

Weekly Market Commentary Report

10 Jun19 Monday

Global Market Review and Outlook

Global assets showed a little relief last week. Most of the equity markets bounced from the recent low with Dow and S&P500 up more than 4%, DAX 30 +2.72%, as the U.S. reached a deal to avert tariffs on Mexico, and the disappointing US jobs report last Friday further strengthened market's belief on the Fed rate cut as soon as next month. Bond traders flocked into treasuries, marking 2-year yield dropped for a fifth straight week and the 10-year rate sank to 2.05%, its lowest since 2017. High hopes of rate cut also shown with steepening yield curves, with 5 and 30-year yield spread reach to the steepest level since 2017 and 2 to 10-year yield spread edged to year high (Fig 1).

Since investors expected the Fed to cut, if not, what will happen to the market? Only a bigger news could divert investors' attention, say like lift the imposition of China tariff will do the job. Bumpy road ahead, VIX is waiting to spike. In the week ahead, US worse than expected inflation figure probably intensifies US 2-year yield to another yearly low 1.76%.

Global central bankers are ready to cut.

PBOC Governor Yi Gang said Chinese monetary policy has tremendous room to respond to any negative developments, marking they are ready to act anytime to support the economy. The offshore yuan tested its low since November. China and HK market closed for holiday last Friday. China will release reports on consumer and producer prices, industrial production, retail sales and trade for May, which will be clues showing the impact of trade war. As near one-third of HSI companies fell to less than RSI 30 (Fig 2), most in nearly one year, pointing to a dip-buying opportunity for short term trading.

Other countries also came to act, RBA cut its benchmark rate to a record low after three years pause, and India also cut and pave for more easing. Central Bank of Russia Governor Elvira Nabiullina indicate the possibility to cut rates next week, and market also expect the Swiss National Bank may further cut their key interest rate below zero amid franc appreciation. ECB pledged to stick with rock-bottom rates for longer time.

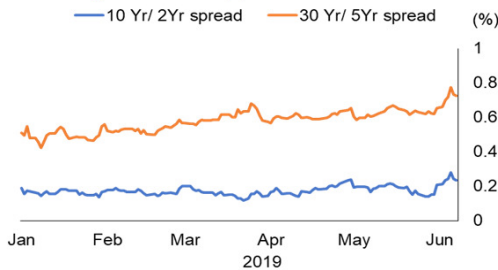
Will oil price recover?

Crude price found its support after it had fallen more than 20% from \$66.6 high, settled at \$54. The OPEC+ alliance likely to extend production cut, and US-Mexico reached a deal supported the oil from the recent selloff. Yet, inventories and production from US are still high, and trade war between US-China remains the wildcard for market.

Strengthening Sterling

The news of Labor party probably win the holding of parliament seat pushed Sterling 0.82% higher last week as the market expect that Labor will vote on "Second referendum" instead of "hard Brexit". We expect uncertainty in parliament election continue weighing on domestic activity, and this should also mean that BOE is likely to remain on hold during the year in comparison to other central banks. Wider interest rate spread underpins Sterling to 1.29.

Fig 1. The steepest US treasury yield curve in 2019

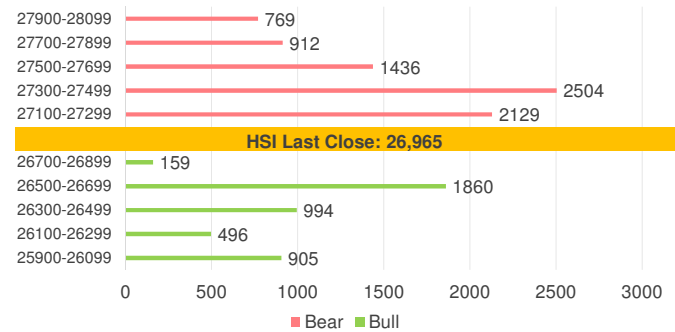


HSI Past 30 Days Performance



Source: HKEX

HSI CBBC Distribution



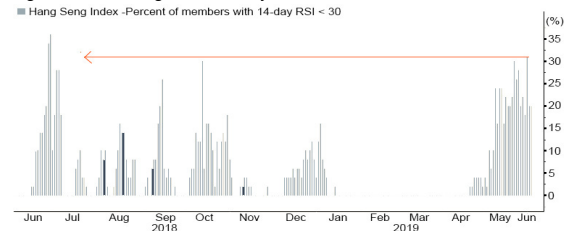
Source: HKEX as of 07 Jun19

Indices

	Closing	Performance Chg. (%)			Valuation Ratio (X)	
		WTD	MTD	YTD	PE	PB
HSI	26965.3	0.2	0.2	4.3	10.6	1.2
HSCEI	10334.3	-0.5	-0.5	2.1	8.1	1.0
SHCOMP	2827.8	-2.4	-2.4	13.4	10.9	1.3
SHSZ300	3564.7	-1.8	-1.8	18.4	11.3	1.5
NIKKEI 225	21098.5	1.4	1.4	4.3	15.1	1.5
S&P 500	2873.3	4.4	4.4	14.6	17.2	3.1
DJIA	25983.9	4.7	4.7	11.4	16.1	3.7
NASDAQ COM	7742.1	3.9	3.9	16.7	22.9	4.3
CAC 40	5364.1	3.0	3.0	13.4	14.0	1.5
DAX	12045.4	2.7	2.7	14.1	13.1	1.5
FTSE 100	7331.9	2.4	2.4	9.0	12.8	1.7

Source: Bloomberg as of 08 Jun19

Fig 2. Oversold signal in 14-day RSI indicator



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News Tracker

Hong Kong Industries Movers and News Tracker

1) Internet Service industry: Iresearch has announced China enterprise SaaS industry report 2019. It expects the market revenue will maintain 39% CAGR from 2019 to 2021 to RMB 65.4 bn. Industry leading companies, particular **Inspur Int'l (0596.HK)** further uncover their intrinsic value.

Robust growth with margin improvement

The company recorded revenue and net profit HKD 2.5 bn and 0.32 bn, representing 24.3% and 132.8% yoy growth respectively. Gross margin increased 2.9% to 38.4%, mainly attributable to rapidly growth in cloud business and at the same time its GP margin was higher than other operation business.

Comprehensive cloud service enjoys market growth

The company is leader in management software market with 18.1% market share in 2018. On the other side, its large enterprise platform GS Cloud embraces large enterprise value chain in digital transformation. For SME, the company develops open source industrial ecosystem, which enables developers collaborative R&D, industrial chain and financial sharing.

Undemanding Valuation

In our view, cloud service leader deserve high valuation given its strong growth momentum. The company's 14x FY19E is lower than industrial average from Bloomberg estimate.

Market Movers

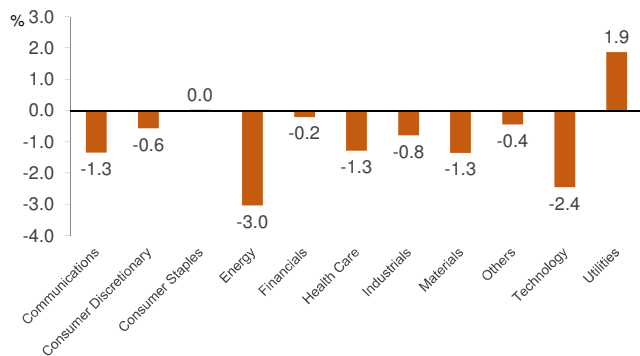
Hong Kong Notable Market Movers

1) Lenovo Group (0992.HK) announced annual results ended March 2019. The turnover rose 12.5% YoY to USD51.038 bn. Its net profit amounted to USD597 mn, against USD189 mn in loss for the previous year. Final Dividend was HK21.8 cents

2) Baytree Group (1761.HK) released a profit warning. It is expected that the Group will record a loss for the six months ending June 30, 2019 as compared to an adjusted profit of RMB122.3 million for the corresponding period in 2018.

3) China Vanke (2202.HK) announced its contracted revenue in May. The contract sales area of 3.66 mil sq.m. and contract sales RMB 57.99 bn, representing 30.9% and 35.2% yoy growth respectively.

Hong Kong Weekly BICS Industrial Performance



Source: Bloomberg as of 08 Jun19

Hong Kong IPO Calendar

Company	Ticker	Listing Date	PX (HK\$)	Industry
China Tobacco Int'l (HK) Co., Ltd	6055	12/6/2019	3.88-4.88	Tobacco
China East Education Holdings Ltd	667	12/6/2019	9.8-12.26	Educational Service
Tai Hing Group Holdings Ltd	6811	13/6/2019	2.8-3.8	Food & Beverage
Kato (HK) Holdings Limited	2189	13/6/2019	0.6-0.64	Health Care Service
Iansoh Pharmaceutical Gp Co., Ltd	3692	14/6/2019	13.06-14.26	Pharmaceutical
CSSC (HK) Shipping Co., Ltd	3877	17/6/2019	1.34-1.42	Marine Service
JH Educational Technology Inc.	1935	18/6/2019	1.5-1.92	Educational Service
ESR Cayman Ltd	1821	20/6/2019	16.2-17.4	Real Estate Development

Source: HKEX, Bloomberg

Commodities

Futures	Closing(\$)	Performance Chg. (%)		
		WTD	MTD	YTD
Brent Crude Oil (Aug 19)	63.5	2.1	2.1	15.7
WTI Crude Oil (Jul 19)	54.3	0.9	0.9	14.7
Gold (Aug 19)	1336.3	2.7	2.7	2.8
Natural Gas (Jul 19)	2.3	-4.8	-4.8	-15.5
Copper (Jul 19)	263.1	-0.5	-0.5	-0.4
Silver (Jul 19)	14.9	3.2	3.2	-5.3

Currencies in US\$	Closing	Performance Chg. (%)		
		WTD	MTD	YTD
HKD	7.8	0.1	0.1	0.1
CNY	6.9	0.1	0.1	0.5
JPY	108.5	-0.1	-0.1	-1.4
EUR	1.1	1.5	1.5	-1.3
GBP	1.3	0.9	0.9	-0.3
AUD	0.7	0.9	0.9	-0.9
CAD	1.3	-1.8	-1.8	-2.7

Source: Bloomberg as of 08 Jun19

Economic Calendar

Date	Country	Event	Est.	Prior
10-Jun-19	JP	GDP Growth Annualized Final Q1	2.1%	1.6%
	CN	Export YoY May	-3.8%	4.0%
	UK	Balance of Trade Apr	£-3.2B	£-5.408B
11-Jun-19	UK	Claimant Count Change YoY	21K	24.7K
12-Jun-19	CN	Inflation Rate YoY May	2.70%	2.50%
	CN	FDI YTD YoY May	5.9%	6.2%
	EA	ECB Draghi Speech		
	US	Inflation Rate YoY May	1.9%	2.0%
13-Jun-19	DE	Inflation Rate YoY Final May	1.4%	2.0%
	SA	OPEC Monthly Report		
14-Jun-19	CN	Retail Sales YoY May	8.0%	7.2%
	UK	BoE Carney Speech		

Source: Bloomberg as of 08 Jun19

Government Bond Yield (%)

	Closing	WTD	MTD	YTD
US				
2Y Interest	1.8878	-0.0727	-0.3784	-0.6001
10Y Interest	2.1103	-0.0437	-0.3569	-0.5739
30Y Interest	2.5887	0.0035	-0.2981	-0.4259
10-2Y Spread	0.2225	0.0290	0.0215	0.0262
30-10Y Spread	0.7009	0.0762	0.0803	0.1742
UK				
UK Gilt (Sep 19)	0.8066	0.9700	-0.3864	
Eurozone				
German Bund (Sep 19)	-0.8387	0.9400	-0.2947	
France OTA (Sep 19)	-0.4780	0.5100	0.0830	
Asia				
Japan 10Y (Jun 19)	0.4170	0.2300	-0.0560	
China 10Y (Sep 19)	3.2955	0.6150	-0.1645	

Source: Bloomberg as of 08 Jun19

Important legal disclosures

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