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ABCI SECURITIES COMPANY LIMITED



# Hong Kong Stock Market Weekly Review

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- "618" Online Shopping Festival Boosts E-commerce Stocks, Drives HSI Rebound
- US May ISM Services PMI Soars, Signaling Further Inflationary Pressure in Services Sector
- OPEC+ Announces Production Increase After Sep, Providing Room for the Fed to Cut Interest Rates in 2H24
- ASEAN Manufacturing PMI Exceeds 50 for Five Consecutive Months
- Hong Kong Economy Remains Volatile, Latest PMI Data Shows

## 1. "618" Online Shopping Festival Boosts E-commerce Stocks, Drives HSI Rebound

HSI rebounded this week, rising ~1.6% after two consecutive weeks of decline, primarily driven by the surge in heavyweight e-commerce platforms. The "618" online shopping festival, which began at the end of May, boosted investor sentiment for e-commerce platform stocks. However, in the first week of Jun, Chinese oil stocks and Hong Kong property stocks underperformed the HSI. Following OPEC's announcement to gradually increase production from Sep, crude oil futures prices dropped, causing Chinese oil stocks in Hong Kong and A-share markets to decline this week. Hong Kong's May PMI fell to 49.2, a new low since Dec 2022. According to property price statistics, Hong Kong office and residential prices continue to trend downward. Hong Kong property stocks led the decline in the HSI this week.

Retail sales of new energy vehicles (NEVs) in May rebounded strongly MoM, and automakers also reported strong YoY growth in NEV sales or delivery volumes. However, investors prefer to market leader. BYD (1211 HK) gained approx 3.8%, but NIO (9866 HK), Leapmotor (9863 HK) and Li Auto (2015 HK) fell, XPeng (9868 HK) was flat. We believe that the main factors driving the growth in sales or delivery volumes include automakers launching new models to stimulate demand and the continued growth of the export market. China Passenger Car Association (CPCA) preliminary's forecast was that NEV retail sales would increase by 36%YoY or 17% MoM in May. In the 5M23, BYD's sales grew by ~27% YoY, with domestic sales increasing by ~17% and export sales rising by ~177%. Some NEV manufacturers have launched new models, which not only pose a threat to their competitors but also trigger competition among other models within their own groups. In 5M23, XPeng's delivery volume grew by ~26% YoY, mainly driven by the sales of its X9 MPV model launched at the beginning of 2024. Excluding the X9 model, the total delivery volume of XPeng's other models decreased by ~9% YoY. Li Auto's 5M23 delivery volume grew by ~33% YoY, mainly driven by the launch of its L6 model in May. Excluding the L6 model, the total delivery volume of Li Auto's other models grew by ~19% YoY. Whether NEV manufacturers can sustain the growth momentum of new models and maintain the growth of existing models is a challenge they face.

### Exhibit 1: NEV companies' business performance (chg. in sales volume or delivery volume)

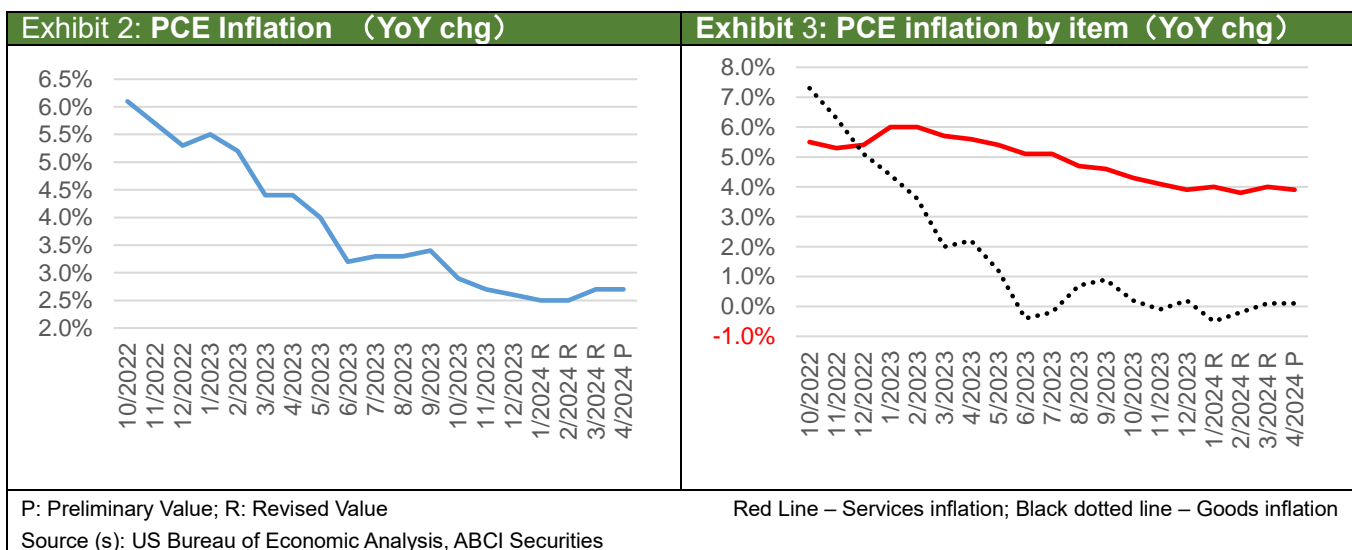
	BYD	Li Auto	XPeng	NIO	Leapmotor
May MoM chg.	6%	36%	8%	32%	21%
May YoY chg.	38%	24%	35%	234%	51%
5M24 YoY chg.	27%	33%	26%	51%	113%

Source (s): Company announcements (unaudited data), ABCI Securities

## 2. US May ISM Services PMI Soars, Signaling Further Inflationary Pressure in Services Sector

Next week, the FOMC meeting of the Fed will be held (Jun 11-12 in US time). Currently, the market expects the Fed to keep the Fed Funds Rate unchanged. The focus of this meeting is for the Fed to announce the economic outlook for 2024/2025, including the outlook for GDP, Fed Funds rate, unemployment rate, and PCE inflation rates. The Fed's economic outlook will affect market expectations for economic risks, liquidity trends, and asset allocation. Currently, the market expects a 60% chance of the Fed cutting interest rates in Sep and a 70% chance of a second rate cut in Dec. The US ISM Services PMI shows the economy remains strong. This week, the US reported that the ISM Services PMI rebounded strongly from 49.4 in Apr to 53.8 in May. The 13 industries that reported growth in May (listed in order) were: real estate and rental and leasing; health care and social assistance; other services; educational services; utilities; wholesale trade; construction; transportation and warehousing; public administration; management of companies and support services; finance and insurance; information; and professional, scientific and technical services. The five industries that reported a decline in May were: retail trade; agriculture, forestry, fishing and hunting; arts, entertainment, and recreation; accommodation and food services; and mining.

The robust services PMI in May indicates significant inflationary pressures in the service sector. According to the May PMI report, 14 service industries reported cost increases in the following order: construction; other services; public administration; wholesale trade; healthcare and social assistance, finance and insurance; management and support services; educational services, professional, scientific and technical services, agriculture, forestry, fishing, and hunting; transportation and warehousing; information; retail trade; utilities. None of the industries reported price decreases in May. The ISM Services PMI data shows an increase in cost-push inflationary pressures in the services sector in May. In 4M24, YoY fluctuations in the PCE services inflation rate were around 4%, while the PCE goods inflation rate remained relatively stable. Therefore, based on the services PMI, it is less likely that the PCE inflation rate in May will decrease.

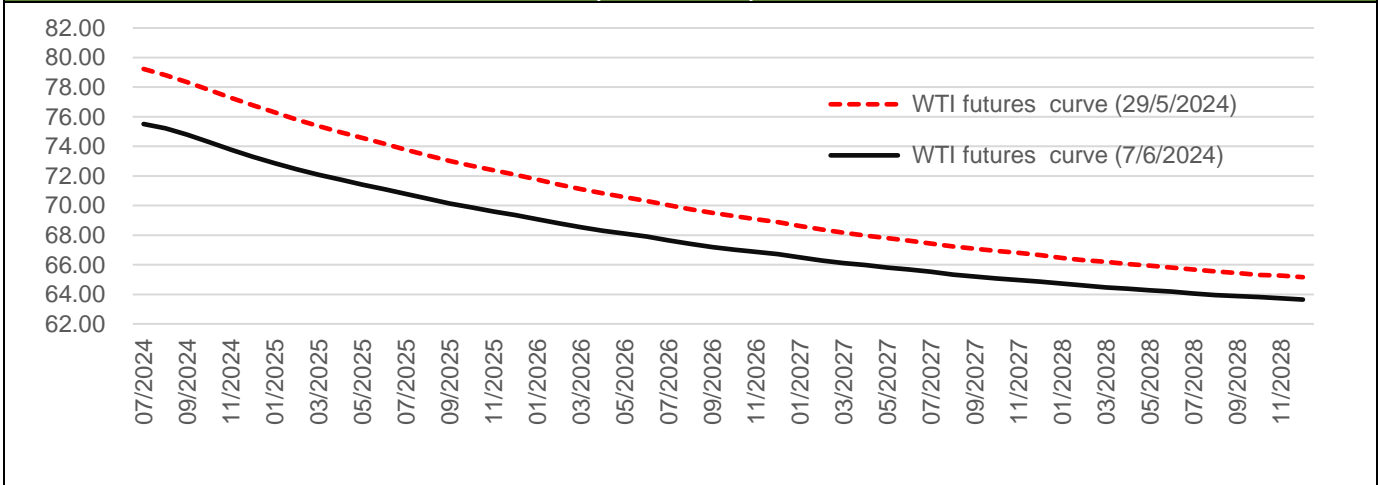


### 3. OPEC+ Announces Production Increase After Sep, Providing Room for the Fed to Cut Interest Rates in 2H24

One of the key factors hindering the decline of the US inflation rate is the rebound in energy inflation pressure. According to US inflation data, the PCE energy inflation rate rose YoY from -4.9% in Jan to -2.3% in Feb, 2.6% in Mar, and 3.0% in Apr. As a result, the overall PCE inflation rate increased YoY from 2.5% in Jan to 2.7% in both Mar and Apr. This gradual rise in the PCE inflation rate reduces the likelihood of the Fed cutting interest rates in the short term.

At the latest OPEC meeting, OPEC+ countries decided to gradually stop voluntary production cuts from Oct 2024 to Sep 2025. In Nov 2023, OPEC+ countries voluntarily cut production by 2.2mn barrels per day until the end-Sep 2024. The gradual stoppage of voluntary production cuts means that crude oil production will gradually increase from Oct 2024. This change directly affects spot and futures crude oil prices. After OPEC's announcement, the crude oil futures curve moved downward this week. The market expects crude oil supplies to increase in 4Q24, which will limit the upward performance of crude oil prices. The upward risk of crude oil prices lies in the demand side; if demand growth exceeds supply growth, crude oil prices will eventually rise. However, in the medium and short term, the certainty of supply increases is greater than that of demand increases. Therefore, crude oil futures have reacted to supply-side factors.

**Exhibit 4: US WTI crude futures curves (US\$/barrel)**

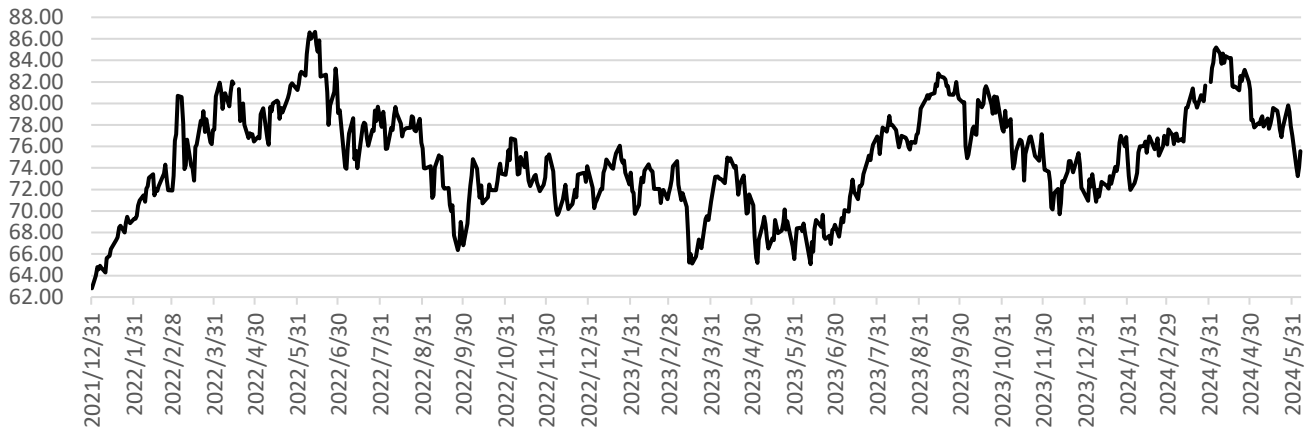


Source(s): NYMEX, Bloomberg, ABCI Securities

High oil prices should benefit oil-exporting countries. Why do OPEC+ countries try to influence market expectations to limit oil price increases? Since 2022, oil prices have been fluctuating within a range, rather than showing an upward or downward trend. Since the US and European central banks began their interest rate hike cycle in 2022 and the Russia-Ukraine conflict broke out, the US WTI crude oil price and European Brent crude oil price have mostly fluctuated within the ranges of US\$ 66-84 per barrel (averaging US\$ 75 per barrel) and US\$ 70-88 per barrel (averaging \$79 per barrel), respectively. These phenomena reflect that the supply side has been continuously adjusting to maintain oil prices within an acceptable range. From the perspective of crude oil futures traders, they know that oil prices near the low

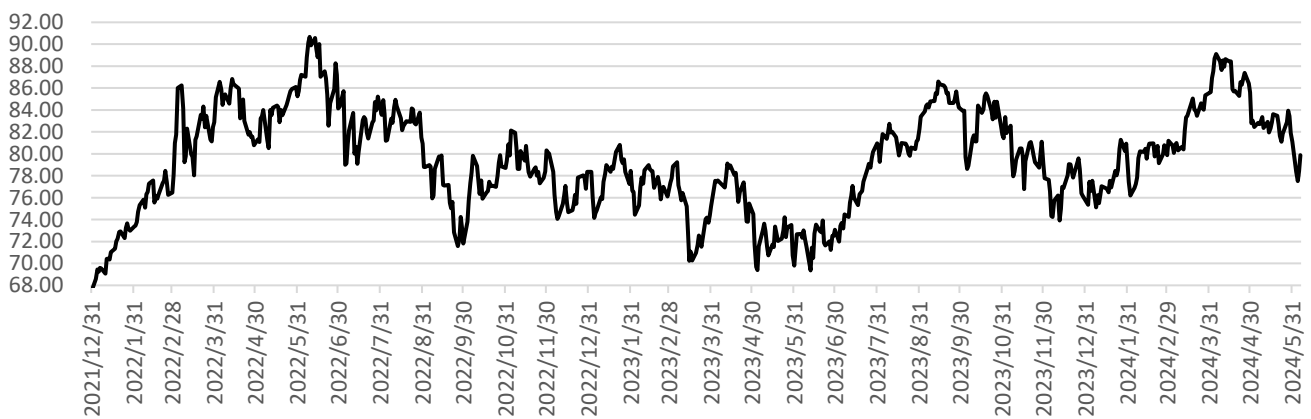
and high ends of the trading range will not last long.

**Exhibit 5: US WTI crude active futures price (US\$/barrel)**



Source(s): Bloomberg, ABCI Securities

**Exhibit 6: Europe Brent crude active futures price (US\$/barrel)**



Source(s): Bloomberg, ABCI Securities

In 2023, the crude oil price presented a low-to-high pattern. This phenomenon will impact the energy inflation outlook for 2024. The high base effect in 2H23 and the expected increase in crude oil supply in 4Q24 will help reduce energy inflation pressure in 2H24. If energy inflation pressure eases in 2H24, it will increase the likelihood of the Fed cutting interest rates in 2H24, especially at the end of 3Q24 or the beginning of 4Q24.

Apart from the OPEC organization, another factor influencing global crude oil supply or US inflation prospects is US crude oil production and export volume. Since mid-2022, although OPEC has reduced production, the US has increased production and exports. US crude oil producers are also beneficiaries of the crude oil price rise in 2023 and 5M24.



Exhibit 7: OPEC crude average daily output (mn barrels/day)

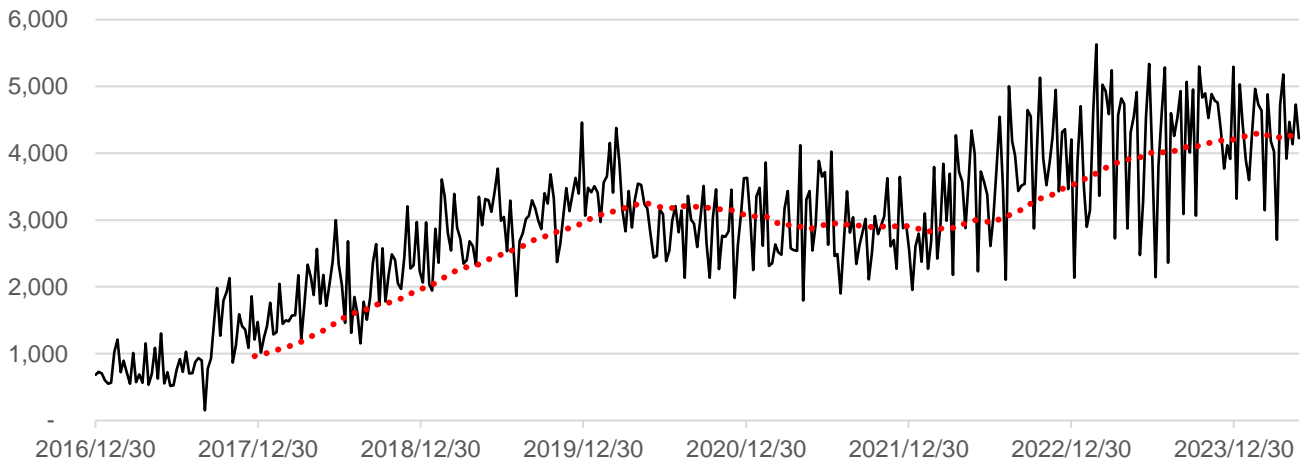


Exhibit 8: US crude average daily output (mn barrels/day)



Source(s): Bloomberg, US Dept of Energy, ABCI Securities

Exhibit 9: US crude average daily export volume ('000 barrels/day)



Red-dot line=52 week moving average line

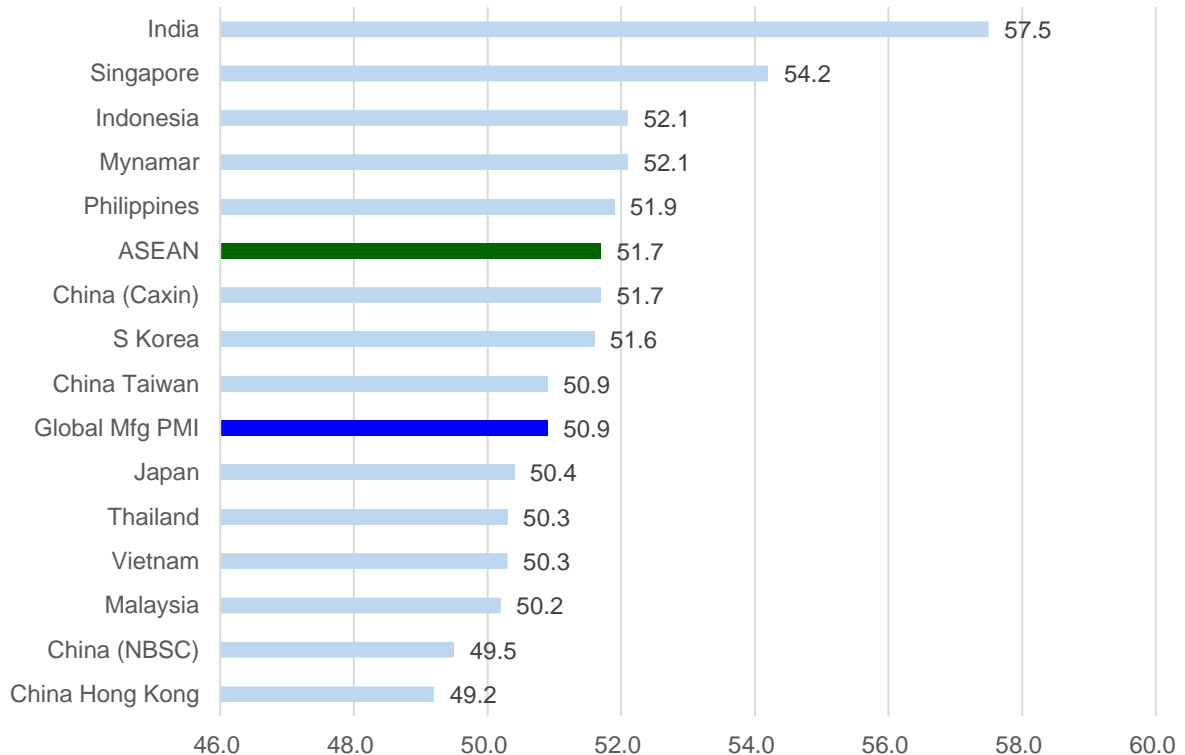
Source(s): Bloomberg, US Dept of Energy, ABCI Securities

#### 4. ASEAN Manufacturing PMI Exceeds 50 for Five Consecutive Months

The ASEAN manufacturing PMI rose from 51.0 in Apr to 51.7, exceeding 50 for five consecutive months, indicating that the region's manufacturing activities have continued to expand in 5M24. This is good news for China's export industry. In 5M24, ASEAN was China's largest trading partner, followed by the EU and the US. In 5M24, China's exports to ASEAN increased by 13.5% YoY to RMB 1675.89bn, while imports from ASEAN increased by 7.0% to RMB 1096.70bn. The trade surplus reached RMB 579.19bn, accounting for about 24% of China's total trade surplus. In 5M24, China's exports to ASEAN increased by 9.7% YoY to US\$ 235.93bn, while imports from ASEAN increased by 3.5% to US\$ 154.40bn. The trade surplus reached US\$ 81.53bn, accounting for about 24% of China's total trade surplus.

Although the overall ASEAN manufacturing activities are expanding, the performance of member countries varies. Singapore, Indonesia, and the Philippines show faster expansion rates in manufacturing activities, while Thailand, Vietnam, and Malaysia show slower expansion rates. The risk lies in the fact that among the major ASEAN member countries, Thailand, Vietnam, and Malaysia are China's top three trading partners. In terms of trade surplus, in 5M24, China's trade surplus with ASEAN countries mainly came from Vietnam, Singapore, Thailand, and the Philippines, while China showed a trade deficit with Malaysia.

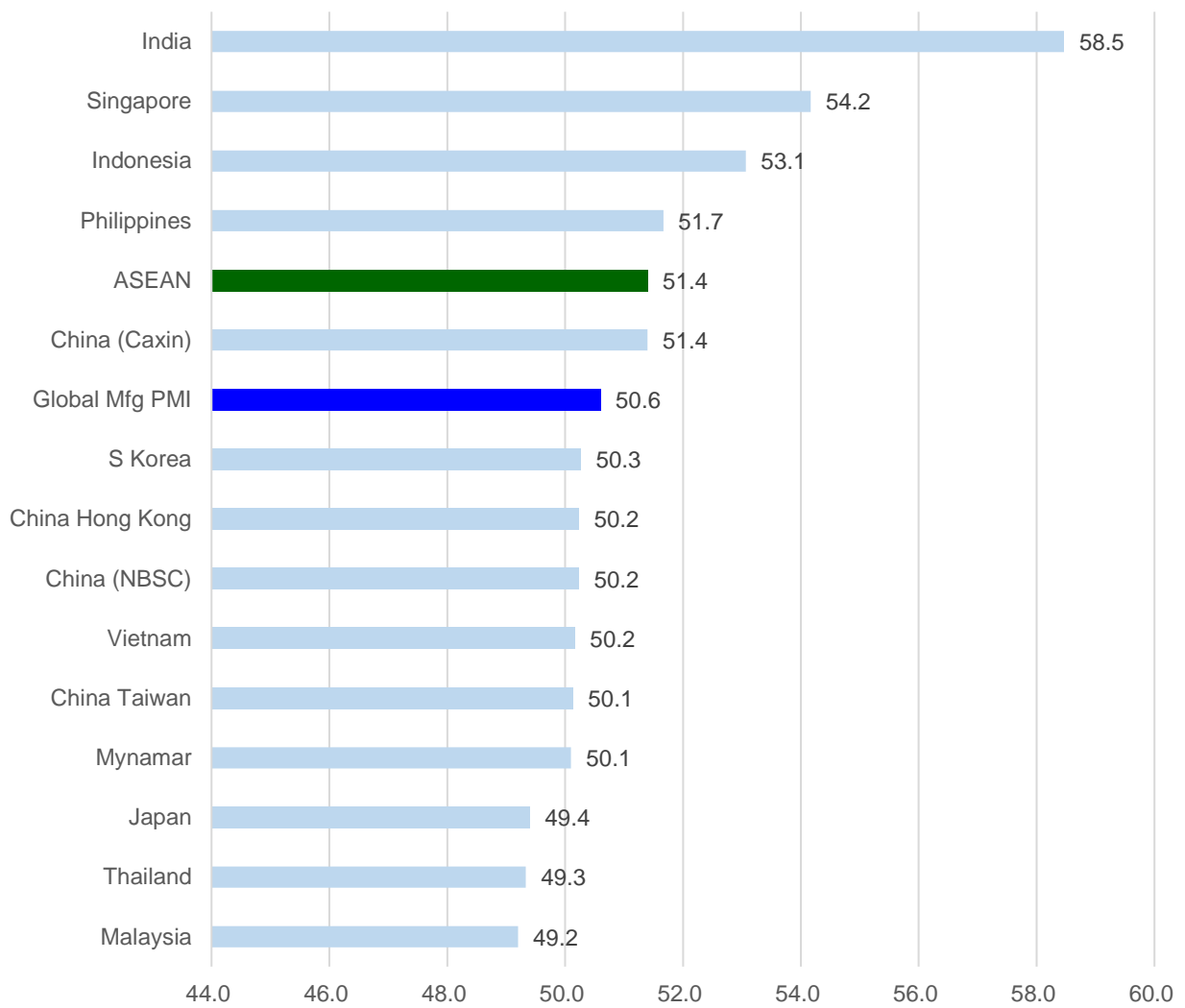
**Exhibit 10: Manufacturing PMI in Asian economies in May 2024**



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



Exhibit 11: Manufacturing PMI in Asian economies (3M avg. till May 2024)



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



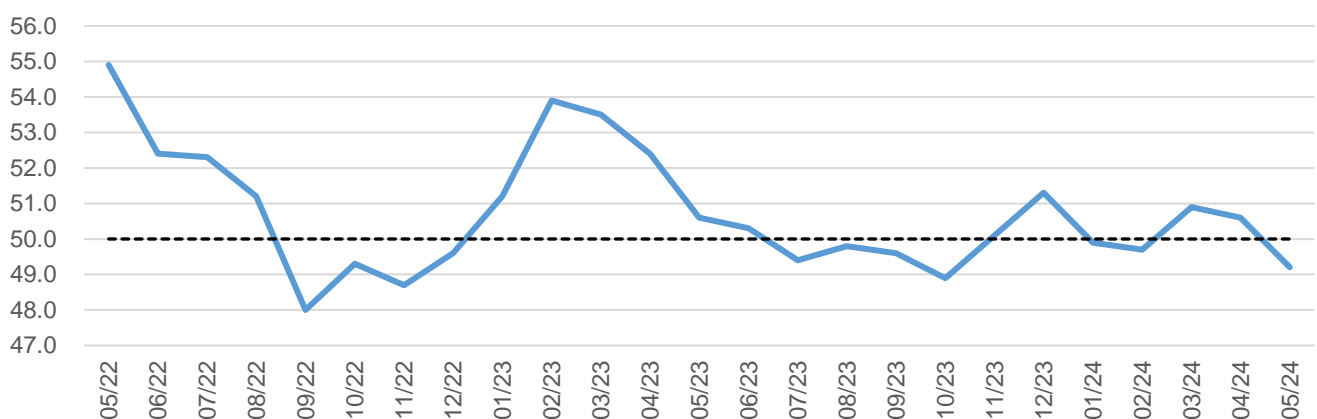
## 5. Hong Kong Economy Remains Volatile, Latest PMI Data Shows

The Hong Kong PMI data for May showed a decline from 50.6 in Apr to 49.2. According to the S&P Global PMI survey for Hong Kong, respondents indicated that intensified competition and sluggish economic conditions affected sales in May, leading companies to absorb cost increases and frequently mention reducing expenses to support sales. By sector, new business volumes in the construction industry declined the most, while production in the manufacturing industry decreased the most. The latest survey showed that export conditions deteriorated, with new business from mainland China and overseas declining significantly. Against the backdrop of declining demand, the employment level in Hong Kong's private sector in May slightly decreased. The overall sentiment in Hong Kong's private sector in May remained pessimistic, with wholesalers and retailers being the most pessimistic. Respondents expressed concerns that intensified competition, price increases, and sluggish economic conditions would cast a shadow over future economic activity.

Hong Kong's unemployment rate fluctuation reflects the instability of economic activities. The rate dropped from 3.5% in Dec 2022 to 2.8% in Sep 2023, then rebounded to 3.0% in Apr 2024. According to the latest PMI survey, the unemployment rate is likely to rise in May.

Although the May PMI data is weak, we should not be overly pessimistic and instead focus on the trend rather than single-month data. We believe that the fluctuations in economic activities have severely impacted business confidence. In the past 6 months, there were three months with a PMI above 50; in the past 12 months, there were five months with a PMI above 50; and in the past 24 months, there were 13 months with a PMI above 50. The PMI data shows that Hong Kong's economic activities frequently oscillate between short-term expansion and short-term contraction. This economic fluctuation pattern will reduce the predictability of business development, thereby reducing business expansion confidence or adopting a more conservative attitude towards business expansion. The HKSAR government needs to take note.

**Exhibit 12: China HKSAR PMI**



PMI survey covers 450 enterprises in manufacturing, construction, wholesales, retail, services industries, etc.

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

## Disclosures

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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.

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### Definition of equity rating

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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