

China / HK Market Weekly

Growth stocks surged as rate hike fears tamed

Last week (20-24 Jun), US S&P 500 Index strongly rebounded as fears for Fed rate hike slightly tamed. HK stock market rebounded and A-shares rose for fourth consecutive week. Looking ahead to this week, the focus will turn to China's economic data, as June's official and Caixin PMI will be announced on Thursday and Friday respectively. We expect China growth stocks such as Internet, Healthcare & Consumer Discretionary to continue to enjoy re-rating as China's economy recovers and regulatory concerns are easing. Among Value stocks, Chinese Financials and Property could outperform Commodity.

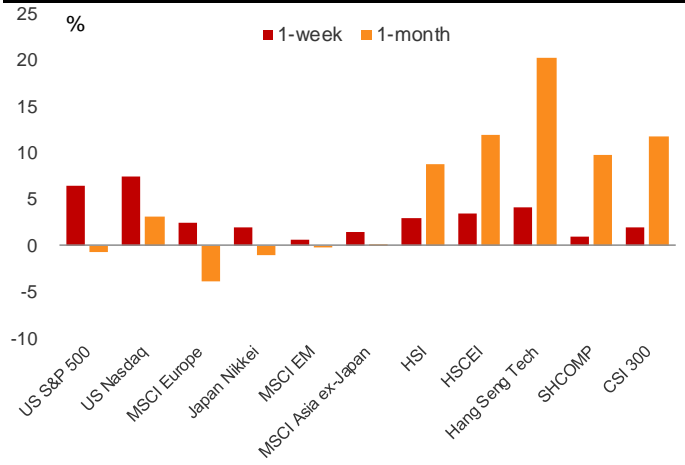
- **Market recap:** The HSI / CSI 300 gained 3.1% / 2.0% last week, led by growth stocks. In HK, Healthcare Consumer & IT led gains, while Commodity & Telecom declined. After weeks of outperformance, China Growth stocks bucked an 18-month downtrend relative to Value stocks (Fig. 6).
- **Fund flows:** China Internet ETF listed in the US enjoyed increased inflows (Fig. 7). Under the Stock Connect, weekly Northbound net inflows shrank somewhat, while Southbound net inflows increased (Fig. 11 & 12), in particular to NEV stocks. A-H premium reaching 3-month high in the previous week (Fig. 16) might have driven up Southbound inflows.
- **Sentiment:** Risk appetite improved as fears for Fed rate hike slightly tamed. Implied Fed funds rate in Dec 2022 retreated by 16 bps to 3.40% (Fig. 10). HK's "Fear Index" VHSI dropped to below 30. Short-sell ratio on HK mainboard declined to 16% (Fig. 19 & 20).
- **Earnings:** After four months of earnings downgrades, FY22E EPS consensus of the HSI / HSTECH / CSI 300 were largely unchanged last week (Fig. 36-38). In HK, Consumer Discretionary got earnings cut, but it was one of the best performing sectors last week. Energy & Materials got upward revisions, but their stock prices declined. This shows that earnings revisions typically lagged share prices somewhat.
- **Valuation** gaps between HK and other major markets have narrowed, as HSI's forward P/E is approaching 10-yr mean after earnings cuts and re-rating, while those of the US / Europe / Japan dropped to around 10-yr mean after recent weakness (Fig. 32).
- **Sector views:** Bloomberg Commodity Index has retreated by 11% from the peak on 9 Jun, bringing some relieve to inflation and rate hike fears. Investors have become more concerned on global economic slowdown amidst central banks' tightening. As such, we remain cautious on Commodities stocks. On the contrary, we expect **China growth stocks such as Internet, Healthcare & Consumer Discretionary to continue to enjoy re-rating** as China's economy recovers and regulatory concerns are easing. Among Value stocks, **Chinese Financials and Property could outperform Commodity sector.**

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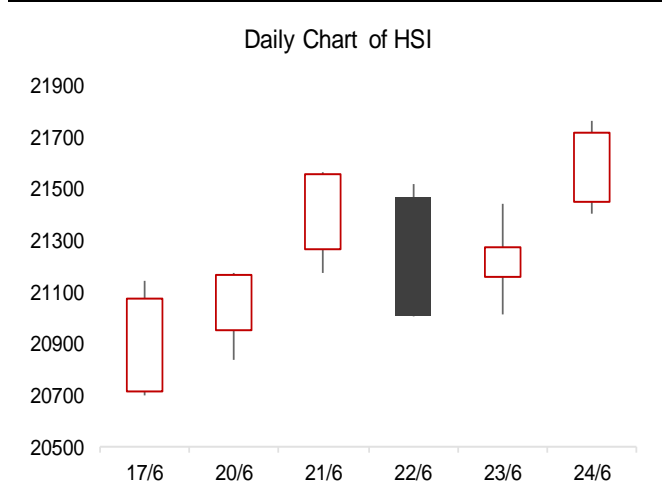
Market Recap

Figure 1: Weekly global markets returns: US stocks led gains worldwide



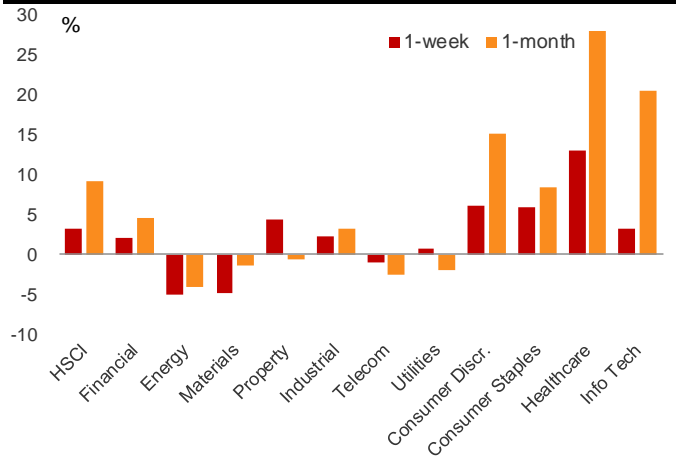
Source: Bloomberg, CMBIGM

Figure 2: HSI approaching resistance at 22,000



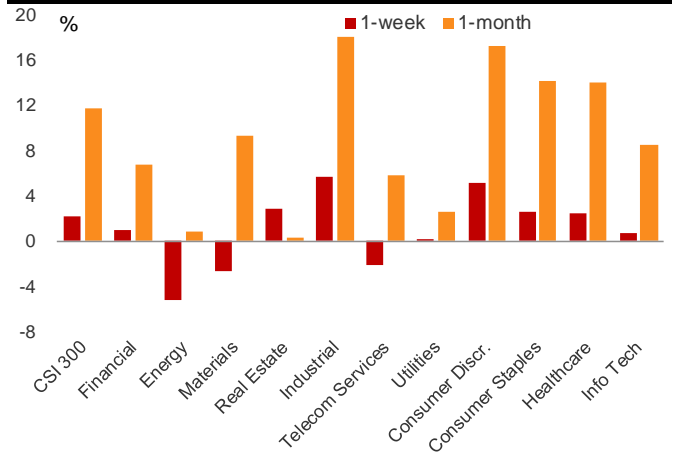
Source: Bloomberg, CMBIGM

Figure 3: Hang Seng Composite Index sectors: down across the board; value outperformed growth



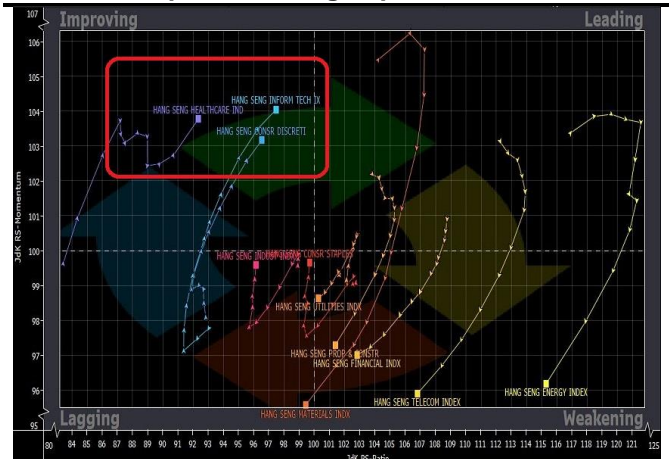
Source: Bloomberg, CMBIGM

Figure 4: CSI 300 Index sectors: Real Estate led declines



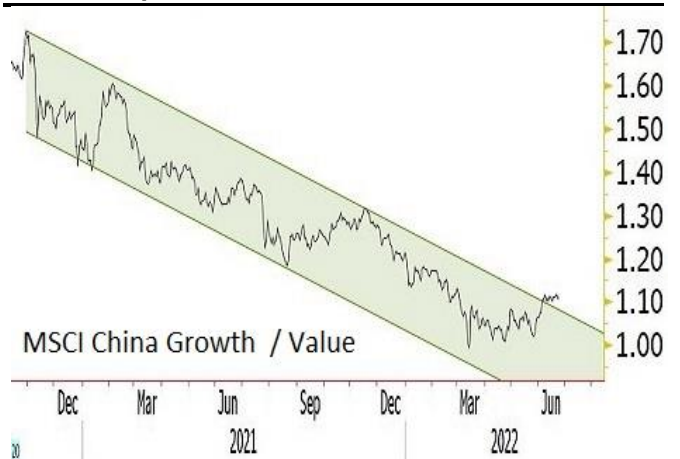
Source: Bloomberg, CMBIGM

Figure 5: IT, Healthcare & Consumer Discretionary moved to "Improving" zone in weekly Relative Rotation Graph, indicating improved momentum



Source: Bloomberg, CMBIGM

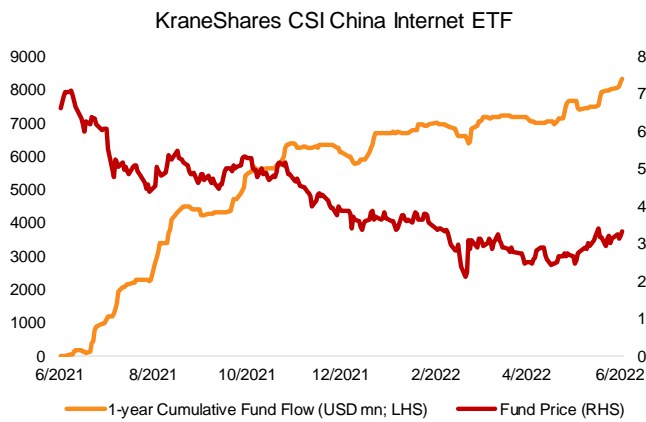
Figure 6: China Growth stocks outperformed Value in recent weeks, breaking a downtrend on the chart of relative performance



Source: Bloomberg, CMBIGM

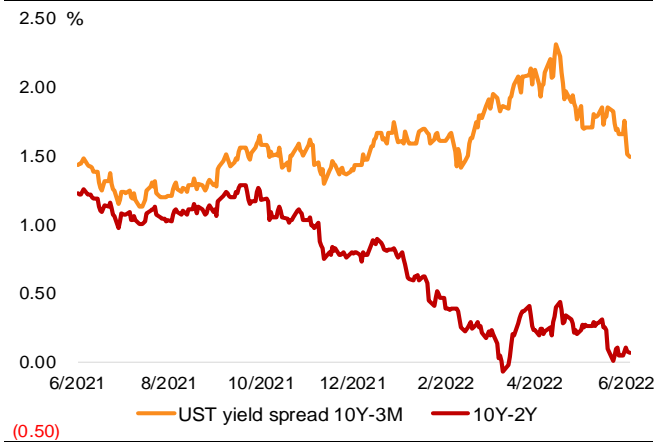
Fund Flows

Figure 7: KWEB, the largest China Internet ETF, recorded strong inflows last week



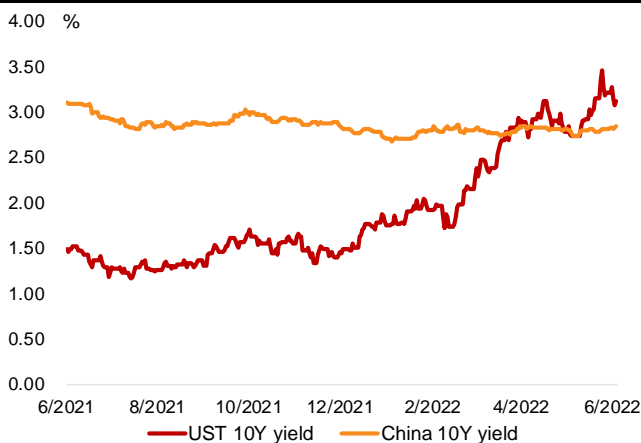
Source: Bloomberg, CMBIGM

Figure 8: UST yield curve flattened as short yield rose further



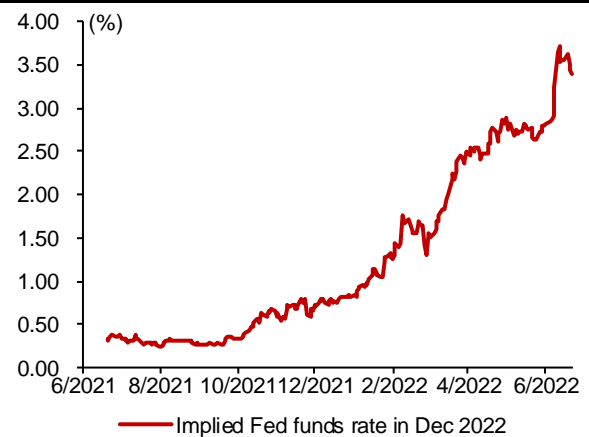
Source: Bloomberg, CMBIGM

Figure 9: US-China 10-year yield spread narrowed as US yield declined



Source: Bloomberg, CMBIGM

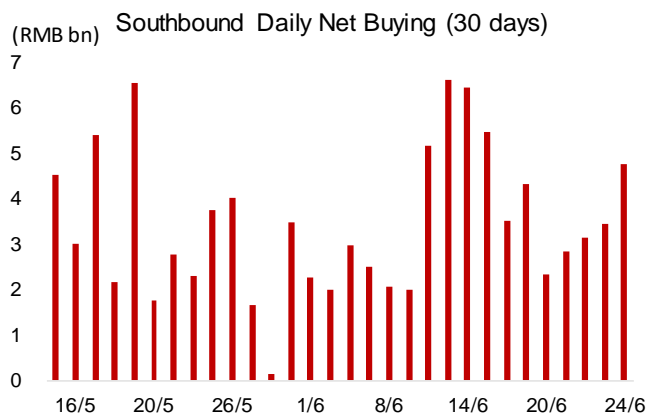
Figure 10: Implied Fed funds rate in Dec 2022 retreated to 3.40%



Source: Bloomberg, CMBIGM

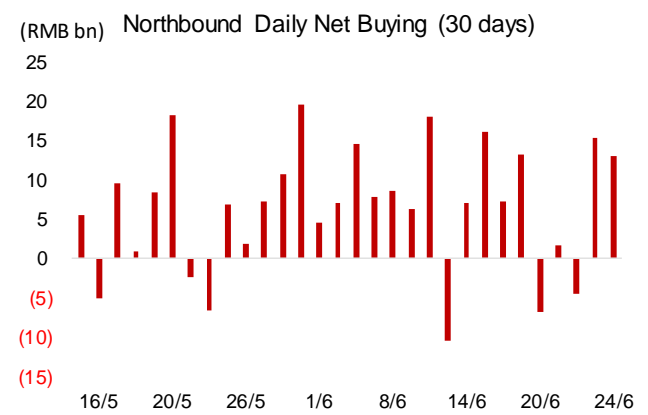
SH/SZ-HK Stock Connect

Figure 11: Southbound net inflows increased after A-H premium widened to 3-month high

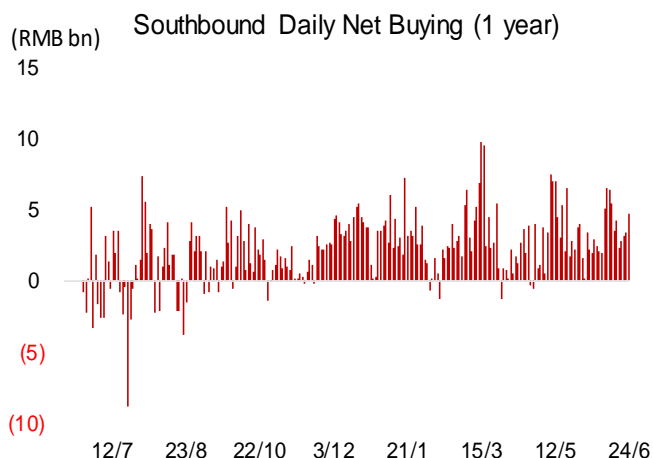


Source: Bloomberg, CMBIGM

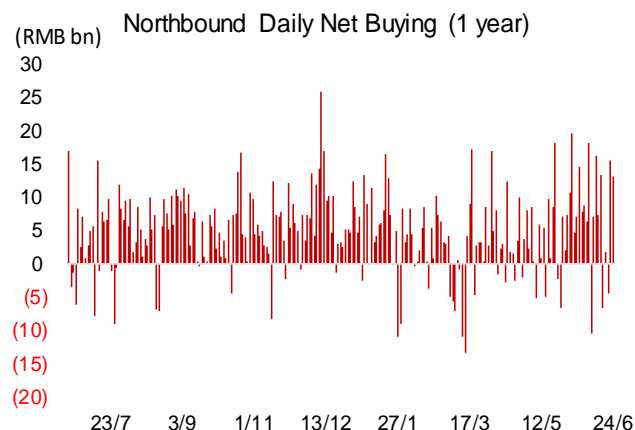
Figure 12: Northbound inflows slightly declined last week



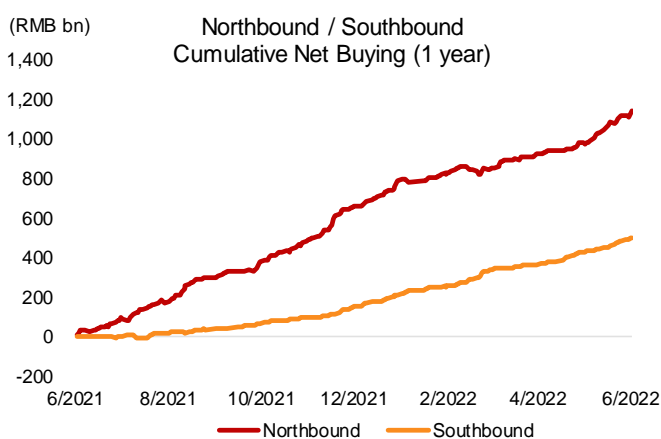
Source: Bloomberg, CMBIGM

Figure 13: Southbound net buying moderated vs. 1Q

Source: Bloomberg, CMBIGM

Figure 14: Northbound flows increased over the past few weeks

Source: Bloomberg, CMBIGM

Figure 15: Southbound inflows speeded up since early 2022, while Northbound inflows slowed down

Source: Bloomberg, CMBIGM

Figure 16: AH premium narrowed by 2.0 ppt last week

Source: Bloomberg, CMBIGM

Figure 17: Southbound weekly Top 10 active stocks

(HKD mn, cumulative)		Turnover	Net Buying
Tencent	700 HK	9,118	69
Meituan	3690 HK	8,940	-850
Geely Automobile	175 HK	2,941	1,350
CNOOC	883 HK	7,393	-631
Wuxi Biologics	2269 HK	2,138	259
Li Auto	2015 HK	4,884	2,693
GCL Technology	3800 HK	1,533	625
XPeng	9868 HK	2,191	1,074
Xiaomi	1810 HK	894	-95
Kuaishou	1024 HK	3,192	-252

Source: Wind, CMBIGM

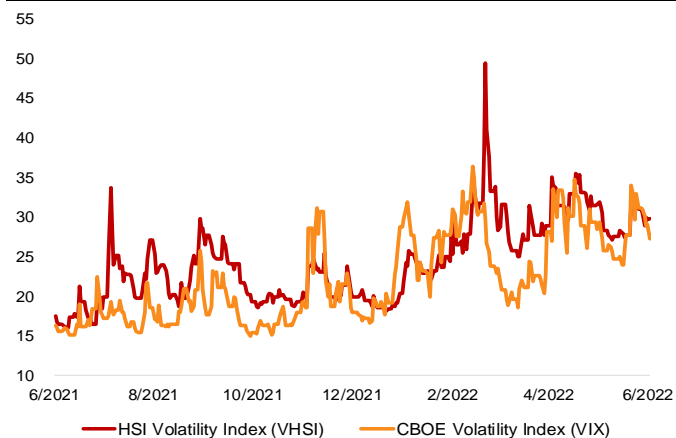
Figure 18: Northbound (SH) Top 10 active stocks

(RMB mn, cumulative)		Turnover	Net Buying
Kweichow Moutai	600519 CH	11,706	3,129
LONGi Green Energy	601012 CH	6,160	861
WuXi AppTec	603259 CH	2,062	1,124
China Merchants Bank	600036 CH	5,673	-588
Tongwei	600438 CH	5,285	1,108
TBEA	600089 CH	2,549	-459
CTG Duty Free	601888 CH	4,600	-598
Zijin Mining	601899 CH	2,926	-1,480
Will Semiconductor	603501 CH	3,418	-293
Wingtech Technology	600745 CH	662	251

Source: Wind, CMBIGM

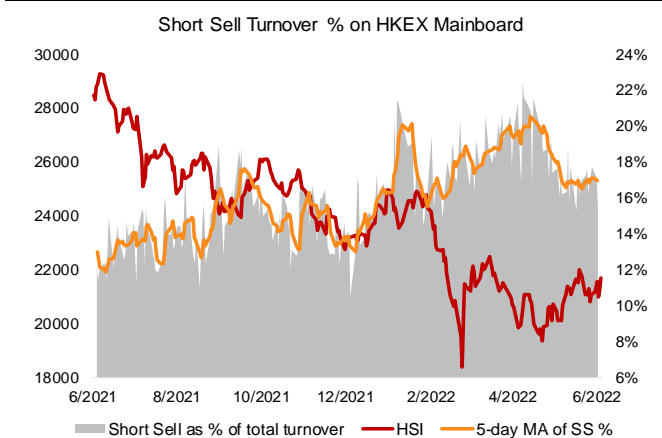
Sentiments

Figure 19: “Fear Index” VHSI retreated to below 30, as sentiments improved



Source: Bloomberg, CMBIGM

Figure 20: Short sell % on HK mainboard dropped to 16%



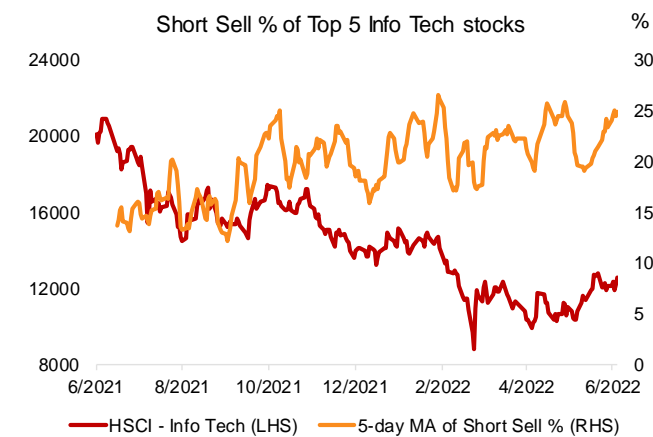
Source: Bloomberg, CMBIGM

Figure 21: Short sell % in HK - Financials



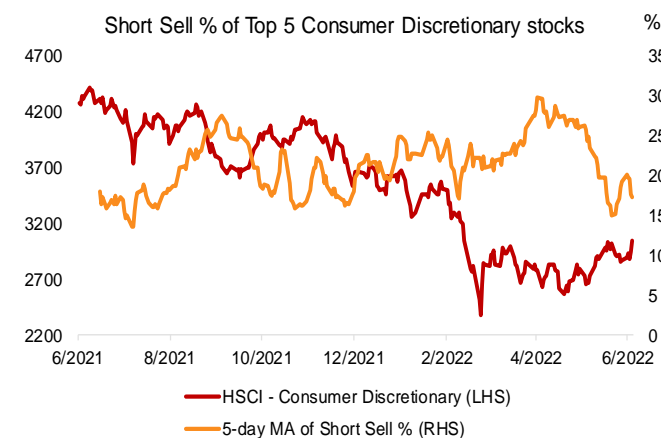
Source: Bloomberg, CMBIGM

Figure 22: Short sell % in HK – Info Tech



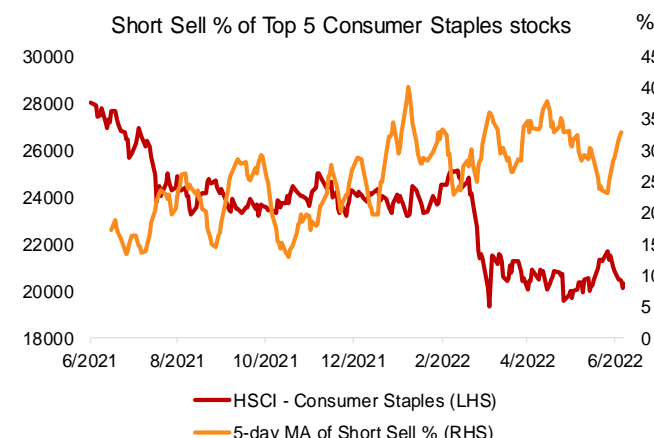
Source: Bloomberg, CMBIGM

Figure 23: Short sell % in HK – Consumer Discretion.



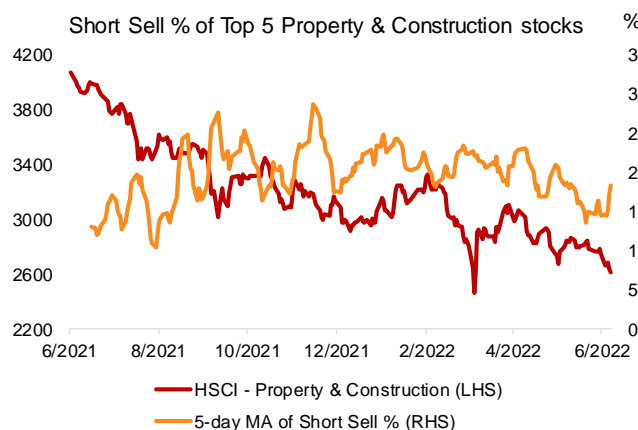
Source: Bloomberg, CMBIGM

Figure 24: Short sell % in HK – Consumer Staples



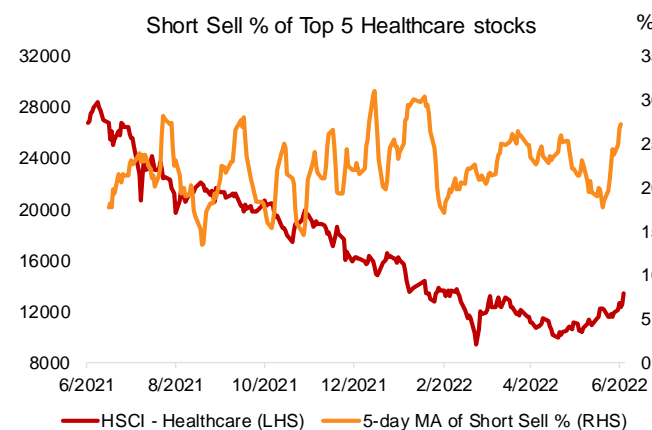
Source: Bloomberg, CMBIGM

Figure 25: Short sell % in HK - Property



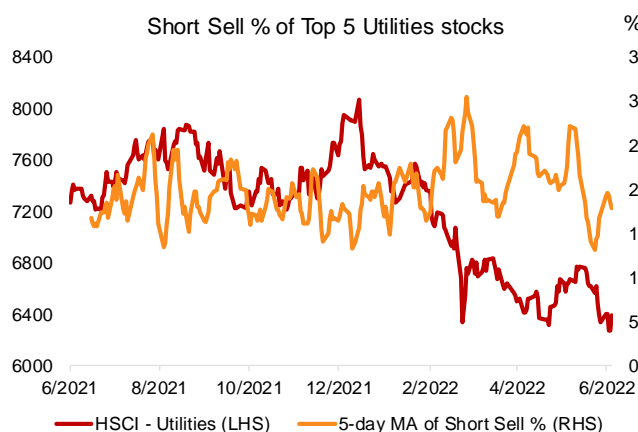
Source: Bloomberg, CMBIGM

Figure 26: Short sell % in HK – Healthcare



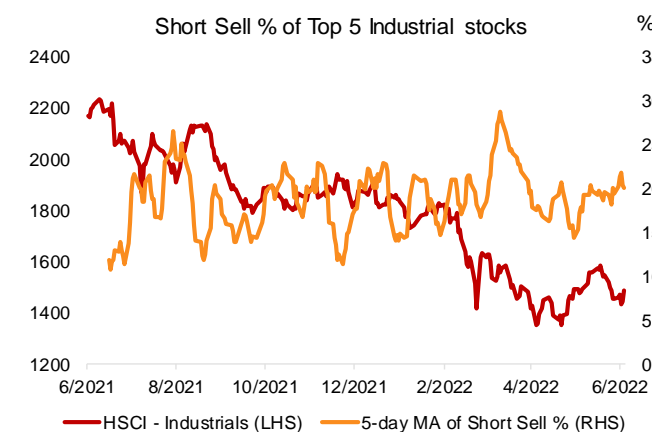
Source: Bloomberg, CMBIGM

Figure 27: Short sell % in HK – Utilities



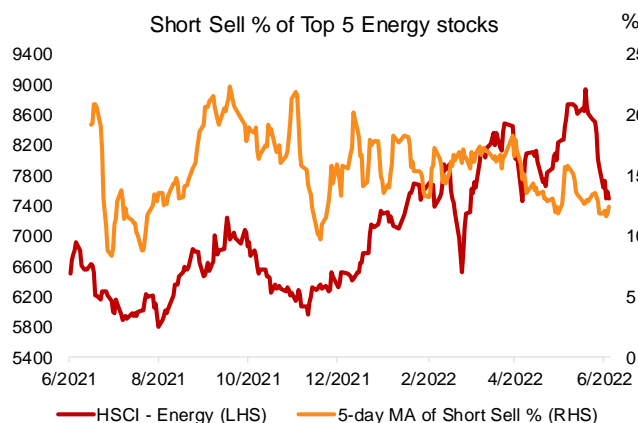
Source: Bloomberg, CMBIGM

Figure 28: Short sell % in HK – Industrials



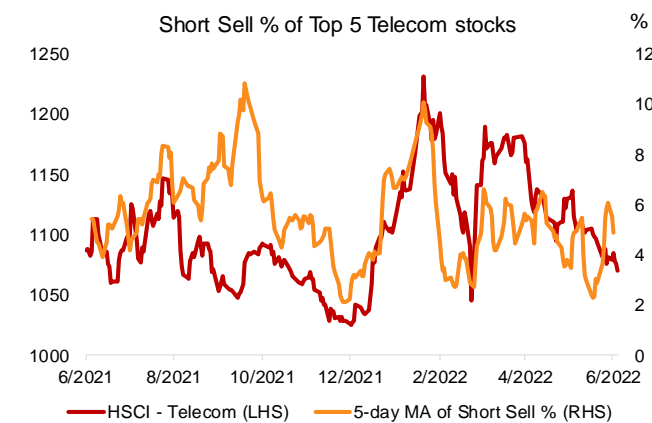
Source: Bloomberg, CMBIGM

Figure 29: Short sell % in HK – Energy



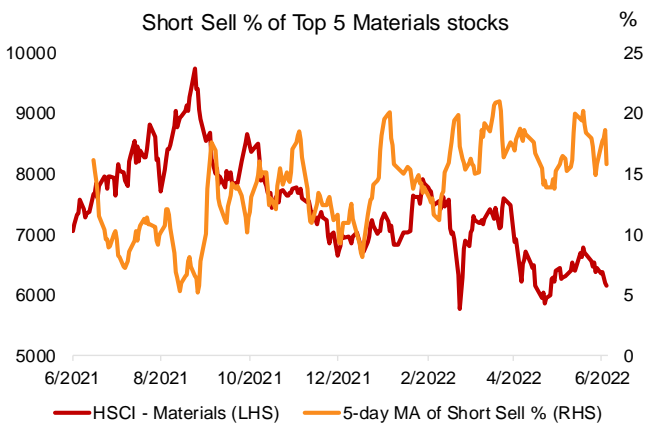
Source: Bloomberg, CMBIGM

Figure 30: Short sell % in HK – Telecom



Source: Bloomberg, CMBIGM

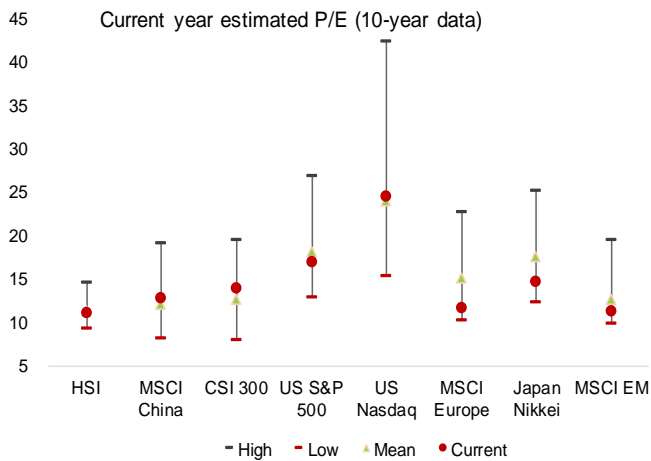
Figure 31: Short sell % in HK – Materials



Source: Bloomberg, CMBIGM

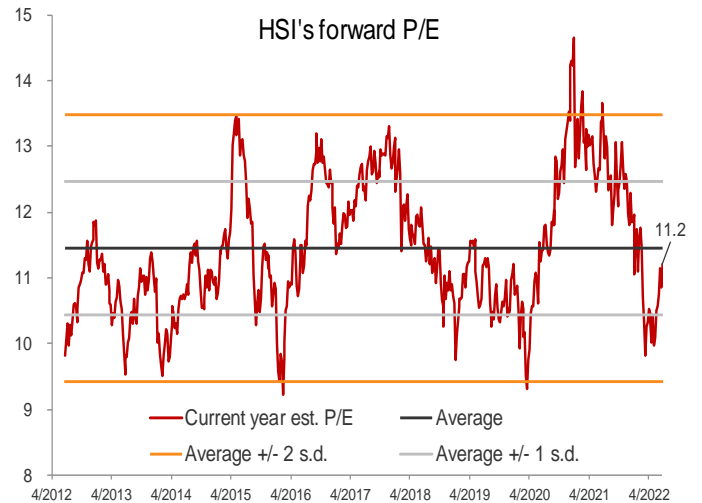
Earnings & Valuations

Figure 32: HK & US stocks' P/E moved closer to 10-year mean after divergent performance in recent weeks



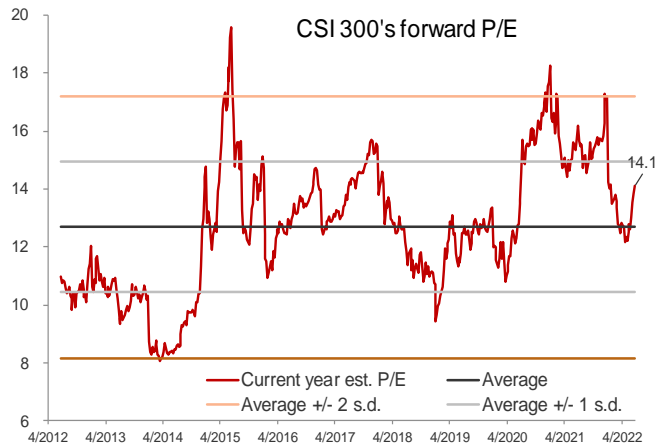
Source: Bloomberg, CMBIGM

Figure 33: HSI's forward P/E approaching 10-yr mean



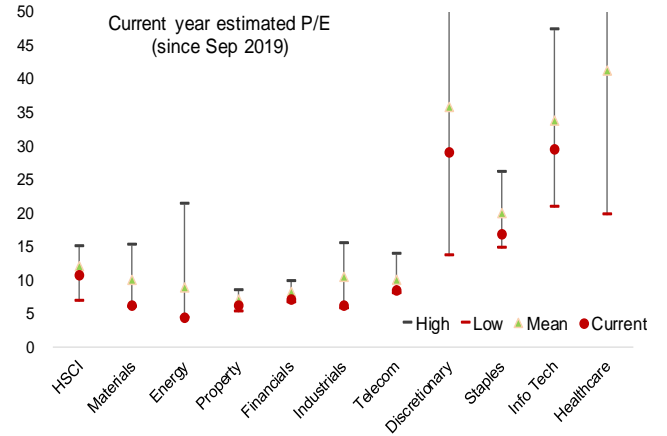
Source: Bloomberg, CMBIGM

Figure 34: CSI 300's P/E above 10-yr mean



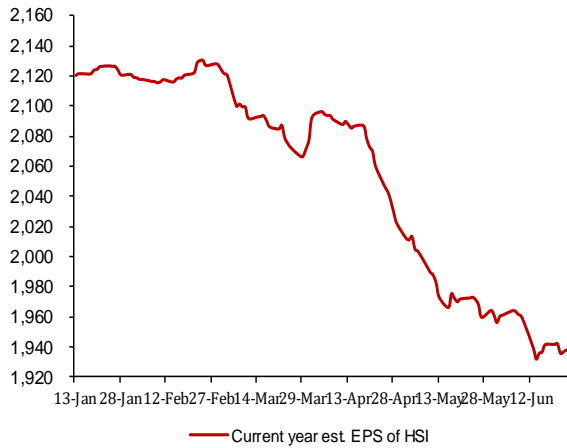
Source: Bloomberg, CMBIGM

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



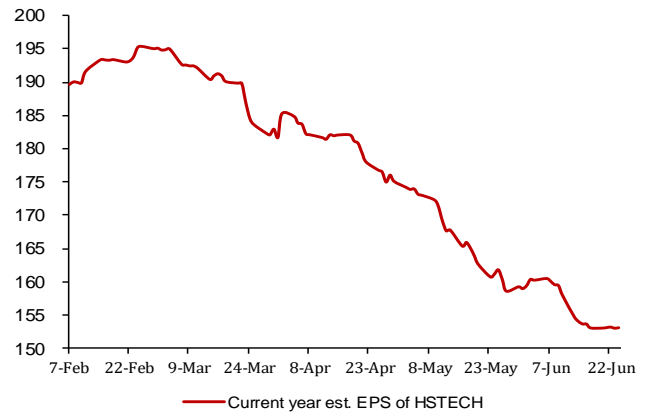
Source: Bloomberg, CMBIGM

Figure 36: EPS estimates of HSI seem stabilising



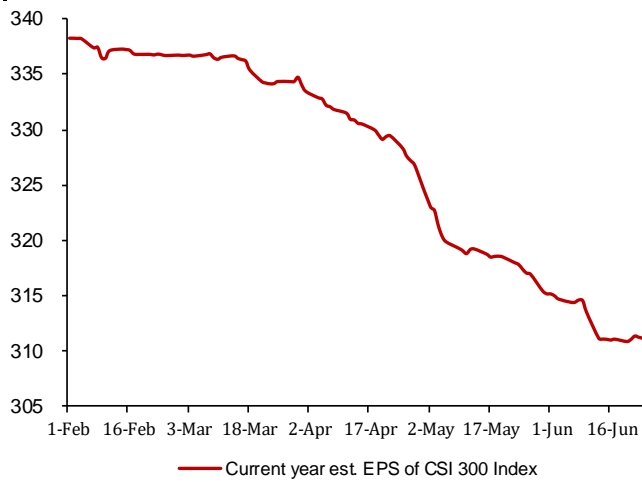
Source: Bloomberg, CMBIGM

Figure 37: EPS estimates of HSTECH Index seem stabilising



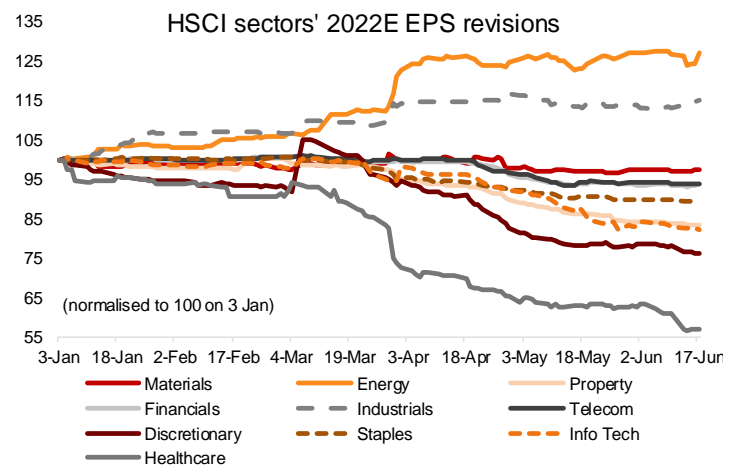
Source: Bloomberg, CMBIGM

Figure 38: EPS estimates of A-shares seem stabilising



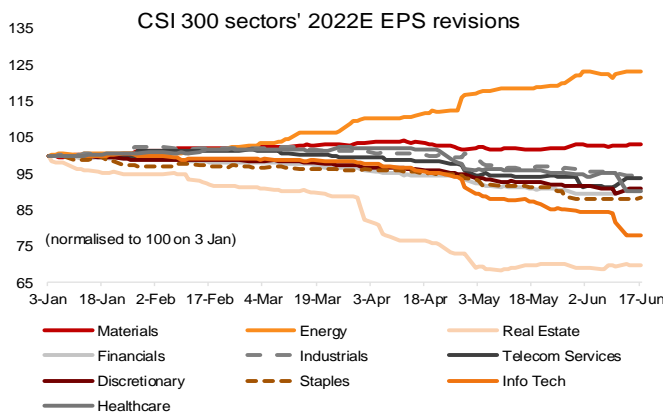
Source: Bloomberg, CMBIGM

Figure 39: HK earnings revision: Commodities up, Consumer Discretionary down



Source: Bloomberg, CMBIGM

Figure 40: A-shares earnings revision: Telecom services down



Source: Bloomberg, CMBIGM

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