

January 6, 2023

Economic Acumen

Commentary by CEBI Research Team

In Brief

- Throughout 2022, sizable U.S. rate hikes to tame inflation, unresolved energy and food supply-chain disruptions, China's Covid lockdowns and abrupt switch from zero-Covid policy alongside geopolitical risks were dominant factors enhancing turbulent fluctuation of global financial markets. Stock markets across the globe have been on volatile swing, which has been mainly driven by uncertain economic outlook and tightening liquidity flow.
- Turning towards 2023, the trajectory of the stock markets continues to demonstrate split trend around the globe. The intensification of economic and geopolitical headwinds will lead to slower global growth, thus enhancing fears of growing recession risks. The complication of global economy paves the way for more near-term fluctuations in financial markets but provides more investment opportunities in different markets and sectors.
- We are of the view that as the economic expansion driven by China's reopening and rebounding domestic demand broadens out, investors' optimism will escalate under which China and HK equities point to embrace for volatile rally in 2023.

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Cautious optimism circling China and HK markets

Throughout 2022, sizable U.S. rate hikes to tame inflation, unresolved energy and food supply-chain disruptions, China's Covid lockdowns and abrupt switch from zero-Covid policy alongside geopolitical risks were dominant factors enhancing turbulent fluctuation of global financial markets. Stock markets across the globe have been on volatile swing, which has been mainly driven by uncertain economic outlook and tightening liquidity flow. Amid these impediments, the U.S. stock markets closed out with significant correction as reversal of monetary easing has led to a protracted economic adjustment to the U.S. economy with which high borrowing costs aim at cooling pricing pressures but decelerate the growth of economic activities. China and Hong Kong (HK) stock markets plagued more than 15% on slumping environment on tightening financial conditions, ongoing pandemic, slower growth of China, Russia-Ukraine crisis and tight China-US tensions. Turning towards 2023, the trajectory of the stock markets continues to demonstrate split trend around the globe. The global economy will continue to brace for a synchronized wave of monetary tightening to curb inflation, which causes falling purchasing power and a spike in unemployment. The intensification of economic and geopolitical headwinds will lead to slower global growth, thus enhancing fears of growing recession risks. The complication of global economy paves the way for more near-term fluctuations in financial markets but provides more investment opportunities in different markets and sectors. We are of the view that as the economic expansion driven by China's reopening and rebounding domestic demand broadens out, investors' optimism will escalate under which China and HK equities point to embrace for volatile rally in 2023.

Global tightening policy actions remaining intact to worsen U.S. and Eurozone markets Four-decade high inflation forced the Federal Reserve (Fed), Bank of England (BoE), and European Central Bank (ECB) to aggressively hike interest rates with which the resulting tighter financial conditions put downward pressure on equity markets and increased bond yields in 2022. Looking forward,

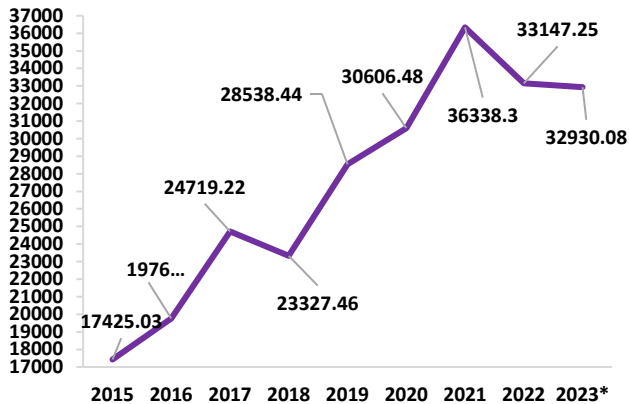
worldwide energy and commodity prices recently demonstrate slowing trend alongside drop of aggregate demand for goods and services, thus providing room for central banks to be embedded into slower pace of future rate hikes. Amid cumulative impacts of liquidity tightening during 2022, we expect global inflation will soften alongside accelerated cooling of economic growth in coming quarters. Rate-sensitive personal consumption and investment will continue to face deceleration, thus enlarging the downside risks of global economy. Worldwide liquidity conditions still remain tight, suggesting a negative backdrop for equities in the U.S and Eurozone.

China stock markets reviving upside momentum on reopening initiative in 2023. Amid Covid-induced lockdowns disrupting economic activities, China's economy faced growth headwinds since 4Q2022 as there were signs of weakness emerging from major economic indicators. The pandemic takes toll on factory output, business operations and services. Complicated situations of Covid waves deteriorate economic conditions, thus leading to further drop of industrial activities and consumption. Looking forward, China has entered a new phase to combat the pandemic as the government relaxed rigorous policy of lockdowns and mass testing. We are of the view that China stock markets will start to rebound on expectation of further economy's reopening coupled with additional stimulus measures to boost growth momentum of economic activities. Cyclical sectors such as financials, tourism and property will outperform while electric vehicle manufacturers will benefit from policy support. China's pursuit of self-reliance and strength in science and technology overweight the technology sector while renewable energy sector continues to benefit from China's environmental policy. In sum, as China has stepped in the stage of reopening through switch from the 'zero-Covid' policy, the pro-growth policy stance creates more favorable conditions for equity markets, with which we expect Shanghai composite index and Shenzhen component index will face near-term fluctuating swings with upside of 10% and 20% for 2023.

HK markets embracing gradual rebound in 2023. China's growth headwinds linked to work and consumption disruptions driven by Covid lockdowns alongside China's property market meltdown triggered heavy sell-off of HK markets in 2022 with which HangSeng Index (HSI) experienced sizable correction of more than 15%. Looking forward, HK markets are poised to rebound as China's policymakers have stepped up efforts on policy stimulus through adjustment of Covid control policies and sector-related financial supports to defuse uncertainties of economic environment and prop up consumer confidence. We believe HK banks will outperform on widening net interest margins. 'New economy' sector such as information technology and healthcare will rebound from the bottom and China's consumer discretionary sector such as sportswear and beers as well as tourism-related sectors such as airlines, gambling and retail will maintain strong growth momentum amid China's

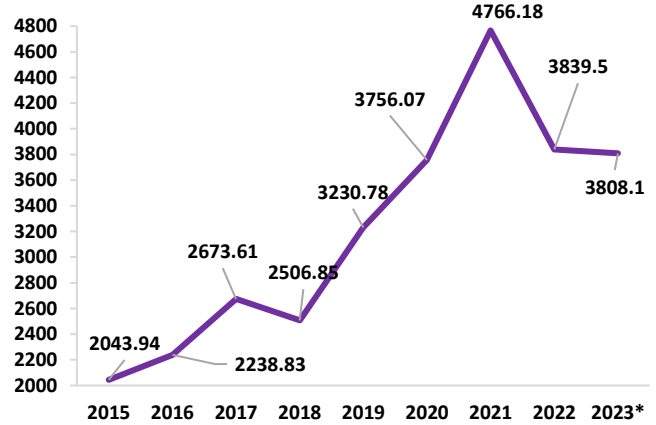
incentive to normalize economic activities and cultivate a consumption-led economy. We are of the view that HK equities will restore a steady upward momentum in 2023 after 2022's dip. We remain positive on HK equity markets in anticipation of more China and HK policy supports to drive reopening of economic activities. Attractive valuation of HK markets should bring more liquidity and draw more buying interest. **We forecast that the HSI will fluctuate between 21,200 and 23,500 with 2023 price-earning (P/E) multiples of 9.5x and 10.5x while HSCEI will reach between 7,290 and 7,700 with 2023 P/E multiples of 9.0x and 9.5x.**

Fig. 1: DJIA Index



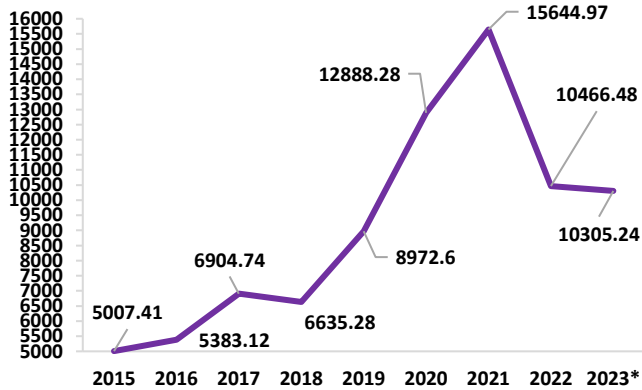
Source: Bloomberg * 5th January

Fig. 2: S&P 500 Index



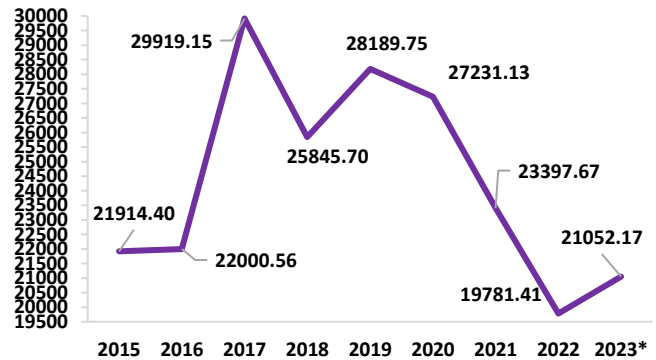
Source: Bloomberg * 5th January

Fig. 3: NASDAQ Composite Index



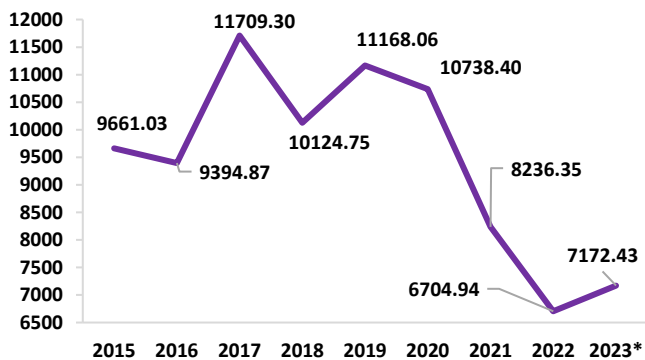
Source: Bloomberg * 5th January

Fig. 4: Hang Seng Index



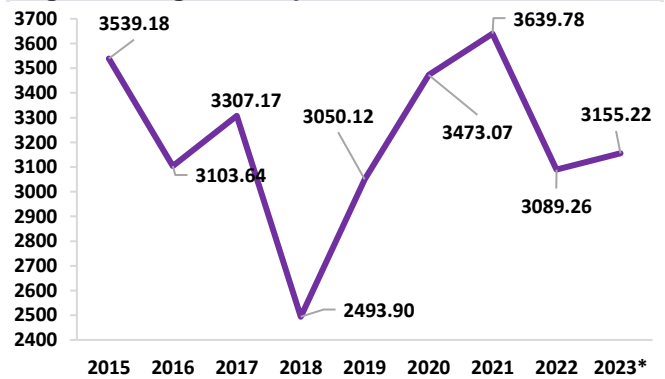
Source: Bloomberg * 5th January

Fig. 5: HSCEI Index



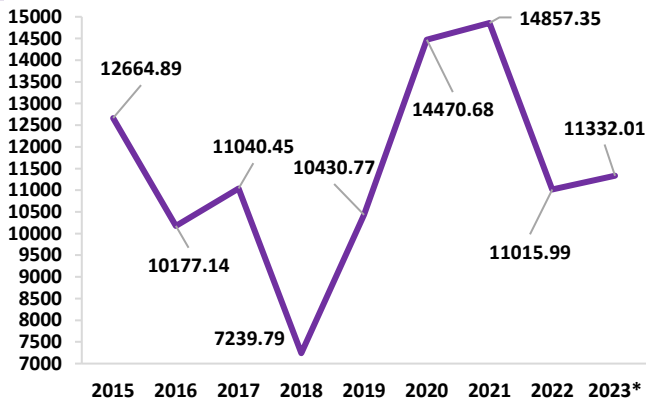
Source: Bloomberg * 5th January

Fig. 6: Shanghai Composite Index



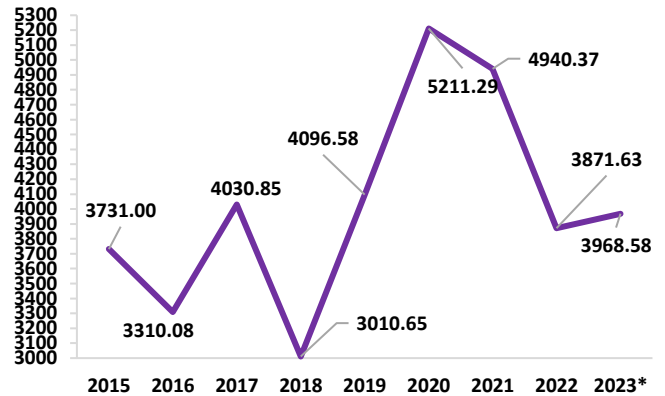
Source: Bloomberg * 5th January

Fig. 7: Shenzhen Component Index



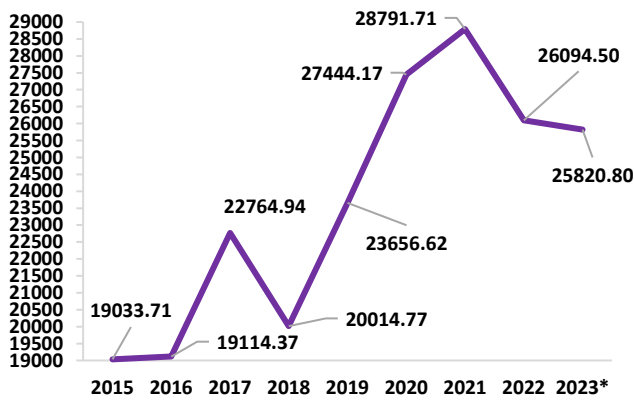
Source: Bloomberg * 5th January

Fig. 8: CSI300 Index



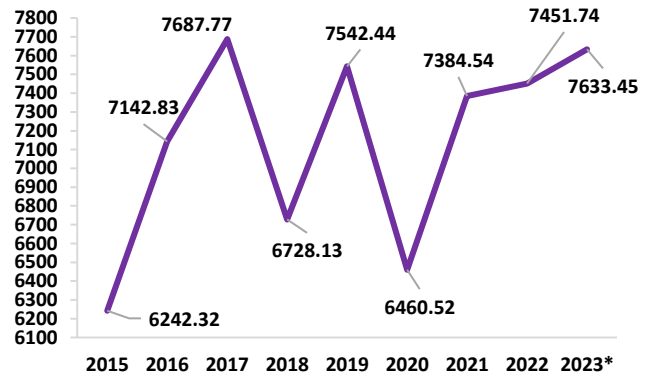
Source: Bloomberg * 5th January

Fig. 9: NIKKEI 225 Index



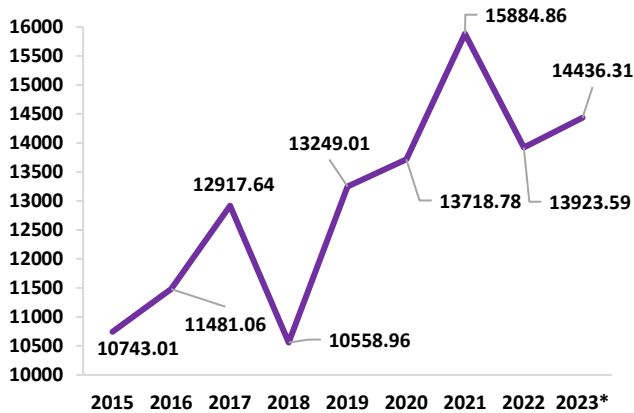
Source: Bloomberg * 5th January

Fig. 10: FTSE 100 Index



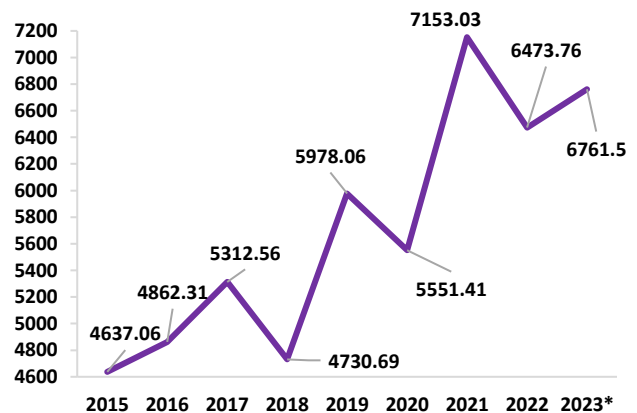
Source: Bloomberg * 5th January

Fig. 11: DAX Index



Source: Bloomberg * 5th January

Fig. 12: CAC40 Index



Source: Bloomberg * 5th January

China economic indicators

| | 2019 | 2020 | 2021 | 1Q2022 | 2Q2022 | 3Q2022 | 4Q2022 | 2022 |
|------------------------------------|---------|---------|---------|---------|--------|--------|--------|------|
| Real GDP (YoY%) | 6.0 | 2.2 | 8.4 | 4.8 | 0.4 | 3.9 | - | - |
| PMI Manufacturing (%) | 50.2 | 51.9 | 50.3 | 49.9 | 49.1 | 49.5 | 48.1 | 47.0 |
| PMI Non-Manufacturing (%) | 53.5 | 55.7 | 52.7 | 50.4 | 48.1 | 52.3 | 45.7 | 41.6 |
| Exports (RMB YoY %) | 5.0 | 4.0 | 21.0 | 13.2 | 12.6 | 15.4 | - | - |
| Imports (RMB YoY %) | 1.7 | (0.2) | 21.5 | 8.5 | 1.5 | 5.4 | - | - |
| Trade Balance (RMB/bn) | 2912.0 | 3634.2 | 4330.0 | 981.2 | 1453.7 | 1796.5 | - | - |
| Exports (USD YoY %) | 0.5 | 3.6 | 29.6 | 15.5 | 12.4 | 10.3 | - | - |
| Imports (USD YoY %) | (2.7) | (0.6) | 30.0 | 10.6 | 1.3 | 0.7 | - | - |
| Trade Balance (USD/bn) | 421.1 | 524.0 | 670.4 | 154.2 | 224.2 | 266.1 | - | - |
| CPI (YoY %) | 2.9 | 2.5 | 0.9 | 1.1 | 2.2 | 2.7 | - | - |
| PPI (YoY %) | (0.3) | (1.8) | 8.1 | 8.7 | 6.8 | 2.5 | - | - |
| FAI (YTD/ YOY %) | 5.4 | 2.9 | 4.9 | 9.2 | 4.2 | 5.7 | - | - |
| Real Estate Investment (YTD YoY %) | 9.9 | 7.0 | 4.4 | 0.7 | (9.0) | (20.7) | - | - |
| Industrial Production (YoY %) | 5.7 | 2.8 | 9.6 | 6.5 | 0.6 | 4.8 | - | - |
| Retail Sales (YoY%) | 8.0 | (3.9) | 12.5 | 3.3 | (4.6) | 3.5 | - | - |
| New Lending (RMB/bn) | 16815.7 | 19632.9 | 19945.1 | 8338.9 | 5340.1 | 4407.0 | - | - |
| M2 (YoY %) | 8.7 | 10.1 | 9.0 | 9.7 | 11.4 | 12.1 | - | - |
| Aggregate Financing (RMB bn) | 25673.5 | 34791.8 | 31351.0 | 12049.2 | 8971.5 | 6766.4 | - | - |

| | Dec 21 | Jan 22 | Feb 22 | Mar 22 | Apr 22 | May 22 | Jun 22 | July 22 | Aug 22 | Sept 22 | Oct 22 | Nov 22 | Dec 22 |
|--|--------|--------|--------|--------|--------|--------|--------|---------|--------|---------|--------|--------|--------|
| Real GDP (YoY%) | 4.0 | - | - | 4.8 | - | - | 0.4 | - | - | 3.9 | - | - | - |
| PMI - Manufacturing % | 50.3 | 50.1 | 50.2 | 49.5 | 47.4 | 49.6 | 50.2 | 49.0 | 49.4 | 50.1 | 49.2 | 48.0 | 47.0 |
| PMI - Non-manufacturing% | 52.7 | 51.1 | 51.6 | 48.4 | 41.9 | 47.8 | 54.7 | 53.8 | 52.6 | 50.6 | 48.7 | 46.7 | 41.6 |
| Exports (RMB YoY %) | 17.3 | 20.8 | 3.9 | 12.6 | 1.5 | 14.6 | 21.2 | 24.1 | 12.1 | 10.6 | 7.0 | 0.7 | - |
| Imports (RMB YoY %) | 16.0 | 18.0 | 9.6 | (0.9) | (1.8) | 2.3 | 3.9 | 6.9 | 4.3 | 5.1 | 6.8 | (1.1) | - |
| Trade Balance (RMB/bn) | 596.7 | 524.2 | 174.9 | 282.0 | 313.4 | 496.4 | 643.9 | 686.7 | 540.5 | 569.4 | 587.2 | 490.2 | - |
| Export (USD YoY %) | 20.9 | 24.0 | 6.1 | 14.3 | 3.5 | 16.2 | 17.1 | 18.2 | 7.5 | 5.7 | (0.2) | (8.9) | - |
| Import (USD YoY %) | 19.5 | 21.0 | 11.8 | 0.7 | 0.2 | 3.5 | 0.1 | 1.8 | 0.1 | 0.3 | (0.7) | (10.6) | - |
| Trade Balance (USD/bn) | 93.2 | 82.2 | 27.5 | 44.5 | 49.3 | 77.8 | 97.1 | 101.9 | 80.1 | 84.1 | 85.3 | 69.3 | - |
| CPI (YoY %) | 1.5 | 0.9 | 0.9 | 1.5 | 2.1 | 2.1 | 2.5 | 2.7 | 2.5 | 2.8 | 2.1 | 1.6 | - |
| PPI (YoY %) | 10.3 | 9.1 | 8.8 | 8.3 | 8.0 | 6.4 | 6.1 | 4.2 | 2.3 | 0.9 | (1.3) | (1.3) | - |
| FAI (YTD/ YOY %) | 4.9 | - | 12.2 | 9.3 | 6.8 | 6.2 | 6.1 | 5.7 | 5.8 | 5.9 | 5.8 | 5.3 | - |
| Real Estate Investment (YTD/ YoY %) | 4.4 | - | 3.7 | 0.7 | (2.7) | (4.0) | (5.4) | (6.4) | (7.4) | (8.0) | (8.8) | (9.8) | - |
| Industrial Production (YoY %) | 4.3 | - | 7.5 | 5.0 | (2.9) | 0.7 | 3.9 | 3.8 | 4.2 | 6.3 | 5.0 | 2.2 | - |
| Retail Sales (YoY%) | 1.7 | - | 6.7 | (3.5) | (11.1) | (6.7) | 3.1 | 2.7 | 5.4 | 2.5 | (0.5) | (5.9) | - |
| New Lending (RMB/bn) | 1131.8 | 3980.0 | 1233.6 | 3125.4 | 645.4 | 1888.4 | 2806.3 | 679.0 | 1254.2 | 2473.8 | 615.2 | 1210.0 | - |
| M2 (YoY %) | 9.0 | 9.8 | 9.2 | 9.7 | 10.5 | 11.1 | 11.4 | 12.0 | 12.2 | 12.1 | 11.8 | 12.4 | - |
| Aggregate Financing (RMB bn) | 2368.3 | 6177.0 | 1218.4 | 4653.8 | 936.8 | 2840.6 | 5194.1 | 762.8 | 2462.3 | 3541.3 | 907.9 | 1987.4 | - |
| Urban Unemployment Rate (%) | 5.1 | 5.3 | 5.5 | 5.8 | 6.1 | 5.9 | 5.5 | 5.4 | 5.3 | 5.5 | 5.5 | 5.7 | - |
| Urban Unemployment Rate in 31 major cities (%) | 5.1 | 5.1 | - | 6.0 | 6.7 | 6.9 | 5.8 | 5.6 | 5.4 | 5.8 | 6.0 | 6.7 | - |

World Economic/Financial Indicators

| Global Indices | | | |
|-------------------|---------------|-------|-----------------|
| Index | Closing Price | P/E | One Week chg(%) |
| U.S. | | | |
| DJIA | 32,930.08 | 18.95 | 0.17 |
| S&P 500 | 3,808.10 | 18.43 | 0.66 |
| NASDAQ | 10,305.24 | 42.80 | 0.90 |
| EUR | | | |
| FTSE 100 | 7,633.45 | 14.32 | 1.82 |
| DAX | 14,436.31 | 13.35 | 2.59 |
| CAC40S | 6,761.50 | 13.98 | 2.86 |
| STOXX EUR 600 | 439.33 | 15.05 | 2.09 |
| Asia | | | |
| HSI | 21,052.17 | 7.58 | 5.80 |
| HSCEI | 7,172.43 | 6.57 | 5.90 |
| CSI300 | 3,968.58 | 14.59 | 2.51 |
| SSE Composite | 3,155.22 | 14.27 | 2.20 |
| SZSE Composite | 2,037.14 | 37.57 | 3.18 |
| NIKKEI 225 | 25,820.80 | 17.47 | (2.37) |
| KOSPI | 2,264.65 | 10.69 | (0.69) |
| TWSE | 14,301.05 | 10.40 | 0.90 |
| S&P/ASX 200 | 7,063.63 | 14.28 | (0.32) |
| MSCI Index | | | |
| MSCI WORLD | 2,594.69 | 16.63 | (0.66) |
| MSCI DEVELOPED | 605.70 | 15.71 | (0.28) |
| MSCI EMERGING | 984.00 | 11.01 | 2.77 |
| MSCI US | 3,609.44 | 18.82 | 0.67 |
| MSCI UK | 2,196.18 | 14.12 | 1.78 |
| MSCI France | 191.99 | 16.15 | 2.59 |
| MSCI Germany | 144.65 | 12.55 | 3.80 |
| MSCI China | 69.37 | 11.98 | 7.85 |
| MSCI Hong Kong | 13,971.81 | 19.88 | 4.15 |
| MSCI Japan | 1,138.67 | 13.37 | (2.09) |

* As of 2023/1/05 closing for all markets

| Money market | | |
|----------------------------------|-----------|-----------------|
| | Yield (%) | One Week chg(%) |
| US Fed Fund Rate | 4.50 | 0.00 |
| US Prime Rate | 7.50 | 0.00 |
| US Discount Window | 4.50 | 0.00 |
| ECB Rate (Refinancing) | 2.50 | 0.00 |
| BOJ Policy Rate | (0.10) | 0.00 |
| US Treasury (1 Mth) | 4.0974 | 0.6064 |
| US Treasury (1 Yr) | 4.7533 | 0.0973 |
| US Treasury (5 Yr) | 3.9132 | (0.0279) |
| US Treasury (10 Yr) | 3.7181 | (0.0964) |
| US Treasury (30 Yr) | 3.7941 | (0.1042) |
| 1-Month LIBOR | 4.3843 | 0.0007 |
| 3 Month LIBOR | 4.7884 | 0.0586 |
| Japan 1-Yr Gov. Bond | (0.003) | 0.001 |
| Japan 10-Yr Gov. Bond | 0.434 | (0.027) |
| German 1-Yr Gov. Bond | 2.761 | 0.191 |
| German 10-Yr Gov. Bond | 2.316 | (0.122) |
| China LPR (1-year) | 3.65 | 0.00 |
| China 1-Yr Gov. Bond | 2.063 | (0.237) |
| China 5-Yr Gov. Bond | 2.609 | (0.056) |
| China 10-Yr Gov. Bond | 2.837 | (0.034) |
| O/N SHIBOR | 0.574 | 0.052 |
| 1-mth SHIBOR | 2.189 | (0.143) |
| HK Base rate | 4.75 | 0.00 |
| O/N HIBOR | 1.7720 | 0.3044 |
| 1-mth HIBOR | 3.5774 | (0.8413) |
| O/N CNH HIBOR | 1.6662 | (0.0102) |
| 1-mth CNH HIBOR | 2.1117 | (0.2247) |
| Corporate Bonds (Moody's) | | |
| Aaa | 4.59 | (0.13) |
| Baa | 5.76 | (0.13) |

| Global Commodities | | | |
|------------------------|-----------|----------|-----------------|
| | Unit | Price | One Week chg(%) |
| Energy | | | |
| NYMEX WTI | USD/bbl | 73.67 | (6.70) |
| ICE Brent Oil | USD/bbl | 78.69 | (4.34) |
| NYMEX Natural | USD/MMBtu | 3.72 | (21.00) |
| Basic Metals | | | |
| LME Aluminum | USD/MT | 2,222.95 | (5.42) |
| CMX Copper | USD/lb. | 382.10 | (0.56) |
| LME Steel Rebar | USD/MT | 694.00 | 3.35 |
| LME Lead Cash | USD/MT | 2,264.75 | 0.00 |
| Precious Metals | | | |
| CMX Gold | USD/T. oz | 1,849.09 | 2.58 |
| Gold Futures | USD/T. oz | 1,840.60 | 1.37 |
| CMX Silver | USD/T. oz | 23.47 | (1.29) |
| NYMEX Platinum | USD/T. oz | 1,085.81 | 5.89 |
| Agricultural | | | |
| CBOT Corn | USD/bu | 652.75 | (4.39) |
| CBOT Wheat | USD/bu | 746.75 | (4.93) |
| NYB-ICE Sugar | USD/lb. | 19.34 | (4.07) |
| CBOT Soybeans | USD/bu. | 1,470.75 | (2.87) |

| Currency market | | |
|--------------------|-----------|-----------------|
| | Spot Rate | One Week chg(%) |
| US Dollar Index | 105.04 | 0.55 |
| Euro/USD | 1.0619 | (0.16) |
| GBP/USD | 1.2026 | (0.07) |
| AUD/USD | 0.6828 | 1.65 |
| USD/CAD | 1.3507 | (0.65) |
| USD/JPY | 132.48 | (0.99) |
| USD/CHF | 0.9264 | 0.08 |
| USD/CNY Midpoint | 6.8926 | (1.08) |
| USD/CNY | 6.8804 | (1.45) |
| USD/CNY NDF-12-mth | 6.7149 | (1.43) |
| USD/CNH | 6.8754 | (1.42) |
| USD/HKD | 7.8090 | 0.20 |
| CNY/HKD | 1.1352 | 1.43 |
| CNH/HKD | 1.1358 | 1.64 |
| USD/KRW | 1,269.50 | 0.19 |
| USD/TWD | 30.72 | (0.01) |
| USD/SGD | 1.3389 | (0.73) |
| USD/INR | 82.55 | (0.31) |

All data sources: Bloomberg

Disclosures

Analyst Certification

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