % in HK – Utilities

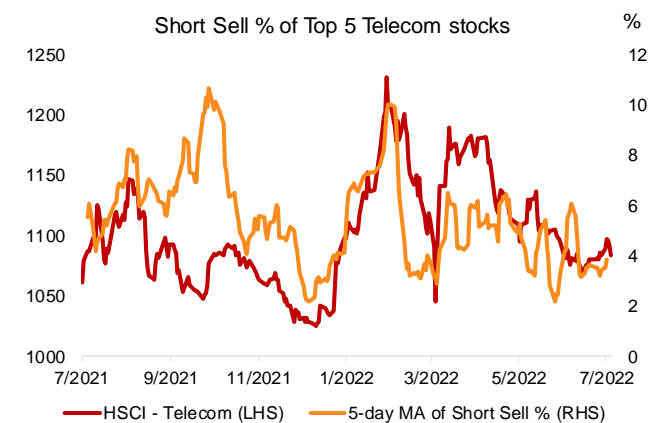
Source: Bloomberg, CMBIGM

Figure 27: Short sell % in HK – Industrials

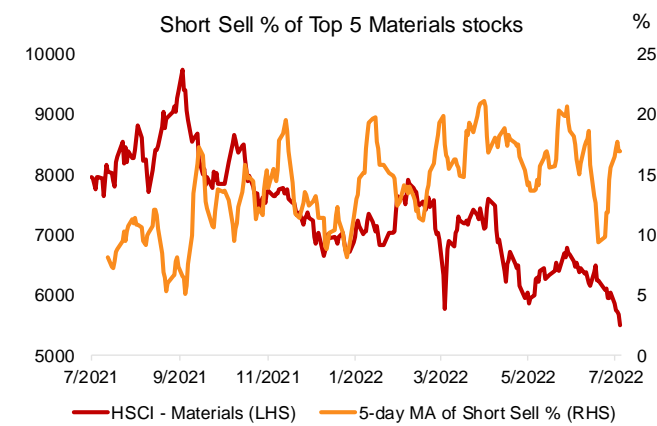
Source: Bloomberg, CMBIGM

Figure 28: Short sell % in HK – Energy

Source: Bloomberg, CMBIGM

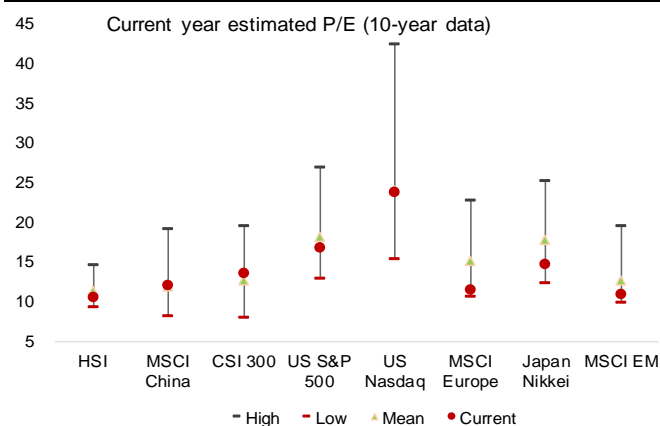
Figure 29: Short sell % in HK – Telecom

Source: Bloomberg, CMBIGM

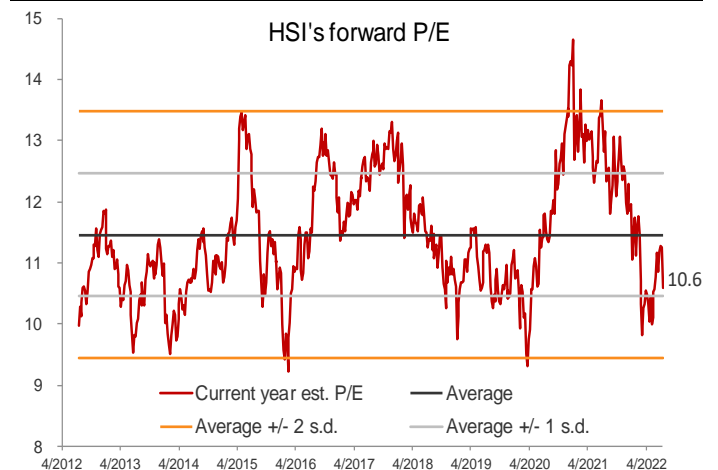
Figure 30: Short sell % in HK – Materials

Source: Bloomberg, CMBIGM

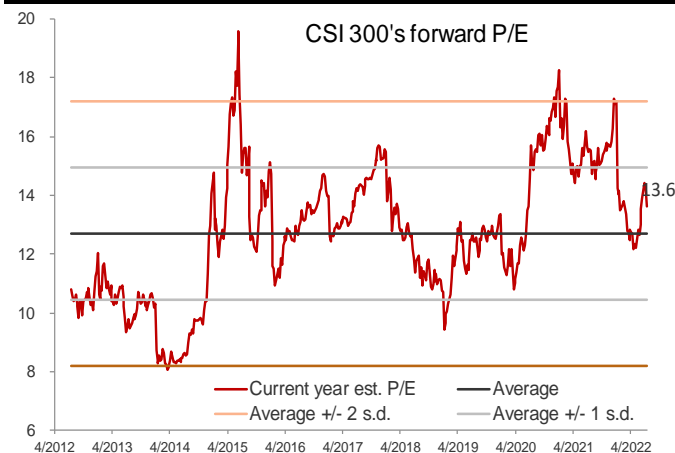
Earnings & Valuations

Figure 31: HK & US stocks' P/E moved closer to 10-yr mean

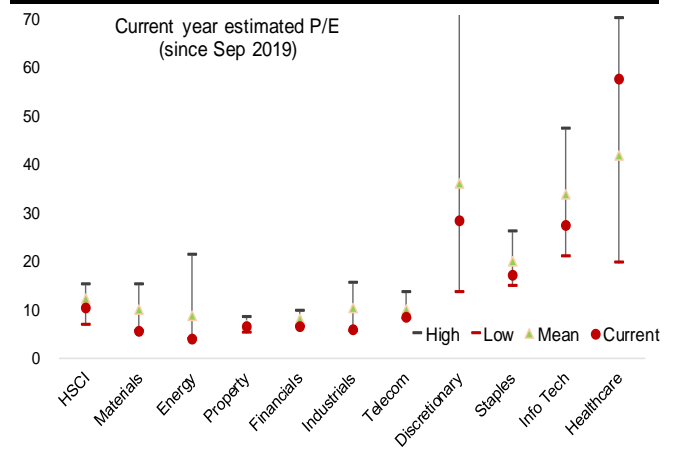
Source: Bloomberg, CMBIGM

Figure 32: HSI' forward P/E still lower than 10-yr mean

Source: Bloomberg, CMBIGM

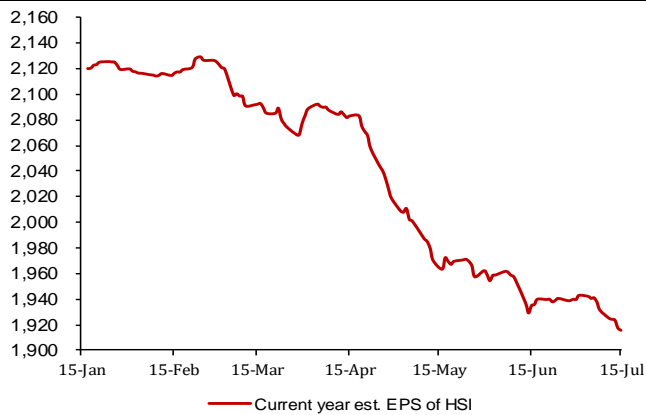
Figure 33: CSI 300's forward P/E above 10-yr mean

Source: Bloomberg, CMBIGM

Figure 34: Many HSCI sectors' P/E still at troughs

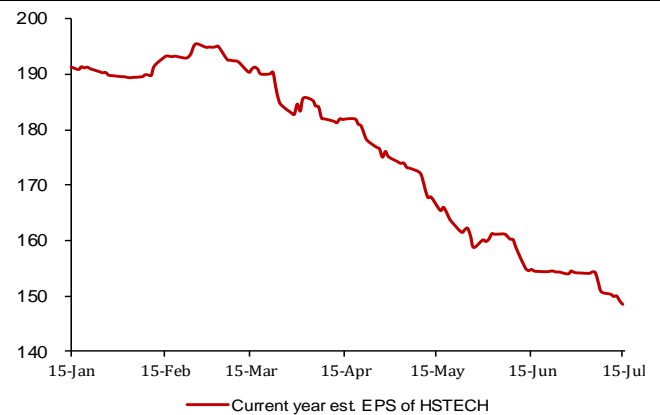
Source: Bloomberg, CMBIGM

Figure 35: EPS estimates of HSI were revised down by 0.8% last week



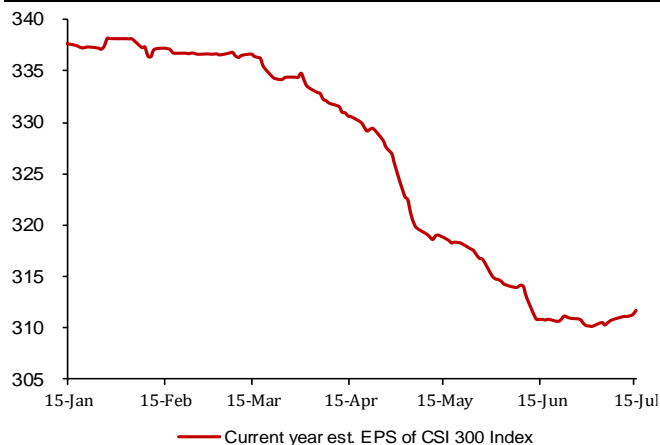
Source: Bloomberg, CMBIGM

Figure 36: EPS estimates of HSTECH Index were revised down by 1.5% last week



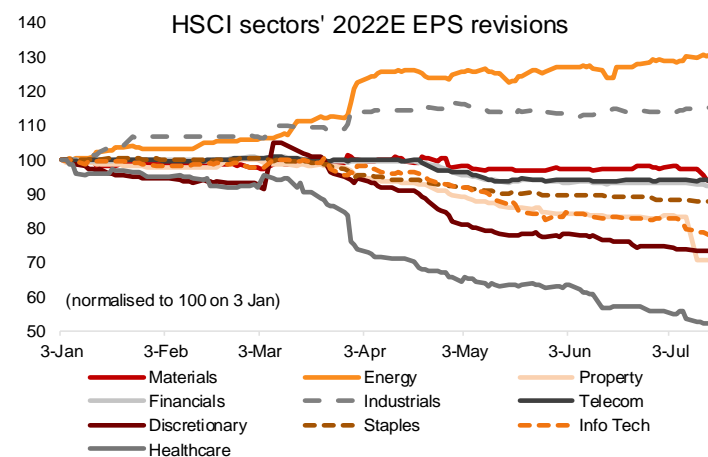
Source: Bloomberg, CMBIGM

Figure 37: EPS estimates of A-shares were revised up by 0.3% last week



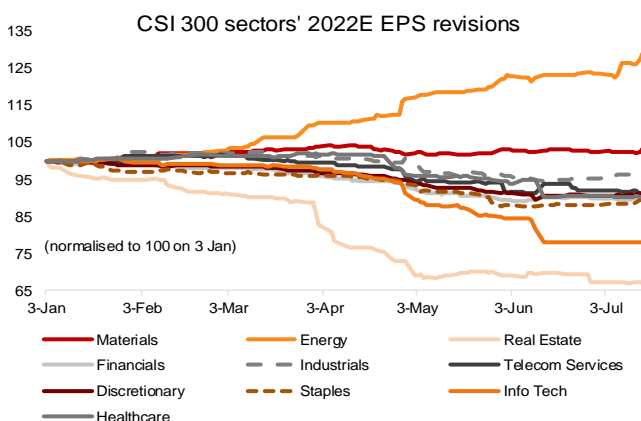
Source: Bloomberg, CMBIGM

Figure 38: HK earnings revision: Energy & Industrials up



Source: Bloomberg, CMBIGM

Figure 39: A-shares earnings revision: Energy & Industrials up



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.