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ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED



Hong Kong Stock Market Weekly Review

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17/5/2024

- **HSI Rises for Four Consecutive Weeks, Hits New YTD High This Week**
- **Chinese Shipping Freight Futures Skyrocket as Optimism Soars for Export Industry**
- **Dissecting the US CPI Structure to Understand the Persistent Inflationary Pressure**
- **Government's NEV Rural Promotion Campaign in 2024- Who are the Winners?**

1. HSI Rises for Four Consecutive Weeks, Hits New YTD High This Week

HSI has achieved a new high for the YTD at 19,602.24 this week. This marks four consecutive weeks of growth, with the index rising by ~33% from its low point of 14,794.16 on Jan 22.

The average daily turnover of the main board has increased to HK\$ 168.6bn this week, continuing its upward trend for five consecutive weeks. The HSI's upward momentum has been driven by Chinese banking and insurance stocks, as well as the Chinese real estate and e-commerce internet sectors. However, Chinese energy, NEV, and consumer stocks have experienced a decline.

Rumors of a meeting between the central bank and major property developers to address the rising inventory of completed unsold houses have boosted Chinese real estate stocks. On May 17 (Fri), PBOC announced three measures to lower homebuying threshold. Some cities have also announced measures to purchase housing from developers and convert it into affordable housing. The market expects that the government's proactive stance in addressing risks in the real estate market will benefit property developers and banks.

The stock market's rise has also supported insurance stocks, which stand to benefit from improved returns on stock market investments. Downward pressure on energy stocks has increased due to the downtrend in crude oil prices since Apr. Intensified competition in the NEV market, with several manufacturers launching low-priced models, has further exerted downward pressure on NEV stocks.

The NBS has reported a slowdown in the YoY growth rate of total retail sales of consumer goods in Apr, down by 2.3%. This marks the fourth consecutive month of decline. The YoY growth rate of retail sales has decelerated from 10.1% in Dec to 7.4% in Jan, 5.5% in Feb, 3.1% in Mar, and 2.3% in Apr. Although the overall trend is weakening as we believe this is a result of consumers becoming more selective and cautious in their spending.

Specific categories of consumer goods have shown strong performance in retail sales. For instance, communication equipment, sports and entertainment products, and tobacco and

alcohol categories have seen respective MoM growth rates of 13.3%, 12.7%, and 8.4% in Apr. However, retail sales of automobiles, cosmetics, and clothing have experienced YoY declines of 5.6%, 2.7%, and 2.0% in Apr.

Exhibit 1: Significant Differences in Retail Sales Changes for Various Products Reflect More Selective and Cautious Consumer Spending

YoY chg(%)	4/2024	1-4/2024	YoY chg(%)	4/2024	1-4/2024
Communication Equipment	13.3	13.2	Automobiles	-5.6	1.4
Sports and Entertainment Goods	12.7	13.8	Building and Decoration Materials	-4.5	0.6
Grain, Oil, and Food Products	8.5	9.3	Cultural and Office Supplies	-4.4	-7.2
Tobacco and Alcohol	8.4	11.7	Cosmetics	-2.7	2.1
Chinese and Western Medicines	7.8	4.4	Clothing, Shoes, Hats, and Knitted Textiles	-2.0	1.5
Beverages	6.4	6.5	Gold, Silver, and Jewelry	-0.1	3.6
Household Appliances and Audio-Visual Equipment	4.5	5.5	Furniture	1.2	2.5

Source(s): NBS, ABCI Securities

Exhibit 2: HSI forecast PE ratio (5-Year Fluctuation Range ended May 17, 2024)



HSI is currently valued at 9.7 times estimated 2024 PE. The index's average valuation for the past five years is 11.1 times PE .

Source(s): Bloomberg, ABCI Securities

2. Chinese Shipping Freight Futures Skyrocket as Optimism Soars for Export Industry

Shanghai International Energy Exchange (INE) data shows a significant surge in futures prices for the Shanghai (export) Containerized Freight Index based on Settled Rates (SCFIS, Europe route) since Apr. The most active futures month for the index (Europe route) is currently Aug. Aug futures witnessed a notable increase of 12% in Mar, followed by a remarkable surge of 68% in Apr. Between May 1-17, the futures prices have further risen by 49%. This reflects the highly optimistic sentiment among futures market investors regarding China's export market in the upcoming months and its potential impact on shipping demand.

Exhibit 3 : Shipping Freight Index (Europe Route) Aug 2024 Futures Trend - Surges by Nearly 206% Since end-2023



Source(s): INE, Bloomberg, ABCI Securities

The bullish outlook on shipping freight rates is supported by several factors. Firstly, major container shipping operators have announced price increases in recent weeks. Secondly, export data released by China Customs indicates a recovery in the export market during 2Q24. In terms of RMB, China's exports improved from a YoY decline of 3.8% in Mar to a YoY increase of 5.1% in Apr. Thirdly, the global manufacturing PMI has been above 50 for the past four months, signaling sustained recovery in global manufacturing activity and contributing to global trade growth. Lastly, ongoing tensions in the Red Sea region have resulted in longer transit times and increased shipping costs along the Eurasia route.

In the spot market, the Shanghai Containerized Freight Index (SCFI) witnessed a substantial rise in prices following the eruption of tensions in the Red Sea region last year. The index reached its peak in Feb in 2024 and started to decline thereafter. However, in mid-Apr, the index experienced a renewed upward trend. The decline from the Feb peak can be attributed to

the seasonal nature of the off-peak period for the export sector during the Chinese New Year. After a drop of nearly 20% from the peak in Feb, the index rebounded to around 5% as of May 10 last week. It's important to note that the spot market index provides an average representation of freight rate changes across different shipping routes and may not reflect significant fluctuations.

For the Europe route, the freight rate for a 40-foot container from Shanghai to Rotterdam has surged 150% since end-2023. Between May 1-16, the rate increased by 37%. Similarly, the freight rate for a 40-foot container from Shanghai to Genoa has soared by 144% since end-2023. Between May 1-16, the rate has risen by 32%.

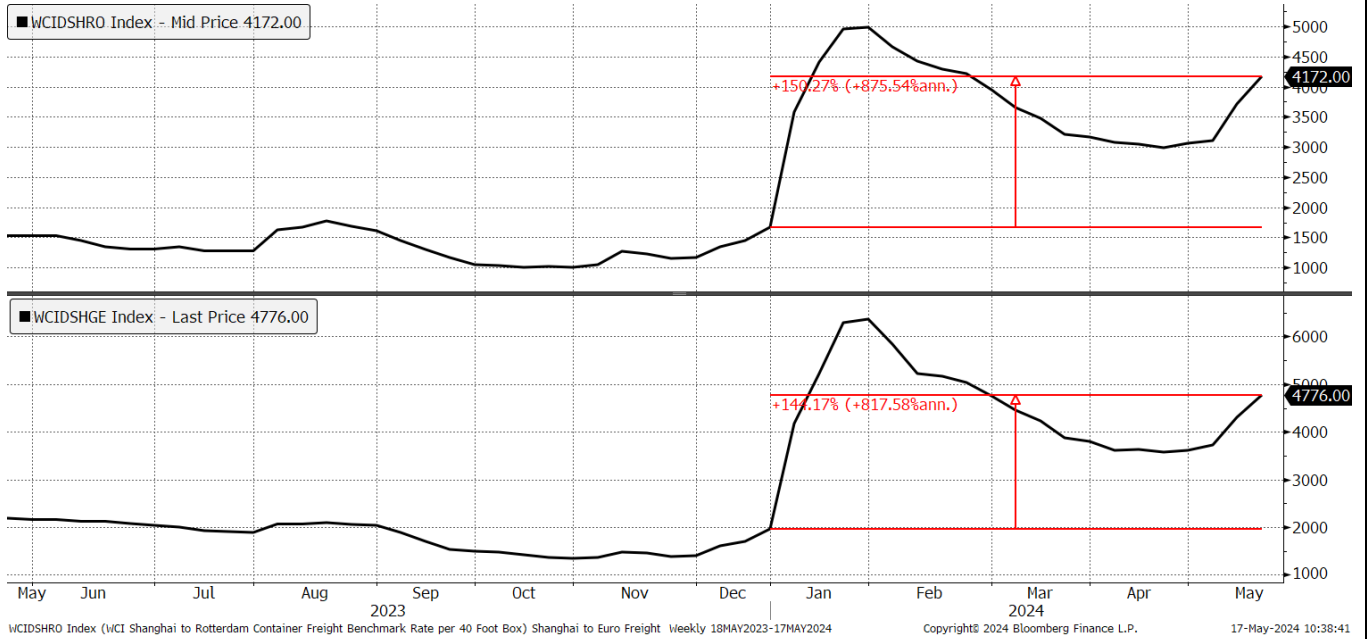
When looking at the US route, the freight rate for a 40-foot container from Shanghai to Los Angeles has surged by 113% YTD. Between May 1-16, the rate has further increased by 32%. Similarly, the freight rate for a 40-foot container from Shanghai to New York has risen by 86% YTD, with a 31% increase between May 1-16.

The significant increase in freight rates may not be favorable for exporters, but it is positive news for container shipping operators. It indicates strong demand for container shipping services, a positive sign for the ongoing recovery in China's trade industry. It's worth noting that futures market investors have also taken notice of this trend and hold a more optimistic outlook for the coming months. Both Jun and Aug futures have experienced price increases.

Since end-Mar until May 16, the stock price of Maersk Line (MAERSKB DC), a European shipping company, has surged by ~35%. The stock price of Evergreen Marine Corporation (2603 TT), a Taiwanese shipping company, has increased by around 24%. Orient Overseas International (316 HK) has experienced a 40% rise in stock price since 2Q24. Similarly, the stock price of COSCO Shipping Holdings (1919 HK) has soared by 55%.

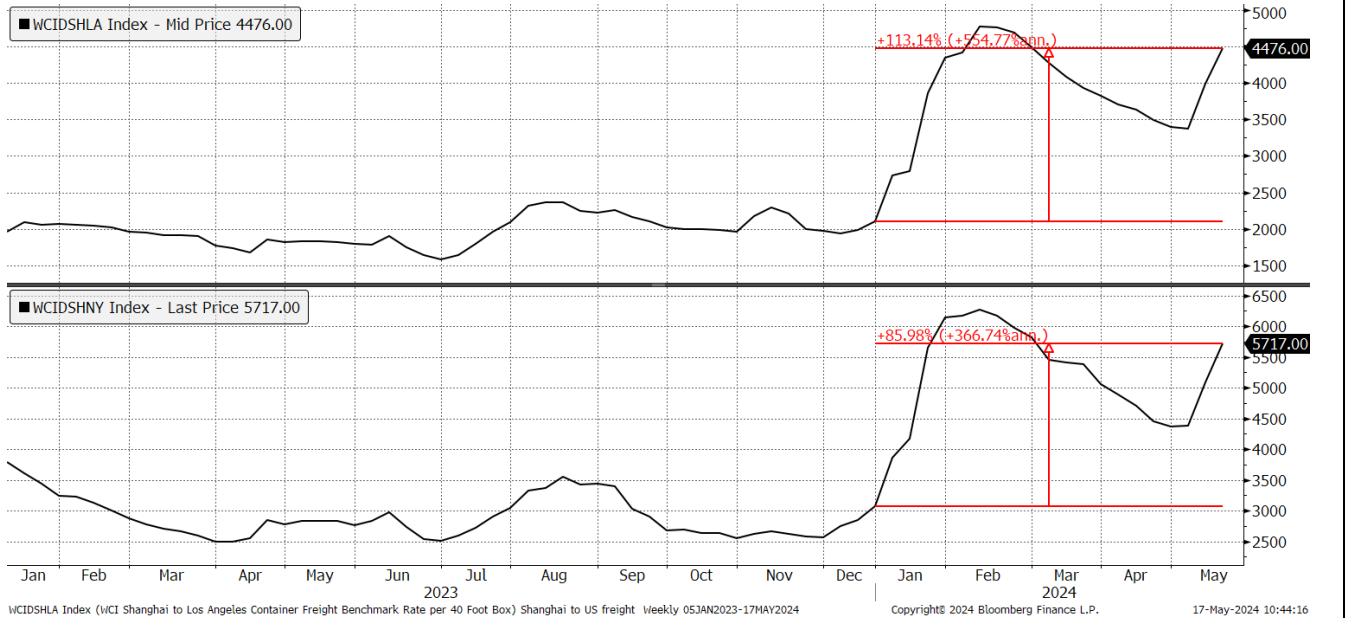
After the increase in stock prices in 2Q24, the current PB ratios for COSCO Shipping Holdings and Orient Overseas International are 0.91 times and 1.01 times, respectively. Evergreen Marine Corporation's PB ratio stands at around 0.98 times, while Maersk Line's price-to-book ratio is ~0.51 times. The differences in PB ratios reflect the market's increased optimism towards Chinese container shipping operators.

Exhibit 4: (Top) Freight Rates for Shanghai to Rotterdam 40-foot Container Shipments (USD/40ft)
(Below): Freight Rates for Shanghai to Genoa 40-foot Container Shipments (USD/40ft)



Note: Data as of May 15, 2024; Source(s): Bloomberg, Drewry World Container Index, ABCI Securities

Exhibit 5: (Top) Freight Rates for Shanghai to Los Angeles 40-foot Container Shipments (USD/40ft)
(Below): Freight Rates for Shanghai to New York 40-foot Container Shipments (USD/40ft)



Note: Data as of May 15, 2024; Source(s): Bloomberg, Drewry World Container Index, ABCI Securities

3. Dissecting the US CPI Structure to Understand Persistent Inflationary Pressure

The outlook for US interest rates affects US Treasury bond yields, global liquidity flows, and the valuation of financial assets. However, interest rate prospects are sensitive to inflation trends. Therefore, gaining a better understanding of the components of the US CPI can provide insights into inflation trends and the interest rate outlook. . Currently, the market faces the challenge of not observing clear downward or upward inflation trends. Instead, we see narrow fluctuations in inflation, with rates staying above 3% for several months.

This week, the US released the Apr CPI data, indicating a decline in the YoY inflation rate from 3.5% in Mar to 3.4%, and a decrease in the MoM inflation rate from 0.4% in Mar to 0.3%. The core CPI, which excludes volatile food and energy prices, also showed a decline from a YoY increase of 3.8% in Mar to 3.6%, and a decrease in the MoM increase from 0.4% in Mar to 0.3%.

The easing of inflationary pressure in Apr has renewed the possibility of a rate cut by the Fed at the Sep FOMC meeting. Additionally, the US stock market responded positively this week, with the Dow Jones, S&P 500, and Nasdaq 100 reaching new all-time highs.

Since Jun 2023, the YoY changes in CPI have fluctuated at or above 3% for 10 consecutive months. Recently, the market has been sensitive to monthly inflation data in relation to interest rate prospects. In Mar, market expected there was a 90% chance for a rate cut in Sep. However, expectations changed after the release of Mar inflation data, which showed an increase in YoY CPI from 3.2% in Feb to 3.5% in Mar. By end-Apr, the probability of a rate cut in Sep decreased to around 30%. Following the release of Apr CPI data this week, market expects a 60% chance for a rate cut in Sep. The changing rate cut expectations in the market have also led to fluctuations in US Treasury bond yields. The 10-year US Treasury bond yield rose from around 4.20% at the end of Mar to ~4.70% at end-Apr, but fell back to 4.32% after the Apr CPI release.

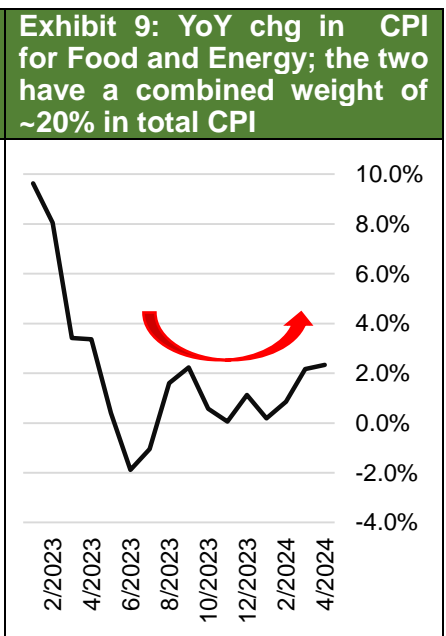
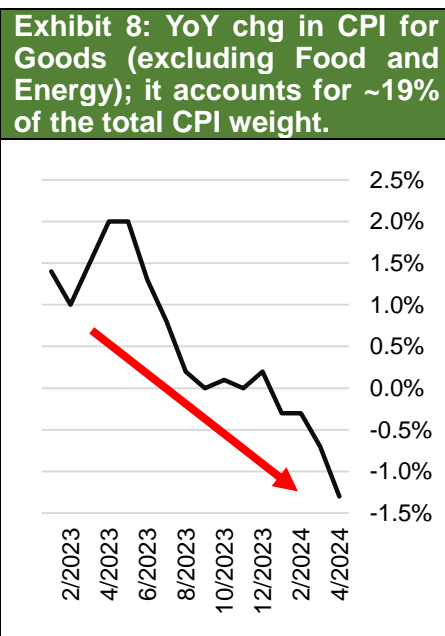
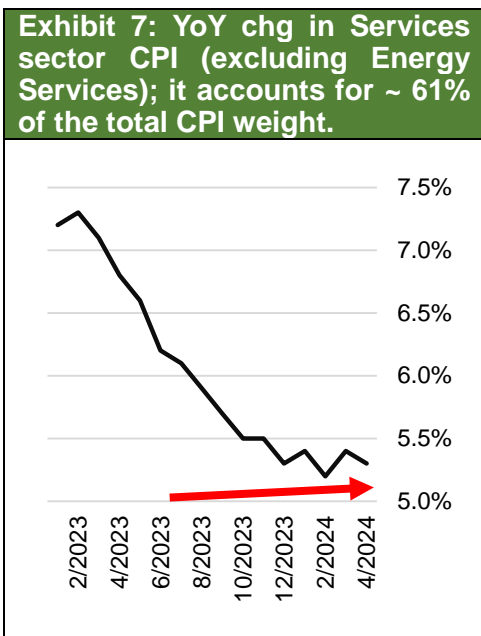
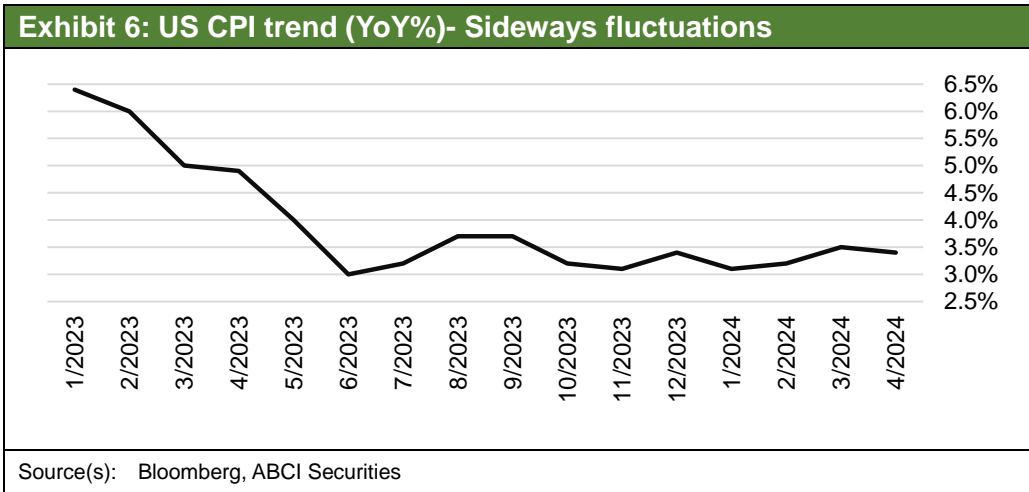
The US CPI has shown narrow fluctuations without a clear upward or downward trend. To understand this, let's break down the components of the US CPI:

Food, accounting for around 13.4% of the CPI weight, has experienced a slow decline. CPI for Food away from home (4.1% YoY growth in Apr) remains relatively high, while food CPI for Food at home (1.1% YoY growth in Apr) is lower. We attribute the higher prices for dining out to increased labor costs in chain restaurants.

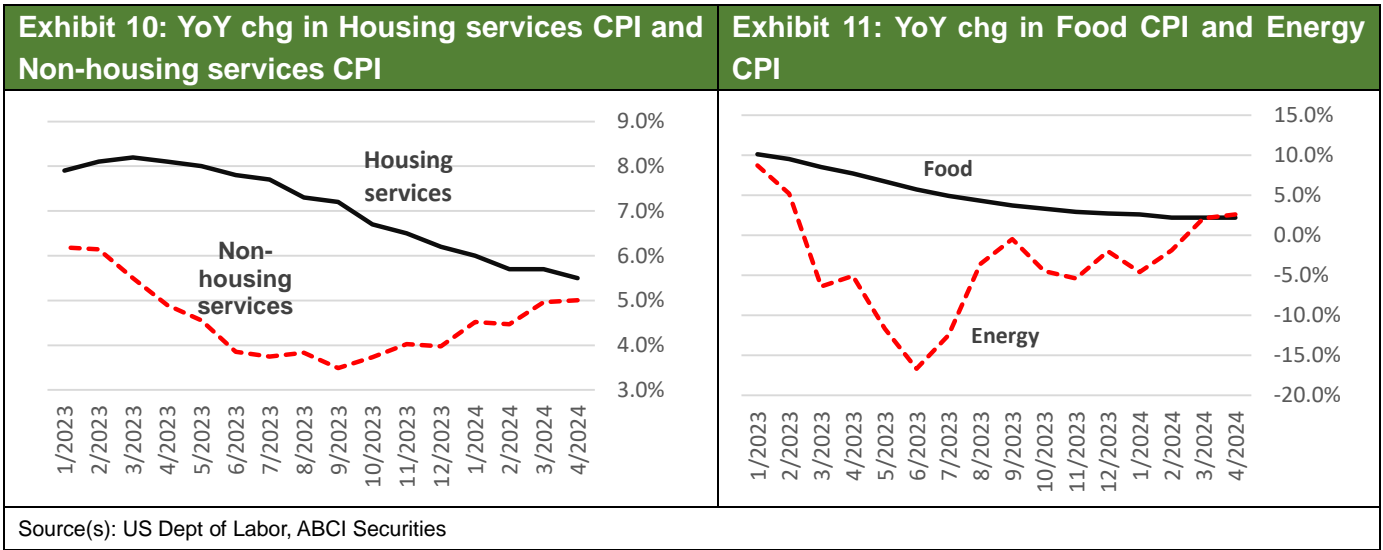
- Energy, representing ~6.9% of the CPI weight, has transitioned from deflation to inflation.
- Goods (excluding Food and Energy), making up about 18.7% of the CPI weight, have shown a decrease in inflationary pressure.
- Services (excluding Energy Services), comprising around 61.0% of the CPI weight, exhibit different trends. Housing inflation, accounting for about 59% of the services CPI weight, has eased in inflationary pressure. However, non-housing services, representing ~ 41% of the services CPI weight, have experienced an upward trend in inflationary pressure.

The inflationary pressures in energy and non-housing services prices are increasing,

accounting for ~ 32% of the CPI weight. Meanwhile, food, goods, and housing face higher inflationary pressures, but their inflation trends are gradually easing. These three categories collectively contribute to around 68% of the CPI weight. This combination of factors is the primary reason for the continuous fluctuations in the US CPI.



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



4. Government's NEV Rural Promotion Campaign in 2024- Who are the Winners?

The Ministry of Industry and Information Technology (MIIT), National Development and Reform Commission (NDRC), Ministry of Agriculture and Rural Affairs, Ministry of Commerce, and National Energy Administration (NEA) have collaborated to launch the 2024 NEV rural promotion campaign. The campaign aims to promote the adoption of NEV in rural areas and will continue until end-2024. A total of 99 NEV models have been selected for this promotion. BYD (1211 HK), Changan Automobile (000625 CH), SAIC (600104 CH), and Geely (175 HK) emerge as the primary beneficiaries of the government's initiative, with a majority of their NEV models included in the promotion list. BYD has 17 models selected, SAIC has 17 models selected, Changan has 10 models selected, Geely has 11 models selected, and Great Wall Motor (2333 HK) has 7 models selected. The inclusion of these models reflects the consumer recognition and demand for these brands in the NEV market.

The campaign aims to promote suitable, well-regarded, and reliable NEV models for the rural market. It includes activities such as exhibitions, test drives, and other experiences to provide a variety of choices and enhance consumer engagement. The campaign also addresses infrastructure gaps in rural areas by offering charging and battery swapping services, financial services such as insurance and credit, and aftersales support including maintenance. Additionally, supportive policies like car scrappage programs and the development of county-level charging facilities are implemented.

This government-led promotion campaign goes beyond vehicle sales. It recognizes the importance of developing charging infrastructure, establishing pre-sales and aftersales service networks, and promoting automotive finance and insurance services. These efforts are crucial for introducing NEV into rural markets. The campaign presents a significant opportunity for the entire NEV supply chain to expand its presence in smaller cities.

Exhibit 12: NEV sales of Automakers

	1-4/2024 NEV sales	YoY chg	4/2024 NEV sales	YoY chg
BYD (1211 HK)	939,508	23.24%	313,245	48.96%
SAIC (600104 CH)	284,723	35.37%	74,590	9.33%
Geely (175 HK)	195,553	120.44%	51,428	74.97%
Changan (000625 CH)	180,488	68.63%	51,682	129.74%
Great Wall Motor(2333 HK)	81,618	91.27%	22,436	50.95%

Source(s): Companies' monthly data(unaudited), ABCI Securities

Disclosures

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Rating	Definition
Buy	Stock return rate \geq Market return rate ($\sim 7\%$)
Hold	- Market return rate ($\sim 7\%$) \leq Stock return rate $<$ Market return rate ($\sim +7\%$)
Sell	Stock return $<$ - Market return ($\sim -7\%$)

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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