



農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED



# Hong Kong Stock Market Weekly Review

May 3, 2024

# HK Stock Market Weekly Review

3/5/2024

- **HSI Rises for Nine Consecutive Trading Days, Maintains Reasonable PE Ratio**
- **US June Crude Oil Futures Prices Drop; The Fed to Significantly Slow Balance Sheet Reduction Starting in Jun**

## 1. HSI Rises for Nine Consecutive Trading Days, Maintains Reasonable PE Ratio

Since Apr 22, HSI has seen a steady rise over nine consecutive trading days, increasing from 16,224.14 on Apr 19 to 18,475.92 on May 3, marking a growth of ~13.9%. The Hong Kong stock market operated for only four days this week due to the Labor Day holiday on May 1.

Chinese real estate stocks have been the standout performers in the Hang Seng Index since April 19. Relaxed home buying restrictions in major cities like Beijing and Shanghai have uplifted market spirits. These stocks had underperformed over the past 12 months but have recently rebounded, rekindling investor interest.

In the last two weeks, Country Garden Services (6098 HK), China Overseas Land & Investment (688 HK), and China Resources Land (1109 HK) have appreciated by ~36%, 35%, and 28%, respectively. Additionally, positive expectations for retail sales during China's Labor Day holiday have enhanced the investment environment for stocks related to Chinese consumer markets, including e-commerce platforms.

This recent surge in Hong Kong's stock market is expected to positively influence the A-share market when it resumes trading next week after the Labor Day break. The revival in both the Hong Kong and A-share markets should benefit the investment results of Chinese insurance companies, with China Life Insurance (2628 HK) and Ping An Insurance (2318 HK) already seeing rises of about 25% and 27%, respectively, over the past two weeks.

Meanwhile, Chinese energy and telecom stocks have bucked this positive trend, declining over the past two weeks despite outperforming in the first quarter of the year. Investors are selling off these stocks to reallocate funds to other sectors.

Bank of Communications (3328 HK), a state-owned bank, has announced it is considering issuing mid-term dividends. This move suggests that state-owned commercial banks might shift to paying dividends twice a year instead of just once. Such a change is likely to attract long-term investors, particularly insurance funds looking for stable cash returns from their equity investments.

After a 14% increase over the past two weeks, investors may wonder if HSI is currently valued reasonably. We assess this using the PE ratio, which is a common measure of stock valuation. Currently, the HSI has a PE ratio of about 9.06, based on the expected earnings for 2024. This is 18% lower than the five-year average PE ratio of 11.11.

During 1Q24, HSI traded between 7.73 and 9.37 times its projected 2024 earnings. This suggests that the index's PE ratio remains within a reasonable range for trading, despite recent increases in stock prices.



**Exhibit 2: Index Performance from Jan to Apr 2024 and for Apr 2024 Alone**

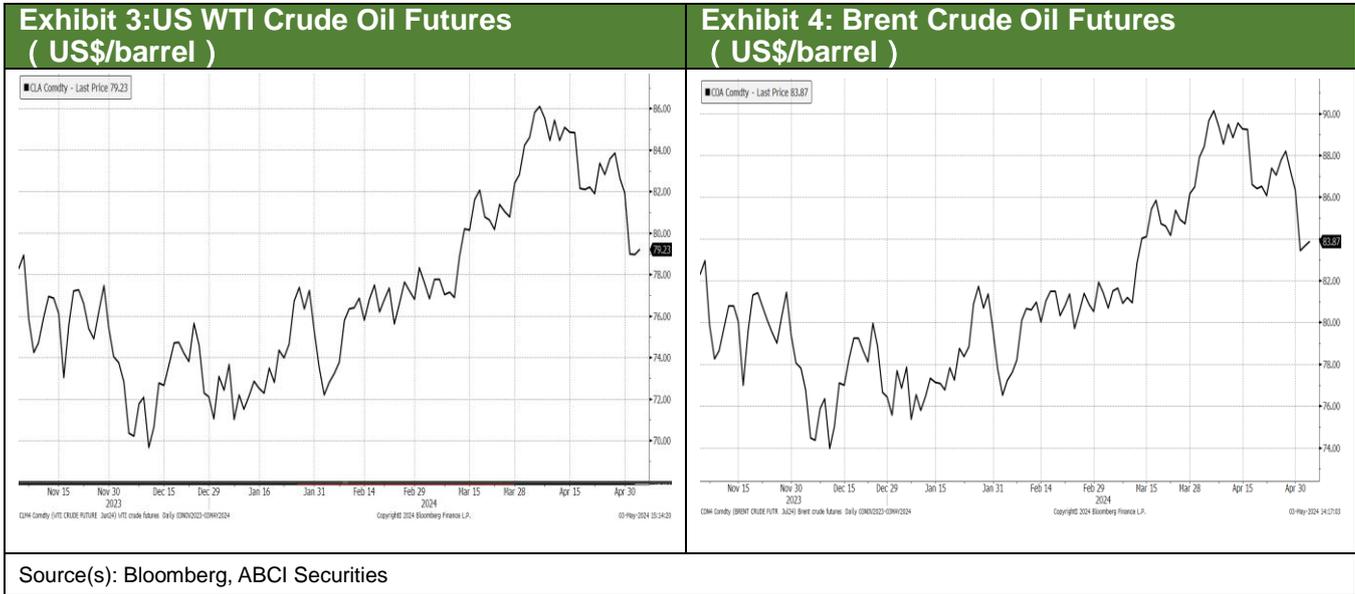
	2024 Jan-Apr Index performance		Apr 2024 Index performance	
	CSI 300	Hang Seng Composite Index	CSI 300	Hang Seng Composite Index
Benchmark Index	<b>5.1%</b>	<b>3.7%</b>	<b>1.9%</b>	<b>7.1%</b>
Energy Index	23.7%	33.3%	0.8%	8.7%
Financial Index	7.1%	3.2%	3.1%	9.1%
Real Estate Index	<b>-16.3%</b>	<b>-9.2%</b>	<b>-7.6%</b>	5.4%
Basic Materials Index	15.9%	31.0%	3.5%	9.8%
Industrials Index	4.5%	0.7%	0.7%	4.5%
Consumer Discretionary Index	13.2%	<b>-0.4%</b>	5.1%	2.0%
Consumer Staples Index	2.1%	<b>-2.2%</b>	0.8%	4.0%
Healthcare Index	<b>-10.7%</b>	<b>-21.5%</b>	1.2%	0.8%
Telecommunications Index	12.5%	7.7%	2.8%	3.5%
Information Technology Index	<b>-5.0%</b>	9.9%	0.2%	10.3%
Utilities Index	15.4%	3.2%	1.5%	3.6%

Note : As of Apr 30, 2024

Source (s) : Bloomberg, ABCI Securities

## 2. US June Crude Oil Futures Prices Drop; The Fed to Significantly Slow Balance Sheet Reduction Starting in Jun

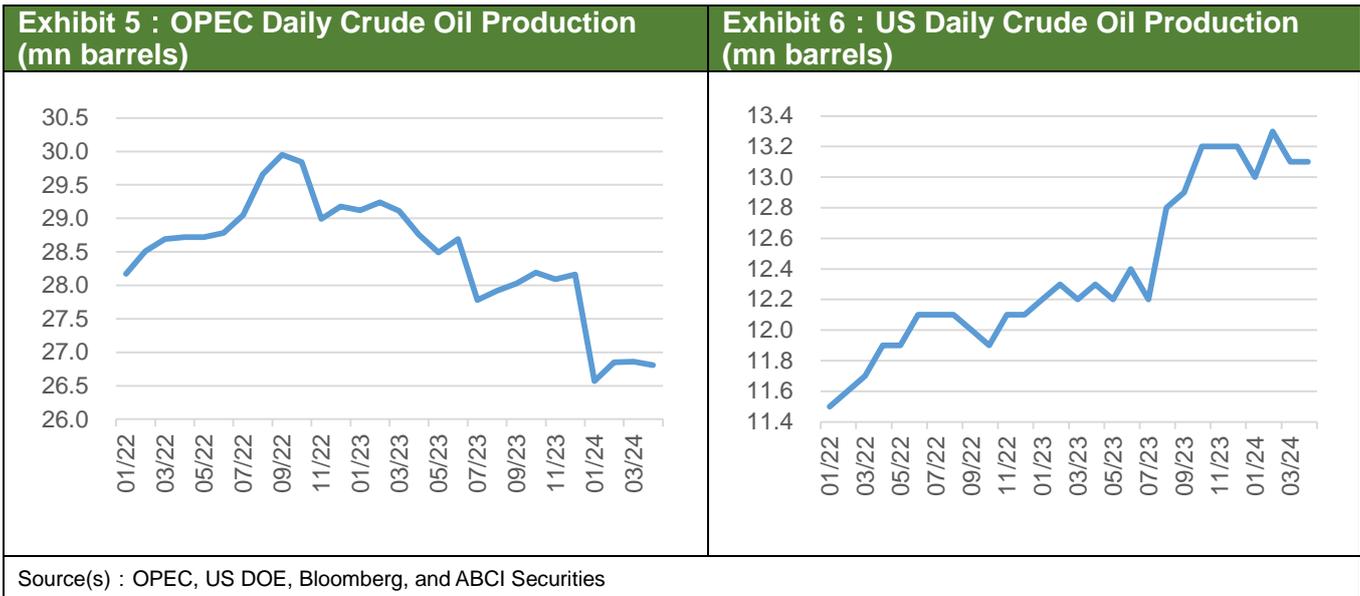
This week, US crude oil futures for Jun dropped below \$80 per barrel. Additionally, the Fed announced plans to slow down its balance sheet reduction starting in Jun. These changes are likely to affect the rest of 2Q24, even though it's only early May.



In the first four months in 2024, rising crude oil prices raised market concerns about increased inflation, making it less likely that the Fed would cut interest rates. However, the recent drop in US crude oil futures for Jun to below US\$ 80 per barrel could ease these worries.

The decline in oil prices in late Apr and early May was driven by two main factors: increased US oil production in Apr and stable oil output from OPEC over the last two months following a production cut in Jan. These supply-side improvements have significantly contributed to the fall in oil prices.

Despite ongoing tensions in the Middle East that could threaten oil supply, the increase in US oil production has helped reduce these concerns. According to the US Department of Energy, daily crude oil output rose from 12.53mn barrels in Jan to 13.04mn barrels in Apr. Additionally, Bloomberg reports that OPEC's daily production increased from 26.57mn barrels in Jan to 26.81mn barrels in Apr, further stabilizing the market.



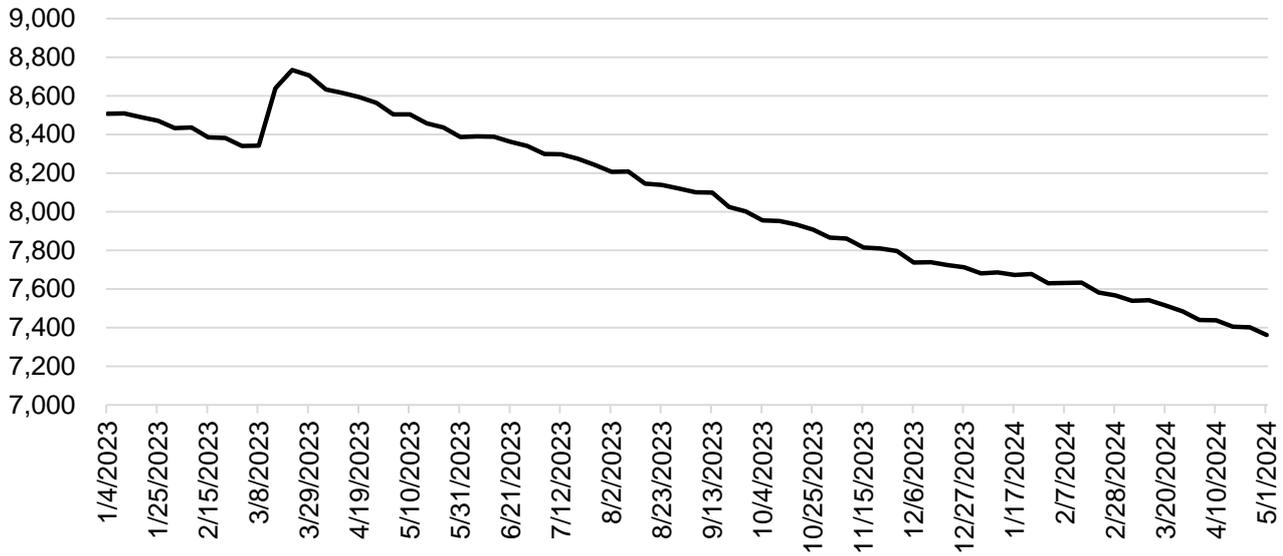
Following the FOMC meeting from Apr 30 to May 1, the Fed kept interest rates unchanged, as expected by the market, and announced plans to significantly slow down its balance sheet reduction starting in June. This indicates a shift away from tighter monetary policies, beginning with a decrease in the rate at which it reduces its balance sheet. From Jun, the Fed will lower its monthly reduction of US Treasuries from US\$ 60bn to US\$ 25bn, reducing the selling pressure by US\$ 35bn each month.

After this announcement, the market now expects reduced selling pressure on US Treasuries in the secondary market, leading to a rise in Treasury prices and a drop in yields. Consequently, US Treasury yields will likely become more sensitive to changes in the supply rate in the primary market, which reflects the pace at which the US government is increasing its debt.



**Exhibit 7: Trend in the Fed's Asset Size (US\$ bn)**

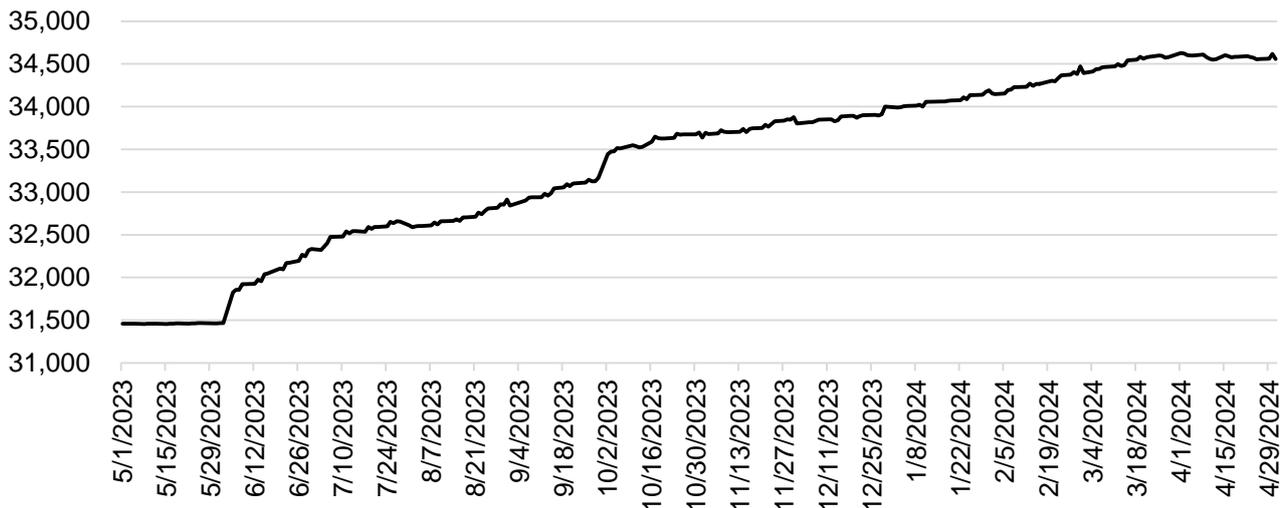
The Fed's reduction in asset size involves continuously selling off its held bonds, which increases the supply of bonds in the secondary market. This tends to exert downward pressure on bond prices or upward pressure on bond yields. From the end of last year to today (May 1), the Fed has reduced its asset size by US\$ 267.7bn



Source (s): the Fed, Bloomberg, ABCI Securities

**Exhibit 8: Trend in US Debt Balance (US\$ bn)**

US debt balance continues to rise, indicating that the government is continuously issuing more bonds in the primary market. This increase in bond supply in the primary market tends to put downward pressure on bond prices or upward pressure on bond yields. From the end of last year to today (May 1), the US debt balance has increased by US\$ 556.8bn



Source (s): the Fed, Bloomberg, 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.

### Disclosures of Interests

ABCI Securities Company Limited and/or its affiliates, within the past 12 months, have investment banking relationship with China Life Insurance and China Overseas Land & Investment.

### Definition of equity rating

Rating	Definition
Buy	Stock return rate $\geq$ Market return rate ( $-7\%$ )
Hold	$-\text{Market return rate } (-7\%) \leq \text{Stock return rate} < \text{Market return rate } (-+7\%)$
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.

Copyright 2024 ABCI Securities Company Limited

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of ABCI Securities Company Limited.

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

**Tel: (852) 2868 2183**