農銀國際
ABC INTERNATIONAL
ABCI SECURITIES COMPANY LIMITED

Hong Kong Stock Market Weekly Review

Apr 12, 2024

HK Stock Market Weekly Review

12/4/2024

- **Extended Apr and May Holidays Spur Consumption in China**
- **US Treasury Secretary Yellen Visits China**
- **Upward Shift in US Medium- to Long-Term Treasury Yield Curve Suggests Prolonged High-Interest Rate Period**
- **Widening gap between US and China government bond yields is likely to increase RMB depreciation pressure**
- **TSMC and Hon Hai Precision's revenue growth in Mar and 1Q24- a positive signal to global electronics industry**

1. Extended Apr and May Holidays Spur Consumption in China

According to the official portal of the Ministry of Culture and Tourism, data evaluated by the ministry's Data Center show that over the Qingming Festival's three-day holiday in 2024, domestic travel within China reached 119mn trips, marking an 11.5% increase compared to the same period in 2019, when adjusted for comparability. Domestic tourism expenditures hit RMB 53.95bn, a 12.7% increase from the same period in 2019. The volume of cross-border travel nearly matched the levels of the corresponding period in 2019, with 1.041mn inbound tourists and 0.992mn outbound tourists during the holiday.

As reported by the Ministry of Transport's website, during the Qingming holiday from Apr 4-6, there was a substantial cross-regional movement of people totaling 740.4mn over the three days, averaging 246.8mn daily. This surge represents a significant uptick of 53.5% compared to the daily average of the Qingming holiday in 2023, and an 18.9% increase relative to the daily average of the same period in 2019.

In particular, railway transportation accounted for 49.682mn passengers, averaging 16.561 mn each day. This figure marks a remarkable 75.1% growth YoY, and a 20.6% rise compared to the daily average in 2019. Civil aviation saw a passenger volume of 5.034mn, with a daily average of 1.678mn, registering a 21.9% YoY increase, and a modest 0.3% growth from the daily average in 2019.

As the Qingming Festival's three-day respite has concluded, attention now turns to the impending Labor Day extended holiday in early May. The data presented above provides insightful forecasts into the anticipated expansion of travel demand during the forthcoming Labor Day period.

As of Apr 11, since the onset of Apr, an array of stocks within the Hang Seng Consumption Index have achieved new 52-week highs, but there were stocks reaching a new 52-week low. This varied trend reflects the market's diverse preferences. Leading the charge to new heights are Haier Smart Home (6690 HK), a producer of household appliances; online travel agencies

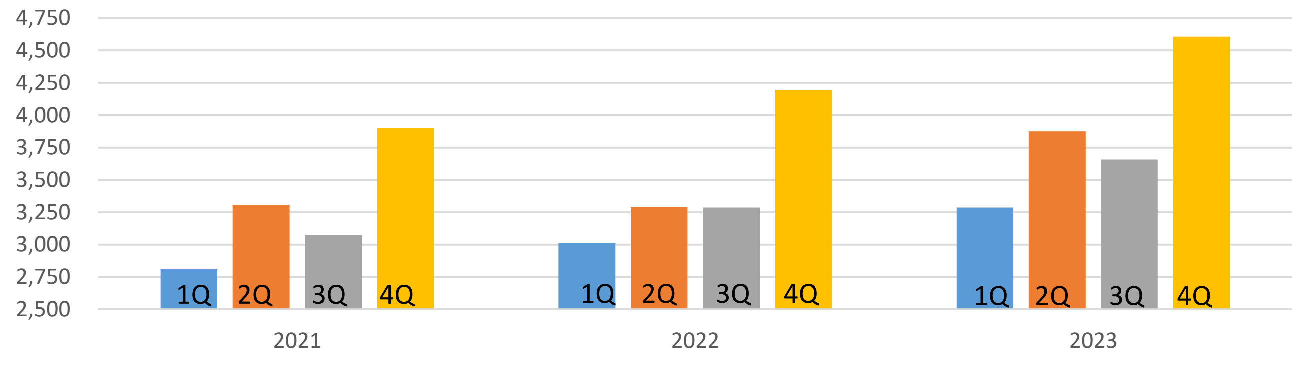
Trip.com Group (9961 HK) and Tongcheng Travel (780 HK); consumer goods exporter Yue Yuen (551 HK) and electronic tools manufacturer Techtronic Industries (669 HK); the toy retail chain Pop Mart (9992 HK); and skincare retail chain L'Occitane (973 HK). Contrarily, the brewing company Budweiser Brewing Company APAC (1876 HK) has experienced a downturn to a new low.

Trip.com Group and Tongcheng Travel operate as web-based platforms for booking various travel services, including airline tickets, bus and train travel, hotel stays, and admission to attractions. The public holidays in Apr and May represent a season of increased activity for these online portals. Furthermore, governmental policies that incentivize the replacement of old household appliances spell good news for established appliance brands such as Haier.

The speculation that Blackstone might privatize L'Occitane has elevated the share value of the latter. Given the length of the holiday season, young individuals are likely to dedicate more time to leisure activities, which spells a commercial prospect for Pop Mart. For adolescent students, the distinction between the Qingming Festival break and the Labor Day holiday is stark due to academic considerations. As May approaches, pivotal examinations draw near. Consequently, a portion of the student population may opt to remain at home or on campus during the Labor Day period to prepare for these assessments.

The data published regarding the Qingming holiday has led to optimistic projections for consumer spending throughout the Labour Day holiday. It is anticipated that the buoyant mood will persist, particularly in sectors such as travel, hospitality, dining, and tourism. These services share a reliance on advance online booking. It is plausible that online platforms have already secured an extensive array of customer bookings for the May Day holiday, indicating a pre-awareness of the holiday's commercial potential. Consequently, the share prices of online travel platforms may well respond in anticipation of the holiday period.

Exhibit 1 : E-Commerce Sales of Goods and Services (RMB bn)
The data exhibits a cyclical pattern of seasonal variations: 1Q marks the lull period for e-commerce, 2Q shows an improvement over the first, a dip is observed in 3Q, and 4Q reaches the peak



Source(s)：NBS, ABCI Securities

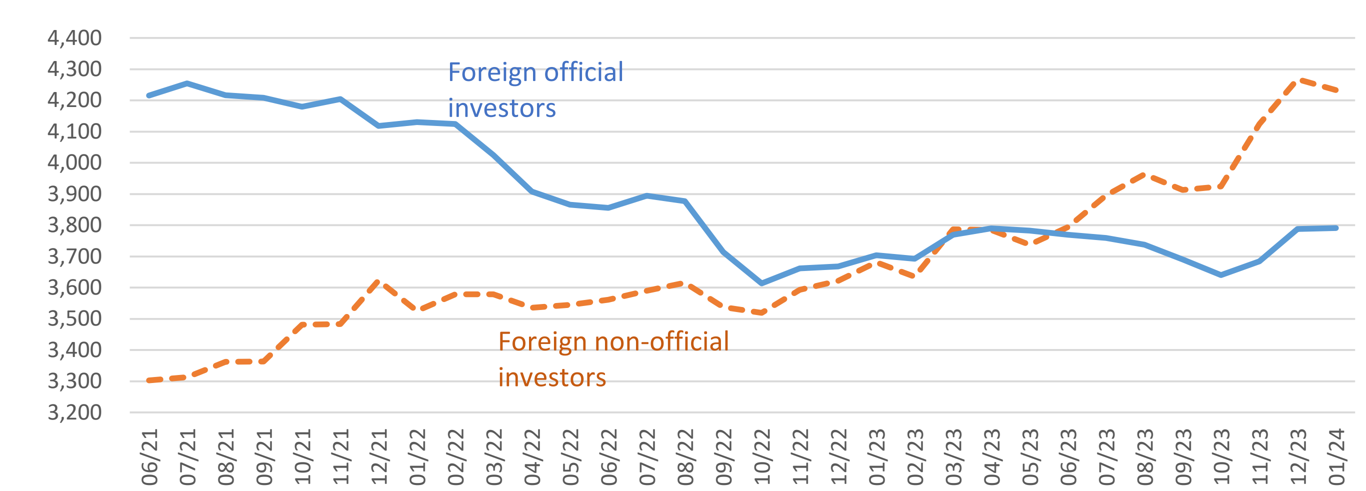
2. US Treasury Secretary Yellen Visits China

US Treasury Secretary Janet Yellen's visit to China has been widely reported in the media. We consider the trend of US unpaid debt and the trends of foreign investors holding US Treasuries. From the end of Dec 2023 to Apr 4, 2024, the US unpaid government debt increased by $ 597.5bn to $ 34.6tr. In 2023, the government debt balance increased by $ 2.5818tr, reaching $ 34.0tr. In terms of liquidity, the US government continues to absorb global liquidity into its financial markets by issuing Treasury bonds, providing funding for its fiscal expansion policies.

According to statistics from the US Treasury Department, as of end-Jan 2024, foreign holders owned US Treasuries worth $8.0237 tr, accounting for 23.5% of the total government debt balance. Of these, foreign official holdings accounted for $3.7908 tr and foreign non-official holdings for $ 4.2329tr. From the end of Dec 2022 to Jan 2024, foreign official holdings of US Treasuries increased by $ 119.9bn, and foreign non-official holdings increased by $ 646.1bn. The data shows that the pace of increase in US Treasuries held by foreign non-official investors has accelerated, and we believe the high yields on US Treasuries are one of the main reasons attracting foreign investors.

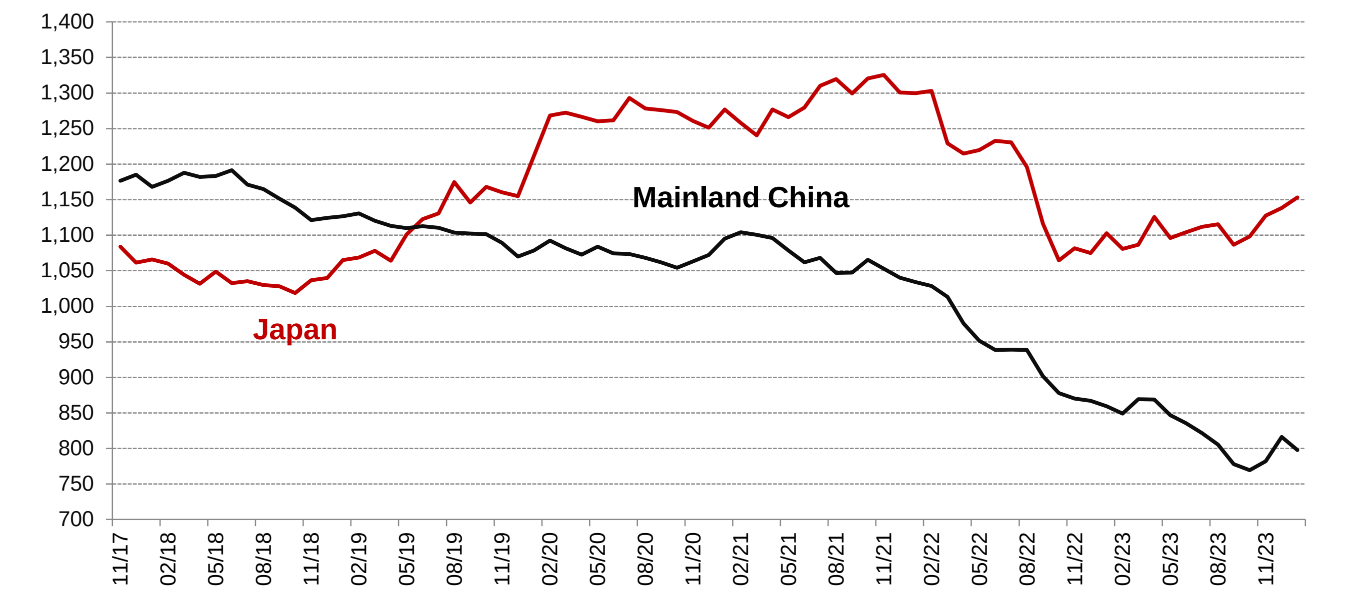
As per the US Treasury Department, Mainland China, Hong Kong, and Taiwan held US Treasuries totaling $ 797.7bn, $ 228.5bn, and $ 255.9bn, respectively, as of end-Jan 2024. Compared to Jan 2023, this represents a decrease of $61.7 bn for Mainland China, an increase of $7.5 bn for Hong Kong, and an increase of $ 21.3bn for Taiwan. From Jan 2023 to Jan 2024, among the major foreign holders of US Treasuries, the UK, Canada, France, and Japan increased their holdings by $ 92.8bn, $ 85.7bn, $ 83.6bn, and $50.2bn, respectively. The high yield of US Treasuries has attracted liquidity from allied nations into US government bonds.

Exhibit 2: Trend of US Treasury holdings by foreign investors (USD bn)



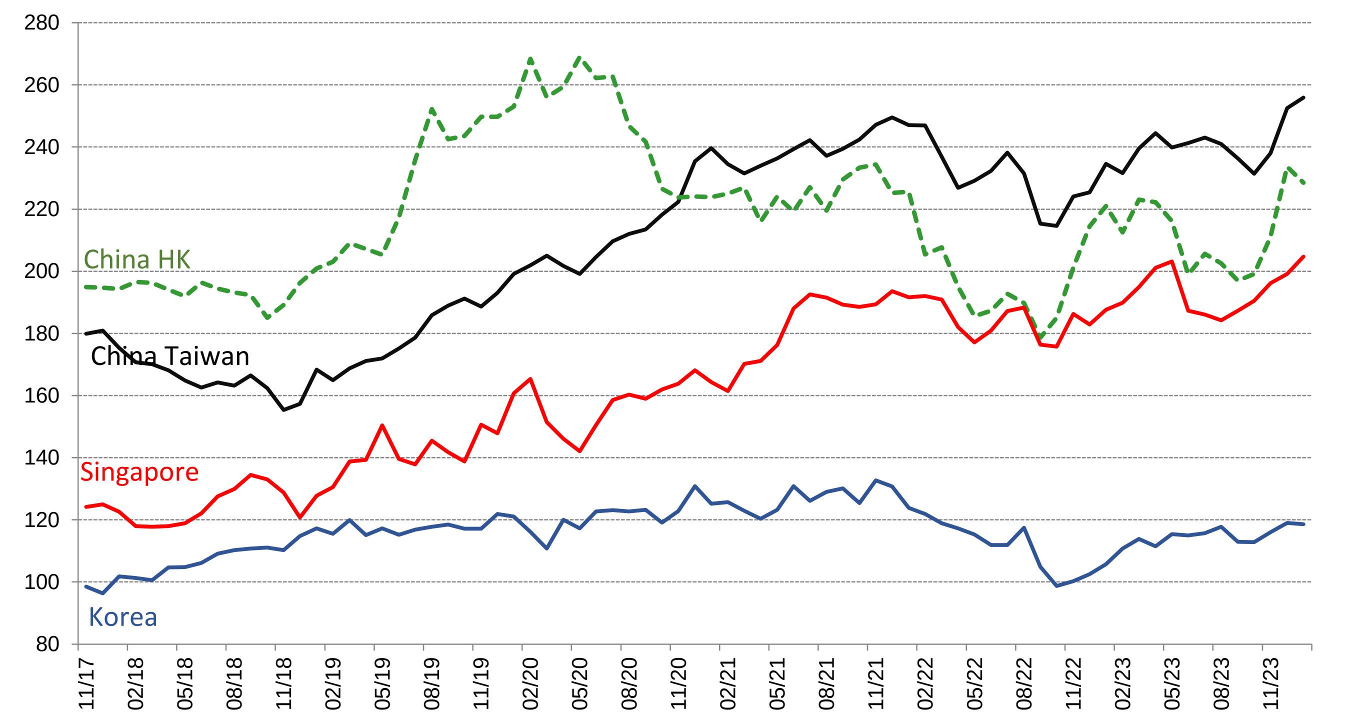
Source(s): US Treasury Department, Bloomberg, ABCI Securities

Exhibit 3: Trend of US Treasury holdings by the Two Largest Asian Economies (USD bn)



Source(s): US Treasury Department, Bloomberg, ABCI Securities

Exhibit 4: Trend of US Treasury holdings by Major Asian economies (USD bn）



Source(s): US Treasury Department, Bloomberg, ABCI Securities

3. Upward Shift in US Medium- to Long-Term Treasury Yield Curve Suggests Prolonged High-Interest Rate Period

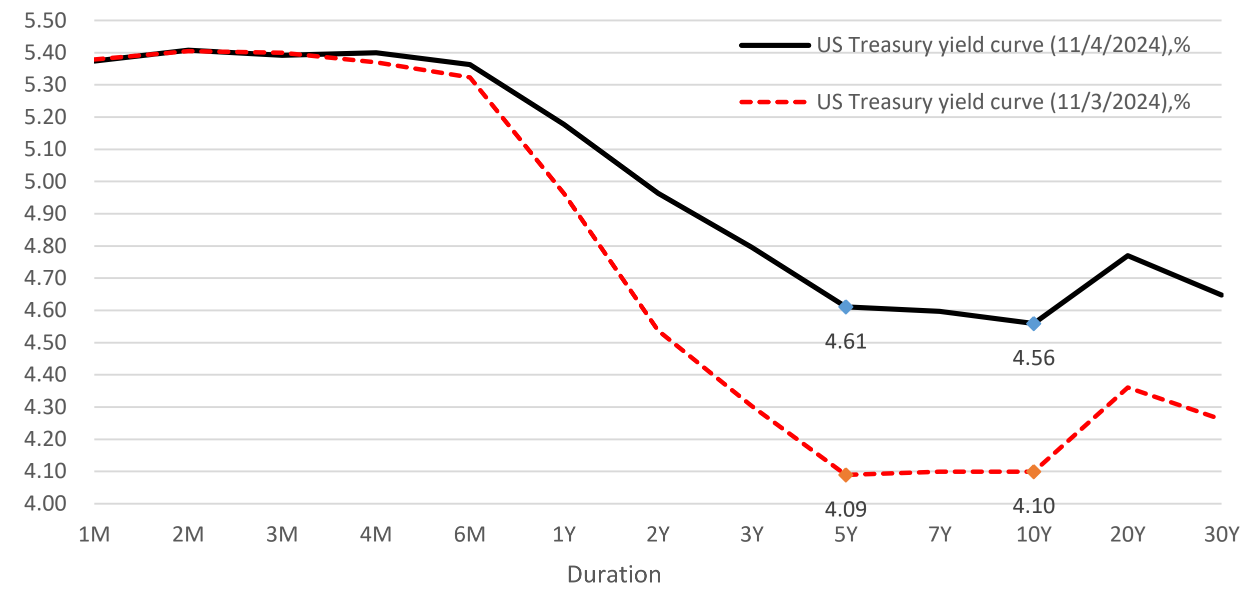
The US Treasury yield curve remains inverted, signaling that markets continue to anticipate potential future interest rate cuts by the Fed. Secondly, the rise in yields for mid- to long-term US Treasuries indicates that the pace of rate cuts could be slower than previously expected, implying that a high-interest rate environment might endure longer. Over the past month, the yields for both the 5-year and 10-year US Treasuries have increased by over 40 bps. Since the start of 2024, the S&P GSCI Commodity Index has climbed nearly 10%, propelled by hikes in energy and non-ferrous metals prices. We foresee that the surge in major commodity prices since the year began has emerged as one of the significant barriers to the downward inflation trend in advanced economies, including the US, Europe, and Japan. Inflation data typically trails behind the trends in commodity prices. The rise in commodity prices from 1Q24 is expected to filter into the real economy in the 2Q24 and be reflected in economic indicators such as inflation.

The ascent in commodity prices since the start of 1Q24 is attributed to both supply-side and demand-side dynamics.

On the supply side, 1Q24 saw a significant catalyst for the rise in oil prices: a reduction in the daily production from OPEC and the US. Additionally, natural disasters in various countries interrupted the production of key commodities, such as copper, leading to supply limitations.

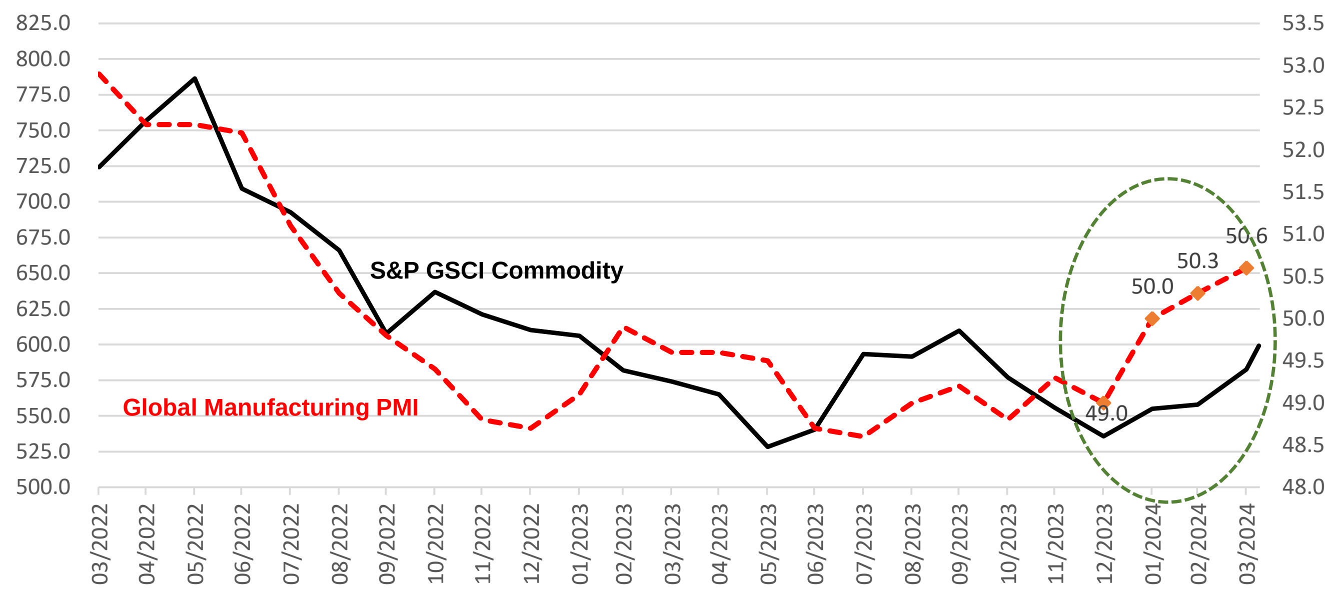
Regarding demand, between Sep 2022 and Dec 2023, the global Manufacturing PMI stayed below the 50-point threshold for 16 consecutive months, signaling contraction. Yet, in 1Q24, the global Manufacturing PMI rose back above 50, suggesting an uptick in manufacturing activity that is likely to boost demand for major commodities and prompt investors and industry players to engage in speculative trading of commodity futures.

Exhibit 5: The US Treasury yield curve
Higher rise in long-term bond yields indicates market expectations for a slower pace of interest rate cuts, suggesting a prolonged high-interest rate environment



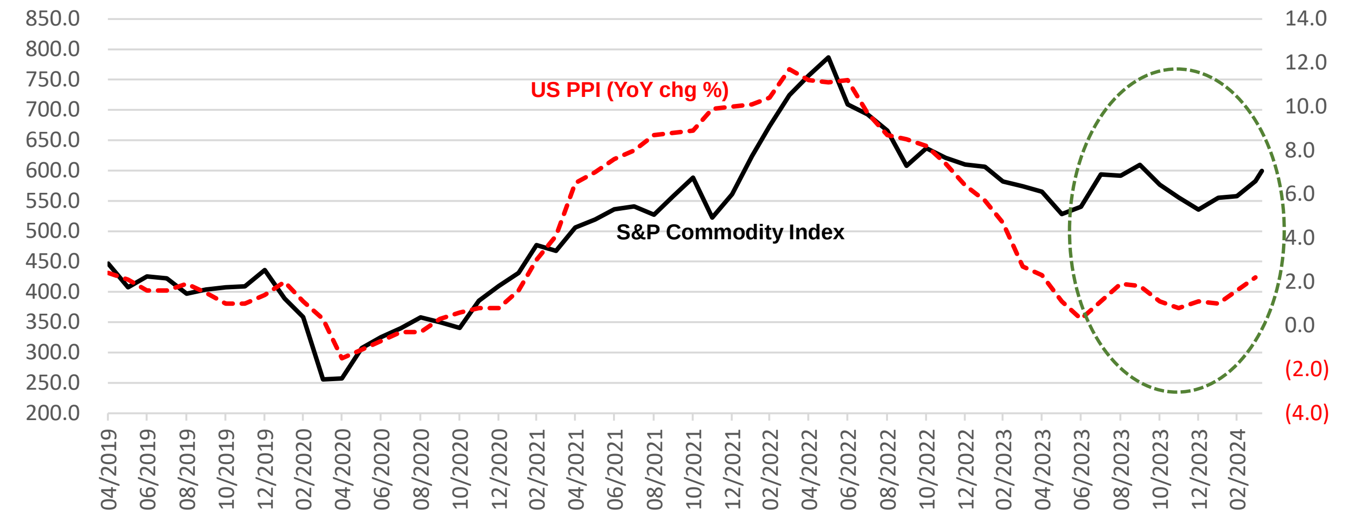
Source(s): Bloomberg, ABCI Securities

Exhibit 6: S&P GSCI Commodity Index (LHS) vs. Global Manufacturing PMI (RHS)
Since the start of 2024, the global Manufacturing PMI has shown signs of recovery, driving expectations for increased demand for raw material commodities and pushing up commodity prices



The S&P GSCI Commodity Index includes energy products (with a weight of about 60%), industrial and precious metal products (with a weight of about 15%), and food (with a weight of about 25%).
Source(s): S&P Global, Bloomberg, ABCI Securities

Exhibit 7: S&P Commodity Index (LHS) vs. US PPI, YoY% chg (RHS)
The trend of the commodity index has become a leading indicator of inflation trends



Source(s): S&P Global, Bloomberg, ABCI Securities

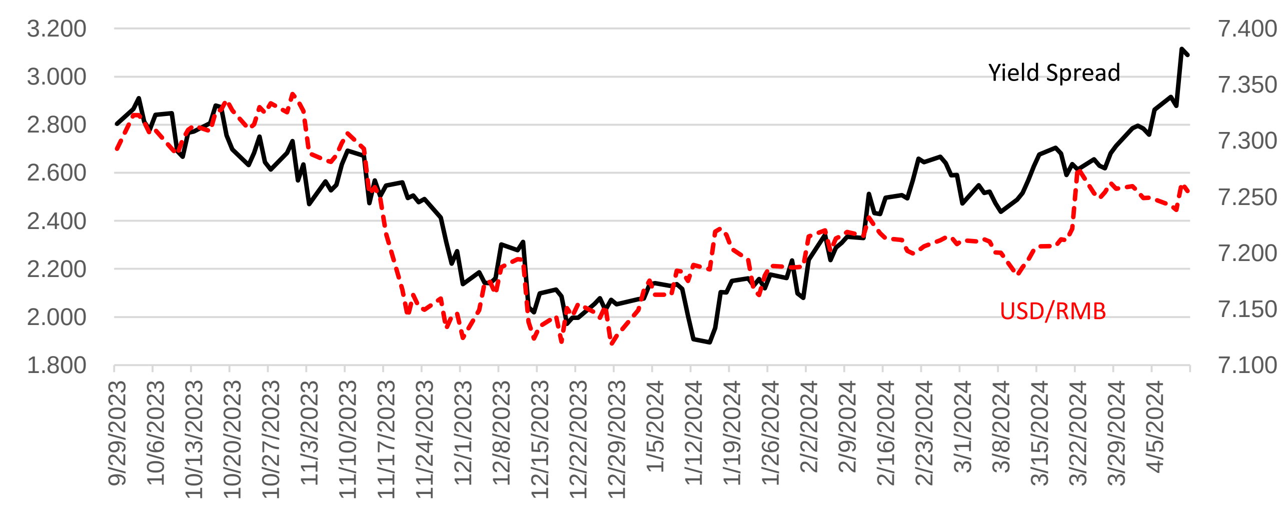
4. Widening gap between US and China government bond yields is likely to increase RMB depreciation pressure

This week, after the release of Mar CPI data from the US and China, the divergence in government bond yields between the two countries has widened. The US urban CPI increased from 3.2% in Feb to 3.5% in Mar, leading market expectations to shift toward the Fed's interest rate cut being postponed until 3Q24, resulting in a rise in US Treasury yields. Conversely, China's YoY CPI dropped from 0.7% in Feb to a mere 0.1% in Mar, fueling market projections that the PBOC might further ease monetary policy, pushing down Chinese government bond yields.

The yield on China's 2-year government bonds declined from 2.028% at end-Feb to 1.909% at end-Mar and further to 1.860% by Apr 11. Meanwhile, the yield on US 2-year government bonds rose from 4.619% at the end of Feb to 4.620% at the end of Mar, and increased to 4.961% by Apr 11. The spread between the 2-year bond yields of the US and China has thus expanded from 2.591ppt at the end of Feb to 2.711ppt at the end-Mar, and to 3.101ppt by Apr 11. As of Apr 11, the yield spreads for the 2-year, 5-year, and 10-year government bonds between the US and China were 3.101ppt, 2.474ppt, and 2.253ppt respectively, up 51.0bps, 45.1bps, and 35.6bps since end-Feb.

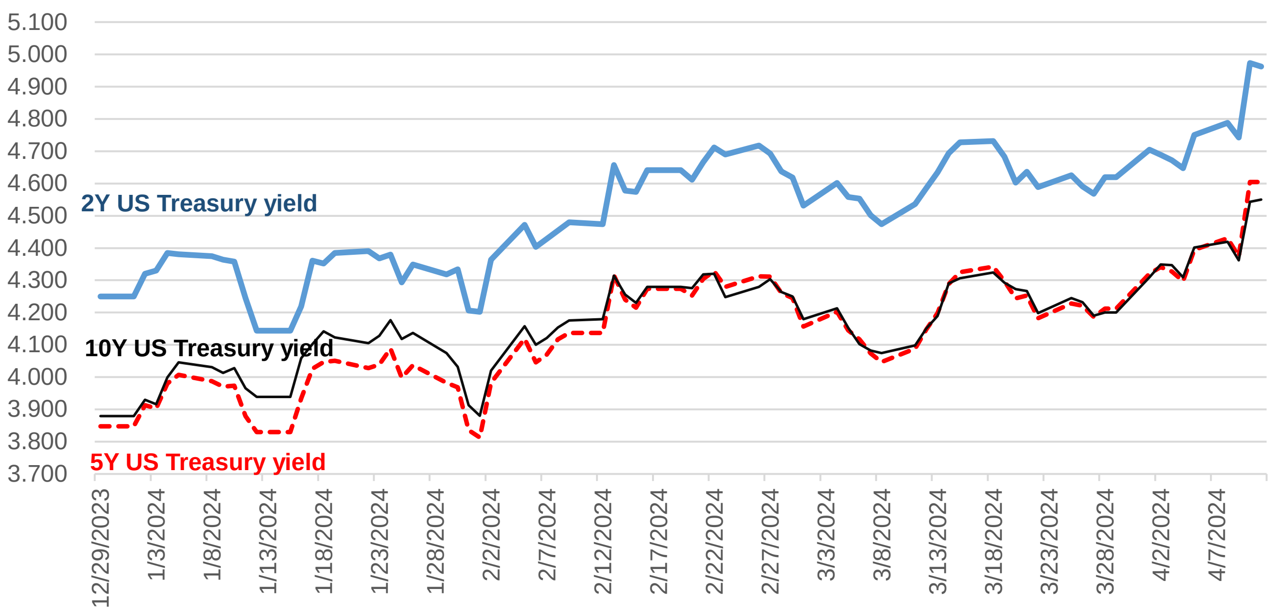
It has been noted that the RMB/USD exchange rate is particularly reactive to shifts in the nominal yield differential between US and Chinese government bonds, with the spread for the 2-year maturities now stretched to nearly 3ppt.

Exhibit 8: The Spread in Government Bond Yields Between the US and China (LHS) vs USD/RMB Exchange Rate (RHS)



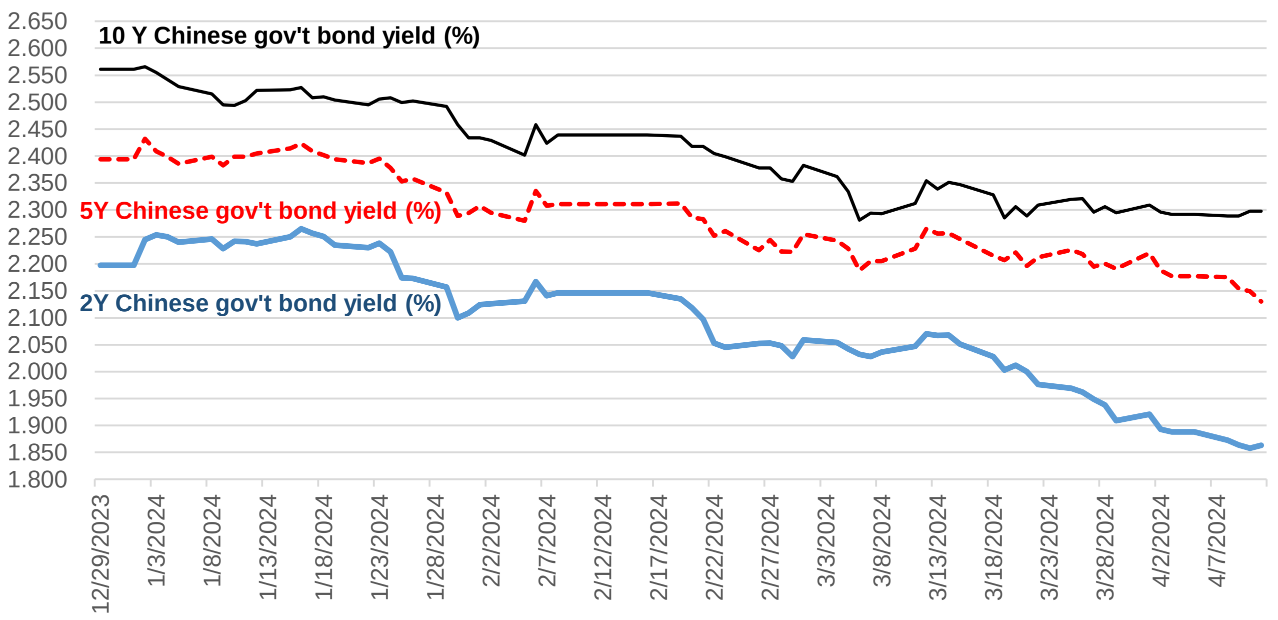
Note: Yield spread= 2-year US treasury yield minus 2-year Chinese government bond yield (in ppt)
Source(s): Bloomberg, ABCI Securities

Exhibit 9: Trends of US Treasury yield (%)



Source(s): Bloomberg, ABCI Securities

Exhibit 10: Trends of Chinese government bond yield (%)



Source(s): Bloomberg, ABCI Securities

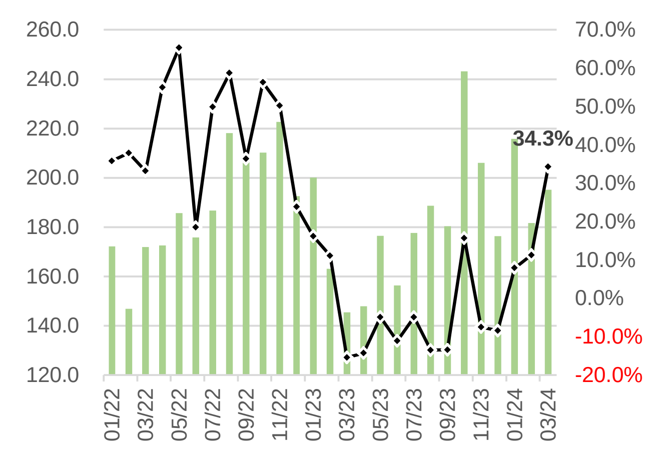
5. TSMC and Hon Hai Precision's revenue growth in Mar and 1Q24- a positive signal to global electronics industry

TSMC (2330 TT; TSM US), the global semiconductor foundry leader, reported a robust 34.3% increase in YoY revenue for Mar, along with a MoM rise of 7.5%. The YoY growth rates in 1Q24 showed a notable recovery, climbing from 7.9% in Jan to 11.3% in Feb, and further to 34.3% in Mar. Given the pivotal role of chips in consumer electronics, the persistent uptrend in TSMC's YoY revenue growth signals the revival of the worldwide electronics sector.

Hon Hai Precision (2317 TT, HNHPF US), the major electronics contract manufacturer globally, reported an 11.8% YoY increase in Mar revenue, alongside a robust 27.0% MoM surge. The significant MoM uptick in Mar is primarily attributed to Feb's shorter working month. Mar's YoY expansion was driven by gains across four principal business divisions: consumer electronics, cloud and networking products, components and others, and computing products. The revenue upswings in consumer electronics and cloud and networking in Mar were chiefly bolstered by vigorous customer orders. Despite tepid demand for personal computers, the computing product segment sustained steady growth in Mar. The company anticipates that despite 2Q typically being a slower period, it will mark both sequential and YoY growth in 2Q24. It highlighted that key product lines are currently undergoing a transition phase. Consequently, the renewal demand for electronic products is propelling revenue growth. Hon Hai Precision's Mar results and the 2Q24 forecast positively influence its chief operational subsidiary, Foxconn Industrial Internet (601138 CH).

Risk: The forecast for 2Q24 by Hon Hai was disclosed just a day prior to Taiwan's recent earthquake, which may disrupt the production efficiencies of suppliers within the global electronics supply chain. The event could catalyze a shift in order fulfillment to alternative producers in North Asian regions, including China, South Korea, and Japan.

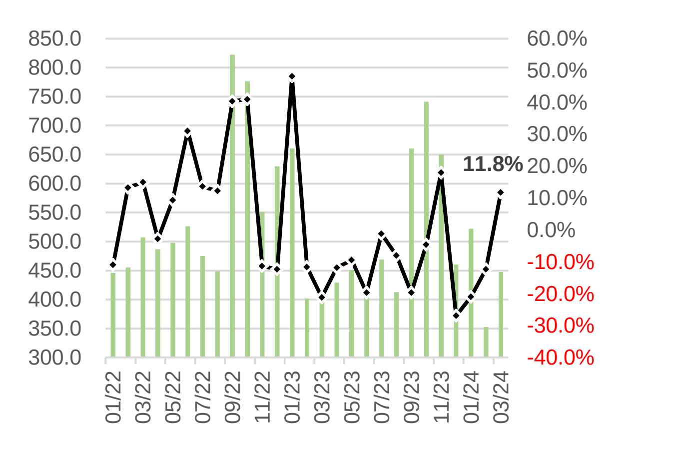
Exhibit 11: TSMC's monthly revenue trend



Green bars – Monthly revenue (in TWD bn); black dash-dot line= YoY chg (%)

Source(s)：TSMC, ABCI Securities

Exhibit 12: Hon Hai Precision Industry's revenue trend



Green bars – Monthly revenue (in TWD bn); black dash-dot line= YoY chg (%)

Source(s)：Hon Hai Precision, ABCI Securities

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.

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

This report is for our clients only and is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either expresses or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein. This report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. ABCI Securities Company Limited is under no obligation to update or keep current the information contained herein. ABCI Securities Company Limited relies on information barriers to control the flow of information contained in one or more areas within ABCI Securities Company Limited, into other areas, units, groups or affiliates of ABCI Securities Company Limited. The compensation of the analyst who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of ABCI Securities Company Limited as a whole, of which investment banking, sales and trading are a part. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither ABCI Securities Company Limited nor any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. Additional information will be made available upon request.

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

Tel: (852) 2868 2183