

China / HK Market Weekly

HSI range-bound with earnings bottoming out

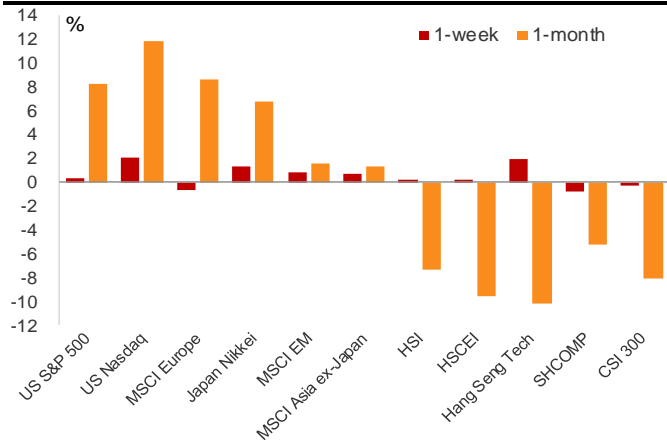
In the first week of Aug, China / HK stock markets were directionless just like other major stock markets. Growth stocks such as IT, Consumer & Healthcare outperformed Value. This week, investors will closely watch Wednesday's Jul CPI data of the US and China, as well as HK stocks' earnings. We expect the HSI to be range-bound in the short term, supported by improving earnings estimates, but capped by China-US tension and risks in US rate hikes and China's housing market. Chinese Consumer stocks might extent last week's outperformance on optimism about further policy support. We remain cautious on Chinese Property & Banking sectors before substantial supportive policies on the housing market are announced.

- **Market recap:** Major stock markets around the world were directionless last week. The HSI rebounded by 0.23% while the CSI 300 fell by 0.32%. Growth stocks such as IT & Healthcare led gains in both H-shares and A-shares, while Value stocks like Energy & Real Estate declined (Fig. 3-4). China Internet ETF recorded outflows in the past four weeks (Fig. 11).
- **Interest rates:** Implied Fed fund rates rebounded after strong beat in US non-farm payrolls in Jul (Fig. 9-10), but US inflation expectations indicated by breakeven rates fell further (Fig. 7). In HK, the aggregate balance maintained by commercial banks with the central bank has been falling over the past 12 months, to HK\$129bn now. Banks are widely expected to raise lending rates when the balance dropped to below HK\$100bn (Fig. 12).
- **Sentiment:** Risk indicators showed mild improvement in sentiment in HK stock market, as "Fear Index" VHSI retreated further to a five-month low, while the short-sell ratio on HK mainboard dropped to below 18% (Fig. 19 & 20). By sector, short-sell ratio dropped in Energy, Materials & Healthcare, and rose in Property, Utilities & Consumer Staples.
- **Earnings:** FY22E EPS consensus of the HSI was revised up by 1.1% last week to a two-month high (Fig. 36), as HSBC reported upbeat 2Q earnings. By sector in HK, estimates of Financials & Energy went up, while Healthcare, Consumer Discretionary & Materials went down. In the US, FY22E EPS estimates were down by 1.0% from the peak a month ago (Fig. 39). According to FactSet, 58% of the S&P 500 companies that have issued EPS guidance for 3Q 2022 have issued negative guidance, but this percentage is slightly below the 5-year & 10-year averages.
- **Market outlook & sector views:** We expect the HSI to be range-bound in the short term. On the positive side, earnings consensus of the HSI seems to be bottoming out. But upside would be capped by China-US tension, a rebound in US rate hike expectation and housing market risk in China. **Chinese Consumer stocks may extend last week's outperformance**, after the State Council Executive Meeting in late-Jul stressed that "consumption should still be the main driver for stabilising growth". We **remain cautious on Chinese Property & Banking sectors** before substantial supportive policies on the housing market are announced.

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

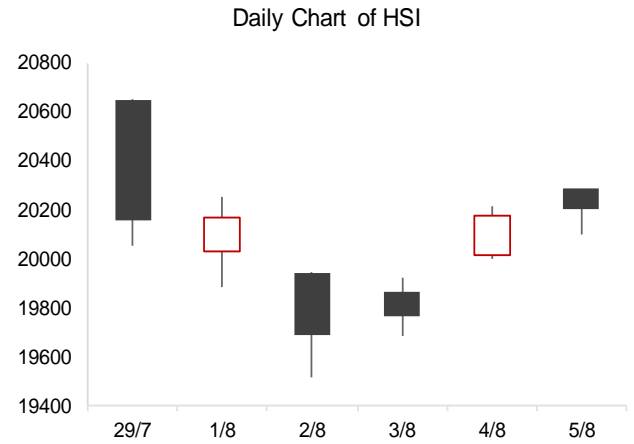
Market Recap

Figure 1: Weekly global markets' returns: directionless in the first week of Aug



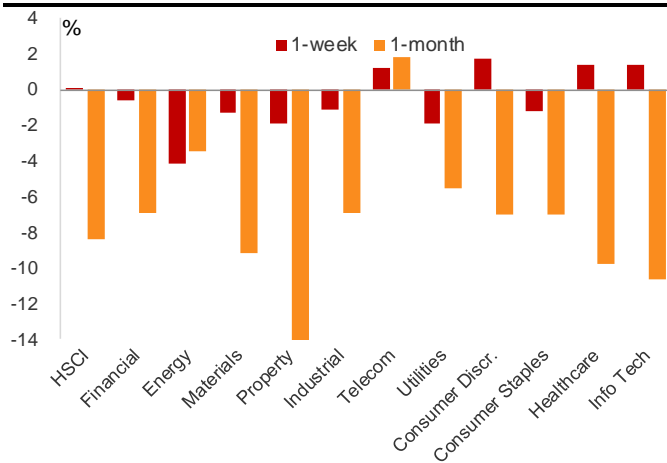
Source: Bloomberg, CMBIGM

Figure 2: HSI hovering around 20,000



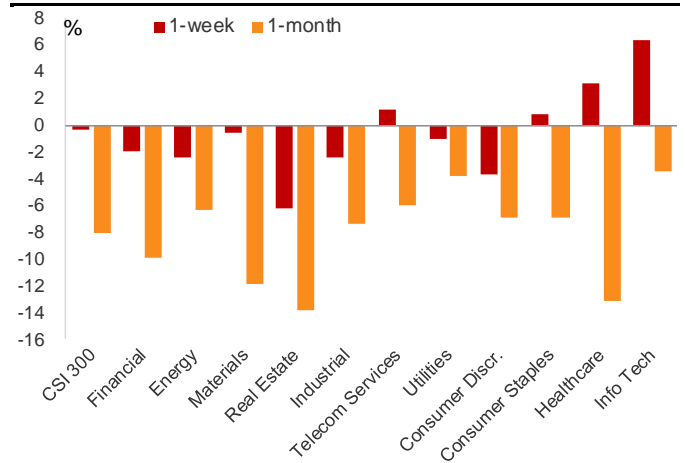
Source: Bloomberg, CMBIGM

Figure 3: Hang Seng Composite Index sectors: Growth stocks gained; Value stocks declined



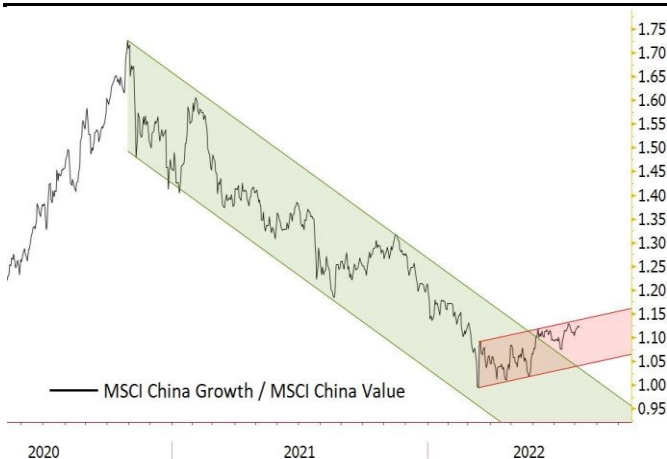
Source: Bloomberg, CMBIGM

Figure 4: CSI 300 Index sectors: IT & Healthcare surged; Real Estate slumped



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

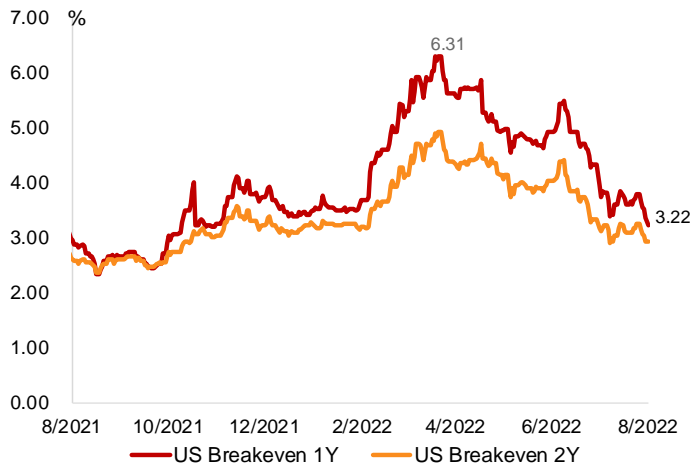
Figure 6: US Growth stocks outperformed Value in recent months, breaking a downtrend on the chart of relative performance



Source: Bloomberg, CMBIGM

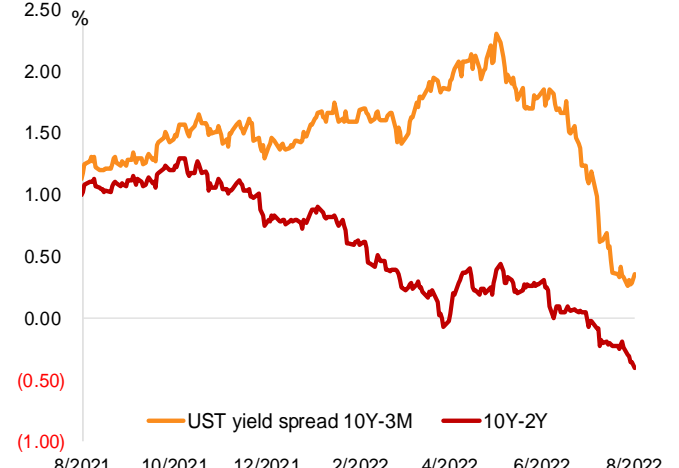
Fund Flows

Figure 7: US inflation expectations fell further despite strong employment report



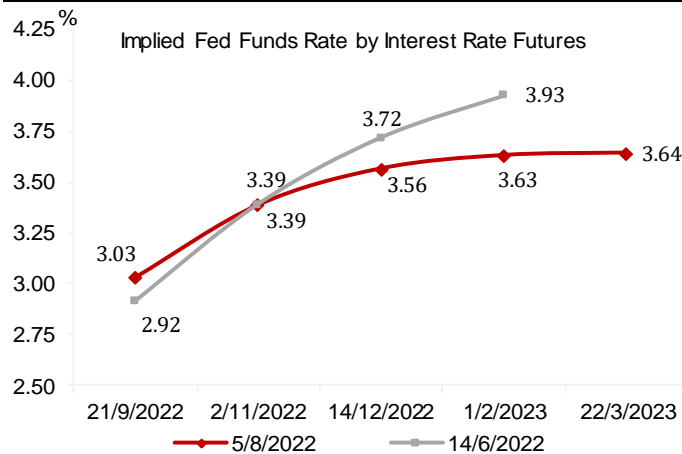
Source: Bloomberg, CMBIGM

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



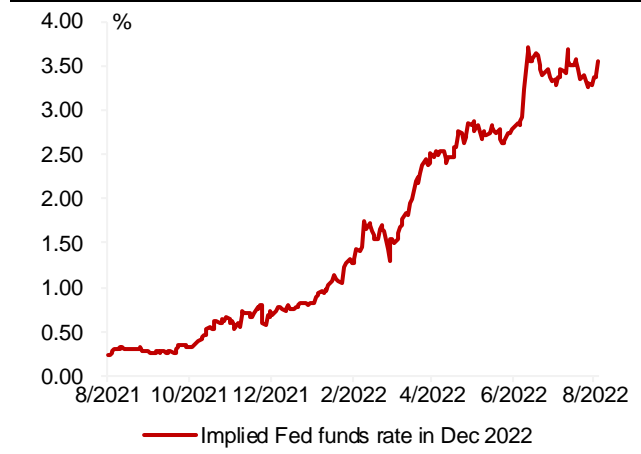
Source: Bloomberg, CMBIGM

Figure 9: Implied Fed funds rate jumped after strong beat in US non-farm payrolls in Jul



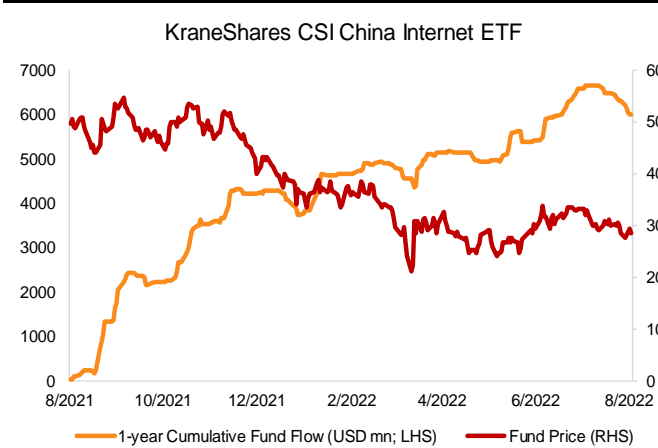
Source: Bloomberg, CMBIGM

Figure 10: Implied Fed funds rate in Dec 2022 rebounded by 25 bps last week to 3.56%



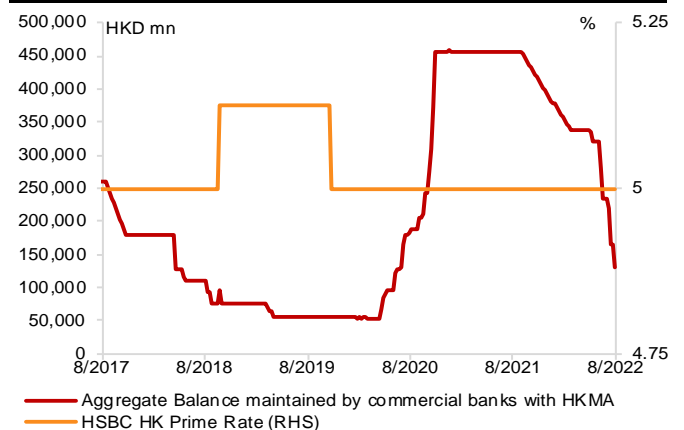
Source: Bloomberg, CMBIGM

Figure 11: KWEB, the largest China Internet ETF, recorded outflows for the fourth straight week



Source: Bloomberg, CMBIGM

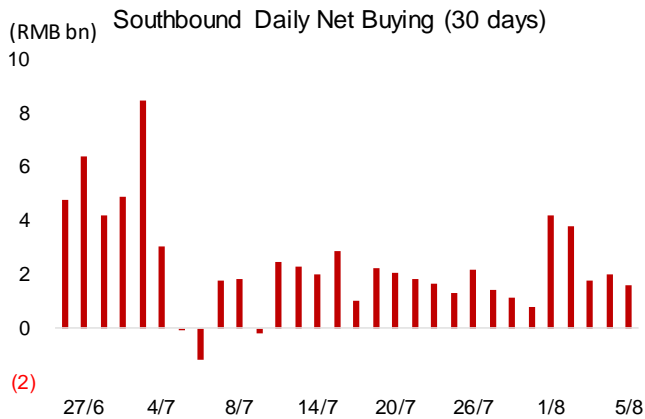
Figure 12: HKMA aggregate balance dropped to HK\$129bn. Commercial banks might raise lending rates when the balance dropped to below HK\$100bn



Source: Bloomberg, CMBIGM

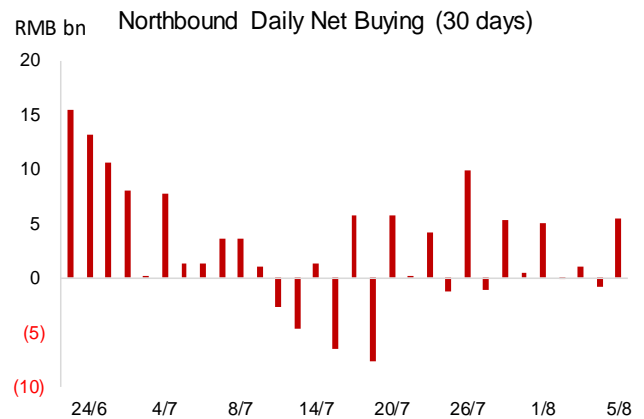
SH/SZ-HK Stock Connect

Figure 13: Southbound inflows slightly increased



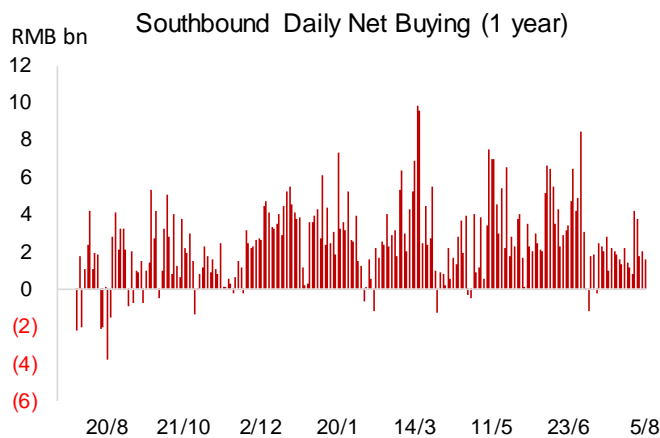
Source: Bloomberg, CMBIGM

Figure 14: Northbound inflows remained mild



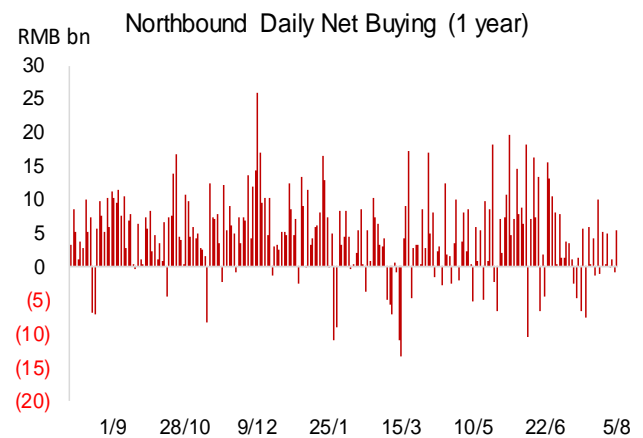
Source: Bloomberg, CMBIGM

Figure 15: Southbound net buying slowed down compared to Jun



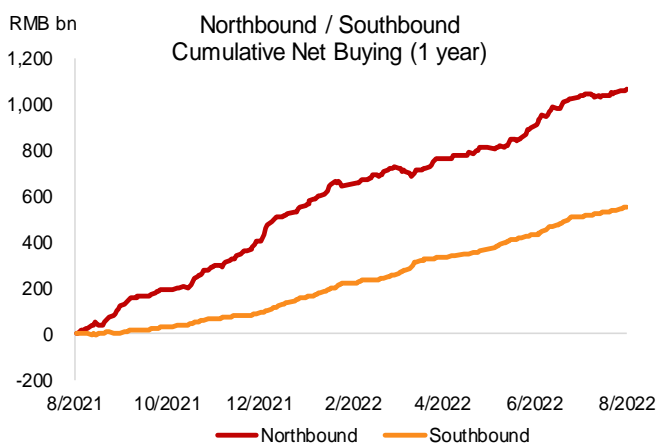
Source: Bloomberg, CMBIGM

Figure 16: Northbound net buying slowed down compared to Jun



Source: Bloomberg, CMBIGM

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



Source: Bloomberg, CMBIGM

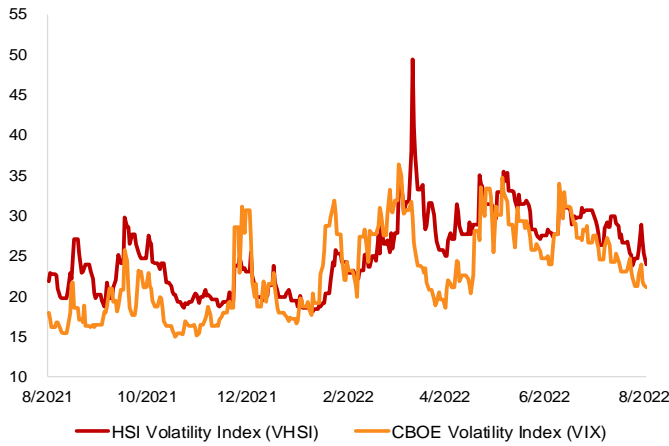
Figure 18: AH premium unchanged last week



Source: Bloomberg, CMBIGM

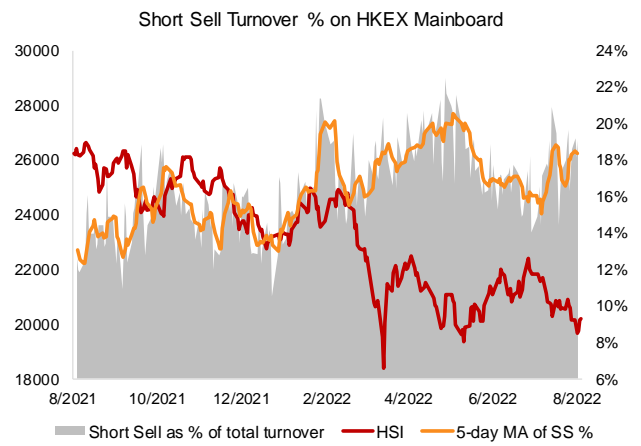
Sentiments

Figure 19: “Fear Index” VHSI retreated further to 24.0, a five-month low



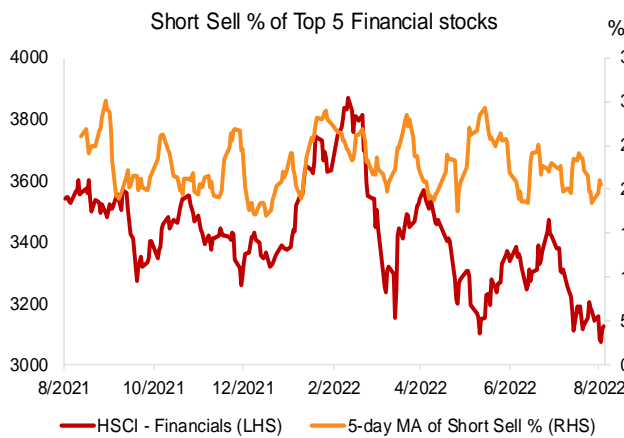
Source: Bloomberg, CMBIGM

Figure 20: Short sell % on HK mainboard dropped to below 18%



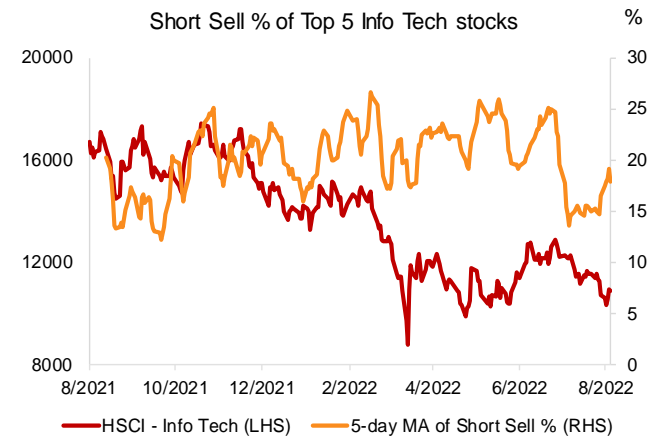
Source: Bloomberg, CMBIGM

Figure 21: Short sell % in HK - Financials



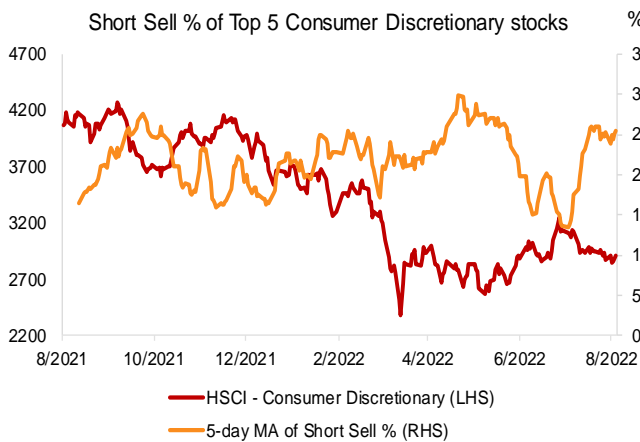
Source: Bloomberg, CMBIGM

Figure 22: Short sell % in HK – Info Tech



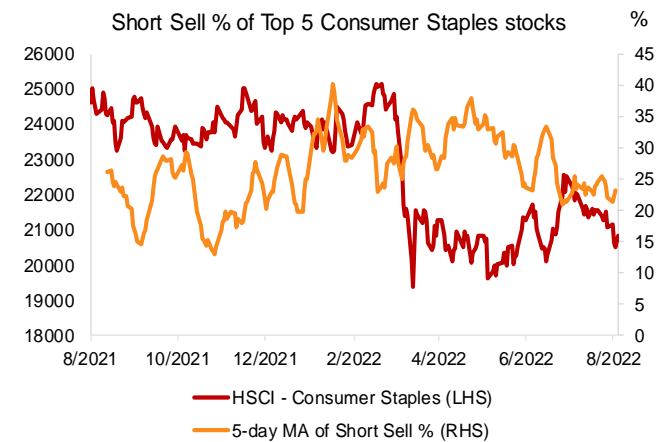
Source: Bloomberg, CMBIGM

Figure 23: Short sell % in HK – Consumer Discretionary



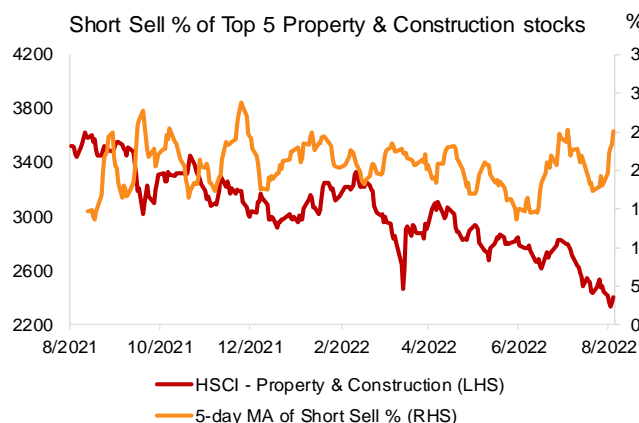
Source: Bloomberg, CMBIGM

Figure 24: Short sell % in HK – Consumer Staples



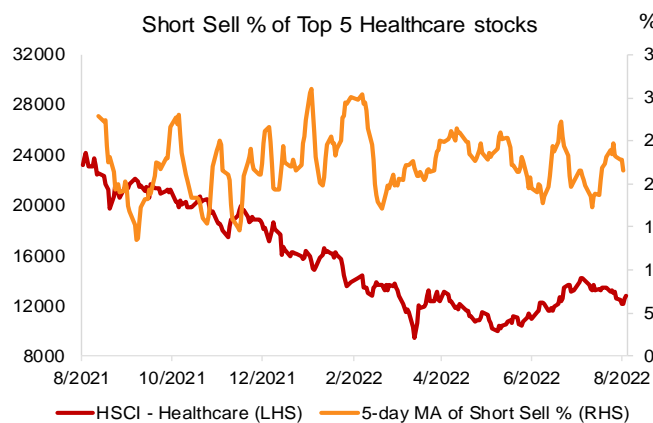
Source: Bloomberg, CMBIGM

Figure 25: Short sell % in HK - Property



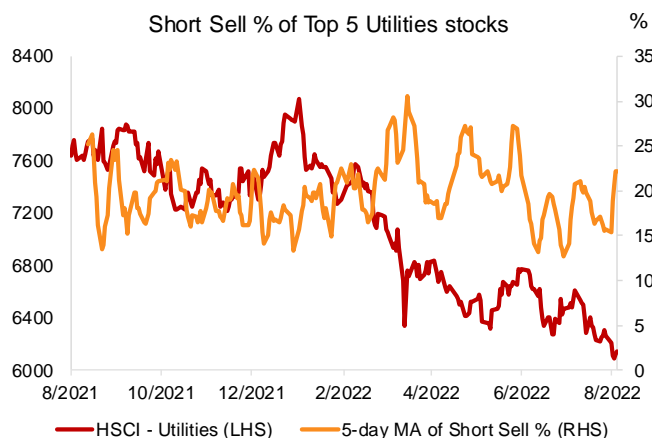
Source: Bloomberg, CMBIGM

Figure 26: Short sell % in HK – Healthcare



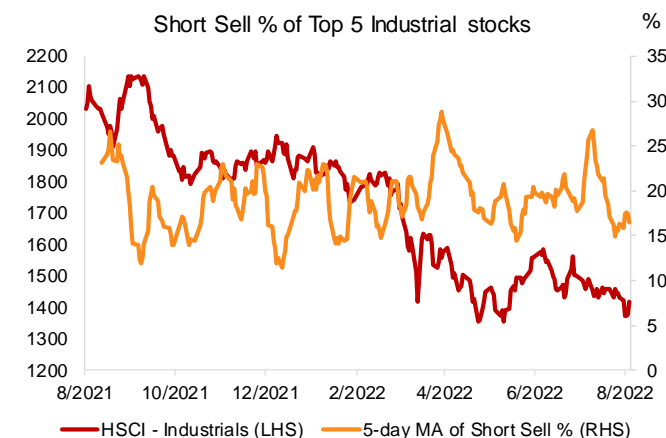
Source: Bloomberg, CMBIGM

Figure 27: Short sell % in HK – Utilities



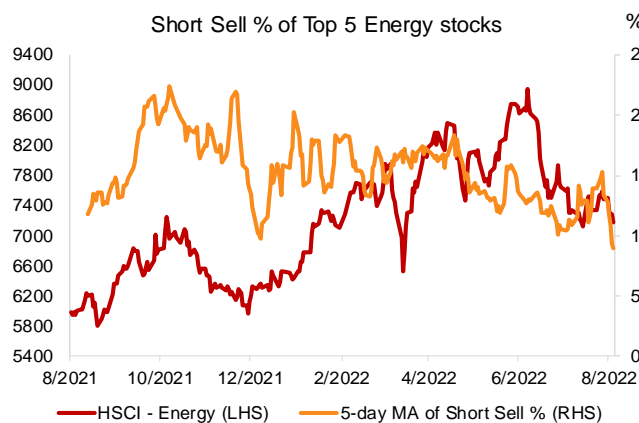
Source: Bloomberg, CMBIGM

Figure 28: Short sell % in HK – Industrials



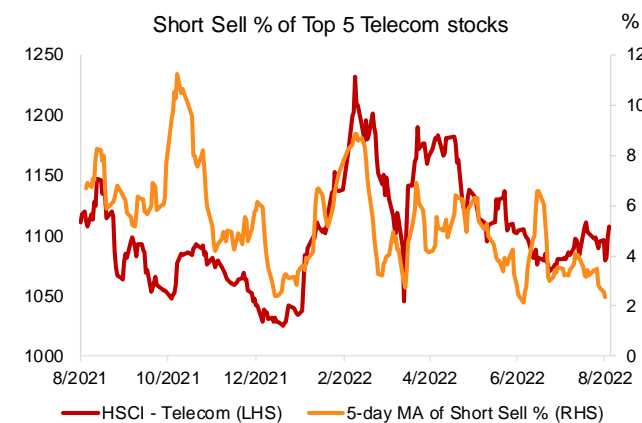
Source: Bloomberg, CMBIGM

Figure 29: Short sell % in HK – Energy



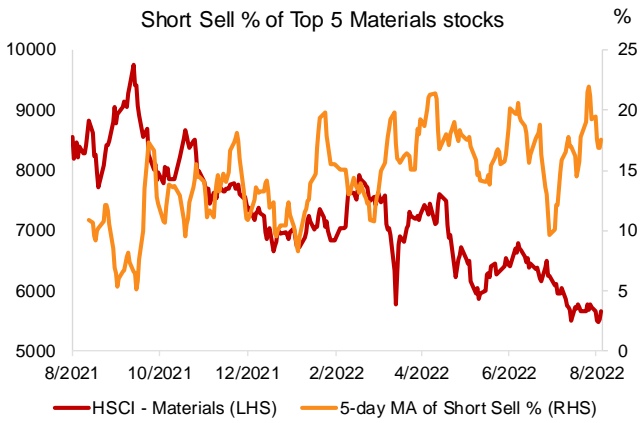
Source: Bloomberg, CMBIGM

Figure 30: Short sell % in HK – Telecom



Source: Bloomberg, CMBIGM

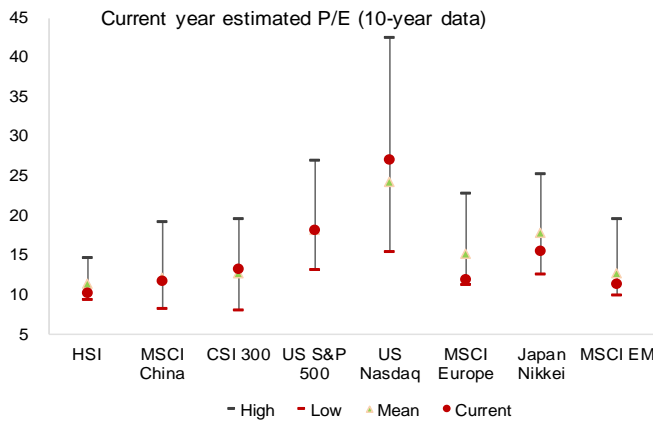
Figure 31: Short sell % in HK – Materials



Source: Bloomberg, CMBIGM

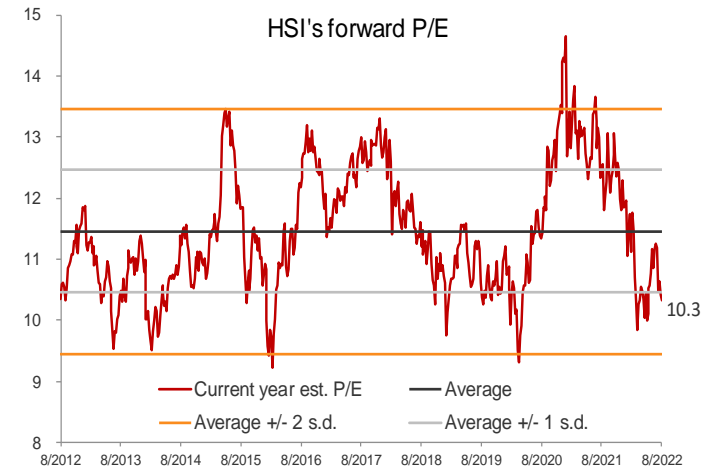
Earnings & Valuations

Figure 32: HK & US stocks' P/E moved closer to 10-yr mean in recent months



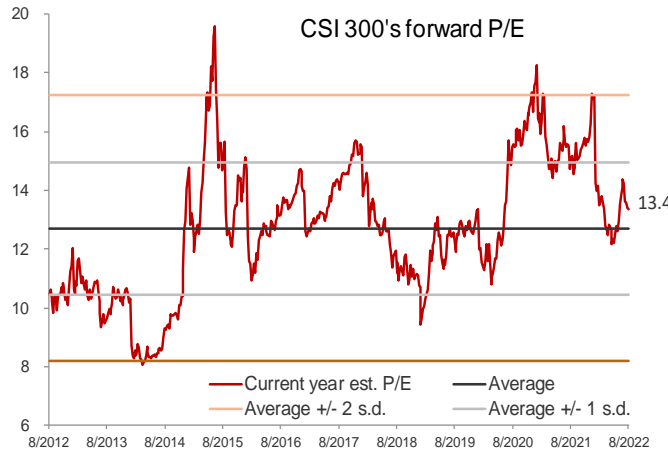
Source: Bloomberg, CMBIGM

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



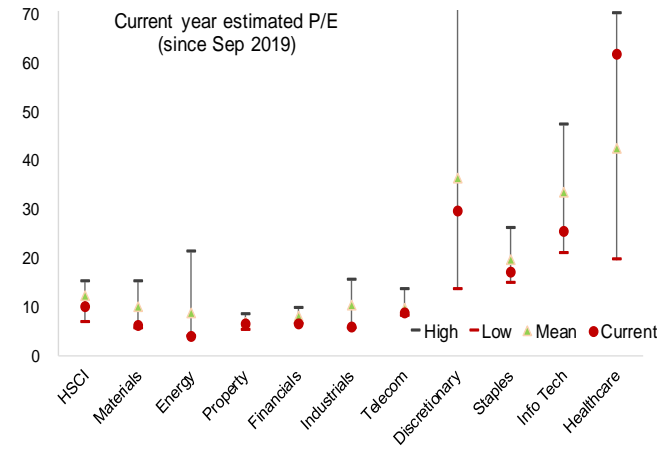
Source: Bloomberg, CMBIGM

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



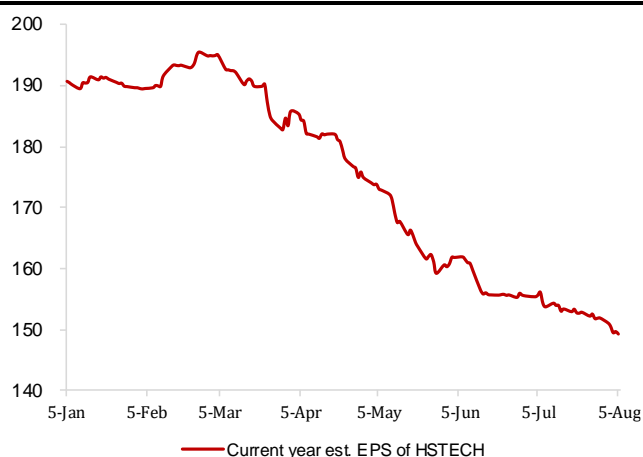
Source: Bloomberg, CMBIGM

Figure 36: EPS estimates of HSI were revised up by 1.1% last week to a two-month high



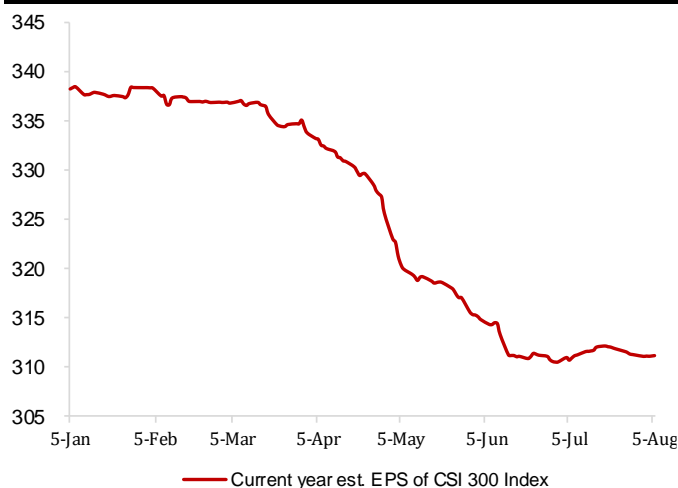
Source: Bloomberg, CMBIGM

Figure 37: EPS estimates of HSTECH Index were revised down by 1.7% last week



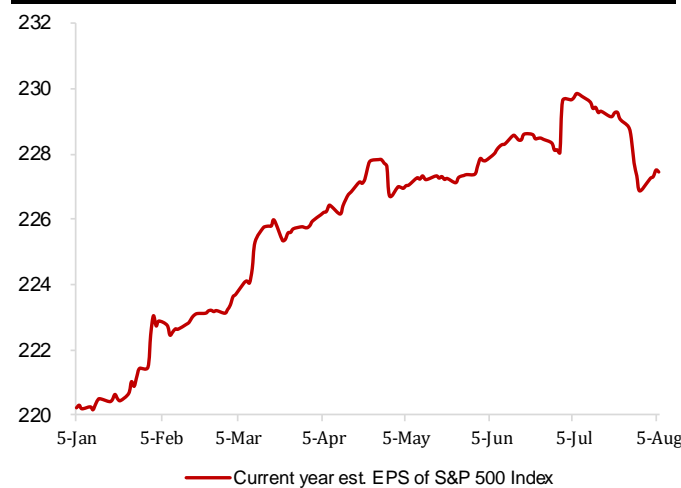
Source: Bloomberg, CMBIGM

Figure 38: EPS estimates of A-shares were little changed last week



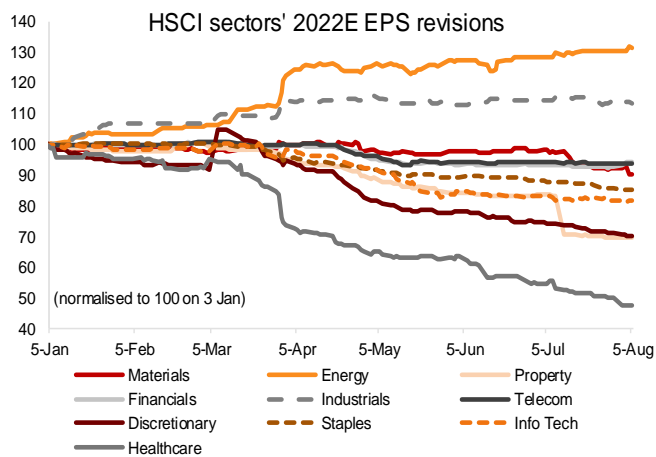
Source: Bloomberg, CMBIGM

Figure 39: EPS estimates of US S&P 500 Index were revised down by 1.0% from the peak a month ago



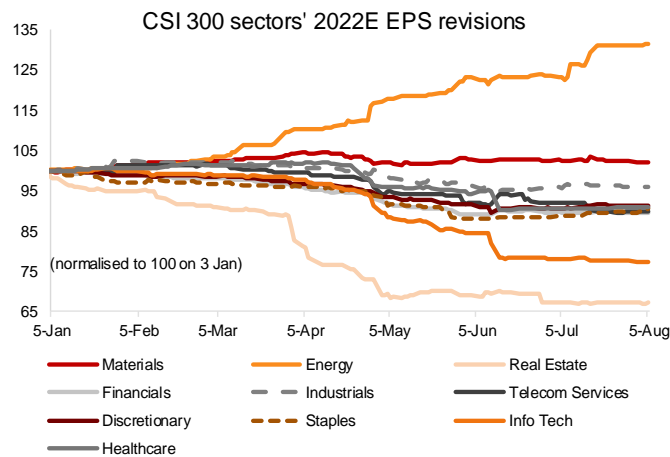
Source: Bloomberg, CMBIGM

Figure 40: HK earnings revision: Financials & Energy up; Healthcare, Consumer Discretionary & Materials down



Source: Bloomberg, CMBIGM

Figure 41: A-shares earnings revision: Consumer Staples up; others little changed



Source: Bloomberg, CMBIGM

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

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