

China / HK Market Weekly

Rate hike fears deepening again

Last week (3-7 Oct), HK stock market was highly volatile. The HSI surged by 1,000 pts after dipping to nearly a decade low. But the rebound seems unsustainable, as concerns over US Fed rate hike increased after the US unemployment rate surprisingly dropped. This week, Mainland China market and Stock Connect reopen, but turnover may stay relatively thin ahead of Chinese Communist Party's 20th Congress.

- **Market recap:** The HSI / S&P 500 were +2.6% / +1.5% last week (Fig. 3), as stocks rebounded from oversold territories. Mainland China market was close in a week-long holiday. By sector, Materials & Consumer Discretionary led gains in HK (Fig. 5).
- **Interest rates:** US interest rate hike expectations fluctuated last week, as investors reacted to US employment data. Early in the week, rate hike concerns eased after US job openings missed, but Friday's job report which showed unemployment rate dropped to five-decade low (Fig. 1) reignited rate hike fears. Implied Fed funds rate increased by over 10 bps in the week (Fig. 10 & 11). Limited labour supply as indicated by a drop in labour participation rate (Fig. 2) could keep wage growth high, which makes the Fed's task of fighting inflation even more challenging.
- **Sentiment:** Short-squeeze might have played a part in last Wednesday's 1,000-pt rebound in the HSI, as short-sell ratio on HK mainboard rose to above 20% in the previous week (Fig. 13). Similarly, after the short-sell ratio surged above 20% in Jan, May & mid-Sep 2022, there were short-term rebounds in the HSI. The overall short-sell ratio is still quite high, and in case there is more short-squeeze driven rally, then those sectors whose short-sell ratios are relatively high compared to their historical numbers (Financials, Industrials, Materials & Consumer Discretionary) might outperform.
- **Market outlook:** HK stocks will probably be under pressure early this week as the US rate hike worries deepened. This week's focus will still be on interest rate outlook as investors watch for the FOMC minutes and US inflation data. Growth stocks (both in the US and China/HK) such as Internet, NEV & Healthcare will be more vulnerable in case rate hike concerns heighten further. Energy & Consumer Staples will be more defensive, in our view.
- **Things to watch this week:**
 - Monday: China New Loans, M2 (Sep).
 - Wednesday: US FOMC Minutes, PPI (Sep).
 - Thursday: US CPI (Sep).
 - Friday: China CPI, PPI, Imports & Exports (Sep); US Retail Sales (Sep), Michigan Consumer Sentiment Index (Oct prelim).
 - Sunday: Chinese Communist Party's 20th Congress convenes.

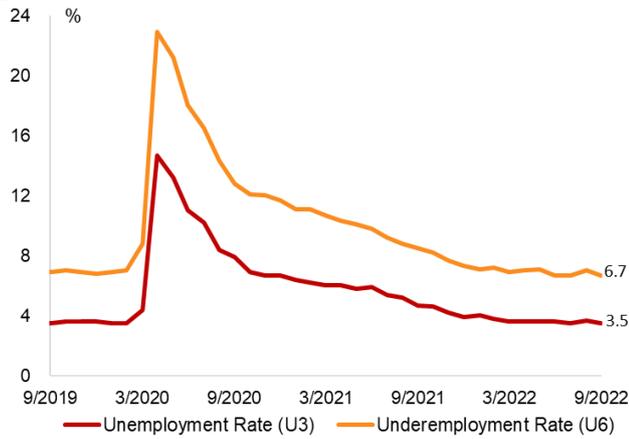
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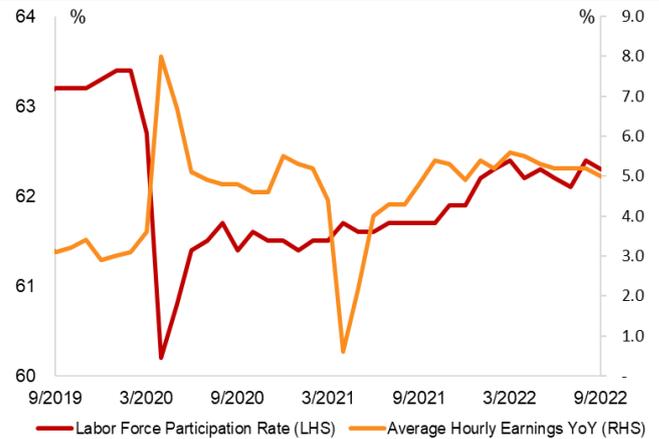
Charts of the Week

Figure 1: US unemployment rate dropped unexpectedly from 3.7% to 3.5%, matching the lowest in five decades; underemployment rate dropped by an even bigger margin 0.3 ppt



Source: Bloomberg, CMBIGM

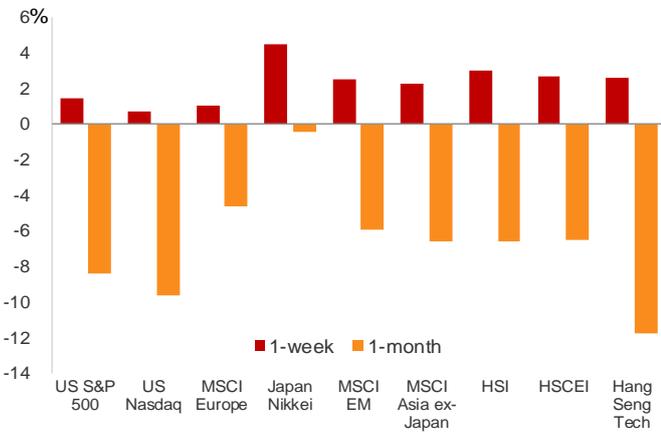
Figure 2: US labour force participation rate dropped by 0.1 ppt in Sep, indicating the labour supply is still tight, which may keep wage growth and in turn inflation at relatively high levels



Source: Bloomberg, CMBIGM

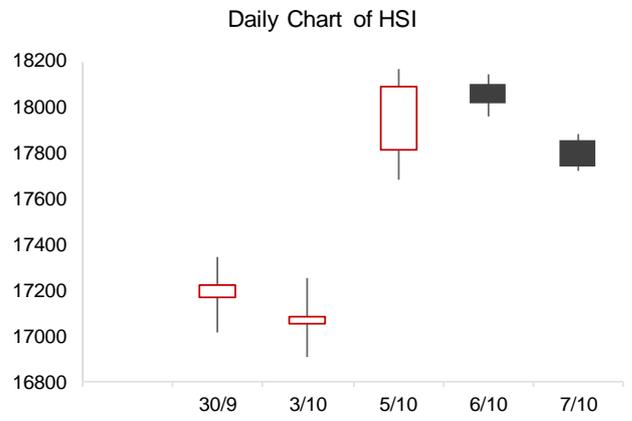
Market Recap

Figure 3: Weekly global markets' returns: HK stocks outperformed US after the latter's sell-off last Friday



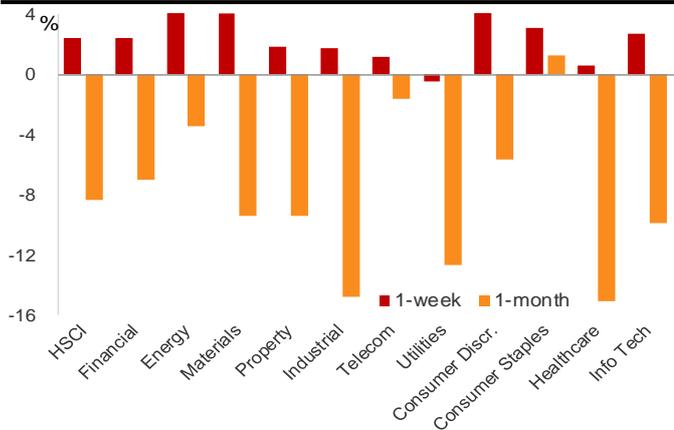
Source: Bloomberg, CMBIGM

Figure 4: HSI rebounded by 1,000 pts after briefly dropping to below 17,000



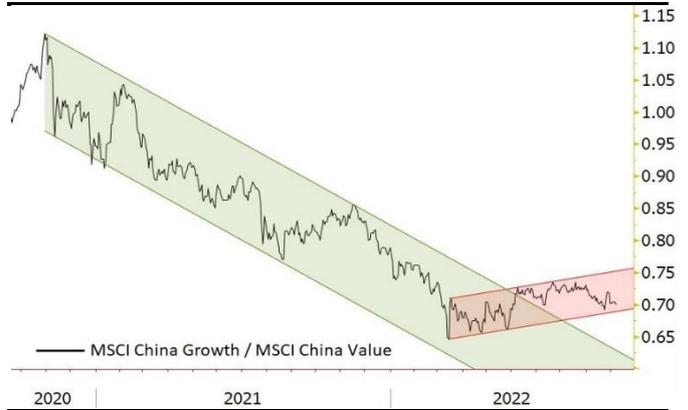
Source: Bloomberg, CMBIGM

Figure 5: Hang Seng Composite Index sectors: Commodities & Consumer Discretionary led gains



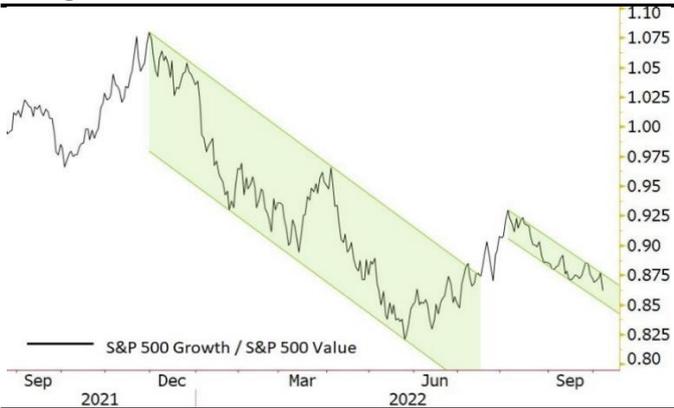
Source: Bloomberg, CMBIGM

Figure 6: China Growth stocks, relatively to Value stocks, have been weak in recent weeks, but still in a six-month upward channel



Source: Bloomberg, CMBIGM

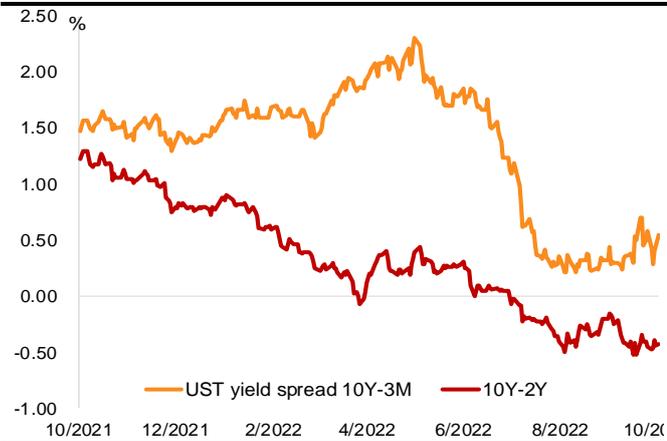
Figure 7: US Growth stocks formed another downward channel relatively to Value stocks, as rising interest rates bode ill for Growth stocks



Source: Bloomberg, CMBIGM

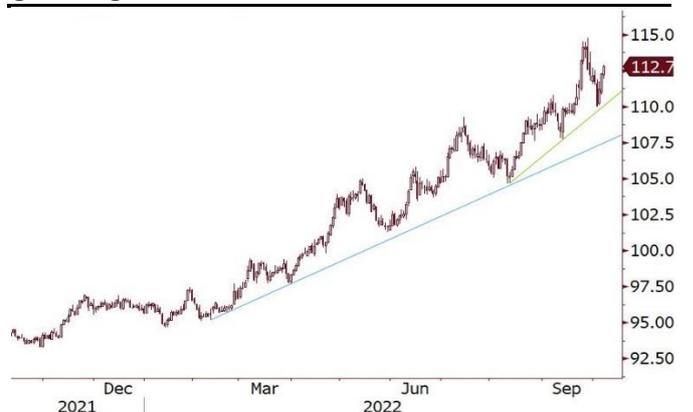
Fund Flows

Figure 8: UST 10-yr & 2-yr spread have been negative for months, indicating recession risks



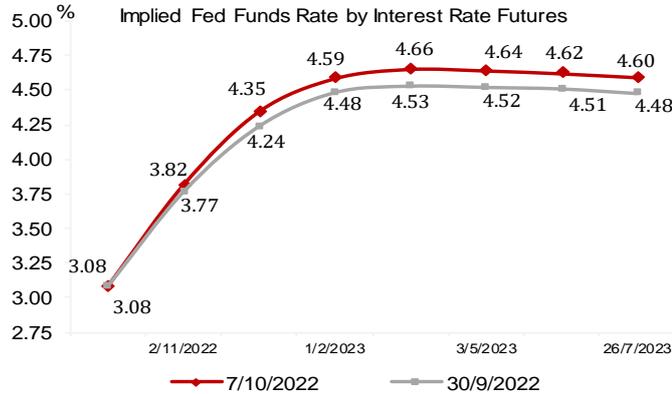
Source: Bloomberg, CMBIGM

Figure 9: USD Index pulled back but still hold above short-term & medium-term uptrends, not a good sign for EM fund flows



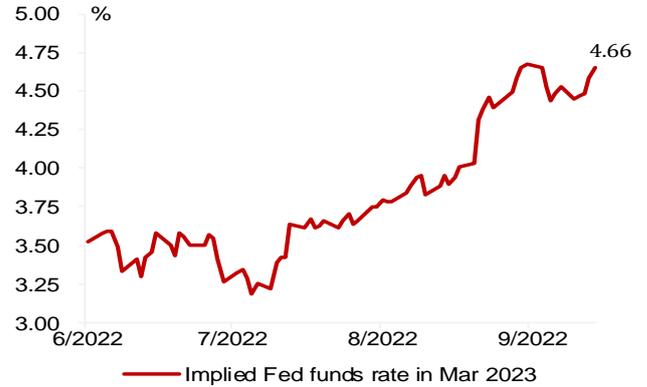
Source: Bloomberg, CMBIGM

Figure 10: Fed rate hike concerns deepened last week after US unemployment rate unexpectedly fell



Source: Bloomberg, CMBIGM

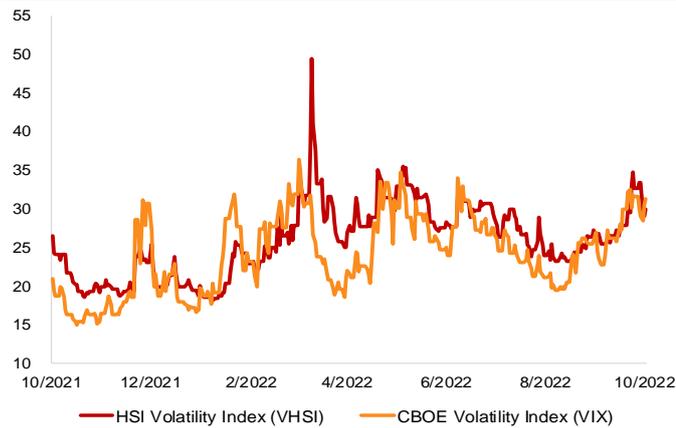
Figure 11: Implied Fed funds rate in Mar 2023 rebounded



Source: Bloomberg, CMBIGM

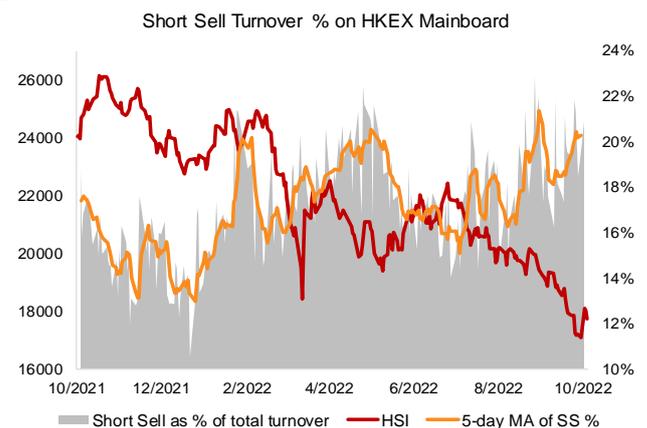
Sentiments

Figure 12: "Fear Index" VHSI dropped from a four-month high to 29.9



Source: Bloomberg, CMBIGM

Figure 13: Short sell % on HK mainboard still at elevated levels around 20%



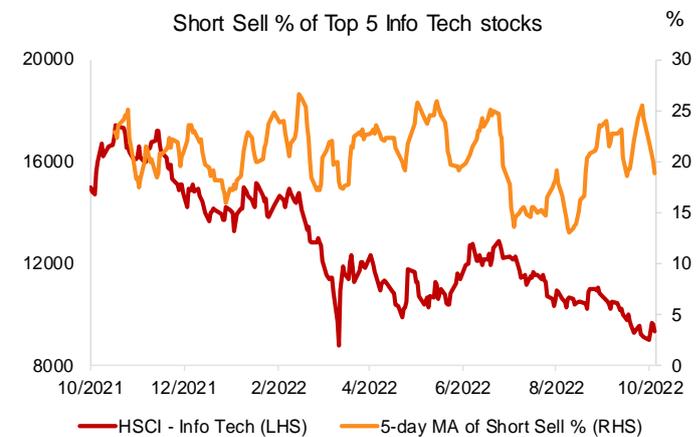
Source: Bloomberg, CMBIGM

Figure 14: Short sell % in HK - Financials



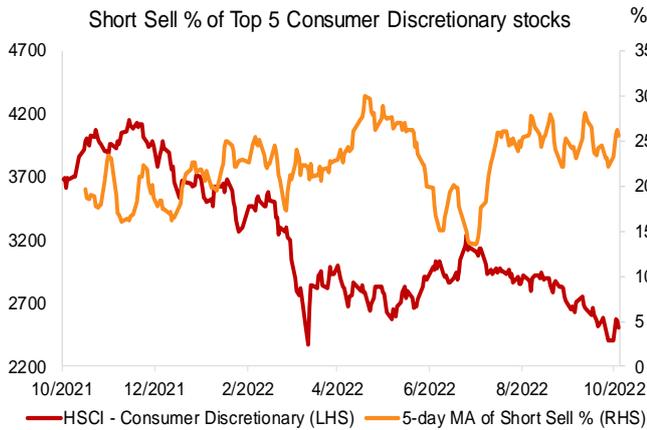
Source: Bloomberg, CMBIGM

Figure 15: Short sell % in HK - Info Tech



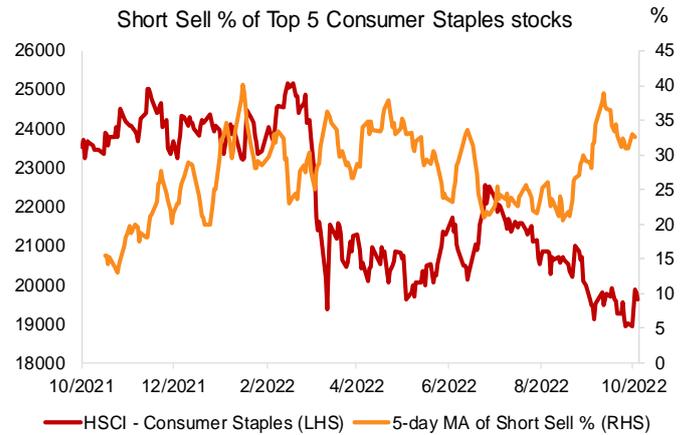
Source: Bloomberg, CMBIGM

Figure 16: Short sell % in HK – Consumer Discretion.



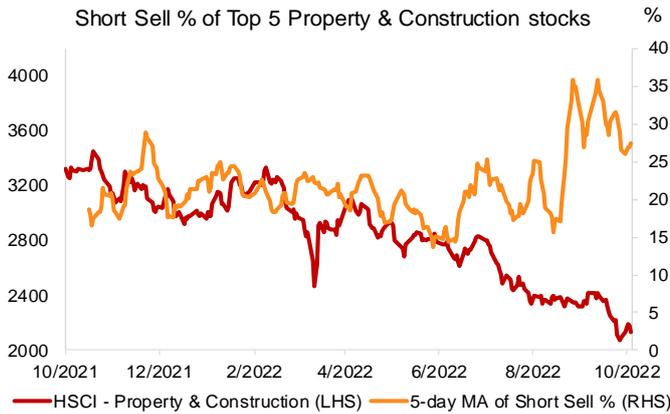
Source: Bloomberg, CMBIGM

Figure 17: Short sell % in HK – Consumer Staples



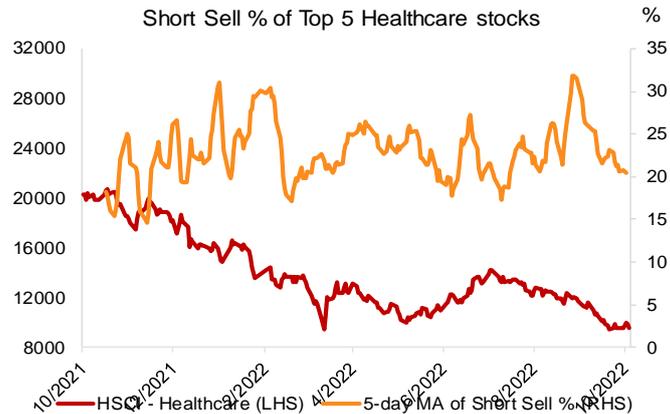
Source: Bloomberg, CMBIGM

Figure 18: Short sell % in HK - Property



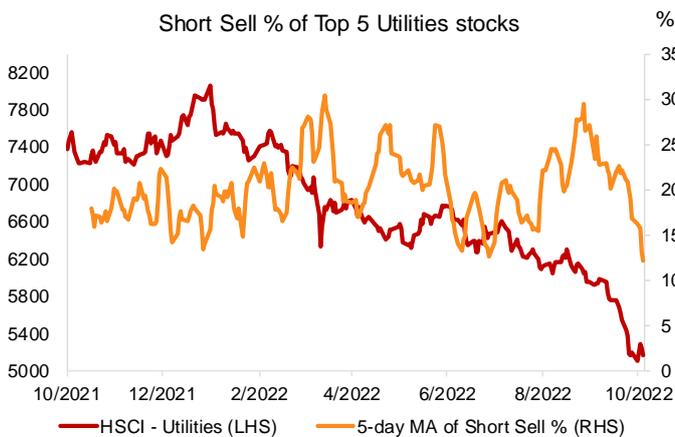
Source: Bloomberg, CMBIGM

Figure 19: Short sell % in HK – Healthcare



Source: Bloomberg, CMBIGM

Figure 20: Short sell % in HK – Utilities



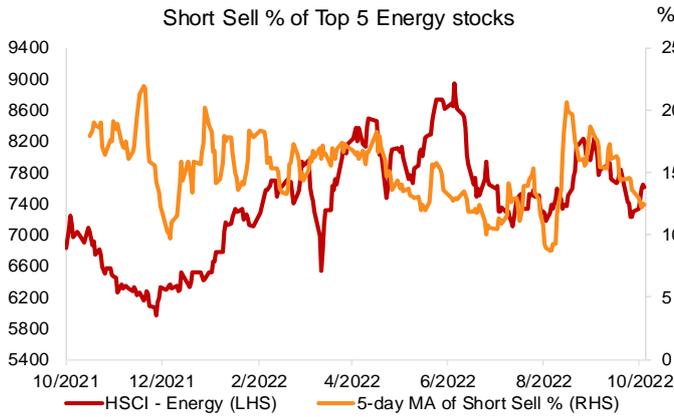
Source: Bloomberg, CMBIGM

Figure 21: Short sell % in HK – Industrials



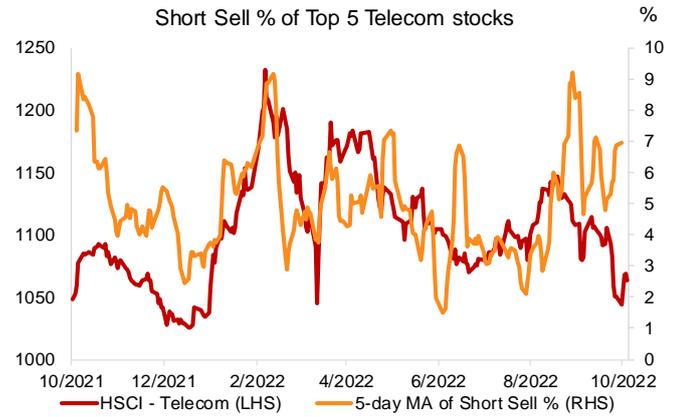
Source: Bloomberg, CMBIGM

Figure 22: Short sell % in HK – Energy



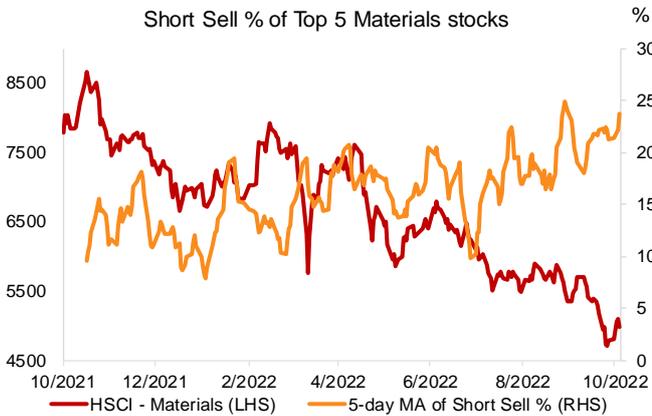
Source: Bloomberg, CMBIGM

Figure 23: Short sell % in HK – Telecom



Source: Bloomberg, CMBIGM

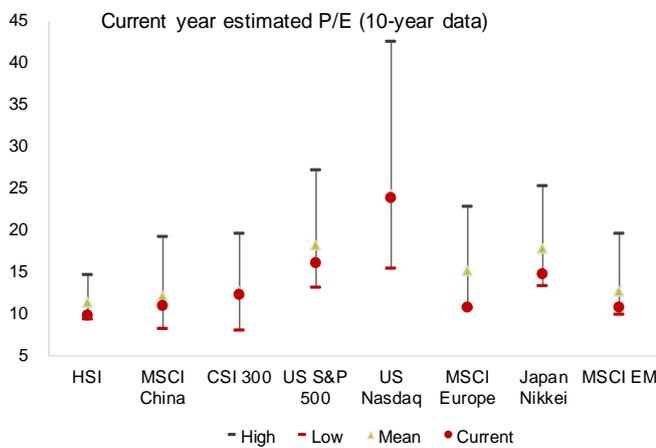
Figure 24: Short sell % in HK – Materials



Source: Bloomberg, CMBIGM

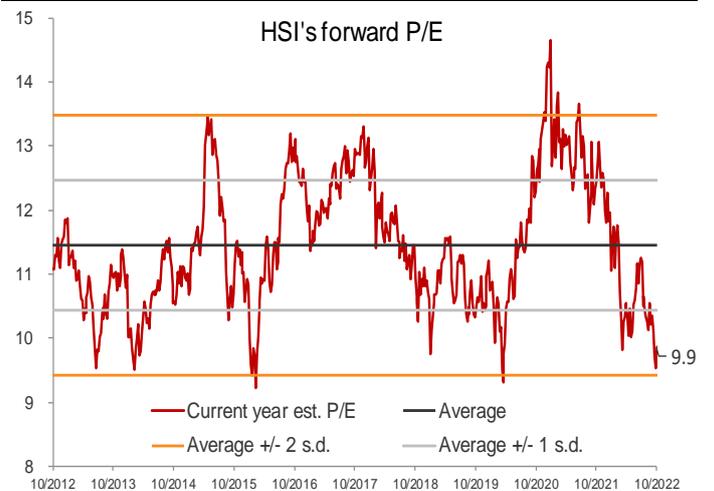
Earnings & Valuations

Figure 25: Major stock markets' forward P/E vs. 10-yr history



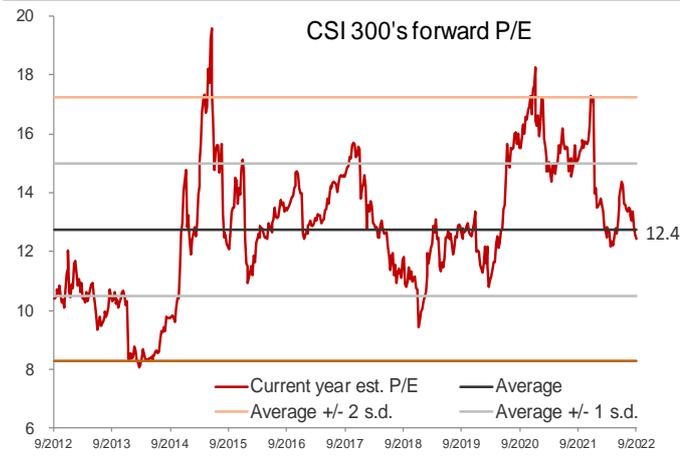
Source: Bloomberg, CMBIGM

Figure 26: HSI's forward P/E at below 10X



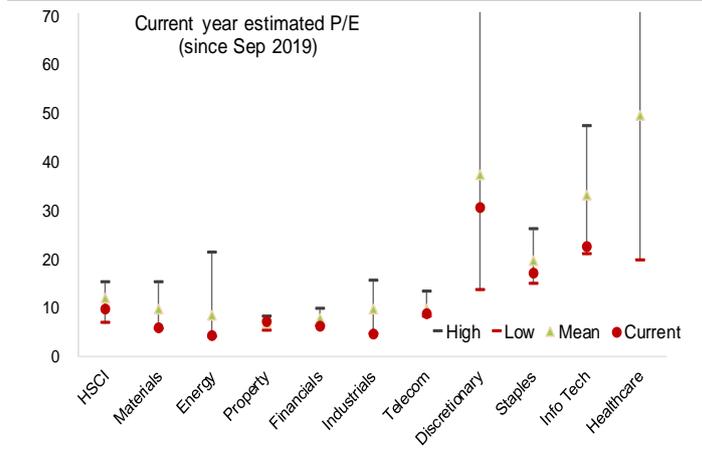
Source: Bloomberg, CMBIGM

Figure 27: CSI 300's forward P/E at 10-yr mean



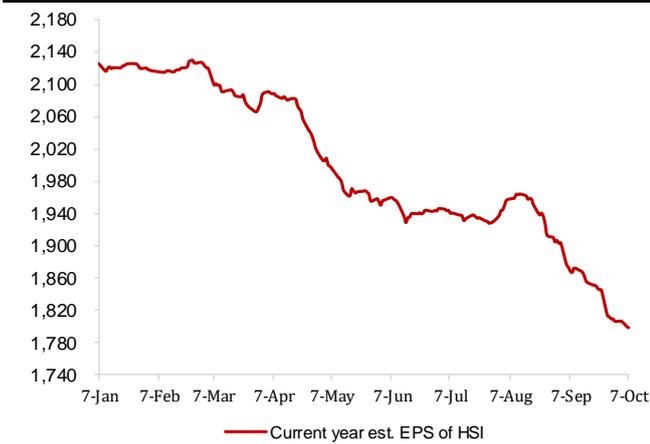
Source: Bloomberg, CMBIGM

Figure 28: Many HSCI sectors' P/E are near troughs



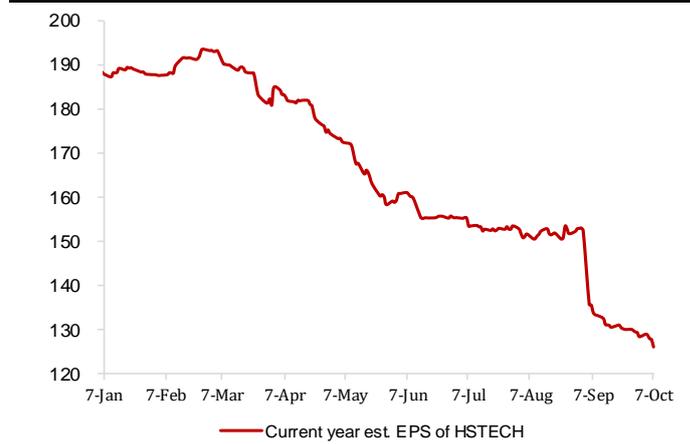
Source: Bloomberg, CMBIGM

Figure 29: EPS estimates of HSI were revised down by 0.4% last week



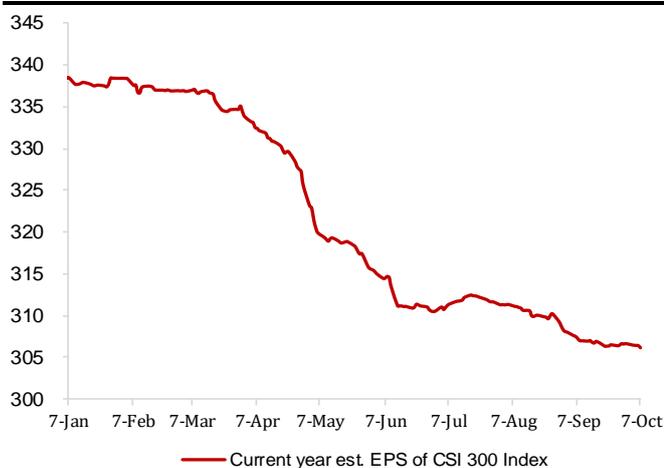
Source: Bloomberg, CMBIGM

Figure 30: EPS estimates of HSTECH Index were revised down by 1.8% last week



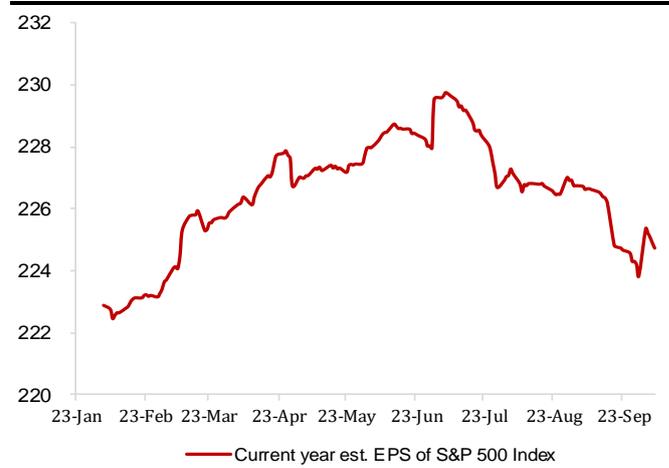
Source: Bloomberg, CMBIGM

Figure 31: EPS estimates of A-shares were little changed last week as market was close on holidays



Source: Bloomberg, CMBIGM

Figure 32: EPS estimates of US S&P 500 were revised up by 0.4% last week



Source: Bloomberg, CMBIGM

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