農銀國際
ABC INTERNATIONAL
ABCI SECURITIES COMPANY LIMITED

Hong Kong Stock Market Weekly Review

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- **Hong Kong's Secondary Stock Market Improves in Apr, Primary Market Remains Sluggish**
- **Comparing GDP Growth Patterns Between China and the US**
- **Analysis of the Five Measures Released by China Securities Regulatory Commission for Capital Market Cooperation with Hong Kong**
- **US, Europe, and Japan: Inflation and Unemployment Trends Signal Central Bank Interest Rate Directions**

1. Hong Kong's Secondary Stock Market Improves in Apr, Primary Market Remains Sluggish

The asset allocation preferences of secondary market investors are distinct, favoring heavyweight stocks and driving the three major Hong Kong stock indices higher. This week, HSI rose sharply by 8.8%. Similarly, the HSCEI and HSTECH increased by 9.1% and 13.4%, respectively.

This week, certain heavyweight stocks in Chinese state-owned banks, power, and telecommunications reached 52-week highs. In contrast, stocks in mobile phone components, new energy vehicles, and online pharmaceutical platforms hit 52-week lows.

Since the start of Apr up to Apr 26, HSI, HSCEI, and HSTECH have risen by 6.7%, 7.9%, and 6.9% respectively. The clear preferences in asset allocation have resulted in stark performances across different sectors. Some Chinese bank, energy, telecom, and travel platform stocks reached 52-week highs. Conversely, certain pharmaceutical, Hong Kong real estate, and Macau casino stocks fell to 52-week lows.

Apr is a critical month as most listed companies report their 1Q earnings. The investment patterns observed reflect investors' assessments of the companies' future prospects.

Hong Kong IPO Market Struggles Amid Declining Activity and Poor Stock Performance. As of Apr 26, the performance of the Hong Kong IPO market has been lackluster. A key issue is the reduced number of IPOs in Apr compared to Mar; only 3 companies have gone public this month, vs. 7 in Mar. Additionally, the stock performance post-listing has been disappointing, with all three newly listed companies breaking below their initial offering prices. Two of these have seen their stock prices decrease by over 30%, even dipping below their pre-IPO financing levels.

This weak performance could erode investor confidence in future IPOs. Sichuan-based tea shop chain Sichuan Baicha Baidao (2555 HK) raised nearly HK$ 2.6bn in its IPO, the largest in Hong Kong so far this year. Yet, its stock price is currently at HK$ 11.82—about 32% below the IPO price of HK$ 17.50 and 17% under the mid-2023 pre-IPO price of RMB 13.20 (or HK$14.23). This reflects significant losses for both IPO and pre-IPO investors.

In the first four months of this year, 15 companies went public, raising a total of HK$ 7.84bn. So far, five of them are below their IPO prices. In contrast, the same period in 2023 saw 21 companies go public, raising HK$12.82bn in total.

2. Comparing GDP Growth Patterns Between China and the US

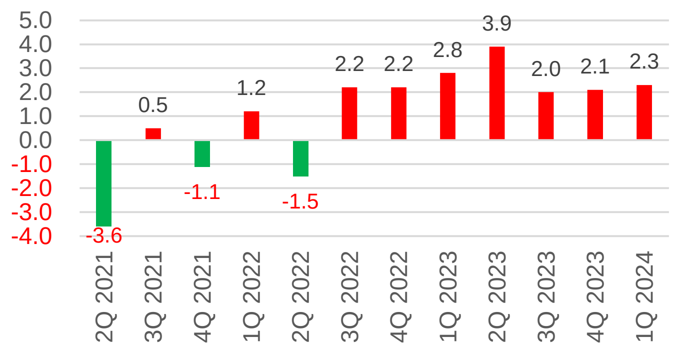
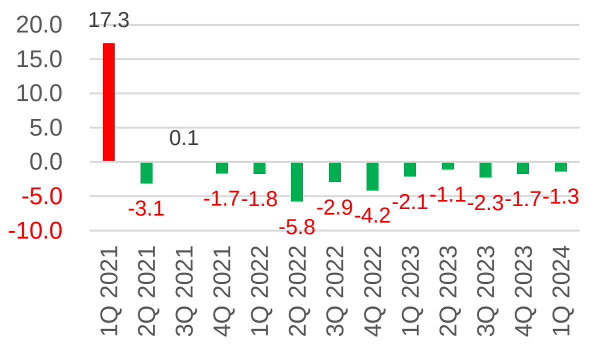
Both China and the US, the world's two largest economies, announced their 1Q24 GDP figures last week and this week. Here's a detailed look at the trends and patterns in their GDP growth:

- **Real GDP Growth:** China has consistently outperformed the US in terms of real GDP growth over several quarters. As of 1Q24, China's real GDP growth has been higher than that of the US for seven consecutive quarters, averaging 2.5 ppt higher.
- **Nominal GDP Growth:** On the other hand, the US has maintained higher nominal GDP growth than China for several quarters. China's nominal GDP growth has been lower than that of the US for 10 consecutive quarters, with an average difference of 2.5 ppt.
- **Impact of Inflation and Deflation:** Deflationary pressures in China have slowed down its nominal GDP growth rate, whereas inflationary trends in the US have magnified its nominal GDP growth rate.
- **Market Sensitivity to Growth:** We reckon there is a perception that businesses and capital markets are more sensitive to nominal GDP growth. From the perspective of capital market investors, China's nominal GDP growth is lower than the real GDP growth, implying most Chinese companies' revenue growth is driven primarily by increases in volume; in contrast, most US companies' revenue growth is supported by both volume and price increases.
- **Future Projections for the US:** According to current inflation trends in the US, the nominal GDP growth rate is expected to remain higher than the real GDP growth rate over the next few quarters.
- **Future Projections for China:** Based on current deflationary trends, China's nominal GDP growth rate is expected to continue being lower than its real GDP growth rate in the upcoming quarters.

Exhibit 1：GDP trends in China and the US

	China	The US
RealGDP YoY Growth	3Q2023: 4.9% 4Q2023: 5.2% 1Q2024: 5.3%	3Q2023: 2.9% 4Q2023: 3.1% 1Q2024: 3.0%
Nominal GDP YoY Growth	3Q2023: 3.9% 4Q2023: 4.2% 1Q2024: 4.2%	3Q2023: 6.2% 4Q2023: 5.9% 1Q2024: 5.5%

Note: The first quarter data are preliminary. Sources: NBS, US Bureau of Economic Analysis, ABCI Securities

Exhibit 2: Difference in Real GDP YoY Growth Rates between China and the US (ppt, China minus US)	Exhibit 3: Difference in Nominal GDP YoY Growth Rates between China and the US (ppt, China minus US)
	
Source(s): NBS,US Bureau of Economic Analysis, ABCI Securities	

3. Analysis of the Five Measures Released by China Securities Regulatory Commission for Capital Market Cooperation with Hong Kong

The measures enhance the asset management sector in both Mainland China and Hong Kong. They include more ETFs and REITs in the Southbound and Northbound Stock Connect programs, boosting liquidity in both regions' capital markets. Importantly, the easing of regulations offers opportunities for asset management firms to develop new ETF and REIT products that meet the required criteria.

According to the Hong Kong Stock Exchange, as of end-Mar, ETFs and REITs listed in Hong Kong had a market value of ~HK$ 853bn and HK$ 125bn, respectively, totaling about HK$ 978bn. In Mar, transactions of ETFs and REITs made up about 12% of the total market transaction volume. ETFs, as the second most actively traded security on the stock market, had a total transaction volume of HK$248.5 bn for the month, averaging HK$ 12.4bn per day. In comparison, daily transactions for REITs were much lower, around HK$ 400mn.

One barrier to including ETFs in the Southbound Stock Connect is that they must contain Hong Kong stocks. Consequently, ETFs tracking foreign market indices, stocks, or commodities do not meet the criteria for the Southbound Stock Connect. Despite having over 2,800 companies listed in Hong Kong, valued at around HK$ 30tr, transactions of HSI constituent stocks (82 companies) represent over 70% of the total stock transaction volume, with the top 20 stocks accounting for about 45%. Most HK-listed stocks are either inactive or have no trading activity. Only about 100 stocks are actively traded, making up less than 4% of the market's listed companies. This makes it challenging to create ETFs with diverse investment themes, as there are few suitable options. Including inactive stocks in an ETF could introduce inherent risks, which may not appeal to investors**.**

Addressing the structural issues of the Hong Kong stock market requires increasing the supply of large-cap and highly liquid stocks. Large-cap stocks typically have higher transaction volumes. Encouraging more large Chinese enterprises to list in Hong Kong or pursue dual listings is beneficial. However, a significant challenge is the lower valuations in Hong Kong's stock market compared to China's A-share market, which discourages large Chinese companies from raising capital in Hong Kong at these lower valuations.

The A-share market already offers a variety of Hong Kong stock ETFs, so why should domestic investors opt for Hong Kong-listed ETFs? The A-share market includes ETFs that track major Hong Kong indices such as HSI, HSTECH, and ETFs for specific sectors like internet, healthcare, innovative pharma, and Chinese brokerage stocks. Mainland investors can easily trade these ETFs on the A-shares market without using the Southbound Stock Connect. Moreover, these ETFs benefit from T+0 trading, appealing to investors interested in day trading. Most of these ETFs exhibit strong liquidity, with daily trading volumes between RMB 5bn and RMB 40bn.To attract Mainland Chinese investors to Hong Kong-listed ETFs, offshore asset management companies need to create unique thematic ETFs not available in the A-share market. Product differentiation remains a key strategy for staying competitive and attractive across many sectors, including asset management and finance.

In terms of REIT products, understanding the preferences of Mainland Chinese investors is crucial for Hong Kong to attract investment in its listed REITs. The A-share market offers a range of REITs with assets like shopping malls, highways, affordable housing, and logistics centers, etc. These REITs typically have smaller asset sizes and homogeneous asset types, making them easier for investors to assess and appealing to long-term investors. For these investors, REITs with complex or diverse assets can introduce more variables, potentially complicating investment decisions.

4. US, Europe, and Japan: Inflation and Unemployment Trends Signal Central Bank Interest Rate Directions

New economic data from major economies is released monthly, leading to market fluctuations. We believe focusing on economic trends is crucial, as they offer a clearer direction and are less influenced by short-term fluctuations. The Fed will hold an interest rate meeting next week (Apr 30 to May 1, US time), which remains a market focal point. Currently, the futures market anticipates that the Fed will maintain interest rates at its May, Jun, and Jul meetings.

Observing trends in inflation and unemployment rates can help readers make better independent predictions about future central bank interest rate trends. Investors should note the following key trends:

- Since 2H23, US CPI inflation has ceased to decline, fluctuating above 3%. This has consistently pushed back market expectations for the Fed's rate cuts. The US unemployment rate, which has been gradually rising since early 2023, indicates insufficient economic momentum. This situation has led to market expectations for a rate cut. However, with inflation still high and not declining, the Fed's opportunity to cut rates has not yet emerged.

- Inflation in the Eurozone has slowed down since the beginning of 2024 but has remained below 3% since 4Q23. The ECB might reduce rates sooner than the Fed. The unemployment rate in the Eurozone has stabilized yet remains high at around 6.5%. With inflation now below 3%, the ECB has the conditions to cut rates.

- The BOJ refrained from hiking rates during the inflation rise in 2022-23 but opted to increase rates this year as inflation fell, prioritizing support for the exchange rate over inflation control. Japan's unemployment rate remains low but has shown signs of stabilizing.

- The trends in inflation and unemployment rates in the US, Europe, and Japan are quite distinct.

Exhibit 4: US and Eurozone CPI Inflation Trends, YoY%

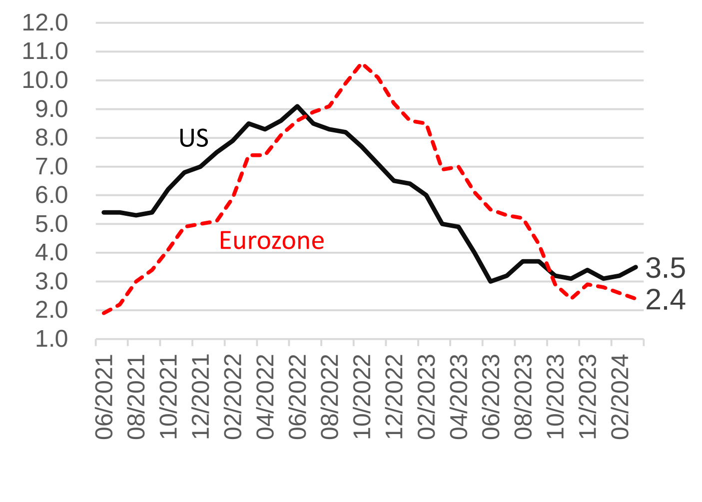
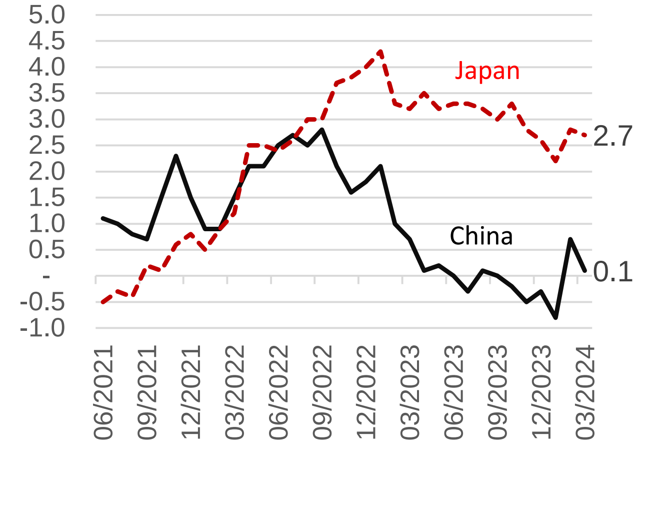


Exhibit 5: China, Japan CPI Inflation Trends, YoY %



Source(s): NBS, Bloomberg, ABCI Securities

Exhibit 6:US unemployment trend，%

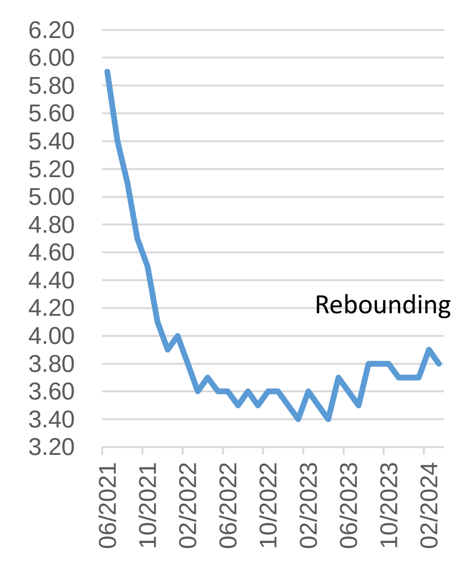


Exhibit 7: Eurozone unemployment trend，%

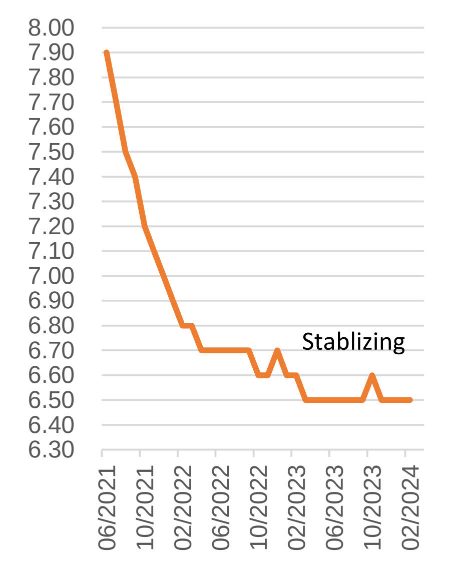
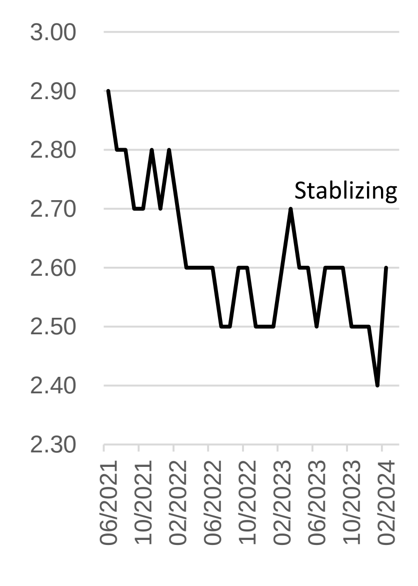


Exhibit 8:Japan unemployment trend，%



Source(s): Bloomberg,ABCI Securities

Analyst Certification

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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.

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

Tel: (852) 2868 2183