

China / HK Market Weekly

China stocks gained as PBOC slashed LPR

Last week (16-20 May), US equities continued to pull back but EM rebounded as USD retreated. China / HK stock markets gained as the PBOC cut benchmark lending rates. Fundamentals and sentiments in HK showed some signs of improvement, as EPS estimates of the HSI seemed stabilizing, while short-sell ratio and volatility index declined. Looking ahead to this week, the focus is still on Q1 earnings and guidance of internet giants (e.g. Alibaba, Baidu, Kuaishou, NetEase). Chinese property stocks may outperform on policy support (nationwide cut in mortgage rates and LPR cut) and sequential improvement in sales and construction.

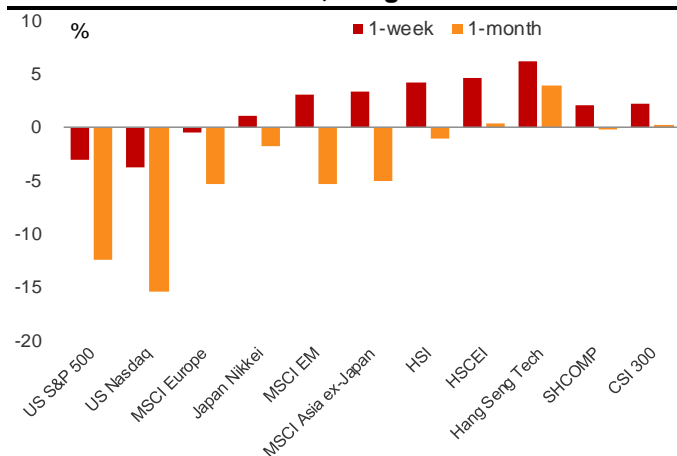
- **Market recap:** The HSI / CSI300 gained 4.2% / 2.3% last week as PBOC cut 5-year LPR by 15bps, exceeding investor expectation. Hang Seng TECH Index surged by 6.3% as market sentiment improved, despite some disappointing Q1 results and guidance. Every major sector in HK gained, led by Materials & Industrials, which also led gains in A-shares (Fig. 3 & 4).
- **Fund flows:** Global fund flows to EM and China mildly improved as global markets had priced in two hikes of 50bps by the Fed in the next two months and China was more proactive in policy easing. US equity mutual funds saw more net outflows. KWEB, the largest China Internet ETF, recorded the strongest inflows since mid-Mar (Fig. 9). US 10-year yield fell by 14bps, dropping to below China's yield for the first time in four weeks (Fig. 11).
- **Stock Connect flows:** Northbound had the strongest one-day inflows over the past six months. Southbound inflows decreased WoW but remained strong compared to previous weeks (Fig. 12-13).
- **Sentiment:** "Fear Index" VHSI retreated for the first time in seven weeks (Fig. 20). Short sell % on HK mainboard dropped to lowest level since late-Mar (5-day average 18.2%). Short sell % in most sectors, except Materials, fell.
- **Earnings:** FY22E EPS consensus of the HSI seemed stabilising, down by only 0.08% last week. Those of HSTECH / CSI 300 were revised down by 3.8% / 0.12% (Fig. 39-41). In HK, Industrials & Telecom enjoyed upward revision by ~1%. In A-shares market, Industrials & Real Estate enjoyed upward revision (Fig. 42-43).
- **Sector views:** We see upside in Chinese property stocks on policy support (nationwide cut in mortgage rates and LPR cut) and sequential improvement in sales and construction (see our [sector report - "Now is the time to buy"](#)). Consumer stocks may also outperform as the lockdown in Shanghai eases and investors might expect more supportive policies.

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

Bingnan YE, Ph.D
 (852) 3761 8967
 yebingnan@cmbi.com.hk

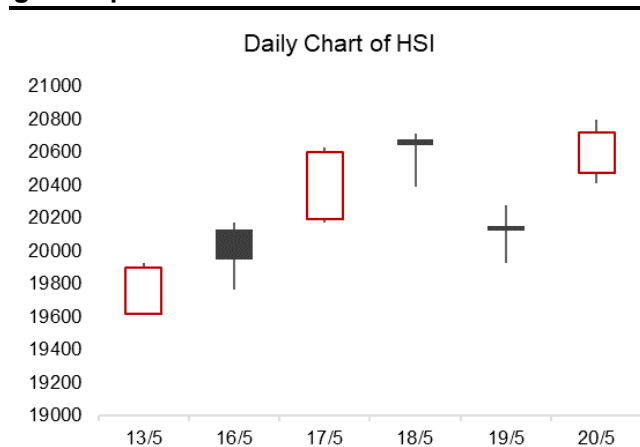
Market Recap

Figure 1: Weekly global markets returns: US correction continued; EM gained as USD retreated



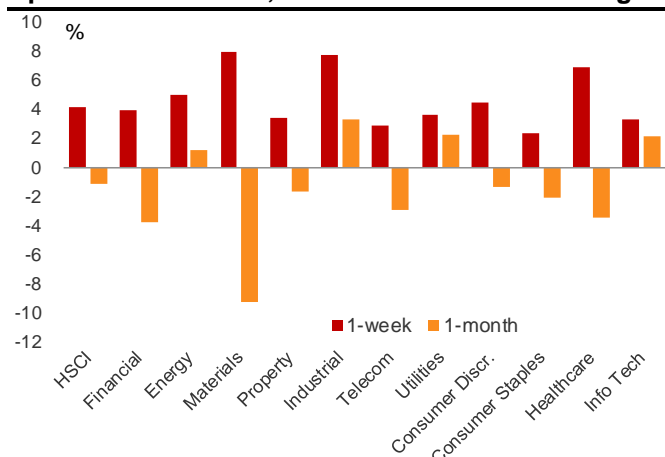
Source: Bloomberg, CMBIGM

Figure 2: HSI reclaimed 20,000 on China's pro-growth policies



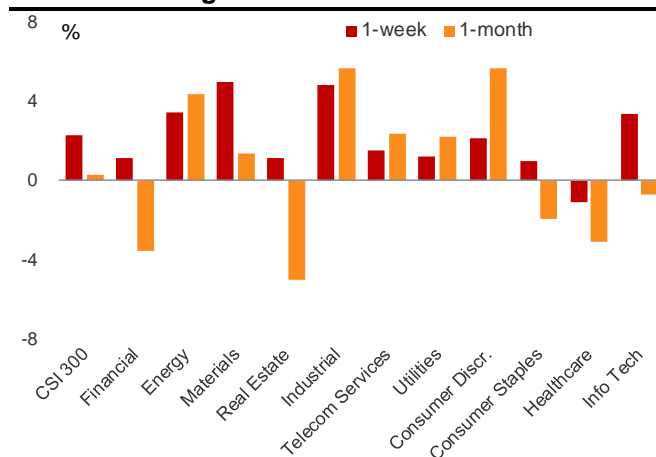
Source: Bloomberg, CMBIGM

Figure 3: Hang Seng Composite Index sectors: up across the board; Materials & Industrials surged



Source: Bloomberg, CMBIGM

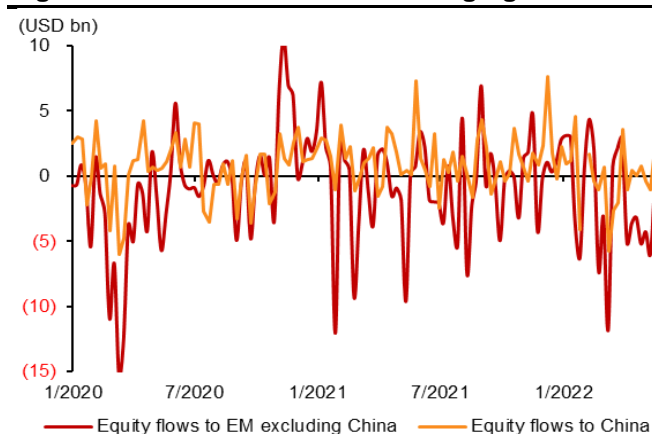
Figure 4: CSI 300 Index sectors: Materials & Industrials led gains



Source: Bloomberg, CMBIGM

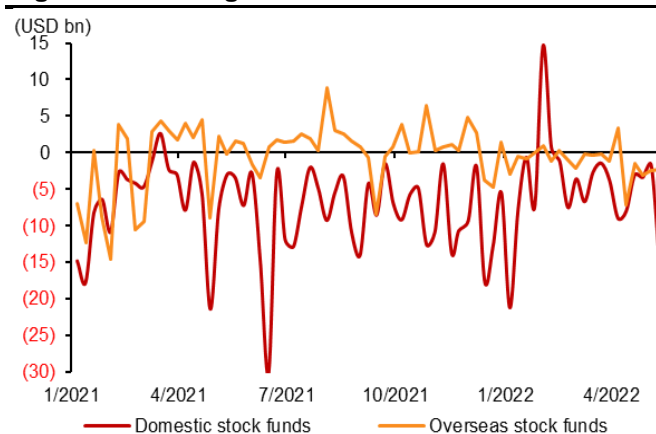
Fund Flows

Figure 5: Global Fund Flow to Emerging Market

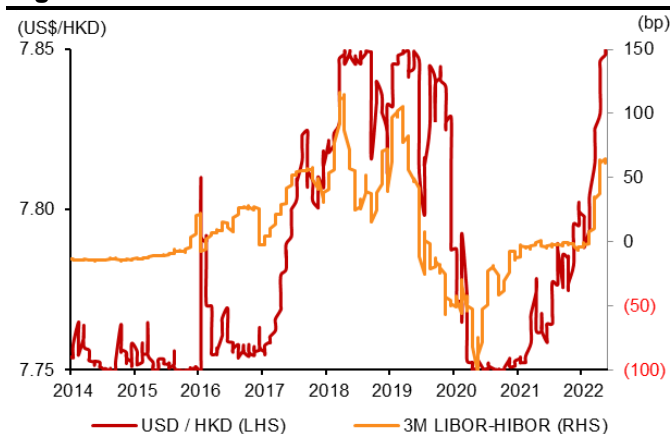


Source: IIF, CMBIGM

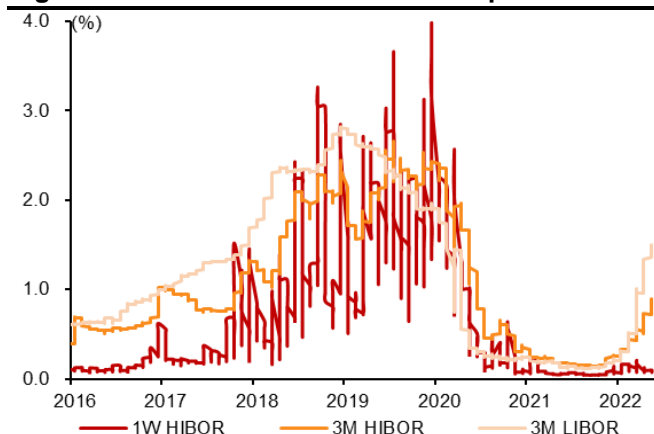
Figure 6: US Long-term Mutual Fund Flow



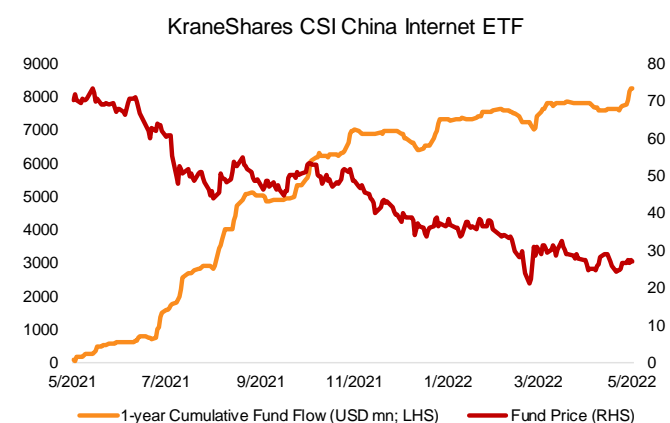
Source: Wind, CMBIGM

Figure 7: USD & HKD Interest Rates

Source: Wind, CMBIGM

Figure 8: USD/HKD Rates & Interest Spreads

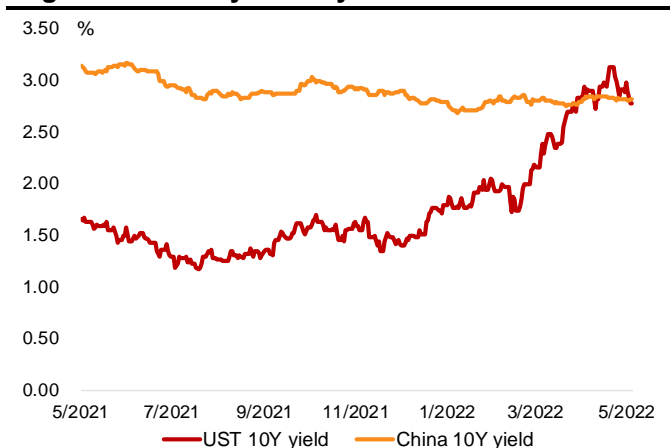
Source: Wind, CMBIGM

Figure 9: KWEB, the largest China Internet ETF, recorded the strongest inflows since mid-Mar

Source: Bloomberg, CMBIGM

Figure 10: UST yield curve flattened as 10-year yield fell by 14bps

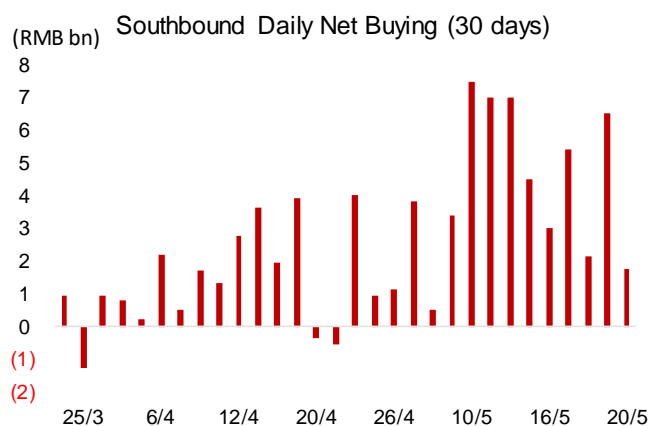
Source: Bloomberg, CMBIGM

Figure 11: US-China 10-year yield spread dropped to negative China's yield stayed flat

Source: Bloomberg, CMBIGM

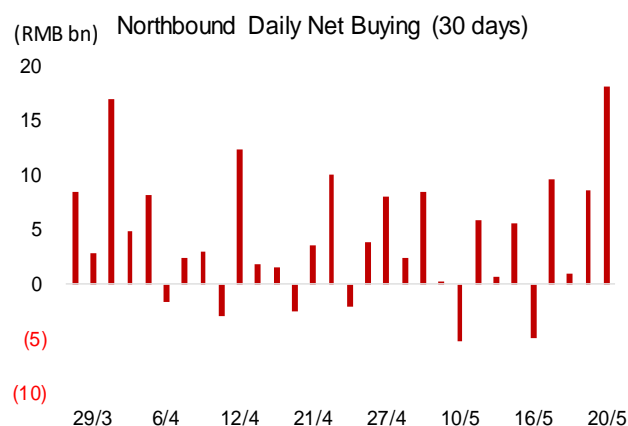
SH/SZ-HK Stock Connect

Figure 12: Southbound inflows decreased WoW but still stronger than previous weeks



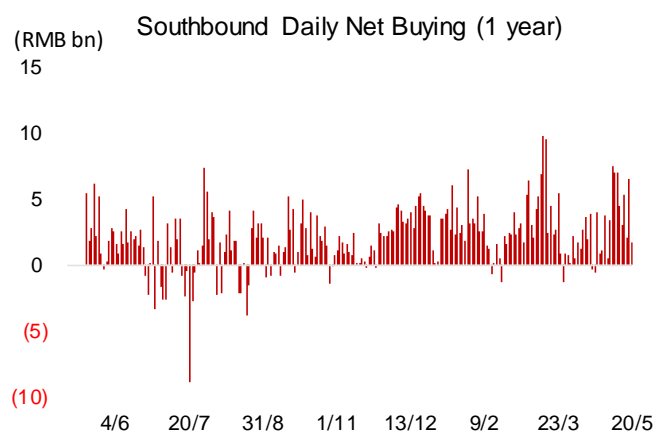
Source: Bloomberg, CMBIGM

Figure 13: Northbound had the strongest one-day inflows over the past six months



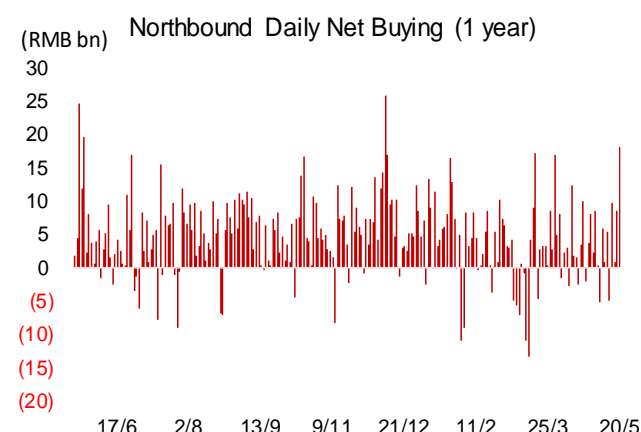
Source: Bloomberg, CMBIGM

Figure 14: Southbound net buying rebounded



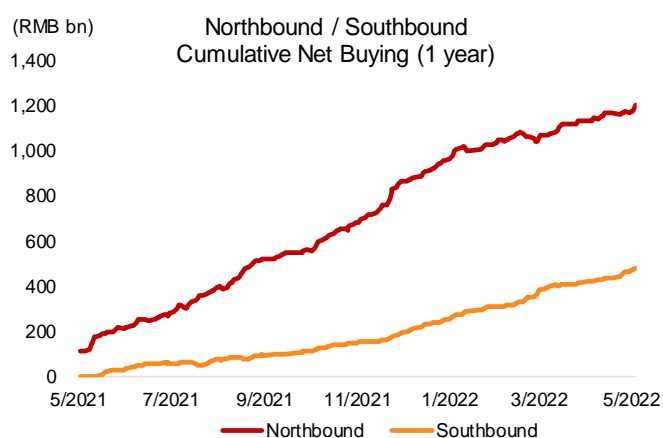
Source: Bloomberg, CMBIGM

Figure 15: Northbound flows somewhat stabilised



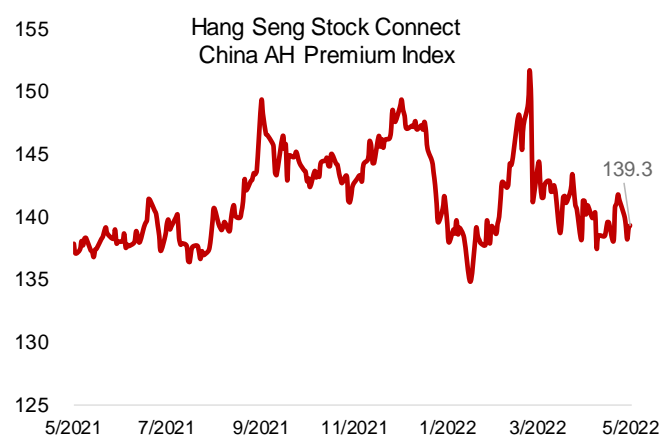
Source: Bloomberg, CMBIGM

Figure 16: Southbound inflows speeded up since early 2022, while Northbound inflows slowed down



Source: Bloomberg, CMBIGM

Figure 17: AH premium narrowed by 2.0 ppt last week but still above 10-year average by ~10 ppt



Source: Bloomberg, CMBIGM

Figure 18: Southbound weekly Top 10 active stocks

| (HKD mn, cumulative) | | Turnover | Net Buying |
|----------------------|---------|----------|------------|
| Tencent | 700 HK | 27,291 | 1,401 |
| Meituan | 3690 HK | 14,817 | 2,709 |
| ANTA Sports | 2020 HK | 1,021 | -452 |
| China Mobile | 941 HK | 3,981 | 804 |
| China Shenhua Energy | 1088 HK | 407 | -43 |
| Wuxi Biologics | 2269 HK | 1,579 | 633 |
| SMIC | 981 HK | 1,641 | -64 |
| Xiaomi | 1810 HK | 1,783 | -172 |
| CCB | 939 HK | 517 | -257 |
| CNOOC | 883 HK | 5,516 | 2,445 |

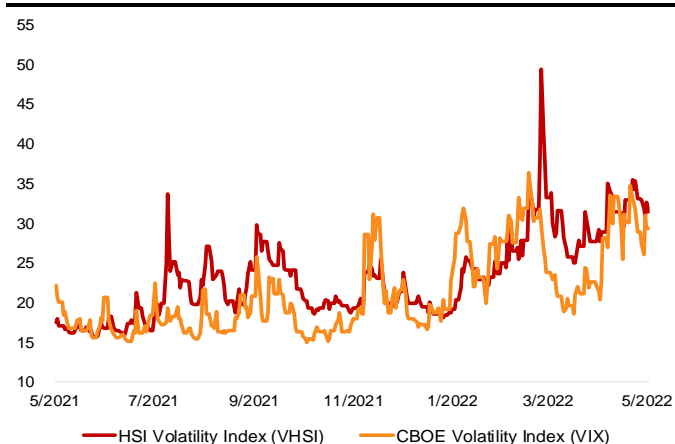
Source: Wind, CMBIGM

Figure 19: Northbound (SH) Top 10 active stocks

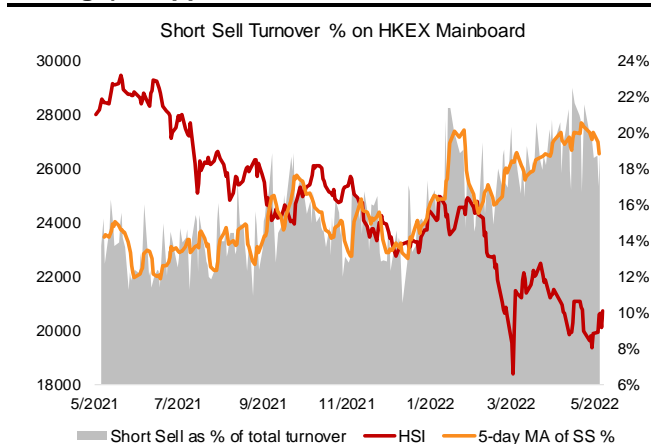
| (RMB mn, cumulative) | | Turnover | Net Buying |
|----------------------|-----------|----------|------------|
| Kweichow Moutai | 600519 CH | 8,734 | 629 |
| China Merchants Bank | 600036 CH | 5,270 | 1,765 |
| LONGi Green Energy | 601012 CH | 5,106 | 802 |
| Tongwei | 600438 CH | 2,071 | 439 |
| China Yangtze Power | 600900 CH | 2,014 | 906 |
| Sany Heavy Industry | 600031 CH | 1,561 | 586 |
| CTG Duty Free | 601888 CH | 1,791 | 302 |
| Industrial Bank | 601166 CH | 2,132 | 784 |
| COSCO SHIPPING | 601919 CH | 573 | 336 |
| Ping An Insurance | 601318 CH | 1,336 | 141 |

Source: Wind, CMBIGM

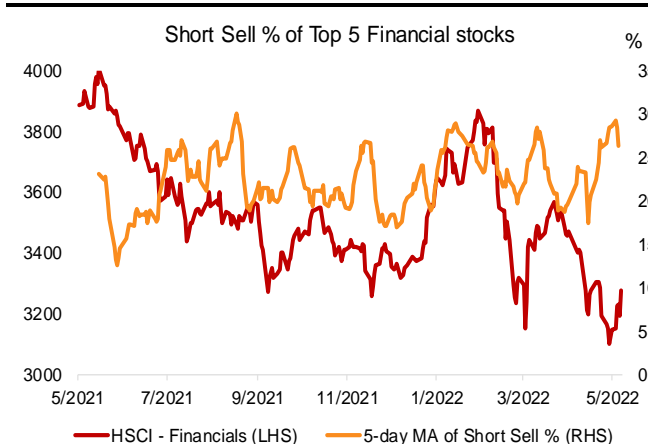
Sentiments

Figure 20: "Fear Index" VHSI retreated for the first time in seven weeks

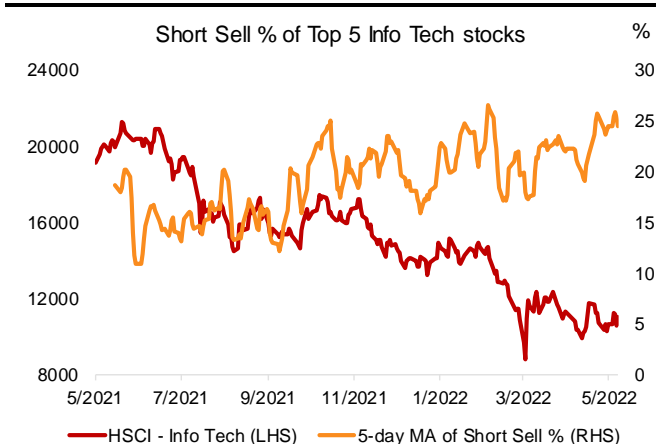
Source: Bloomberg, CMBIGM

Figure 21: Short sell % on HK mainboard (5-day average) dropped to the lowest level since late-Mar

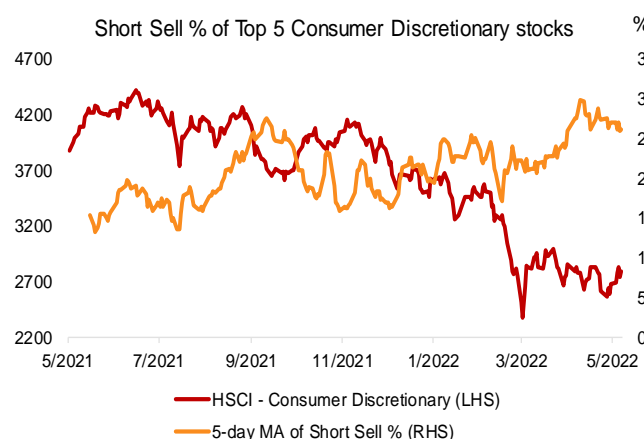
Source: Bloomberg, CMBIGM

Figure 22: Short sell % in HK - Financials

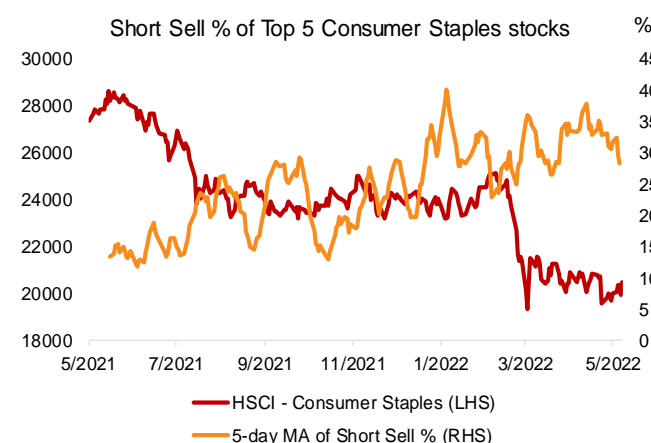
Source: Bloomberg, CMBIGM

Figure 23: Short sell % in HK - Info Tech

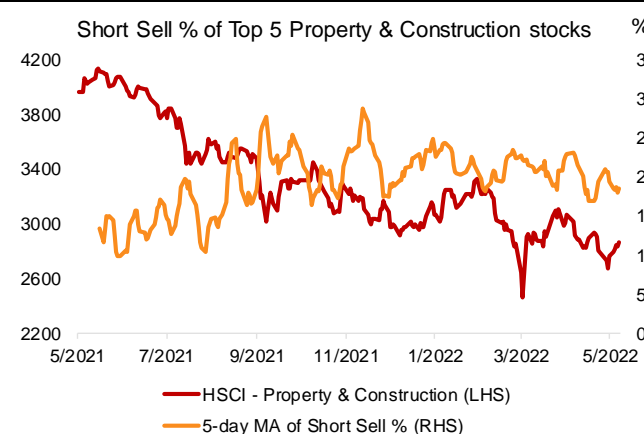
Source: Bloomberg, CMBIGM

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

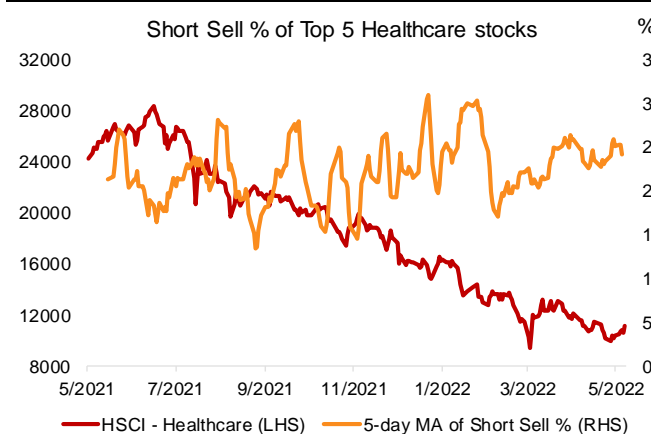
Source: Bloomberg, CMBIGM

Figure 25: Short sell % in HK – Consumer Staples

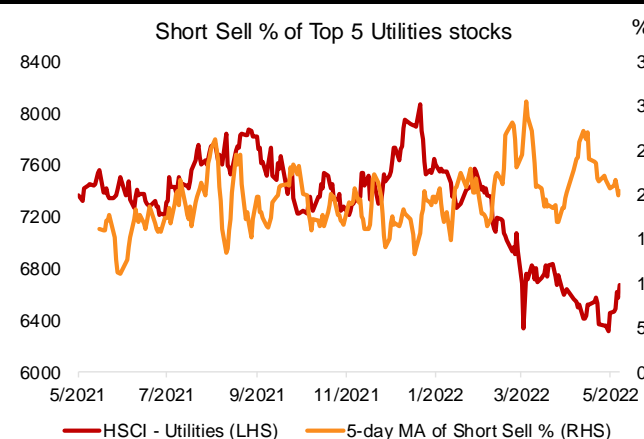
Source: Bloomberg, CMBIGM

Figure 26: Short sell % in HK - Property

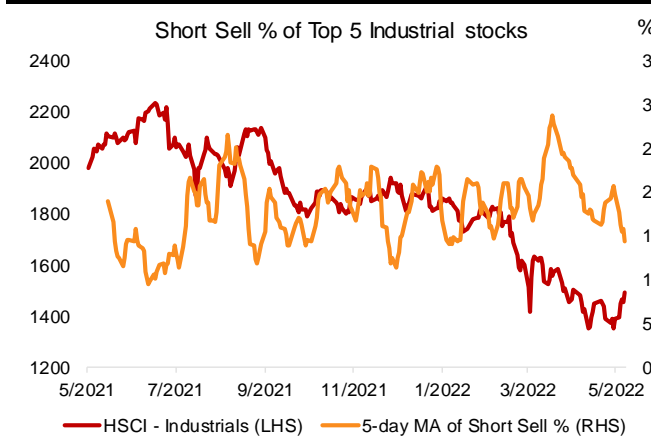
Source: Bloomberg, CMBIGM

Figure 27: Short sell % in HK – Healthcare

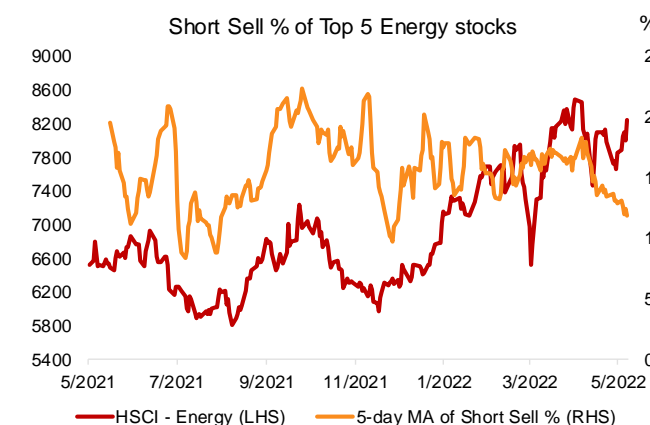
Source: Bloomberg, CMBIGM

Figure 28: Short sell % in HK – Utilities

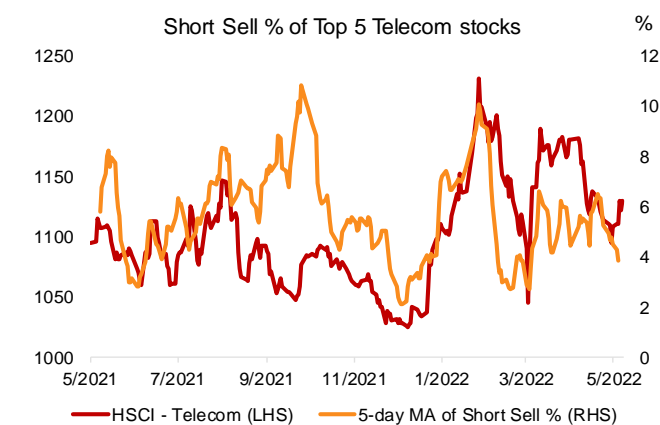
Source: Bloomberg, CMBIGM

Figure 29: Short sell % in HK – Industrials

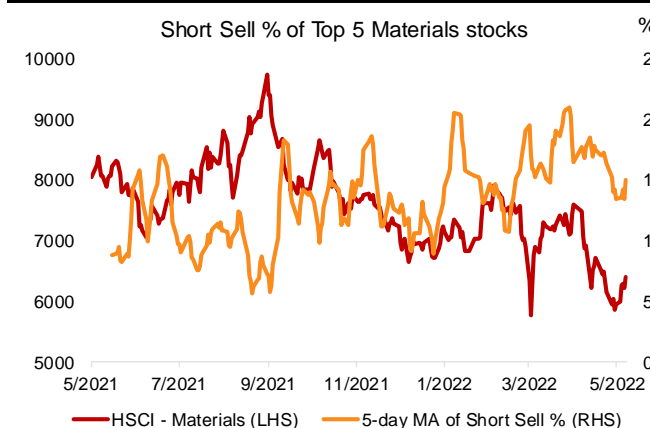
Source: Bloomberg, CMBIGM

Figure 30: Short sell % in HK – Energy

Source: Bloomberg, CMBIGM

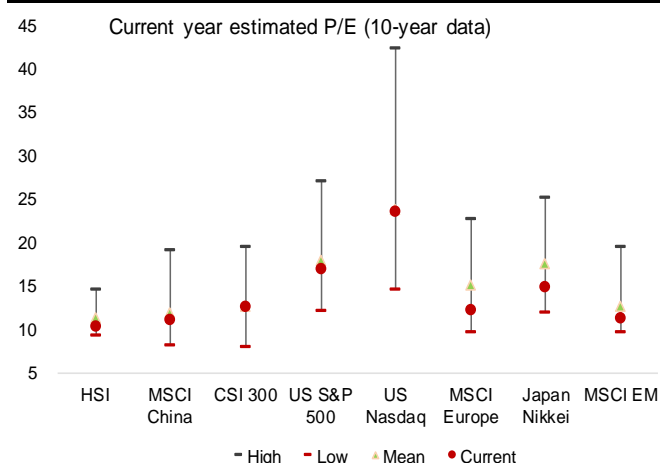
Figure 31: Short sell % in HK – Telecom

Source: Bloomberg, CMBIGM

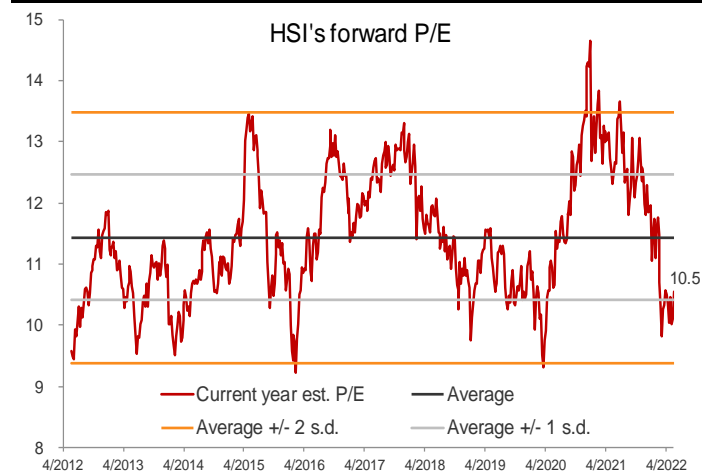
Figure 32: Short sell % in HK – Materials

Source: Bloomberg, CMBIGM

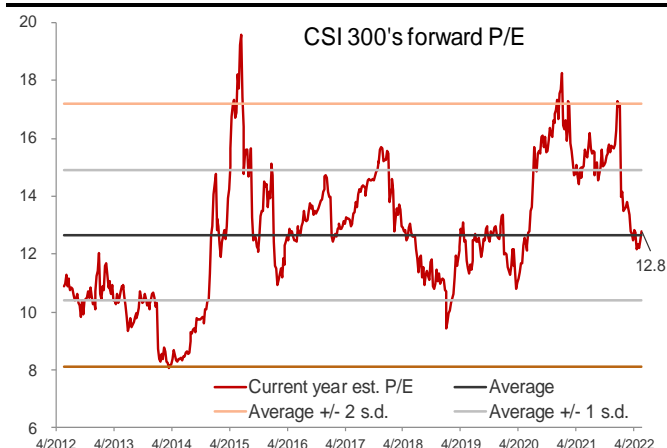
Earnings & Valuations

Figure 33: HSI' P/E close to low end, while other major markets' are near 10-year mean

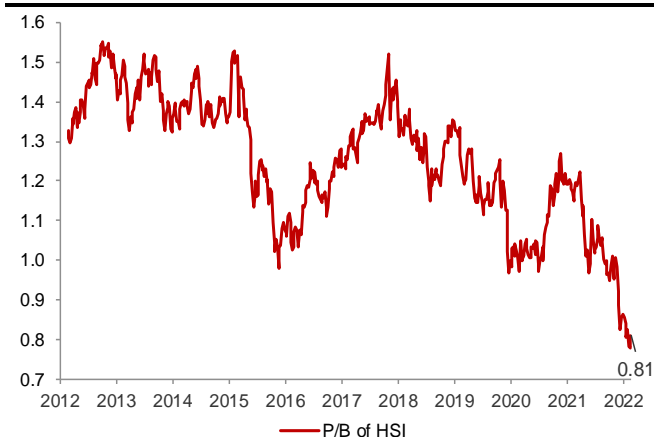
Source: Bloomberg, CMBIGM

Figure 34: HSI' forward P/E at rebounded to 10.5X, near 1 s.d. below 10-year mean

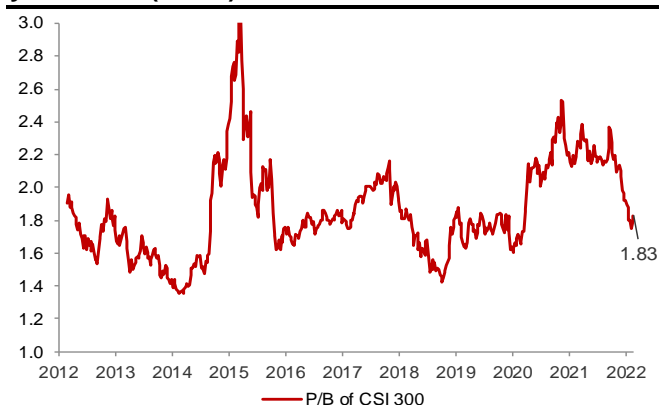
Source: Bloomberg, CMBIGM

Figure 35: CSI 300's P/E near 10-year mean

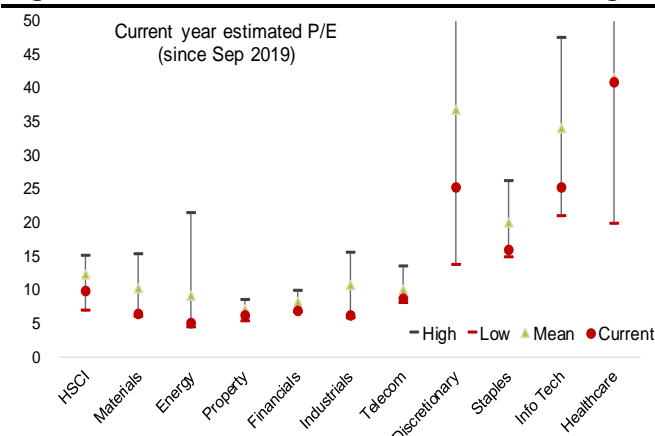
Source: Bloomberg, CMBIGM

Figure 36: HSI' P/B lower than crisis troughs

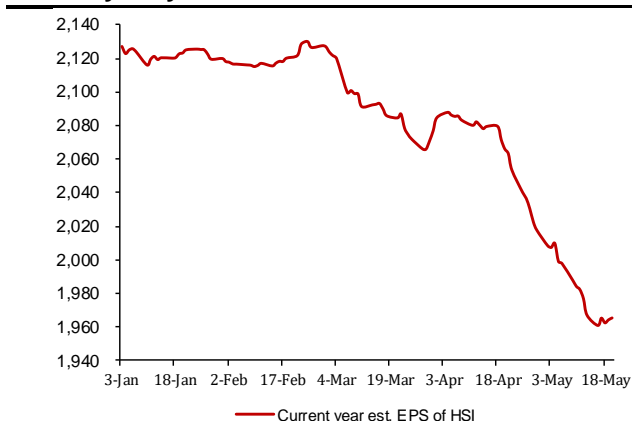
Source: Bloomberg, CMBIGM

Figure 37: CSI 300's P/B only slightly lower than 10-year mean (1.88X)

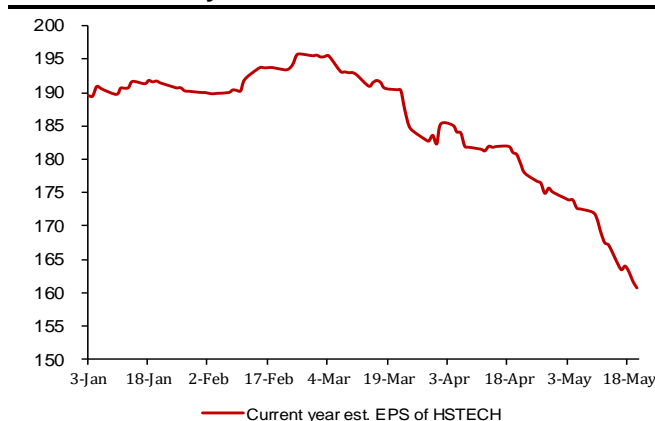
Source: Bloomberg, CMBIGM

Figure 38: Most HSCI sectors' P/E are near troughs

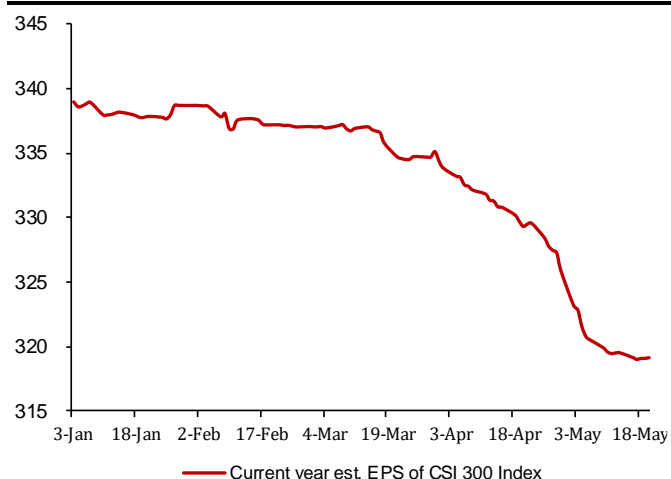
Source: Bloomberg, CMBIGM

Figure 39: EPS estimates of HSI seemed stabilising, down by only 0.08% last week

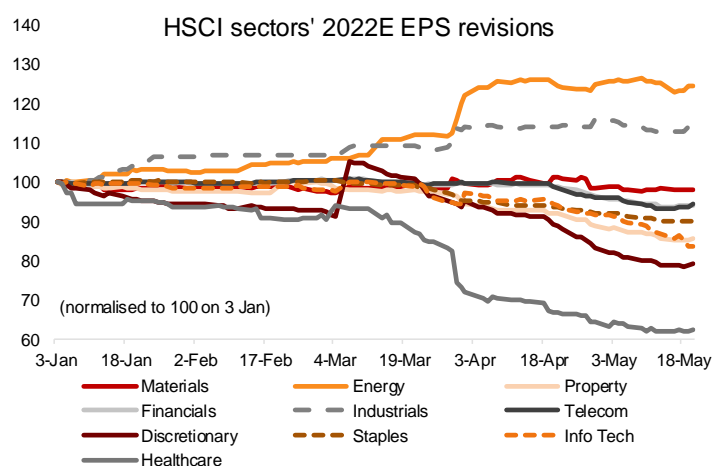
Source: Bloomberg, CMBIGM

Figure 40: EPS estimates of HSTECH Index were revised down by 1.2% last week

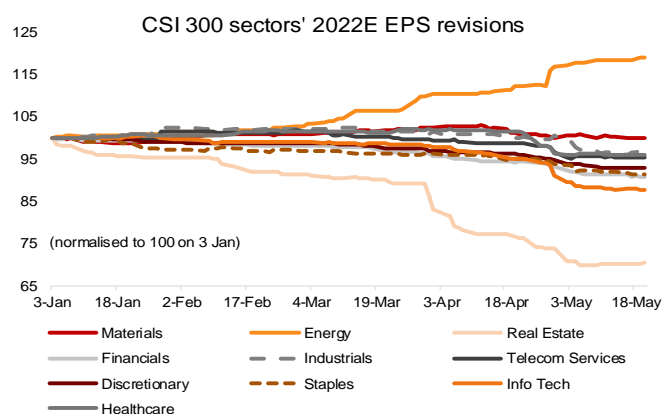
Source: Bloomberg, CMBIGM

Figure 41: EPS estimates of A-shares were revised down by 1.3% last week


Source: Bloomberg, CMBIGM

Figure 42: HK earnings revision: Commodities up, Healthcare & Consumer Discretionary down again


Source: Bloomberg, CMBIGM

Figure 43: A-shares earnings revision: Real Estate got slashed


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 or its affiliate(s) have investment banking relationship with the issuers covered in this report in preceding 12 months.

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.