Hong Kong Stock Market Weekly Review

Mar 15, 2024

HK Stock Market Weekly Review

15/3/2024

- **In Mar, several major stocks reached a new peak for the year. What are the driving forces behind this surge?**
- **The State Council Issues the " Action Plan to Promote Large-Scale Equipment Renewals and Trade-ins Consumer Goods "**
- **Offshore investors have actively increased their investments in the A-share market, with a net purchase of over RMB70bn in A-shares since Feb**
- **Offshore institutions have successfully capitalized on the bullish trend in the Chinese government bond market since the beginning of this year**
- **In 2M24, sales in the five large real estate developers have continued to be sluggish; housing prices from first to third tier cities have shown MoM decline**
- **Energy and service price inflation pressures are hindering the momentum of inflation decline in the United States and influencing interest rate expectations**
- **Next week's focus: China's macroeconomic data for the first two months and central bank interest rate meetings in the US and Japan**

1. In Mar, several major stocks reached a new peak for the year. What are the driving forces behind this surge?

As of Mar 14, among the constituents of the Hang Seng Composite Index, 42 stocks have hit their 52-week highs. These stocks span a variety of industries, with a predominance of large-cap names. It is crucial to understand what fundamental factors are enticing investors to chase these stocks. Although it's impossible to articulate the individual motivations of investors, the persistent rise in stock prices to reach 52-week highs indicates that there must be enduring and compelling justifications for such enthusiasm in the market.

The government work report for 2024 encourages the renewal and upgrading of old vehicles and household appliances. The National Development and Reform Commission (NDRC) reported that at the end of last year, the number of civilian cars in China reached 336mn, and ownership of major household appliances such as refrigerators, washing machines, and air conditioners exceeded 3bn units. The replacement of cars and household appliances has the potential to create a trillion-scale market space. In the realm of home appliance stocks, Hisense Home Appliances (921 HK) saw its share price reach a 52-week high in March.

Government policies seem to be bolstering the automotive industry. Despite this, persistent media coverage about price wars within the sector is stirring apprehension in the market. According to the China Association of Automobile Manufacturers (CAAM), in the first two months of 2024, car production and sales volumes amounted to 3.92mn and 4.03mn vehicles, marking YoY increases of 8.1% and 11.1%, respectively. Among which, domestic sales volume was 3.20mn, up 7% YoY. Regardless of whether consumers opt for new energy vehicles, traditional gasoline cars, or various automotive brands, they must secure vehicle insurance.

Reflecting investor discernment and a focus on sectors poised for clear gains, PICC P&C (2328 HK) — a frontrunner in the auto insurance market — saw its stock price soar to a 52-week high in March. It stands out as the sole H-share financial stock in the Hang Seng Composite Index to achieve such a milestone that month.

In 2023, China's electricity use rose by 6.7% from the previous year, exceeding the rate of economic growth by 1.5 percentage points. The country's economic growth target for this year is set at about 5%, indicating that strong growth in electricity demand is likely to persist. NDRC reported in a March 6 press conference that countrywide regulated power generation in the first two months saw an 11.7% YoY increase, with industrial electricity use up by 9.7%. Mirroring the energy sector's robust performance, companies like CGN Power (1816 HK), China Resources Power (836 HK), and China Power International Development (2380 HK) achieved 52-week highs in their stock prices during March.

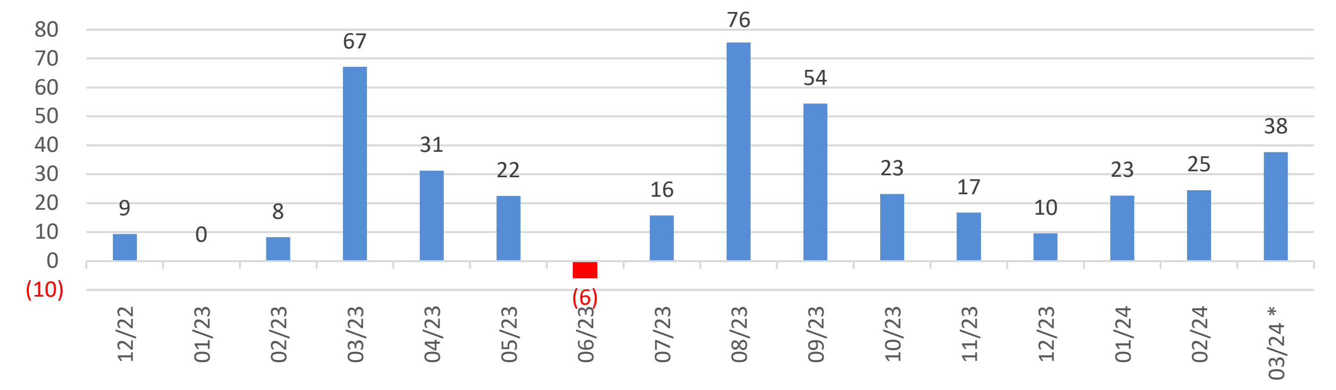
The YoY change in China's pork CPI has moderated from a decrease of 31.8% in Nov to a reduction of 26.1% in Dec, and further to a decline of 17.3% in Jan, before registering a slight increase of 0.2% in Feb. On a MoM basis, the pork CPI dropped 3% in Nov, with the decline easing to 1% in Dec and 0.2% in Jan, followed by a rise of 7.2% in Feb. The pricing trend over the recent four months indicates a contraction in the decline of pork prices and signals a rebound. WH Group (288 HK), a pork industry stock, hit a 52-week high in the second week of March.

The 2024 government work agenda promotes the modernization of outdated machinery across seven key sectors: industrial, agricultural, construction, transportation, educational, cultural tourism, and medical. This directive opens up commercial prospects for suppliers of sector-specific equipment. In the construction sector, Zoomlion Heavy Industry (1157 HK) saw its stock reach a 52-week peak in March. Likewise, First Tractor (38 HK), an agricultural equipment provider not listed on the Hang Seng Composite Index, also achieved a 52-week high that month. NDRC has highlighted China's status as a manufacturing powerhouse, with a significant global share of equipment ownership. By the previous year's end, the total assets of substantial industrial enterprises surpassed RMB160tr. With the ongoing push towards new industrialization, the appetite for cutting-edge machinery is on the rise. Last year alone saw nearly RMB4.9 tr funnelled into equipment investments in vital sectors like industry and agriculture. As the commitment to high-quality growth strengthens, the demand for equipment upgrades is set to grow, with early estimates forecasting a potential annual market exceeding RMB5 tr.

Mainland Chinese investors have consistently net purchased Hong Kong stocks through the southbound Shanghai and Shenzhen Stock Connects. In Jan and Feb 2024, net purchases were approximately HK$22.7bn and HK$24.5bn, respectively. For Mar (up to Mar 14), they have net bought around HK$37.7bn worth of shares. Cumulatively, since the beginning of the year, their net purchases amount to about HK$84.9bn in Hong Kong stocks.

Stocks reaching 52-week highs could be propelled by optimistic forecasts for company futures or favorable business and pricing patterns. The concern is the durability and realization of these factors, given that stock prices have soared to their highest in roughly a year, possibly reflecting some of this optimism in their present value.

Exhibit 1: Mainland Chinese Investors' Monthly Net Purchases (Sales) of Hong Kong Stocks via Southbound Stock Connect (in HK$10bn)
Mainland Chinese investors continue to accumulate Hong Kong stocks, strengthening their influence on the Hong Kong stock market



Note*: Up to Mar 14
Source(s): Bloomberg, ABCI Securities

2. The State Council Issues the " Action Plan to Promote Large-Scale Equipment Renewals and Trade-ins Consumer Goods "

The "Action Plan" sets targets for 2027, aiming for a more than 25% increase in equipment investment within sectors such as industry, agriculture, construction, transportation, education, cultural tourism, and healthcare, compared to 2023. It also seeks to significantly raise the share of energy-efficient equipment in key industries to standard levels, with environmental performance reaching Grade A. Additionally, the adoption rate of digital R&D design tools in larger industrial enterprises and the rate of computerized control in critical processes are expected to exceed 90% and 75%, respectively. Goals include doubling the recycling volume of scrapped vehicles, a 45% increase in used car transactions, and a 30% rise in recycled household appliance volumes, all relative to 2023 figures. The use of recycled materials as a resource supply is also planned to increase.

NDRC notes that China, as a major player in manufacturing with a large population, recorded equipment investments in critical sectors like industry and agriculture amounting to about RMB4.9tr in 2023. As the pursuit of high-quality development progresses, the demand for upgrading equipment is set to grow, representing a market likely to surpass RMB5tr annually. Furthermore, at the end of 2023, there were 336mn civilian cars and over 3bn household electrical appliances, including refrigerators, washing machines, and air conditioners, in ownership. The renewal of these cars and appliances is anticipated to create a market space worth trillions of yuan.

The "Action Plan" details an all-encompassing strategy to facilitate massive equipment upgrades and encourage the exchange of old consumer goods for new ones, concentrating on four primary actions: updating equipment, refreshing consumer products, enhancing recycling and circular use, and elevating standards. To augment policy support, NDRC plans to collaborate with relevant entities to amplify the impact of fiscal, financial, and tax policies, as well as to ensure the availability of essential resources like land and energy and to provide robust support for technological innovation. In summary, the "Action Plan" includes four major initiatives and policy assurances, comprising a total of 20 significant tasks.

The "Action Plan" encompasses five key areas:

1. Equipment Upgrade Action: Promoting upgrades and transformations of equipment in major industries, expediting equipment renewal in construction and municipal infrastructure, supporting updates of transportation and old agricultural machinery, and improving the standard of equipment in education, cultural tourism, and healthcare.

2. Consumer Goods Replacement Action: Facilitating the exchange of old cars and home appliances for new ones and promoting the renewal of home decor products.

3. Recycling and Circular Use Action: Enhancing the recycling network for discarded products and equipment, supporting second-hand goods markets, promoting orderly remanufacturing and tiered usage, and advancing high-level resource recycling.

4. Standards Enhancement Action: Accelerating the development of energy, emissions, and technical standards, improving product technical standards, strengthening the supply of recycling standards, and enhancing the integration of key field standards both domestically and internationally.

5. Policy Safeguards Strengthening: Intensifying fiscal policy support, improving tax policies, optimizing financial assistance, bolstering the provision of essential resources, and reinforcing innovation support.

Exhibit 2: Fiscal and Financial Policy Support for the "Action Plan

Fiscal Policy	Financial Support
• Incorporate qualified equipment upgrades and recycling projects into the central budget's investment support scope. • Uphold coordinated support from central and local governments for the trade-in of consumer goods, with central fiscal funds earmarked for energy conservation and emission reduction to back qualifying vehicle trade-ins; local authorities encouraged to deploy funds allocated by the central government for modern commerce and logistics systems to aid in the replacement of durable goods like appliances. • Persist with the subsidy program for renewing outdated commercial vehicles and ships, aiding the update of old ships and diesel trucks. • Local governments with the means are encouraged to use central financial rewards for urban transport development to support the adoption of new energy buses and battery renewal. • Fully leverage the subsidy policy for scrapping and renewing agricultural machinery. The central government provides specialized funds for the recycling and disposal of discarded electronic equipment. • Enhance the green procurement policy of the government, increasing the purchasing of eco-friendly products. • Strengthen fiscal discipline, intensify comprehensive oversight of fiscal funds throughout their entire cycle and across all links, and improve the efficiency and accuracy of fiscal fund usage.	• Employ re-lending policies to encourage financial institutions to enhance support for equipment upgrades and technological improvements; central finance to offer interest subsidies for bank loans that qualify for re-lending reimbursements. • Activate the mechanism to increase the provision of medium- to long-term loans in manufacturing. • Guide banks to incrementally extend green credit and strengthen financial support for the manufacturing, servicing, and purchasing of eco-friendly and intelligent household appliances. • Encourage banks to prudently reduce the minimum down payment for passenger vehicle loans and sensibly set loan durations and credit limits within the bounds of legal compliance and risk control.

Source(s): Action Plan for Promoting Large-Scale Equipment Upgrades and Trade-Ins of Consumer Goods, ABCI Securities

The "Action Plan" directs that under the Central Committee's leadership, regional and departmental entities must enhance mechanisms, reinforce coordination, accurately explain policies, and cultivate a conducive social climate for extensive equipment updates and consumer goods renewal. The NDRC, along with pertinent departments, is to form task forces to ensure collaborative efforts and central-local cooperation. Each relevant department must, in line with their duties, create detailed plans and complementary policies, assume responsibility, intensify monitoring and analysis, and promote the thorough implementation of tasks.

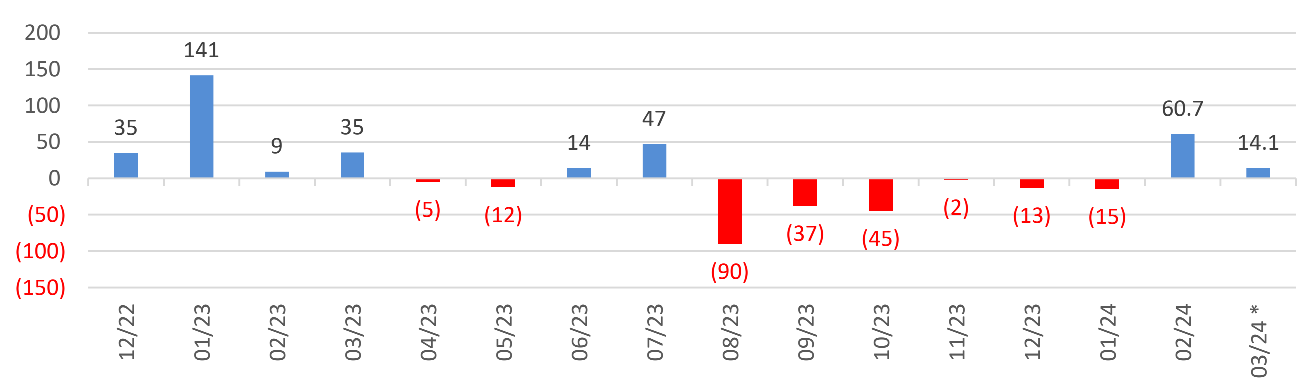
3. Offshore investors have actively increased their investments in the A-share market, with a net purchase of over RMB70bn in A-shares since Feb

Between Aug 2023 and Jan 2024, offshore investors were net sellers of A-shares for six consecutive months through the Shanghai and Shenzhen Stock Connects, with a cumulative net sale of nearly RMB201.1bn. However, their investment stance shifted markedly in Feb of this year. Through the stock connects, they net bought RMB60.7bn worth of A-shares in Feb. In Mar1-14, they had net purchased RMB14.1bn of A-shares. Overall, from Feb to Mar 14, foreign investors net bought RMB74.8bn of A-shares through the stock connects.

The shift in foreign investors' behavior in Feb was prompted by China's monetary easing policies. On Feb 5, the central bank reduced the reserve requirement ratio (RRR) by 50 basis points, releasing approx. RMB1tr in liquidity. On Feb 20, the five-year Loan Prime Rate (LPR) was cut by 25 basis points by commercial banks to boost the economy. These aggressive monetary easing actions in Feb attracted foreign investors to the Chinese stock market.

Additionally, the significant liquidity entering the main board A-shares was a catalyst for the growing interest in China's A-share market. The Huatai-PineBridge CSI 300 ETF (510300 CH), a major ETF tracking the CSI 300 Index, saw its ETF shares increase by 18.4bn units, a 49% rise, since the end of 2023. It is estimated that around RMB62.0bn of new funds have entered this ETF since the end of last year (as of Mar 14), which were then used to acquire shares of the CSI 300 Index constituents. The CSI 300's rebound from a 12-month low on Feb 2nd further drew the attention of investors both within and outside China. Comparing foreign investors' top holdings in Shanghai and Shenzhen A-share markets since the end of Jan, they have notably increased their stakes in three consumer stocks during this period, specifically in Yili Industrial (600887 CH), Midea Group (000333 CH), and Gree Electric Appliances (000651 CH).

Exhibit 3: Offshore Investors' Monthly Net Purchases (Sales) of A-shares via Northbound Stock Connects (in RMB 10bn)
Offshore investors have made a significant shift in their investment behavior since Feb of this year, actively purchasing Shanghai and Shenzhen A-shares



Note*: Up to Mar 14
Source(s): Bloomberg, ABCI Securities

Exhibit 4: Top 10 Shanghai A-shares Held by Offshore Investors (As of Mar 13, 2024, Ranked by Shareholding Percentage)
Since the end of Jan, offshore investors have actively been purchasing shares in dairy consumer stock Yili Group (600887 CH).

		Stock Name	Holding Amount in Central Clearing System	Percentage of Total A-shares Listed and Traded on the Shanghai Stock Exchange	Change Since End of Jan (Shares)	Change Since End of Jan (Percentage Points)
1	600660 CH	Fuyao Glass	490,991,569	24.51%	8,364,632	0.42
2	600885 CH	Hongfa Technology	238,493,476	22.87%	-416,713	-0.04
3	603605 CH	Proya Cosmetics	78,149,493	19.79%	2,871,179	0.73
4	600066 CH	Yutong Bus	435,234,890	19.65%	-562,731	-0.03
5	605365 CH	Leedarson IoT	11,062,221	18.66%	1,984,549	3.35
6	603939 CH	Yifeng Pharmacy	177,831,252	17.63%	3,251,288	0.32
7	600406 CH	NARI Technology	1,336,856,433	16.77%	8,114,096	0.10
8	600887 CH	Yili Industrial	827,603,578	13.12%	47,532,343	0.75
9	603501 CH	Will Semiconductor	158,968,239	13.08%	11,219,327	0.92
10	601100 CH	Hengli Hydraulic	163,425,791	12.18%	3,275,451	0.24

Source(s): HKEX (Shanghai-Shenzhen-Hong Kong Stock Connect), ABCI Securities

Exhibit 5: Top 10 Shenzhen A-shares held by Offshore Investors (as of Mar 13, 2024, ranked by shareholding proportion)
Since the end of Jan, offshore investors have been actively buying into home appliance stocks such as Midea Group (000333 CH) and Gree Electric Appliances (000651 CH).

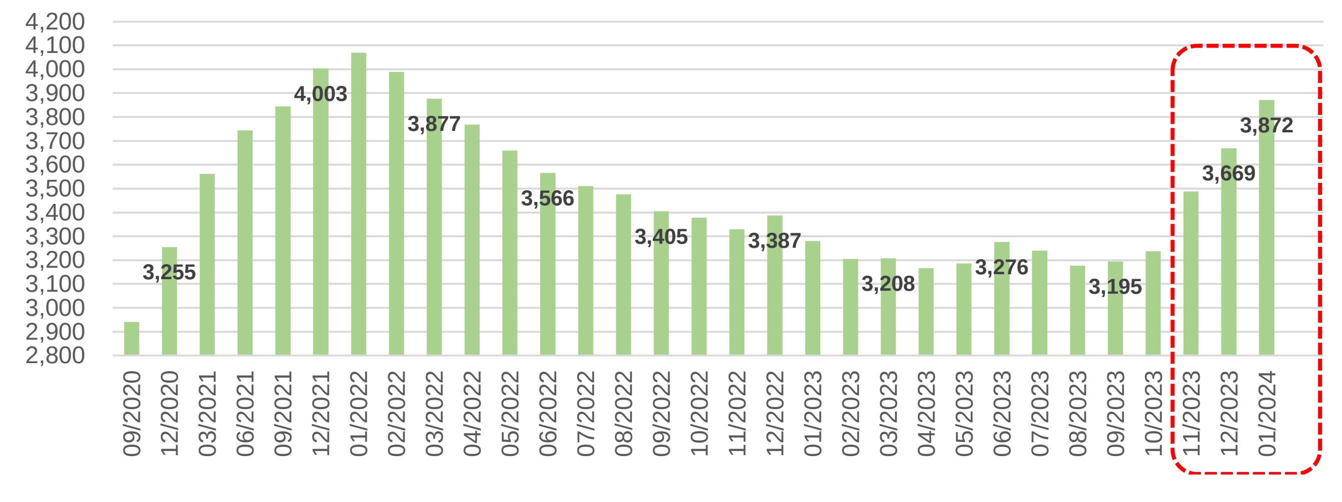
		Stock Name	Holdings in Central Clearing System	Percentage of Total A-shares Listed and Traded on the Shenzhen Stock Exchange	Change Since End of Jan (Shares)	Change Since End of Jan (Percentage Points)
1	300124 CH	Inovance Technology	586,859,684	21.92%	7,734,607	0.29
2	000333 CH	Midea Group	1,388,722,225	19.92%	30,710,160	0.61
3	002557 CH	Qiaqia Food	75,002,240	14.79%	-3,434,254	-0.68
4	002050 CH	Sanhua Intelligent Controls	549,681,770	14.72%	-15,789,300	-0.42
5	300012 CH	Centre Testing	236,314,687	14.04%	-10,411,601	-0.62
6	300685 CH	Amoy Diagnostics	55,235,065	13.85%	-2,072,079	-0.52
7	002353 CH	Jereh Oilfield	128,775,773	12.57%	-3,350,340	-0.33
8	000786 CH	Beijing New Building Materials	204,077,306	12.07%	15,268,465	0.90
9	000651 CH	Gree Electric Appliances	667,831,642	11.85%	53,370,944	0.94
10	300760 CH	Mindray Bio-Medical	142,446,271	11.74%	46,893	0.00

Source(s): HKEX (Shanghai-Shenzhen-Hong Kong Stock Connect), ABCI Securities

4. Offshore institutions have successfully capitalized on the bullish trend in the Chinese government bond market since the beginning of this year

Since November 2023, there has been a substantial uptick in China's onshore bond holdings by offshore institutions. This marks a notable shift in the investment stance of these institutions, as they had mainly been divesting from domestic bonds throughout 2022 and into the first eight months of 2023. Drawing from the statistical data provided by the China Central Depository & Clearing ("CCDC") and the Shanghai Clearing House ("SHCH")—which is current as of Jan 2024, with Feb's figures pending—the foreign-held domestic bond balance increased from RMB3.2371tr at the end of Oct 2023 to RMB3.8718tr by the end of Jan 2024, an increment of RMB634.7bn. This is in stark contrast to 2022, when foreign institutions reduced their domestic bond holdings by RMB616.1bn, and a further reduction of RMB150.1bn occurred over the first ten months of 2023.

Exhibit 6: Monthly Ending Balance of Onshore Bonds Held by Offshore Institutions (RMB 10bn)
Since November 2023, overseas institutions have been actively increasing their holdings of onshore Chinese bonds



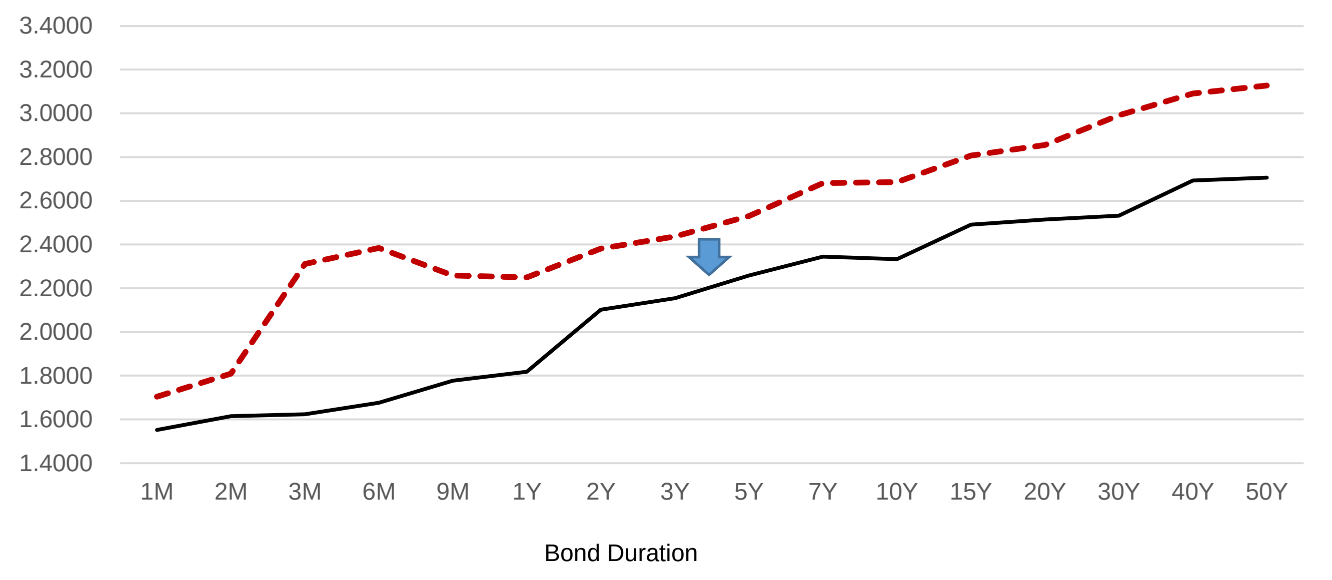
Source(s): CCDC, SHCH, ABCI Securities

Our analysis shows that despite significantly increasing their holdings of domestic bonds, offshore institutions are still cautious about the Chinese credit market. Between Nov and Jan, they mainly favored low-risk bonds such as treasuries, policy bank bonds, and interbank certificates of deposit; meanwhile, they scaled back on corporate credit instruments like medium-term notes, local government bonds, and corporate bonds.

Data from the CCDC reveals that from Nov to Jan, the holdings of domestic bonds by offshore institutions swelled by RMB362.07bn, with government bonds representing 69.7% of the increase and 30% in policy bank bonds. During the same period, there was a decrease in their holdings of local government bonds and corporate bonds. At the end of Jan, offshore institutions' domestic bond holdings deposited with CCDC totaled RMB3.224tr, comprising 72.4% in government bonds and 25.5% in policy bank bonds. From the SHCH statistics, within the same Nov to Jan timeframe, offshore institutions increased their bond holdings by RMB272.61bn, with 95.6% of this increase attributed to interbank certificates of deposit. By the end of Jan, the balance of domestic bonds held by offshore institutions at SHCH stood at RMB647.8bn, of which interbank certificates of deposit accounted for 85% and panda bonds approx 5%.

From the vantage point of foreign institutions, government bonds, policy bank bonds, and interbank certificates of deposit, despite their high credit ratings, offer modest yields and carry exchange rate risks for holders operating in non-RMB currencies. However, these institutions stand to gain from bond price increases if they project a downward interest rate trend in China and further rate cuts. As observed up to mid-Mar, there has been a bullish trend in China's government bond market this year, which foreign institutions have thus far navigated successfully. The government bond market's bullish run reflects market skepticism regarding economic prospects and the anticipation of further interest rate reductions by the central bank to bolster economic growth. Moreover, the onset of deflationary data reports in China's fourth quarter of 2023 prompted offshore institutions to bolster their government bond holdings. Deflation figures in the fourth quarter of 2023 suggested rising real interest rates, leading investors to expect the central bank to lower nominal rates to manage the real rate hike. In summary, offshore institutions predict the interest rate downward cycle is not yet complete, believing that the potential for government bond appreciation surpasses the prospective exchange rate risks.

Exhibit 7: Chinese Government Bond Yield Curve, % (Comparison between Mar 14, 2024, and Nov 1, 2023)
A downward shift in the yield curve implies an increase in bond prices, indicative of a bull market for government bonds. The greater decline in short-term yields suggests a higher price increase for bonds of corresponding maturities, reflecting investors' increased enthusiasm for purchasing short-term government bonds



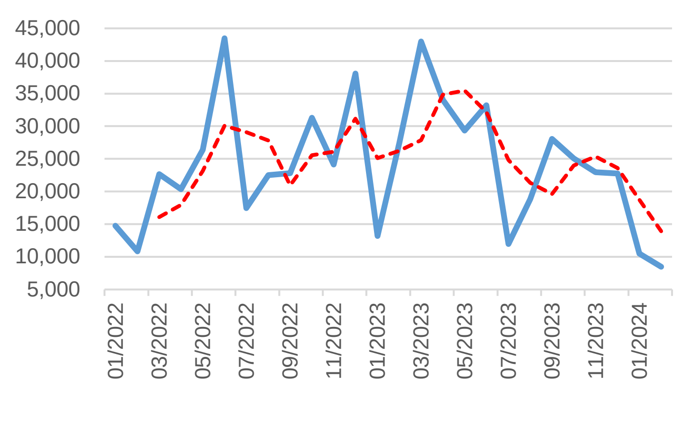
Black line: Government bond yield curve at Mar 14, 2024; Brown dot line: Government bond yield curve at Nov 1, 203
Source(s): Bloomberg, ABCI Securities

5. In 2M24, sales in the five large real estate developers have continued to be sluggish; housing prices from first to third tier cities have shown MoM decline

China Overseas Development (688 HK), China Resources Land (1109 HK), China Merchants Shekou (001979 CH), Poly Developments (600048 CH), and Vanke (2202 HK) reported that their contracted sales in Feb decreased by approximately 69%, 62%, 60%, 54%, and 53% YoY, respectively.

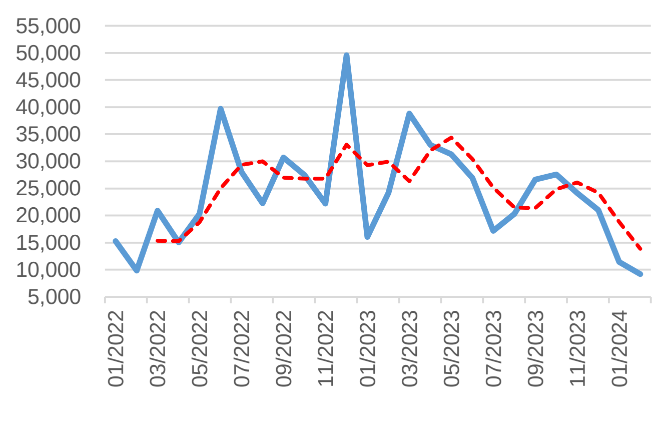
From Jan to Feb, the YoY contracted sales of China Overseas Development, China Resources Land, China Merchants Shekou, Poly Development, and Vanke fell by about 53%, 49%, 45%, 44%, and 43%, respectively. Since these developers operate nationally, their sales data for the first two months offer a glimpse into the overall state of China's real estate market. Given that single-month sales figures can be skewed by factors like new project launches and holidays, a more reliable indicator is sales trends, such as the three-month moving average. The three-month moving averages for these major real estate firms continue to decline.

Exhibit 8: Monthly Contract Sales Amount of China Overseas Development (688 HK) in RMBmn (red dotted line as 3-mth average)



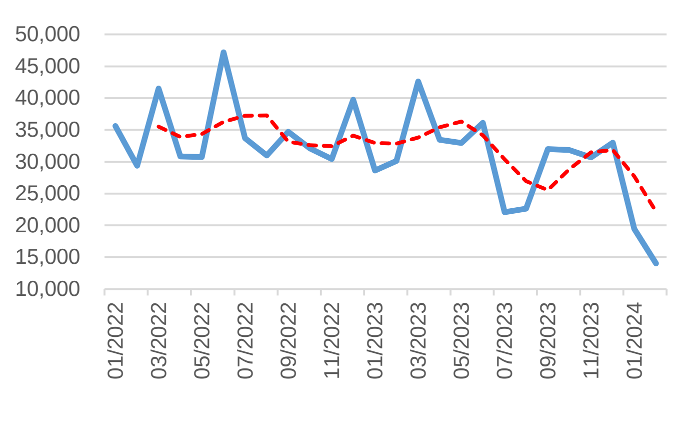
Source(s): China Overseas Development, ABCI Securities

Exhibit 9: Monthly Contract Sales Amount of China Resources Land (1109 HK) in RMBmn (red dotted line as 3-mth average)



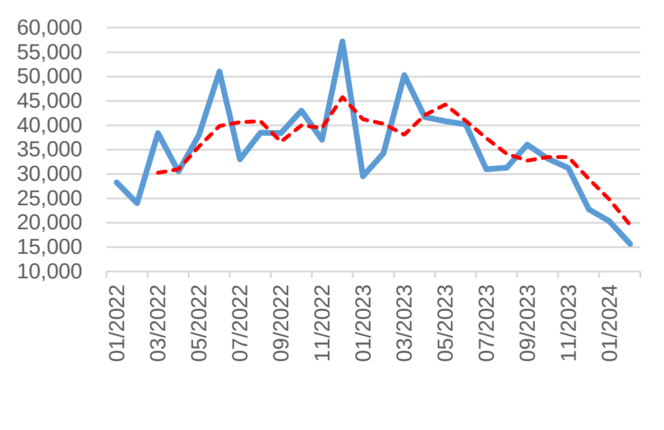
Source(s): China Resources Land, ABCI Securities

Exhibit 10: Monthly Contract Sales Amount of Vanke (2202 HK) in RMBmn (red dotted line as 3-mth average)



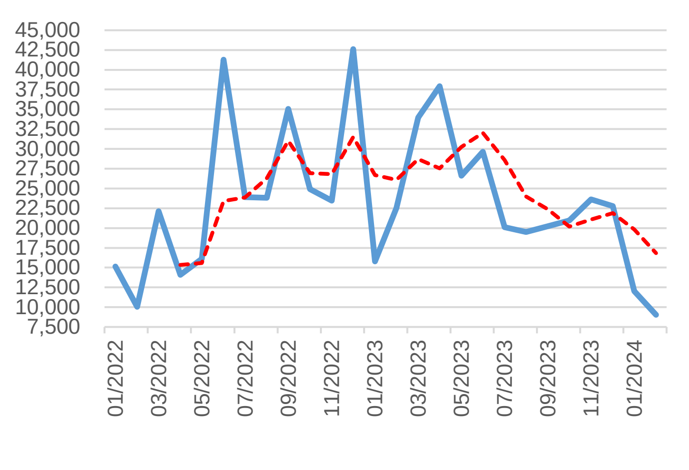
Source(s): Vanke, ABCI Securities

Exhibit 11: Monthly Contract Sales Amount of Poly Developments (600048 CH) in RMBmn (red dotted line as 3-mth average)



Source(s): Poly Developments, ABCI Securities

Exhibit 12: Monthly Contract Sales Amount of China Merchants Shekou (001979 CH) in Mn RMB (red dotted line as 3-mth average)



Source(s): China Merchants Shekou, ABCI Securities

Exhibit 13: Sales of Major Domestic Real Estate Developers in 2M24

		Jan-Feb 2024 Contract Sales Amount (RMBmn)	YoY Change
600048 CH	Poly Developments	35,947	-43.7%
2202 HK	Vanke	33,470	-43.0%
001979 CH	China Merchants Shekou	21,052	-45.0%
1109 HK	China Resources Land	20,610	-48.8%
688 HK	China Overseas Development	18,995	-53.2%

Source(s): Company Announcements (Unaudited Figures), ABCI Securities

Exhibit 14: Changes in Sales Prices of Commodity Housing in 70 Major Cities
The significant drop in second-hand housing prices has put downward pressure on new housing prices and has attracted customers from the new housing market.
Property developers need to reduce prices to compete for customers

	2/2024 YoY	1/2024 YoY	12/2023 YoY	2/2024 MoM	1/2024 MoM	12/2023 MoM
New Home Prices						
1st tier cities	-1.0%	-0.5%	-0.1%	-0.3%	-0.3%	-0.4%
2st tier cities	-1.1%	-0.4%	0.1%	-0.3%	-0.4%	-0.4%
3st tier cities	-2.7%	-2.1%	-1.8%	-0.4%	-0.4%	-0.5%
Second-Hand Home Prices:						
1st tier cities	-6.3%	-4.9%	-3.5%	-0.8%	-1.0%	-1.1%
2st tier cities	-5.1%	-4.4%	-4.0%	-0.6%	-0.6%	-0.8%
3st tier cities	-5.1%	-4.5%	-4.2%	-0.6%	-0.7%	-0.8%

Note: Sampling for 1st tier cities include 4 cities; 2nd tier cities include 31 cities; 3rd tier cities include 35 cities

Source(s): National Bureau of Statistics, ABCI Securities

6. Energy and service price inflation pressures are hindering the momentum of inflation decline in the United States and influencing interest rate expectations

US inflation edged up from 3.1% in Jan to 3.2% in Feb, while core inflation dipped from 3.9% to 3.8%, a smaller decline than expected by the market. Persistently high inflation pressures in energy and service prices are evident. The rise in crude oil prices this year has slowed the reduction in the energy CPI. Our analysis suggests a fresh negative impact on service inflation. While high inflation in services is commonly linked to housing costs, such as rent, data shows non-housing service price inflation has been increasing recently. Services account for 61% of the total CPI, with housing making up 59.3% of the services CPI and non-housing services comprising 40.7%. The housing CPI's YoY change fell from 6.2% in Dec to 6.0% in Jan and 5.7% in Mar, which should moderate the overall service CPI. However, the non-housing service CPI climbed from 4.0% in Dec to 4.5% in Jan and remained there in Feb. As a result, the service CPI initially rose from 5.3% in Dec to 5.4% in Jan before receding slightly to 5.2% in Feb. Non-housing services, such as medical, transportation, recreation, education, and personal services, have seen particularly strong inflationary pressures in transportation and recreation in the year's first two months.

Exhibit 15: Composition of US Inflation (CPI)
New Inflation Risk Points - CPI for Non-housing Services (medical, transportation, entertainment, education, personal services, etc.) is heating up

US CPI items	Weight	2/2024 (YoY)	1/2024 (YoY)	12/2023 (YoY)	11/2023 (YoY)
Food and Energy	**20.2%**	**0.9%**	**0.2%**	**1.1%**	**0.1%**
Food	13.6%	2.2%	2.6%	2.7%	2.9%
Energy	6.6%	-1.9%	-4.6%	-2.0%	-5.4%
Motor fuel	3.3%	-4.2%	-6.6%	-2.3%	-9.2%
Electricity	2.5%	3.6%	3.8%	3.3%	3.4%
Utility (Piped) Gas Service	0.7%	-8.8%	-17.8%	-13.8%	-10.4%
Commodities (excluding food and energy)	**18.8%**	**-0.3%**	**-0.3%**	**0.2%**	**0.0%**
New cars	3.7%	0.4%	0.7%	1.0%	1.3%
Used cars	1.9%	-1.8%	-3.5%	-1.3%	-3.8%
Others	13.2%	-0.3%	-0.0%	0.2%	0.3%
AV products		-3.6%	-5.8%	-6.5%	-5.5%
Computers, peripheral devices, and smart home systems		-2.7%	-2.1%	-3.6%	-4.6%
Smartphones		-10.5%	-13.2%	-14.4%	-14.0%
Services (excluding energy services)	**61.0%**	**5.2%**	**5.4%**	**5.3%**	**5.5%**
Shelter	**36.2%**	**5.7%**	**6.0%**	**6.2%**	**6.5%**
Primary residence rent	7.7%	5.8%	6.1%	6.5%	6.9%
Owners' equivalent rent (OER)	26.8%	6.0%	6.2%	6.3%	6.7%
Rent of primary residence, homeowners' insurance	1.8%	0.8%	1.8%	2.8%	1.0%
Others (medical, transportation, education, entertainment, etc.)	**24.8%**	**4.5%**	**4.5%**	**4.0%**	**4.0%**
ALL	**100.0%**	**3.2%**	**3.1%**	**3.4%**	**3.1%**

Source(s): US Department of Labor, ABCI Securities

7. Next week's focus: China's macroeconomic data for the first two months and central bank interest rate meetings in the US and Japan

On Mar 18, China will announce its macroeconomic figures for the first two months, focusing on retail sales, industrial output, and fixed asset investment. NDRC reported on Mar 6 that industrial power consumption increased by roughly 9.7% YoY in the initial two months. A robust export performance in this timeframe also signals a healthy uptick in industrial production. Market projections for Jan-Feb 2024 anticipate a 5% growth in retail sales (vs. 3.5% in Jan/Feb 2023), a 5.2% real gain in industrial production (vs. 2.4% in Jan/Feb 2023), and a 3.2% rise in fixed asset investment (vs. 5.5% in Jan/Feb 2023). While fixed asset investment's slow growth tempers domestic demand expansion, which is buoyed by rising consumption. The State Council's "Action Plan to Promote Large-Scale Equipment Renewals and Trade-ins Consumer Goods " seeks to boost fixed asset investment across key sectors and spur demand in durable goods consumption such as automobiles and appliances.

Before the US Federal Reserve's FOMC meeting ends on Mar 20, the central banks of Australia and Japan will hold their interest rate meetings on Mar 19, local time. The market expects the Australian central bank to hold rates steady. We believe the focus is on the Bank of Japan's meeting, where there's more than a 50% chance projected for a Mar rate hike; if the rate hike occurs, Japan's interest rates will shift from negative to positive. Such a change in Japan's monetary policy could impact global liquidity. Up to Mar 14, the Japanese stock market has seen a near 1% drop, the US dollar has weakened by about 1.5% against the yen, and gold prices have climbed close to 6%. The effects of the anticipated changes in Japan's monetary policy are evident in advance.

The Federal Reserve's FOMC meeting is scheduled for Mar 19-20 (US time), and the consensus among market participants is that interest rates will be left unchanged. Attention is also directed towards the Fed's updated economic forecasts, which will be disclosed post-meeting. At the Dec FOMC meeting in 2023, the Fed projected a 75 basis point cut in the federal funds rate for 2024. Presently (Mar 15), interest rate futures suggest roughly a 70% chance of a 75 bp reduction by the Fed this year, with a 50% probability of an initial 25 bp cut by Jun 2024. In summary, the market is more inclined to expect three rate cuts from the Fed this year, but whether the first rate cut will happen in Jun still entails considerable uncertainty. It is expected that a higher-interest-rate environment is likely to be maintained throughout the year.

Disclosures

Analyst Certification

The analyst, Chan Sung Yan , primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to the listed company(ies) covered in this report, and I and/or my associates do not serve as officer(s) of the listed company (ies) covered in this report.

Disclosures of Interests

ABCI Securities Company Limited and/or its affiliates, within the past 12 months, have investment banking relationship with China Overseas Land and Zhejiang Sanhua Intelligent Controls.

Definition of equity rating

Rating	Definition
Buy	Stock return rate≥ Market return rate (~7%)
Hold	- Market return rate (~-7%) ≤ Stock return rate < Market return rate (~+7%)
Sell	Stock return < - Market return (~-7%)

Notes: Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months
Market return rate: average market return rate since 2005 (For reference: 2005-23 HSI total return index averaged at 7.4%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

Disclaimers

Office address: ABCI Securities Company Limited, 13/F Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong.

Tel: (852) 2868 2183