

China / HK Market Weekly

Short-term rebound but upside limited

Last week (2-9 Sep), HK stock market underperformed on concerns over Fed rate hikes and RMB depreciation. This week, investors will monitor inflation data in the US and Europe. The US headline CPI inflation in Aug is expected to ease, but core CPI inflation may rise slightly. We believe the HSI may continue last Friday's rebound in the very short term, but upside should be quite limited as investors will probably stay prudent ahead of the FOMC meeting next week.

- **Market recap:** The HSI / CSI 300 / S&P 500 were -0.5% / +1.7% / +3.7% last week (Fig. 3). US stocks staged a relief rally, but HK stocks lagged on hawkish Fed, weak RMB and concerns over Chinese internet stocks' potential selling by major shareholders. By sector, Materials & Property gained in HK (Fig. 5).
- **Interest rates:** US interest rate hike expectations continued to heighten as Fed Chair Powell vowed last Thursday to continue aggressive inflation fight. Interest rate futures implied Fed funds rate could reach 4% in 1Q23 (Fig. 11 & 12).
- **Valuation:** At last week's trough, the FY22E P/E of the HSI dropped to 10.0x (Fig. 34), and its P/B is now at a decade-low 0.78x. While cheap valuation alone does not warrant buying, this should offer pretty good downside protection.
- **Sentiment & market outlook:** Short-sell ratio on HK mainboard rose to a record high 22.9% on 30 Aug, and then came down to an average 18.4% last week. **Short-squeeze might have played a part in last Friday's rebound in the HSI.** Similarly, after the short-sell ratio surged above 20% in Jan and May 2022, there were short-term rebounds in the HSI (Fig. 1). **Being technically oversold also helped drive the rebound.** The HSI's 9-day RSI dropped to oversold zone for the fifth time since mid-Jul, and in each of the four previous cases, the HSI rebounded for 2-3 days (Fig. 2). This suggests HK market might rise further in the very short term. By sector, **we like Consumer Staples** since their margin pressure should be easing as China's PPI-CPI gap is narrowing. We **remain cautious on China's Property and Banking sectors** as the property market's weakness still poses major risks.
- **Things to watch this week:**
 - Tuesday: US CPI (Aug); Germany CPI (Aug).
 - Wednesday: US PPI (Aug); UK CPI (Aug).
 - Thursday: US Retail Sales (Aug).
 - Friday: China Retail Sales, Industrial Production & FAI (Aug); US Michigan Consumer Sentiment (Sep preliminary).

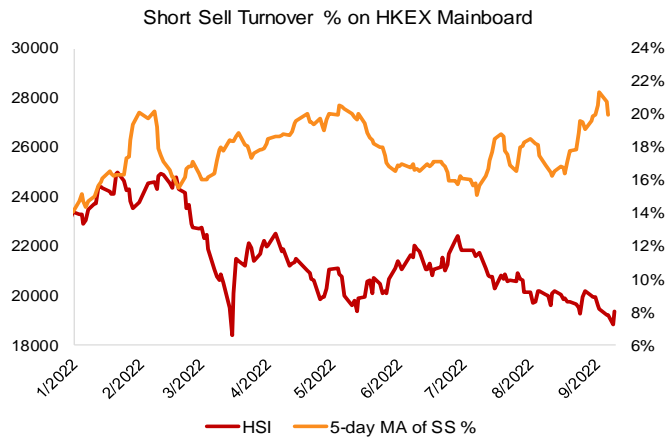
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Charts of the Week

Figure 1: HSI tended to rebound on short-squeezing after short-sell ratio surged to 20%



Source: Bloomberg, CMBIGM

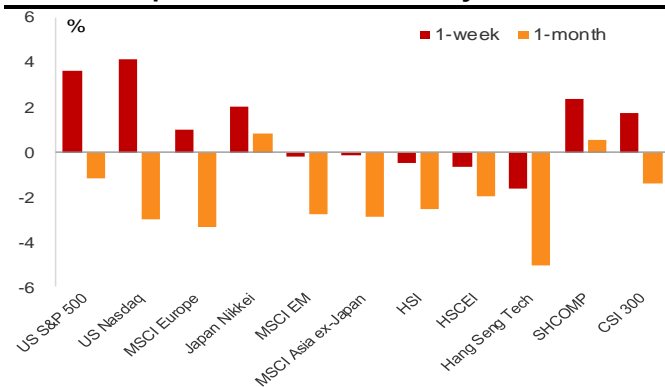
Figure 2: HSI rebounded again as RSI dropped to oversold zone for the fifth time since mid-Jul



Source: Bloomberg, CMBIGM

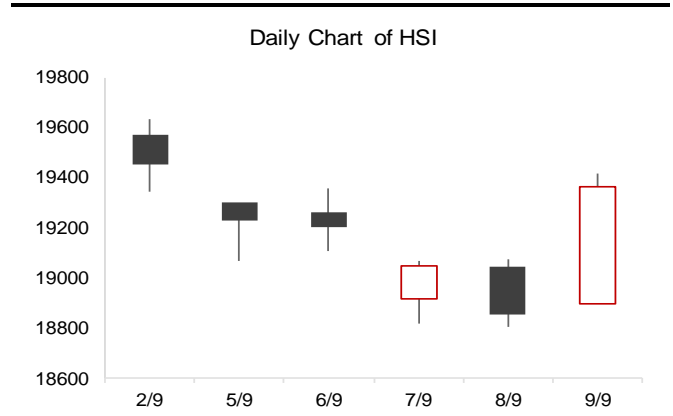
Market Recap

Figure 3: Weekly global markets' returns: HSI fell despite US stocks' relief rally



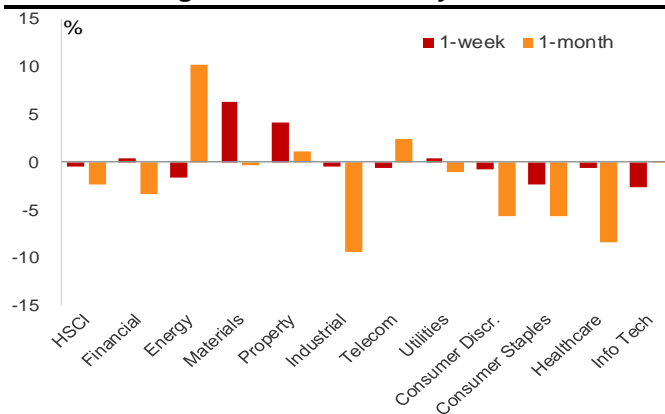
Source: Bloomberg, CMBIGM

Figure 4: HSI surged after falling to below 19,000



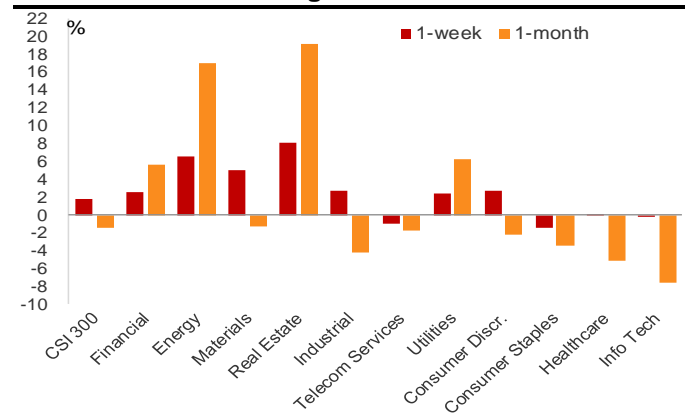
Source: Bloomberg, CMBIGM

Figure 5: Hang Seng Composite Index sectors: Materials led gains in old-economy stocks



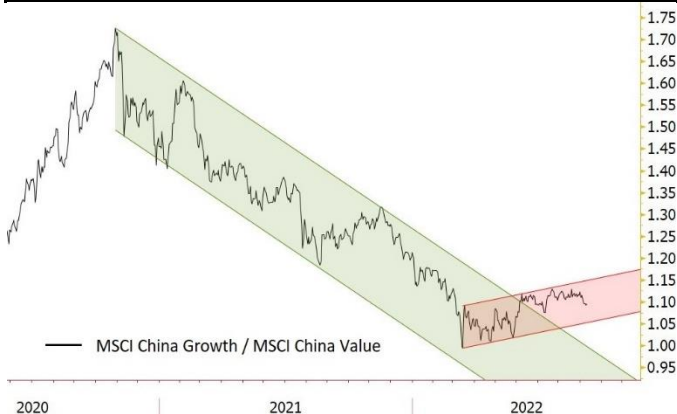
Source: Bloomberg, CMBIGM

Figure 6: CSI 300 Index sectors: Energy & Real Estate continued strong runs in recent weeks



Source: Bloomberg, CMBIGM

Figure 7: China Growth stocks outperformed Value in recent months and are in a relative uptrend



Source: Bloomberg, CMBIGM

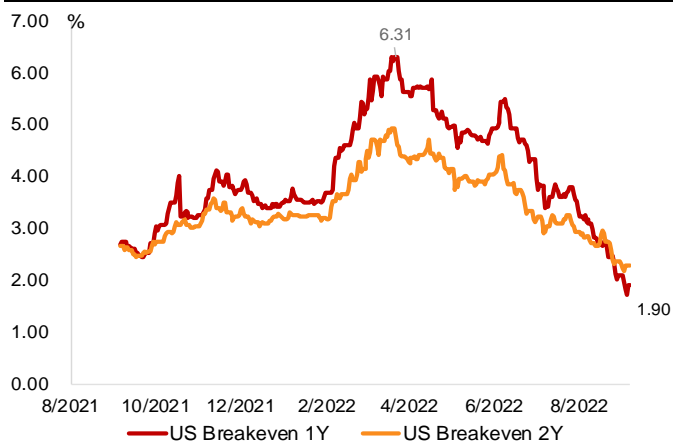
Figure 8: US Growth stocks outperformed Value since May but pulled back lately on higher rates



Source: Bloomberg, CMBIGM

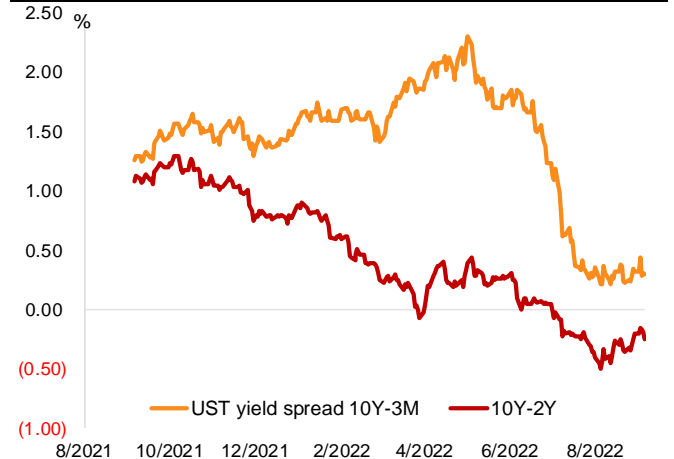
Fund Flows

Figure 9: US inflation expectations easing since Apr



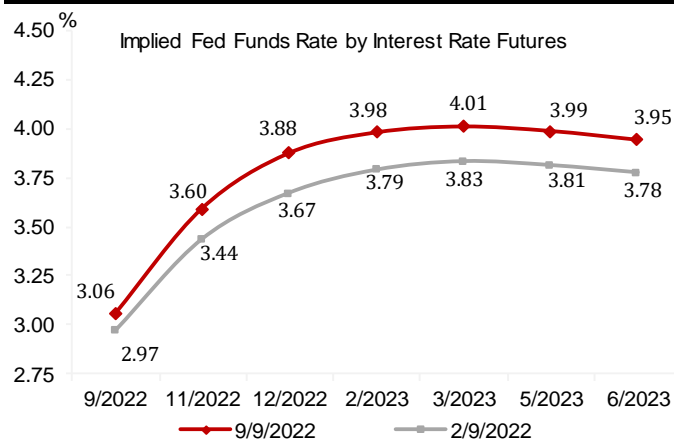
Source: Bloomberg, CMBIGM

Figure 10: UST 10-yr & 2-yr spread is negative



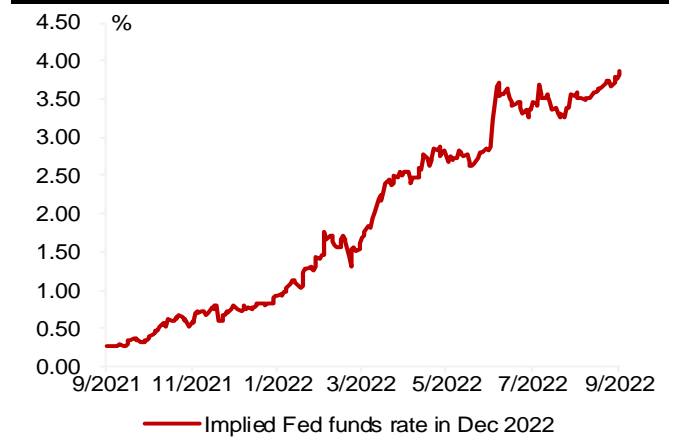
Source: Bloomberg, CMBIGM

Figure 11: Fed rate hike concerns deepened last week



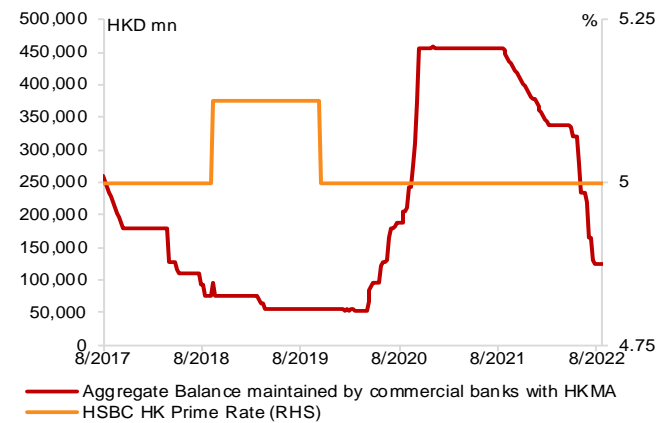
Source: Bloomberg, CMBIGM

Figure 12: Implied Fed funds rate in Dec 2022 surged to a new high



Source: Bloomberg, CMBIGM

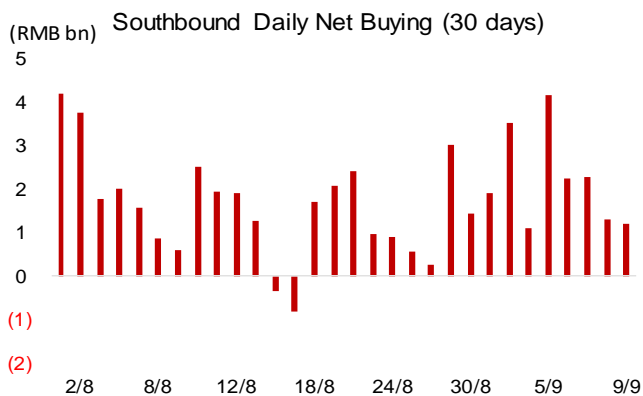
Figure 13: HKMA aggregate balance remained at around HK\$125bn over the past four weeks. Commercial banks might raise lending rates when this drops to below HK\$100bn



Source: Bloomberg, CMBIGM

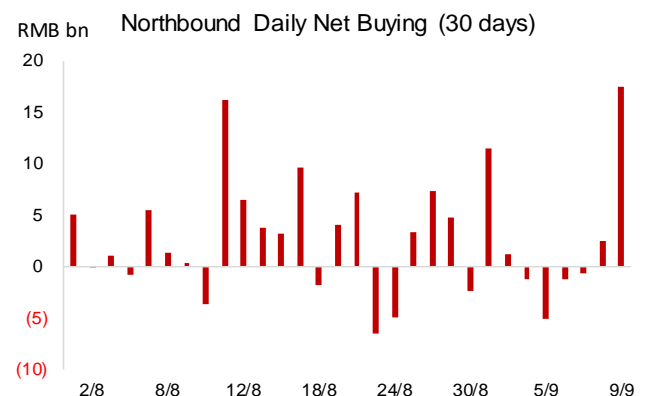
SH/SZ-HK Stock Connect

Figure 14: Southbound inflows remained mild



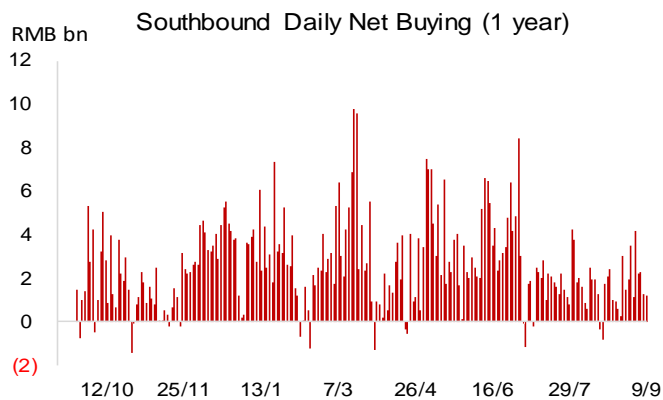
Source: Bloomberg, CMBIGM

Figure 15: Northbound inflows were more volatile



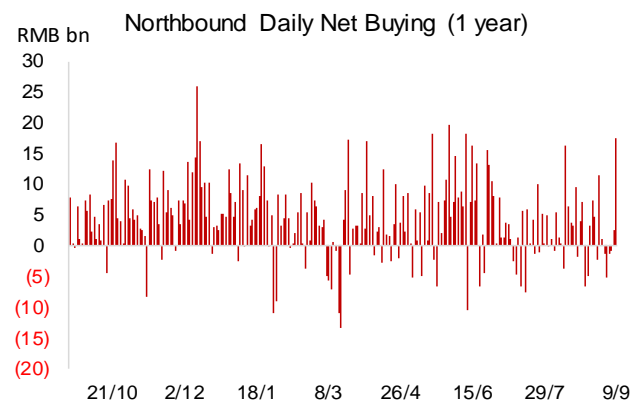
Source: Bloomberg, CMBIGM

Figure 16: Southbound net buying slowed down since Jul

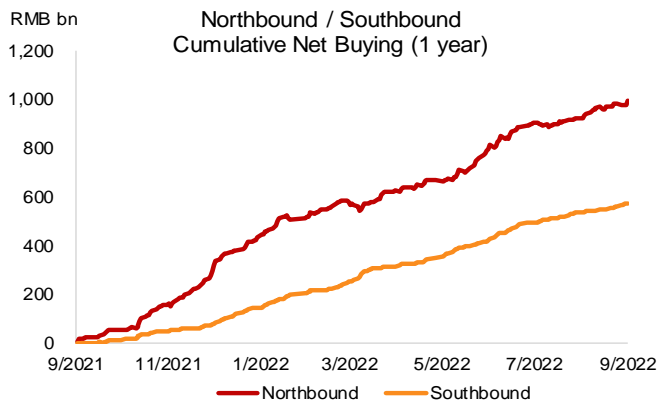


Source: Bloomberg, CMBIGM

Figure 17: Northbound net buying slowed down since Jul



Source: Bloomberg, CMBIGM

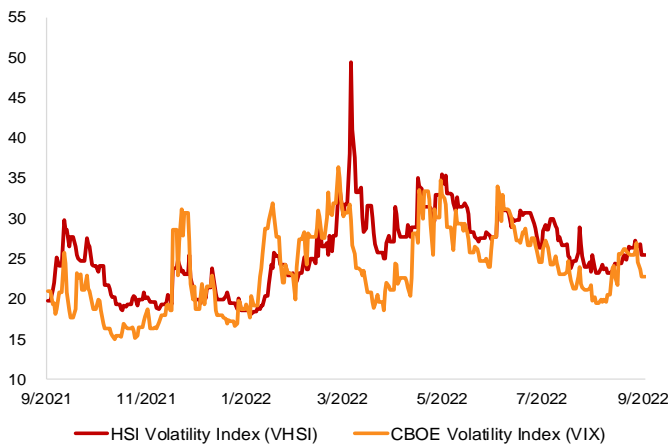
Figure 18: Northbound & Southbound cumulative inflows in the past 12 months


Source: Bloomberg, CMBIGM

Figure 19: AH premium narrowed by 1.8 ppt last week


Source: Bloomberg, CMBIGM

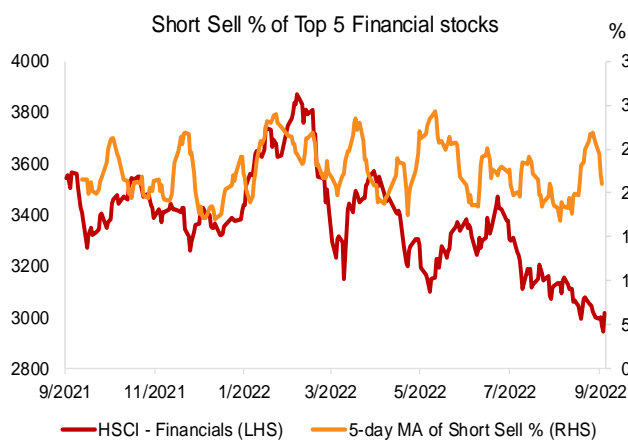
Sentiments

Figure 20: “Fear Index” VHSI dropped from a one-month high to 25.4


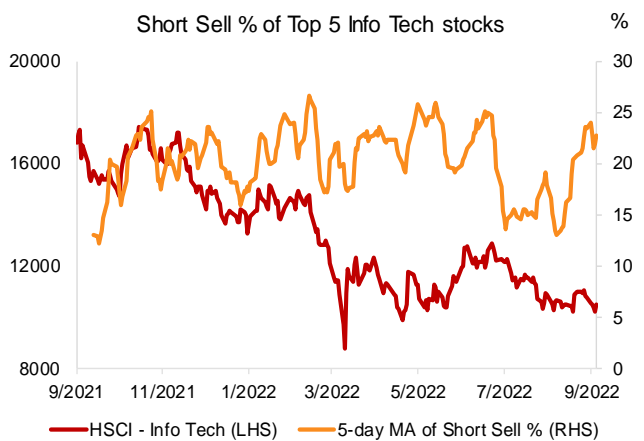
Source: Bloomberg, CMBIGM

Figure 21: Short sell % on HK mainboard retreating from record high in late-Aug

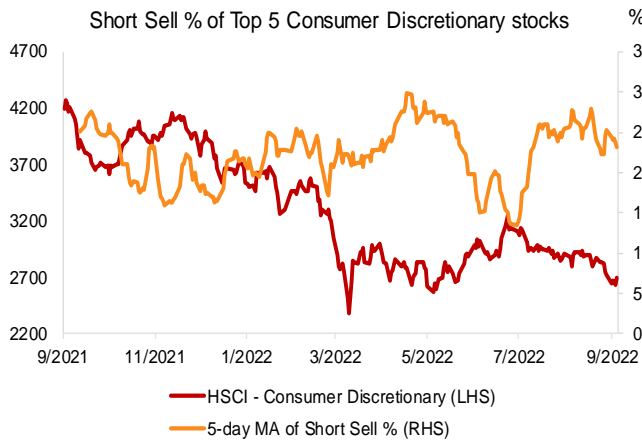

Source: Bloomberg, CMBIGM

Figure 22: Short sell % in HK - Financials


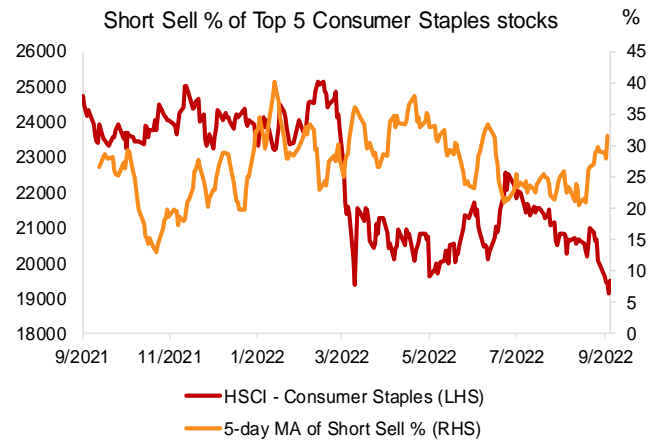
Source: Bloomberg, CMBIGM

Figure 23: Short sell % in HK - Info Tech


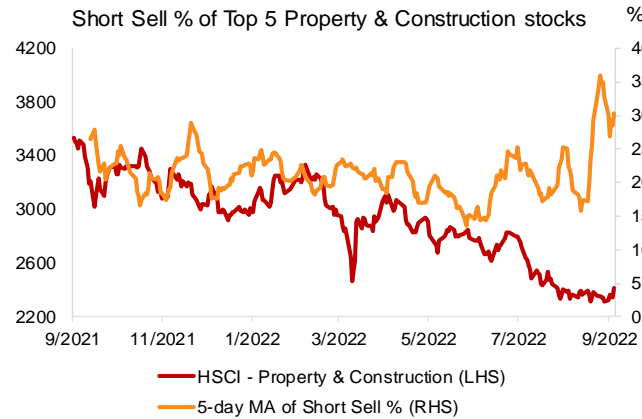
Source: Bloomberg, CMBIGM

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

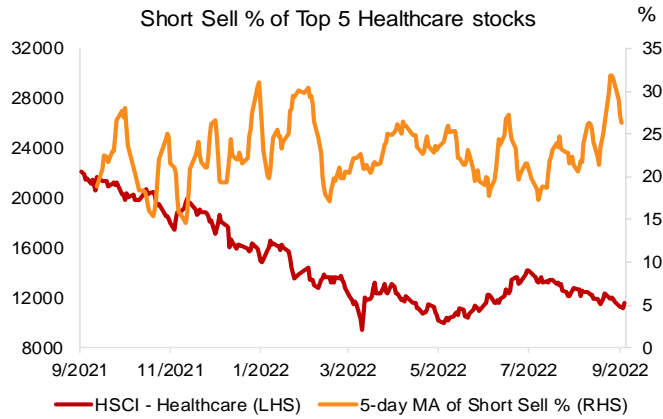
Source: Bloomberg, CMBIGM

Figure 25: Short sell % in HK – Consumer Staples

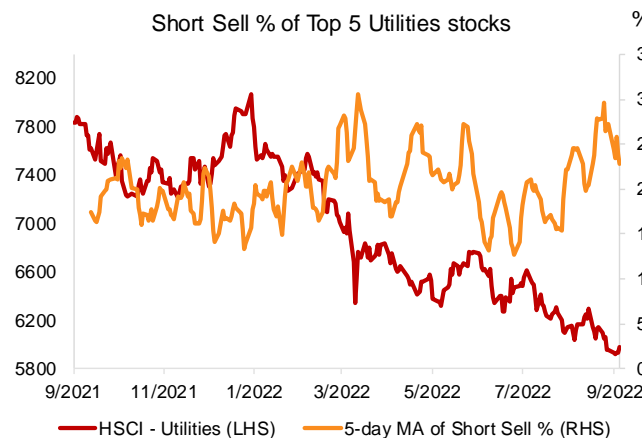
Source: Bloomberg, CMBIGM

Figure 26: Short sell % in HK - Property

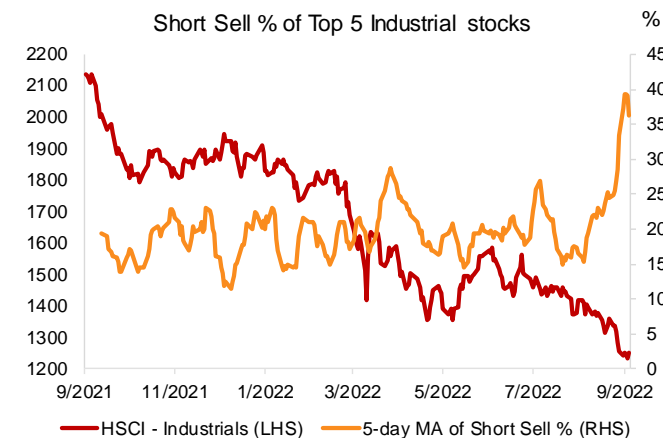
Source: Bloomberg, CMBIGM

Figure 27: Short sell % in HK – Healthcare

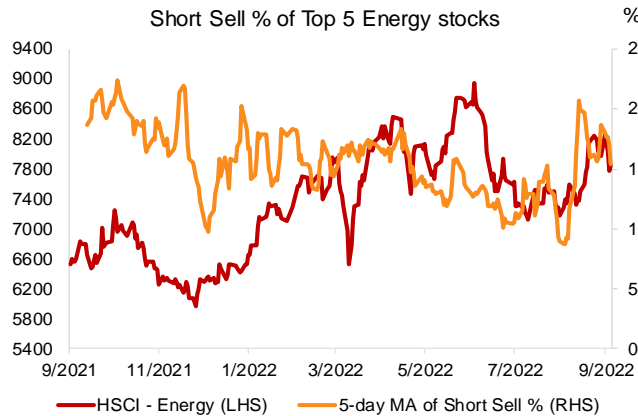
Source: Bloomberg, CMBIGM

Figure 28: Short sell % in HK – Utilities

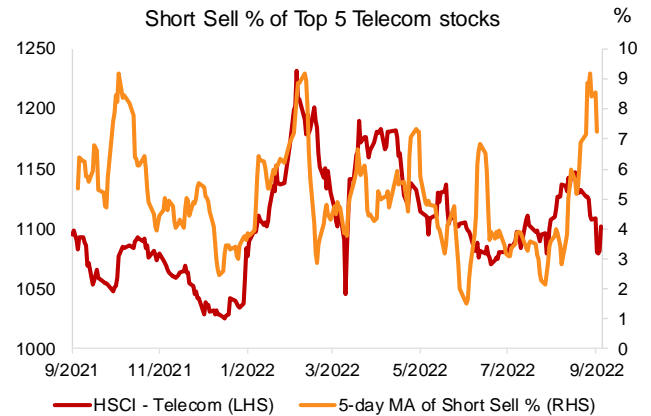
Source: Bloomberg, CMBIGM

Figure 29: Short sell % in HK – Industrials

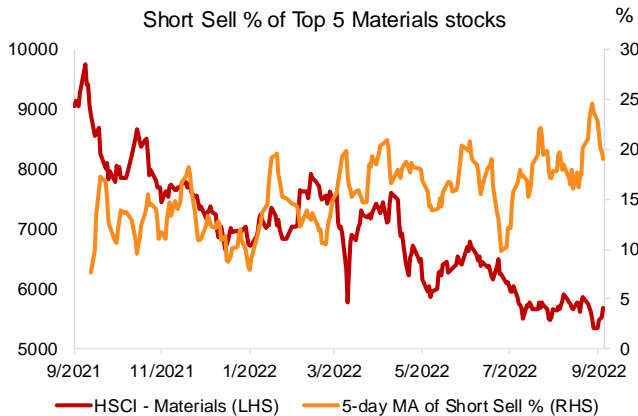
Source: Bloomberg, CMBIGM

Figure 30: Short sell % in HK – Energy

Source: Bloomberg, CMBIGM

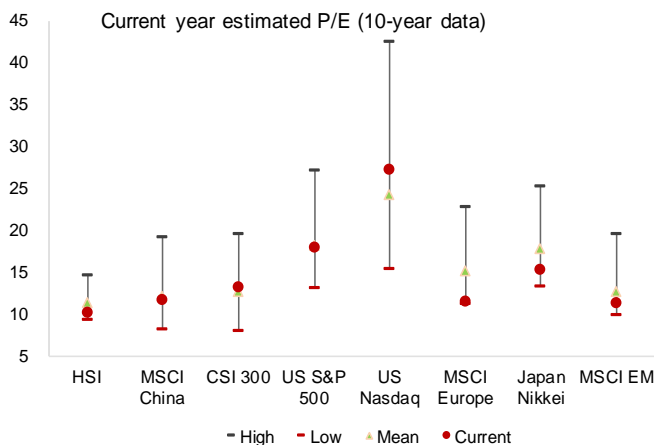
Figure 31: Short sell % in HK – Telecom

Source: Bloomberg, CMBIGM

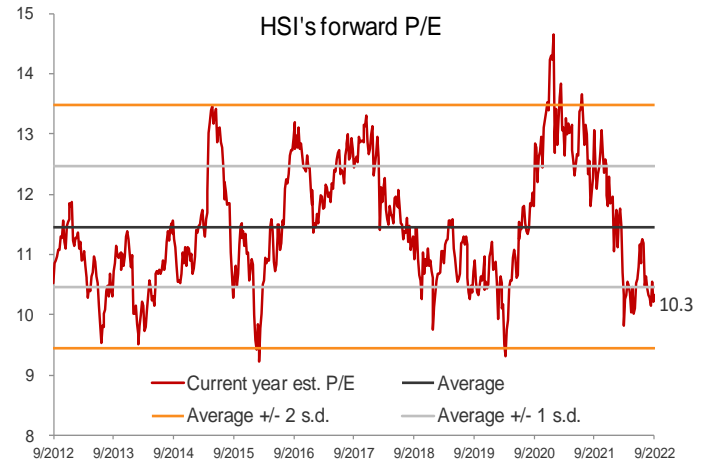
Figure 32: Short sell % in HK – Materials

Source: Bloomberg, CMBIGM

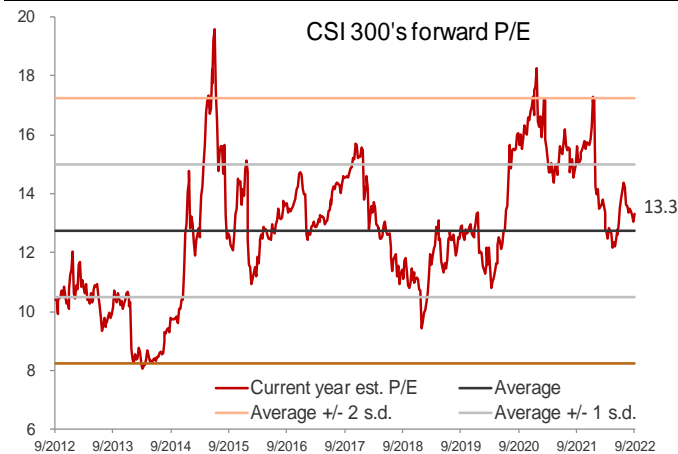
Earnings & Valuations

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

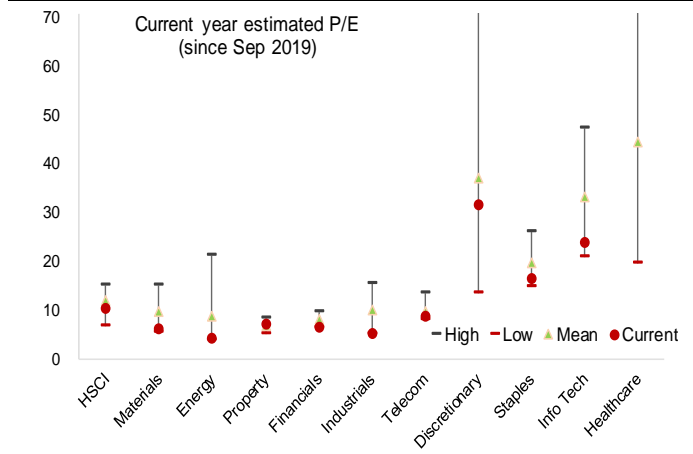
Source: Bloomberg, CMBIGM

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

Source: Bloomberg, CMBIGM

Figure 35: CSI 300's forward P/E above 10-yr mean

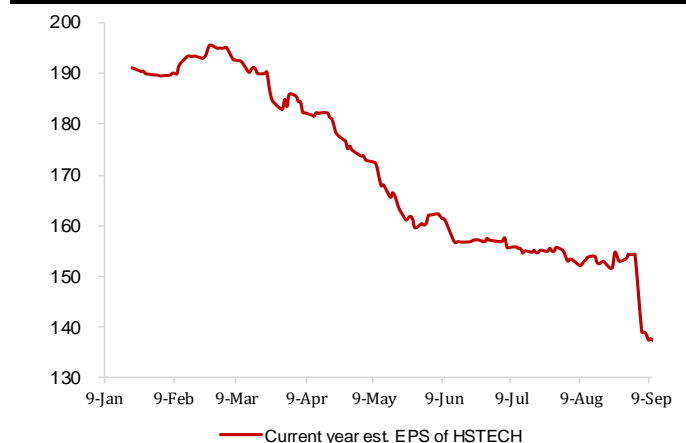
Source: Bloomberg, CMBIGM

Figure 36: Many HSCI sectors' P/E are near troughs

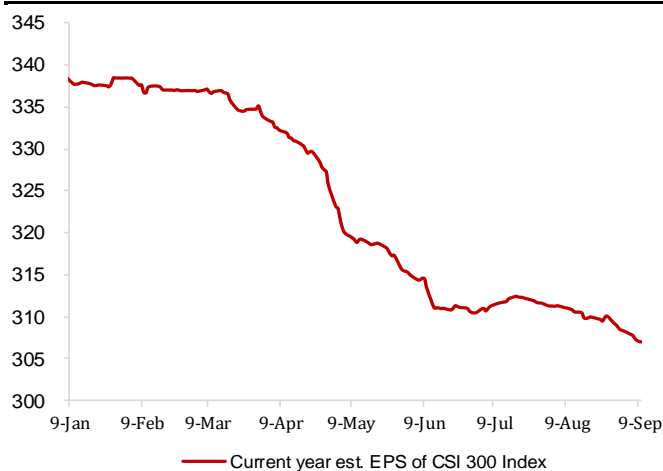
Source: Bloomberg, CMBIGM

Figure 37: EPS estimates of HSI were down last week mainly due to changes in constituents

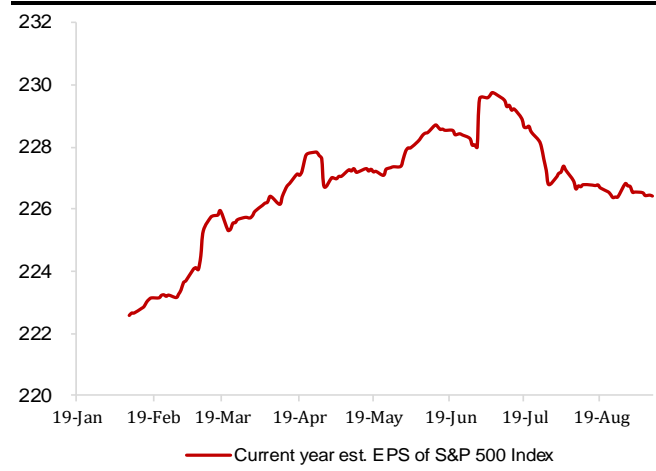
Source: Bloomberg, CMBIGM

Figure 38: EPS estimates of HSTECH Index were down last week mainly due to changes in constituents

Source: Bloomberg, CMBIGM

Figure 39: EPS estimates of A-shares were tuned down by 0.4% last week

Source: Bloomberg, CMBIGM

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

Source: Bloomberg, CMBIGM

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