農銀國際
ABC INTERNATIONAL
ABCI SECURITIES COMPANY LIMITED

Hong Kong Stock Market Weekly Review

Jun 14, 2024

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14/6/2024

- **Stocks Rising Against the Trend Highlight Investor Preferences During Market Downturns**
- **Consumer Behavior Highlights the Importance of Tourism Economy: Online Travel Platforms Will Seize the Majority of Business Opportunities**
- **The Fed revises outlook for key economic indicators in the latest interest rate policy meeting**
- **European Commission Announces Temporary Anti-Subsidy Tariffs on Imported Electric Vehicles from China**

1. Stocks Rising Against the Trend Highlight Investor Preferences During Market Downturns

Since the start of the year, the HSI touched its lowest point on Jan 22 at 14,794.16 and its highest on May 20 at 19,706.12. From May 20 to Jun 13 (~4 weeks), the index has decreased by ～8%, indicating a downward adjustment across most of its constituent stocks. Despite this, certain heavyweight stocks have defied the overall market downturn, showcasing distinct investor strategies in asset allocation during times of HSI decline.

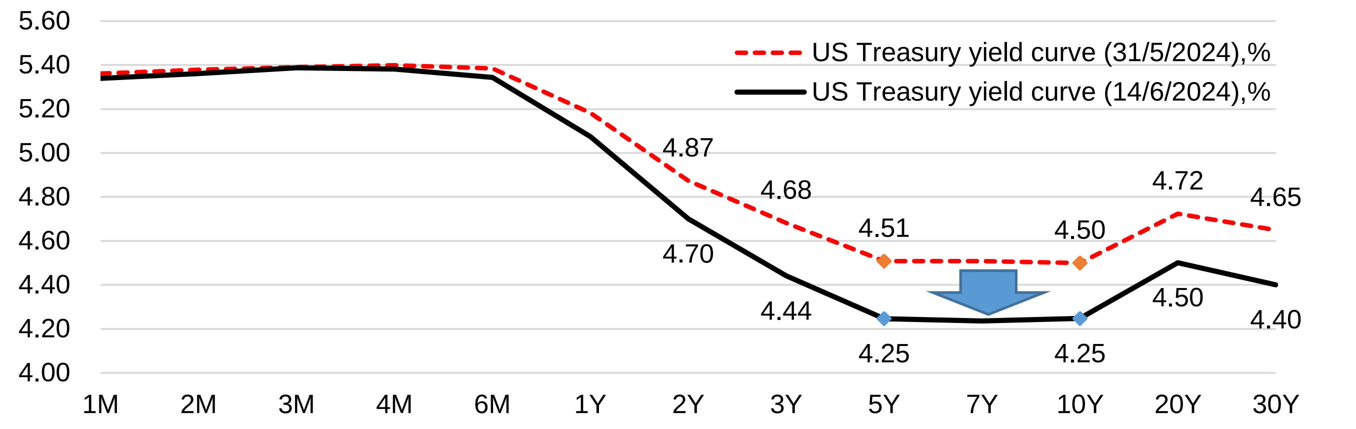
The HSI constituents that have risen against the trend since May 20 include China Resources Power (836 HK), China Shenhua Energy (1088 HK), CNOOC (883 HK), BYD (1211 HK), BYD Electronic (285 HK), China Mobile (941 HK), China Unicom (762 HK), SMIC (981 HK), and Lenovo Group (992 HK). Energy and resource stocks have particularly drawn investor interest, suggesting a belief that economic growth will lead to an increase in energy and electricity demand.

Investors have favored BYD among Chinese NEV manufacturers, viewing the company as a market leader. The anticipated resurgence in global consumer electronics and steady growth in automotive electronics are significant catalysts for BYD Electronic's business expansion. Launches of AI smartphones by Chinese brands and Apple (AAPL US)'s upcoming AI smartphone are expected to catalyze a rapid recovery in consumer electronics in 2023 and beyond. Additionally, the high dividend yields offered by Chinese telecommunications firms continue to attract long-term investors.

This week, the Fed concluded its final FOMC meeting for 1H24. The shifts observed in the US Treasury market during the first half of Jun likely reflect anticipation of at least one rate cut this year. As outlined in the latest economic forecasts from the Jun 11-12 FOMC meeting, the Fed has revised its interest rate projections. It now expects a single rate cut of 25 bps in 2H24, down from the initially forecasted three cuts.

On Jun 13, the US Treasury yield curve, compared to its position on May 31, moved downward, with yields on bonds maturing between 3 and 30 years dropping by 20-25 bps. This movement suggests that the market has already factored in a rate cut. The US government relies on financial market expectations of an imminent rate-cut cycle (i.e., expectations that government bond prices will rise) to attract global investors to US Treasuries, ultimately supporting ongoing government expenditure growth. Since the start of 2024, the US Treasury's total public debt outstanding has risen from US$ 33.99tr on Jan 2 to US$ 34.68tr on Jun 12, an increase of ~US$ 0.69tr. This indicates that holders of US$ 34.68tr in US Treasuries stand to benefit from market expectations of rate cuts or bond price increases, and they are likely to actively promote this perspective in the global financial markets.

Exhibit 1: Treasury yield curve (%)



Source(s): Bloomberg, ABCI Securities

This week, the world's two largest economies, China and the US, unveiled their inflation data, including the Consumer Price Index (CPI) and the Producer Price Index (PPI). Economists utilize these inflation trends to predict monetary policy outcomes or to assess the strength of domestic demand. We suggest examining these figures from an alternative perspective: national cost competitiveness. In global business competition, nations or corporations either compete through cost advantages or product superiority. Analyzing the inflation trends of China and the US over the past 24 months shows that the US is losing its cost competitiveness, while China is gaining it. Consequently, the US is likely to focus on protecting its competitive edge in high-tech sectors. From China's perspective, it is preserving its cost competitiveness and improving its technological capability. Thus, these two economic giants are competing in business from different angles.

Statistical analysis shows a strong correlation between the inflation data of China and the US. The 24-month correlation between China's PPI and the US PPI is 0.89. Simultaneously, the 24-month correlation between China's CPI and the US CPI is 0.95. These statistics suggest that while the inflation rates of the two countries may vary in the short term, their long-term trends are similar, though not necessarily converging.

Exhibit 2: CPI (YoY chg %)

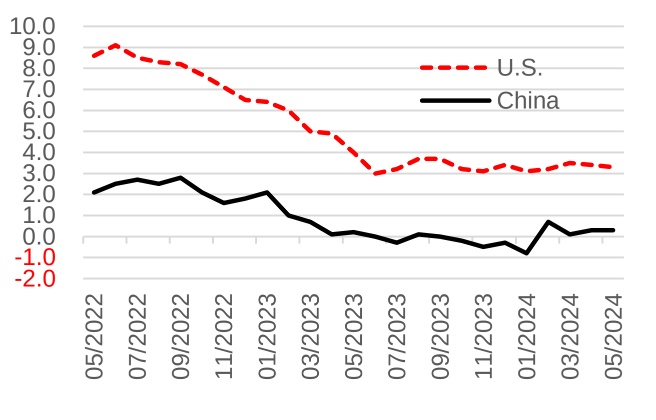
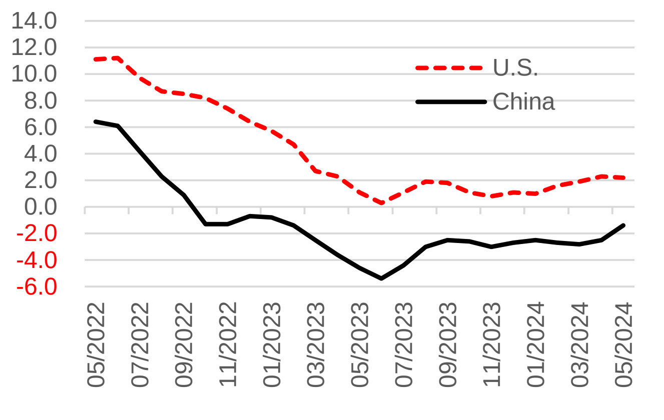


Exhibit 3: PPI (YoY chg %)



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

2. Consumer Behavior Highlights the Importance of Tourism Economy: Online Travel Platforms Will Seize the Majority of Business Opportunities

During the COVID-19 crisis from 2020 to 2022, travel and tourism experienced severe suppression. However, from 2023 onwards, the industry has witnessed a significant rebound. According to the Ministry of Commerce, online travel sales declined by 8.5% in 2020, 16.2% in 2021, and further by 46.0% in 2022. After the COVID-19 crisis subsided, online travel sales surged by 237.5% in 2023, and in 1Q24, they skyrocketed by 95% YoY. Our calculations indicate that online travel sales in 1Q24 have grown by 78% compared to the same period in 2019, reflecting a significant shift in consumer behavior after 2022, with a substantial increase in demand for travel consumption.

Exhibit 4 Online Travel Sales (Annual, YoY chg)

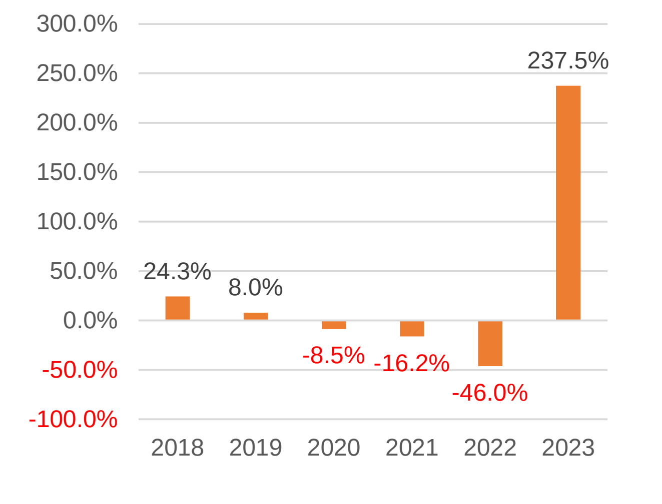
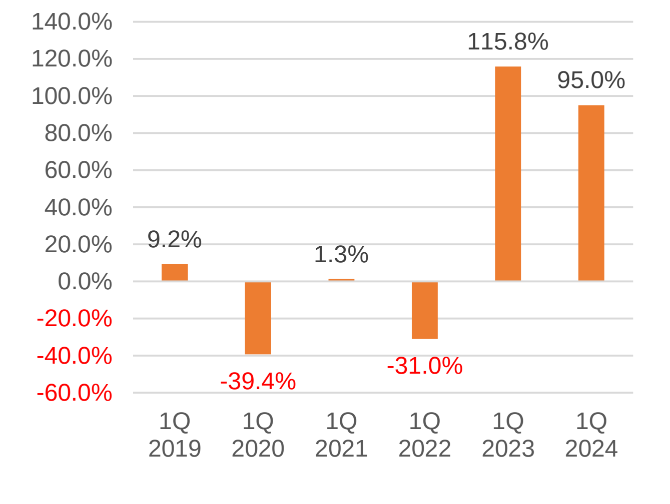


Exhibit 5: Online Travel Sales (1Q, YoY chg)



Source(s): Ministry of Commerce, ABCI Securities

This year, there are seven relatively long holidays in China, which are New Year's Day, Spring Festival, Qingming Festival, Labor Day, Dragon Boat Festival, Mid-Autumn Festival, and National Day. The government combines some holidays with weekends to extend the holiday period. During some holidays, toll roads are free to encourage people to travel.

There have been five longer holidays in the first six months, including the New Year's holiday in Jan, the Spring Festival holiday in Feb, the Qingming Festival holiday in Apr, the Labor Day holiday in May, and the Dragon Boat Festival holiday in Jun. These holidays have successfully boosted tourism consumption. The Ministry of Culture and Tourism releases corresponding consumption statistics after each holiday. We can illustrate the characteristics of the tourism economy through these statistical data.

According to calculations by the Ministry of Culture and Tourism, during the three-day New Year's holiday in 2024, domestic tourism saw 135mn visitors, a YoY increase of 155.3%, and a 9.4% increase compared to the same period in 2019. The total domestic tourism revenue reached RMB 79.73bn, a YoY increase of 200.7%, and a 5.6% increase compared to the same period in 2019. We calculate that the average per capita tourism consumption was ~RMB 590, a YoY increase of ~18%, but a decrease of ~3% compared to the same period in 2019. Based on the three-day holiday, the average daily per capita tourism consumption was ~RMB 197.

During the eight-day Spring Festival holiday in Feb, domestic tourism saw 474mn visitors, a YoY increase of 34.3%, and a 19.0% increase compared to the same period in 2019. The total domestic tourism revenue reached RMB 632.7bn, a YoY increase of 47.3%, and a 7.7% increase compared to the same period in 2019. We calculate that the average per capita tourism consumption was ~RMB 1,345, a YoY increase of ~10%, but a decrease of ~9% compared to the same period in 2019. Based on the 8-day holiday, the average daily per capita tourism consumption was ~RMB 168.

These tourism consumption figures are averages for reference purposes. However, the average daily consumption per tourist can reflect their daily spending capacity. The fact that the average daily tourism consumption during the holiday period was less than RMB 200 suggests that most tourists are not willing to engage in high-end consumption.

According to calculations by the Ministry of Culture and Tourism, during the three-day Qingming Festival holiday in Apr, domestic tourism saw 119mn visitors, a YoY increase of 11.5% compared to the same period in 2019. The total domestic tourism revenue reached RMB 53.95bn, a YoY increase of 12.7% compared to the same period in 2019.The average per capita tourism consumption was ~RMB 453, a YoY increase of ~1% compared to the same period in 2019. Based on the three-day holiday, the average daily per capita tourism consumption was ~RMB 151. The Qingming Festival holiday in 2024 differs from 2023 as it extended to only a single day. According to the Ministry of Culture and Tourism's data, during the Qingming Festival holiday in 2023, domestic tourism saw 23.8mn visitors, with a total domestic tourism revenue of RMB 6.52bn, and an average per capita tourism consumption of ~RMB 274.

During the Labor Day holiday in early May, domestic tourism saw a total of 295mn visitors, a YoY increase of 7.6%, and a 28.2% increase compared to the same period in 2019. The total domestic tourism revenue reached RMB 166.9bn, a YoY increase of 12.7%, and a 13.5% increase compared to the same period in 2019. We calculate that the average per capita tourism consumption was ~RMB 566, a YoY increase of ~5%, but a decrease of ~11% compared to the same period in 2019. Based on the 5-day holiday, the average daily per capita tourism consumption was ~RMB 113.

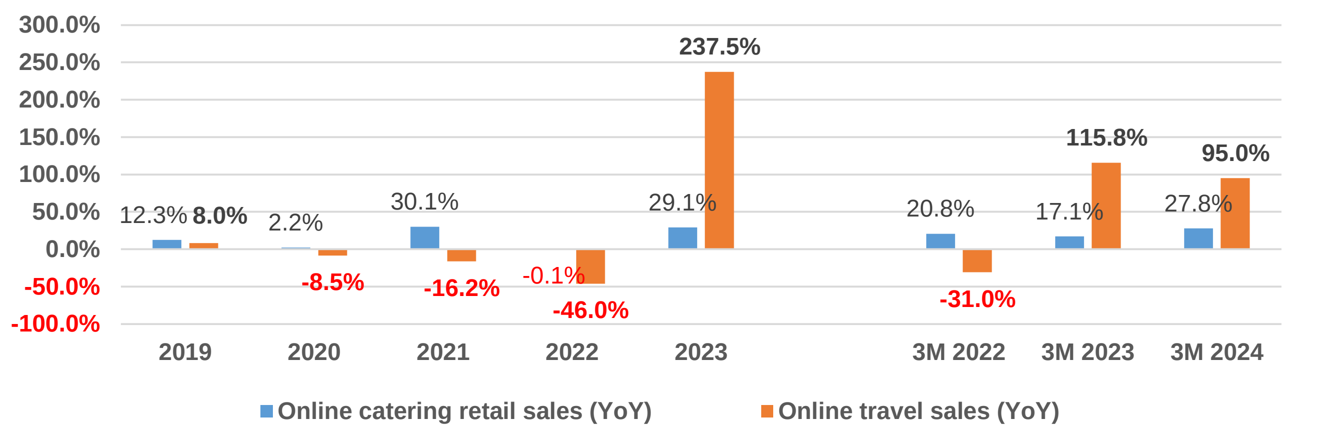
Dragon Boat Festival holiday in mid-Jun saw a total of 110mn domestic tourists, indicating a 6.3% YoY increase. The total expenditure by domestic tourists during this period reached RMB 40.35bn, showing an 8.1% YoY growth. The average per capita consumption for travel was ~RMB 367, representing a 2% increase compared to the previous year. Calculated based on the three-day holiday duration, the average daily expenditure per person was ~RMB 122.

These statistics indicate some key features of the tourism economy. Firstly, tourism consumption has become a driving force for overall consumer spending growth. According to the Ministry of Culture and Tourism, the total expenditure on travel during the 1H24, including five holidays, amounted to nearly RMB 970bn . Secondly, most travelers are price-sensitive, with an average daily expenditure of around 100-200 RMB. They actively seek affordable options for dining, accommodation, transportation services, and attractions with no or low entrance fees. Thirdly, due to the short duration of holidays, travelers need to plan their trips efficiently to avoid unnecessary time spent on transportation. The high-speed rail network has made intercity travel more efficient, and toll-free highways have reduced the transportation costs of self-driving trips. Finally, online platforms that can provide the mentioned services and address common pain points of travelers will capture significant business opportunities.

Year-to-date (up till Jun 13), online travel platforms Ctrip (9961 HK), Meituan (3690 HK), Tongcheng (780 HK), and US-listed Tuniu (TOUR US) have seen respective increases of 42%, 42%, 18%, and 55%. During the same period, the Hang Seng Consumption Index slightly rose by 0.5%.

In 2H24, there will be two months of summer vacation in Jul and Aug, a three-day Mid-Autumn Festival holiday in mid-Sep, and a seven-day National Day holiday in early Oct. These are all peak seasons for tourism consumption. In 2023, the Mid-Autumn Festival and National Day holidays overlapped, resulting in an eight-day holiday. In 2024, these two holidays are separated, resulting in a 10-day holiday period.

Exhibit 6: Online catering retail sales (YoY chg) vs. Online travel sales (YoY chg)



Source(s): Ministry of Commerce, ABCI Securities

3. The Fed revises outlook for key economic indicators in the latest interest rate policy meeting

Following the FOMC meeting on Jun 11-12, the Fed has decided to maintain the fed funds rate unchanged, as expected by the market. However, they have revised the forecasts for key economic indicators for 2024 and the coming years. The Fed now predicts a slower decline in inflation pressures in 2H24 compared to previous expectations. They also anticipate a slightly higher unemployment rate in 2025 than previously anticipated. Additionally, the expected rate cuts in the federal funds rate for 2024-2025 are smaller than previously expected. Nevertheless, GDP growth remains consistent with previous expectations. In summary, the Fed's message to the financial markets is that despite the prolonged presence of high-interest rates, the US economy continues to exhibit resilience, with a low likelihood of stagflation risks. However, it will take a longer period for inflation pressures to subside. It should be noted that the financial markets may not fully align with the Fed's economic outlook.

The Fed is expected to lower interest rates by 25 bps in 2H24. However, the interest rate futures market indicates traders anticipate two rate cuts during that period. They project a 25-bps cut in Sep and another 25-bps cut in Dec. During the Jun FOMC meeting and previous meetings, the Fed reaffirmed its focus on containing inflation pressures rather than prioritizing employment. Assuming this focus remains unchanged in 2H24, the inflation trend will be the primary factor influencing interest rate decisions. With the Nov US presidential election approaching, the Democratic Party, represented by President Biden, may prefer to decrease the unemployment rate through rate cuts to secure more voter support.

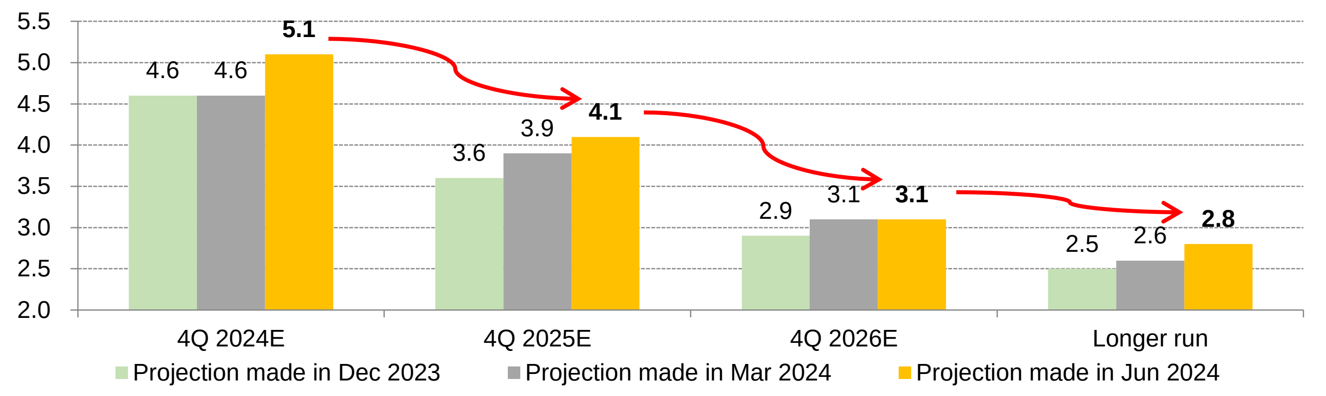
The Fed currently predicts that the unemployment rate in the US will remain at 4.0% in 4Q24, which is on par with the rate recorded in May. However, they expect the unemployment rate to rise to 4.2% in 4Q25. In order to maintain this expectation, it is crucial to continue expanding the service sector to generate new job opportunities. One potential risk is the recent volatility observed in the service industry. The ISM Services PMI declined from 51.4% in Mar to 49.4% in Apr, but rebounded to 53.8% in May.

The Fed anticipates a single interest rate cut in 2H24 instead of the two rate cuts that the market currently expects. It predicts that the YoY inflation rate for PCE and the core PCE inflation rate in 4Q24 will be 2.6% and 2.8% respectively, compared to 2.7% and 2.8% in Apr. The PCE inflation data for May will be released on Jun 28 (US time). Trend analysis indicates that persistent inflationary pressures in PCE services and inflationary pressures from energy prices are offsetting the deflationary pressures from PCE durable goods. The new inflation risk is the gradual increase in PCE non-durable goods inflationary pressure since Feb. Energy price fluctuations are the main driver of energy inflation volatility. However, wage increases contribute to sustained inflationary pressure in the services sector and the gradual rise in non-durable goods inflation pressure.

In general, the Fed still expects the US economy to slow down, potentially as a measure to contain inflationary pressures. The Fed predicts that the YoY GDP growth rate in 4Q24 will decrease to 2.1%. For 1Q24, the YoY growth rate is projected to be 2.9%, and for 4Q23, it is expected to be 3.1%.

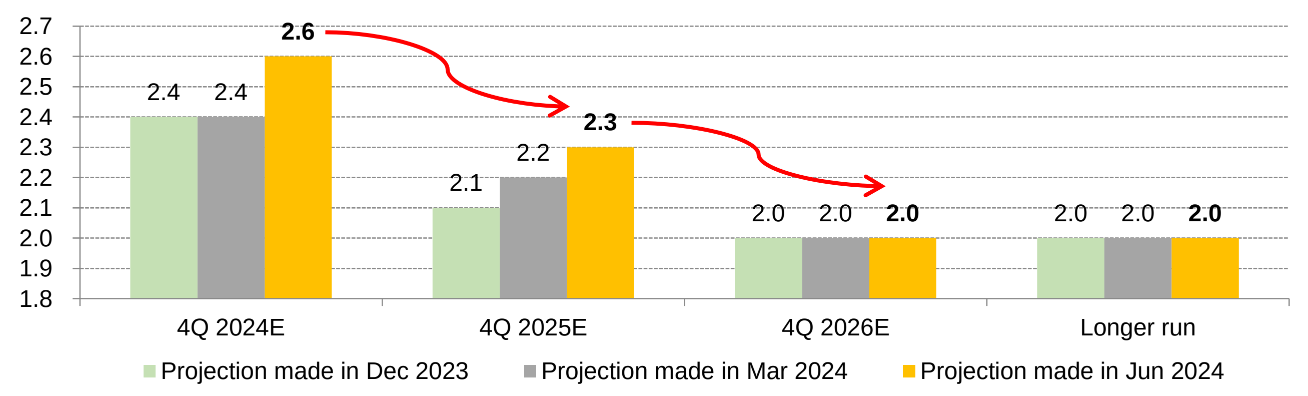
The likelihood of multiple interest rate cuts by the Fed in 2024 has decreased, leading to a stronger USD against the offshore RMB. Since May, the USD has appreciated from a low of CNY 7.1653 on May 3 to CNY 7.2662 on Jun 13 (the day after the conclusion of the Fed's FOMC meeting). The lowest point for the USD/CNY exchange rate in 1H24 was CNY 7.1102 on Jan 2, while the highest point was CNY 7.2831 on Apr 16. In the Hong Kong currency futures market, the prices for Sep and Dec contracts are CNY 7.2209 and CNY 7.1750 per USD, respectively. The key factors to watch are whether the Fed will initiate an interest rate cut cycle in 4Q24 and whether the PBOC will implement a new round of interest rate cuts in 2H24.

Exhibit 7: The Fed's estimates for the median fed funds rate（%）



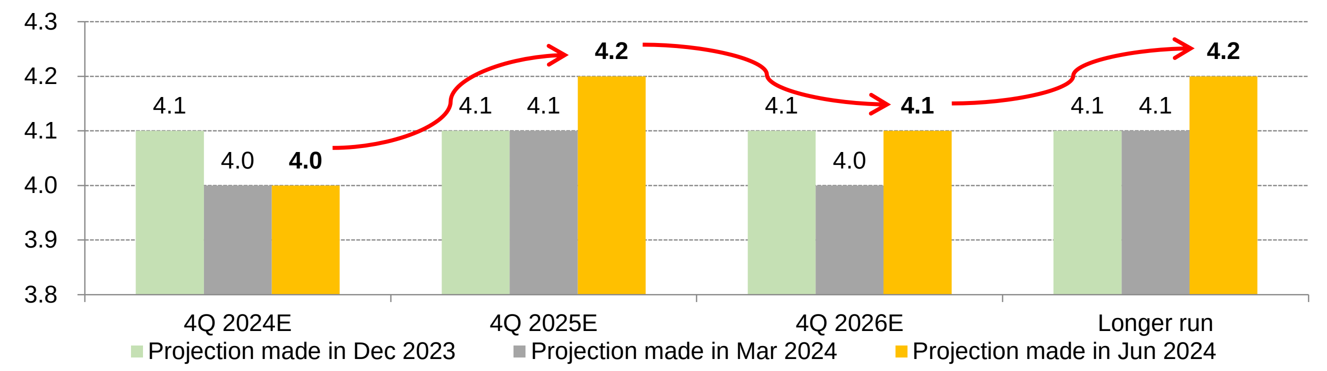
Note: The current federal funds rate is 5.33%
Source(s): Fed's estimates, ABCI Securities

Exhibit 8: The Fed's estimates for median PCE inflation rate (%)



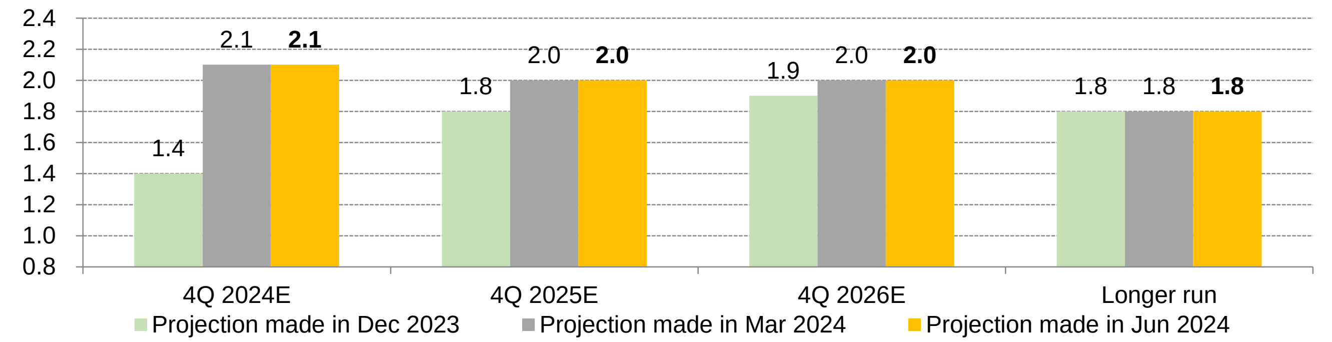
Note: In Apr 2024, the YoY PCE inflation rate was 2.7%.
Source(s): Fed's estimates, ABC International Securities

Exhibit 9: The Fed's estimates for the median unemployment rate（%）



Note：Unemployment rate in May 2024 was 4.0%
Source(s): Fed estimates, ABCI Securities

Exhibit 10: The Fed's estimates for the median GDP growth rate (YoY %)



Source(s): Fed estimates, ABCI Securities

Exhibit 11: US unemployment trends up (%)

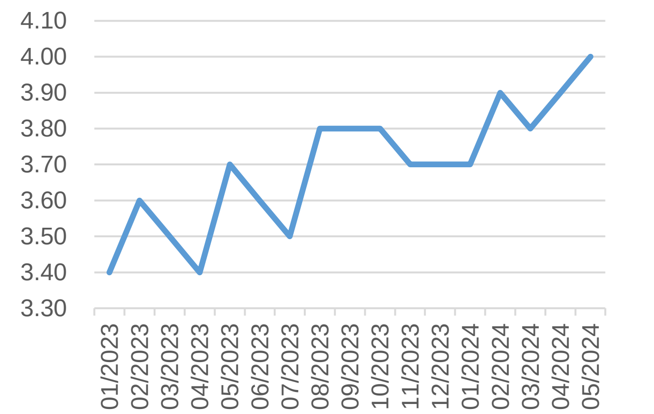


Exhibit 12: The US CPI inflation trend is fluctuating in a limited range（YoY chg）

Source(s): Bloomberg, ABCI Securities

4. European Commission Announces Temporary Anti-Subsidy Tariffs on Imported Battery Electric Vehicles from China

The European Commission has announced its engagement with Chinese authorities to discuss the findings of the subsidy investigation and explore WTO-compliant solutions. Against this backdrop, the European Commission has released preliminary information about the temporary anti-subsidy tariff levels imposed on imported Battery Electric Vehicles (BEVs) from China. Without a mutually satisfactory resolution through the ongoing discussions, these temporary anti-subsidy tariffs will be implemented, commencing on Jul 4 through a guarantee mechanism (specific implementation details to be determined by customs authorities of member states). These tariffs will only be applicable upon the collection of definitive duties.

The Commission has specified the individual anti-subsidy tariff rates to be imposed on three Chinese manufacturers:

• BYD (1211 HK): 17.4%

• Geely (175 HK): 20%

• SAIC Motor (600104 CH): 38.1%

The Commission has announced that other Chinese BEV manufacturers who cooperated with the investigation but were not sampled will face a weighted average tariff rate of 21%. All other Chinese BEV manufacturers that did not cooperate with the investigation will be subject to the remaining tariff rate of 38.1%. The Commission has mentioned that a separate final-stage calculated tariff rate may be assigned to Chinese-produced Tesla vehicles.

These important data points are crucial for investors to assess risks accurately.

From Jan to Apr, China exported ~557,496 units of passenger BEV, with a YoY growth of 21.0%. The export value reached US$ 11.586 bn, increasing by 6.4% YoY. The average export unit price was US$ 20,782 per vehicle (~RMB 150,500). The majority of exported BEVs were small compact cars, with a smaller share of larger electric vehicles in the export market.

Considering additional tariff rates ranging from 17.4% to 38.1%, the average tariff amount for each vehicle would be ~ US$ 3,616 to ~US$ 7,918. This estimation is based on the average export unit price of passenger BEVs. The impact of these tariff amounts on Chinese BEV manufacturers depends on the purchasing power of European consumers, given the increased import cost of Chinese BEV by approximately ~US$ 3,600 to ~US$ 8,000 per vehicle.

Furthermore, these tariffs specifically target BEVs and currently exclude plug-in hybrid electric vehicles (PHEVs) and hybrid electric vehicles (HEVs) from China. However, there is a possibility that the EU may expand the scope of import tariffs to include PHEVs and HEVs in the future. While the export volume of Chinese PHEVs and HEVs is relatively small compared to BEVs, the former two are experiencing significant growth. In the first four months (Jan-Apr), China exported 92,820 units of PHEVs and 59,719 units of HEVs, with YoY growth rates of 148% and 492%. The average export unit prices for PHEVs and HEVs were US$ 27,870 and

US$ 20,527. Based on the average export unit prices, it can be inferred that the majority of exports consist of compact NEVs.

Exhibit 13: Average export price of passenger BEVs (US$ 10,000/unit)

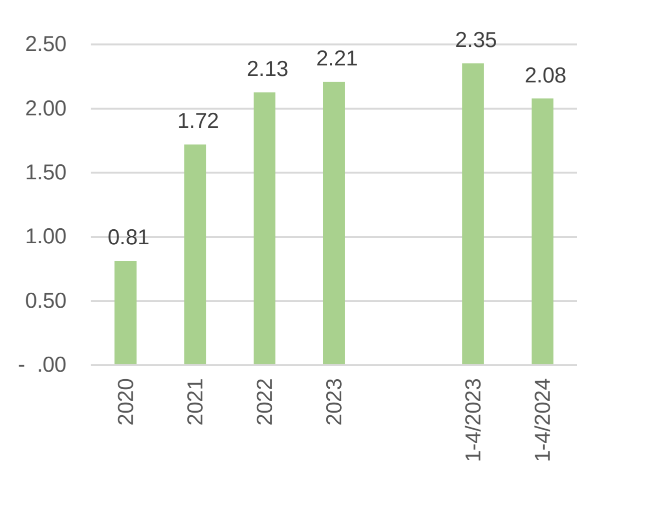
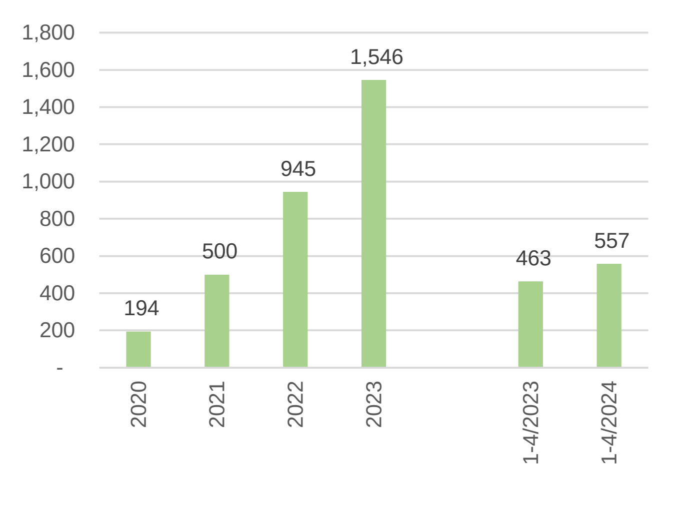


Exhibit 14: Export volume of passenger BEVs（'000 units）



Source(s): China Customs, ABCI Securities

Taking BYD as an example, in the first five months (Jan-May), the sales of NEVs reached 1.271mn units, with a YoY growth of 27%. Among them, exports accounted for ~176k units, experiencing a significant YoY increase of 177%, while domestic sales reached 1.095 mn units, with a YoY growth of 17%. The export volume accounted for 14% of the total sales. Despite the rapid growth in the export market, the domestic market remains the primary source of revenue for BYD.

Exhibit 15: Sales volume of BYD's NEVs in China (units)

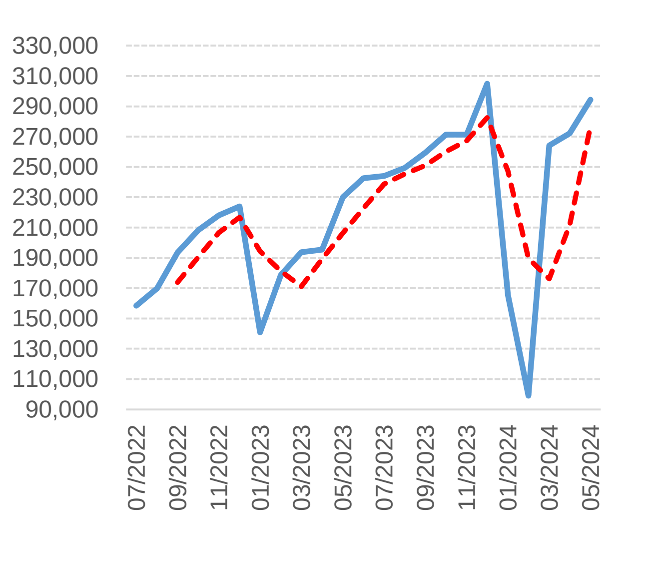
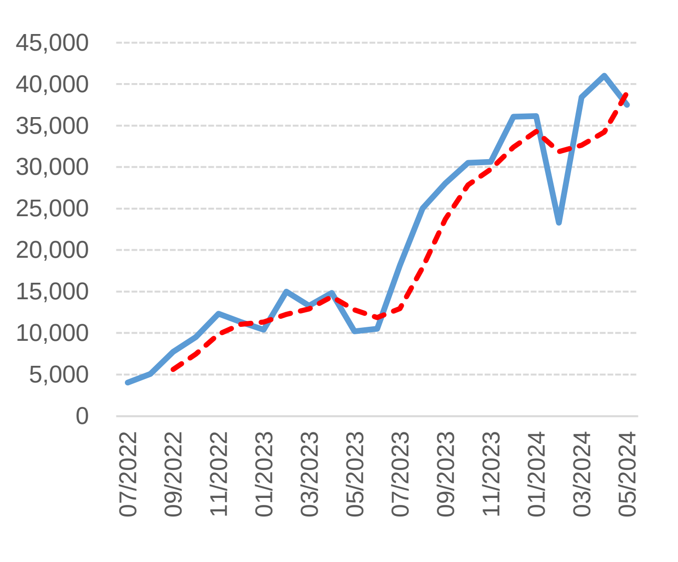


Exhibit 16: Sales volume of BYD's NEV export (units)



Source(s): BYD, ABCI Securities

Red dashed line represents 3M avg

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.

ABCI Securities Company Limited and/or its affiliates, within the past 12 months, have investment banking relationship with BYD.

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

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