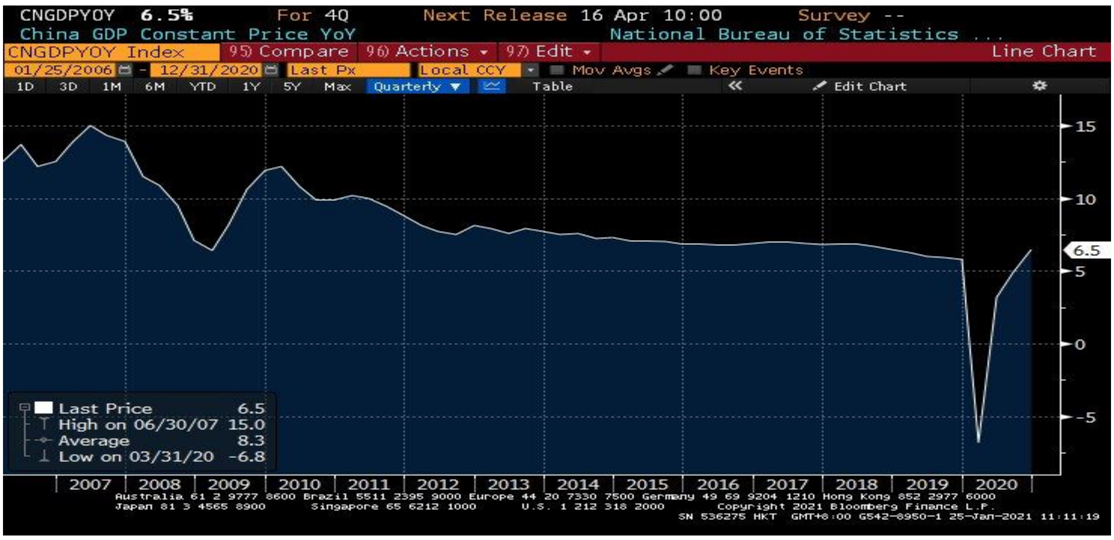
25 January, 2021

Recorded Northbound funds boost Hang Seng Index to 30,000

China is among the first regions hit by the pandemic, but it is also likely among the first to emerge from the crisis and one of the few countries can return to positive economic growth in 2020. For example, the China's Manufacturing PMI is back in expansion, signaling a substantial recovery of the manufacturing sector. It is expected that the economy will continue to recover strongly in 2021. However, it did not mean that the stock market must go up significantly along with the continuous economic expansion in 2021. It is because China CSI 300 Index was already up 27% in 2020. As at 22 January, it has risen further by 7% YTD. Comparing the current stock market level with the level before the outbreak of COVID-19, the index has even surged more than 40%. Due to the above factors, it is expected that economic recovery is not the only reason for the stock market to have such sharply rise.

China's economic growth: increase 2.3% in 2020

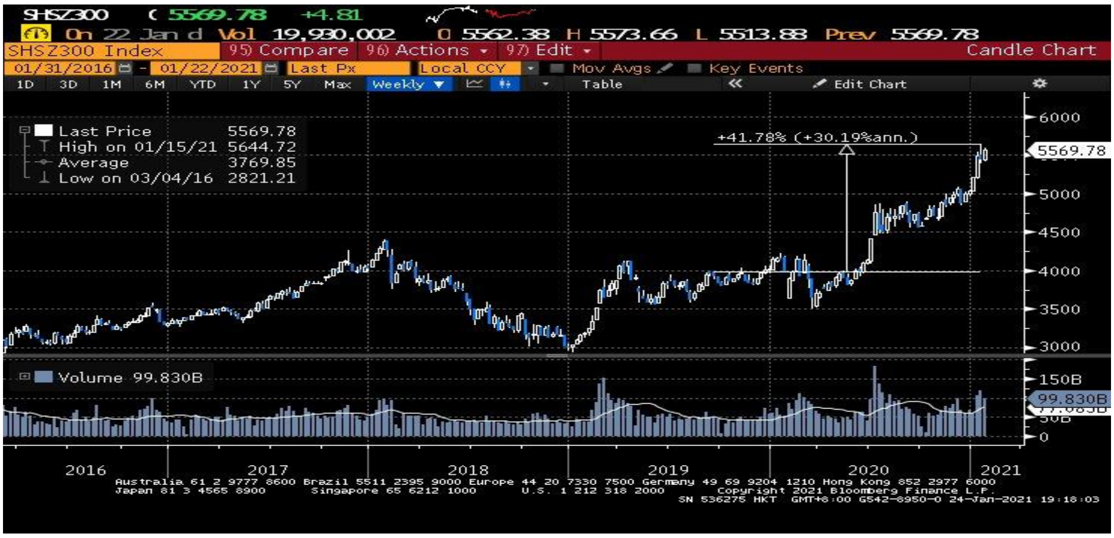


Source: Bloomberg

China's exports: the resurgence of pandemic in Europe and the United States, which has greatly increased the short-term demand of imports from China. However, the recent sharp increase may not last long as it was mainly due to the short-term impact from another wave of coronavirus in Europe and the United States.

Source: Bloomberg

China CSI 300 Index: was up 27% in 2020, as at 22 January it has risen by further 7% YTD. Comparing the level before outbreak of COVID-19, the index has even surged by more than 40%.

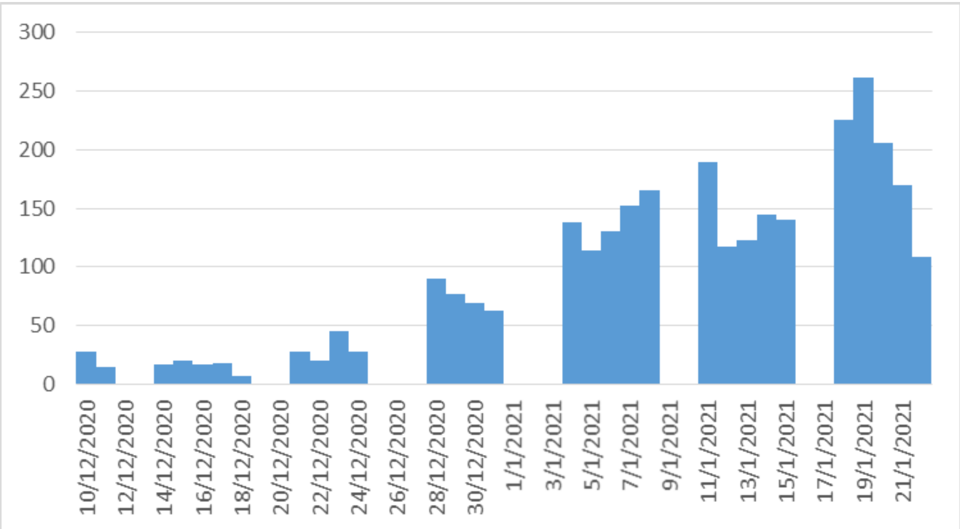


Source: Bloomberg

The movement of capital into Hong Kong stock market through Shanghai-Hong Kong and Shenzhen-Hong Kong stock connect programme, so called northbound funds, which is widely seen as a significant indicator for assessing market sentiment in the HK stock market. It has seen a surge in daily money flow into the Hong Kong stocks since the first week of 2021. The daily money inflow has reached RMB 10 billion or above every day in 2021 and recorded high at RMB 26.1 billion on 19 January. The total net purchase is about RMB 238 billion of Hong Kong shares in January alone (up to 22 January), almost 40% what mainland investors bought in all of last year. As a result, the unprecedented flush of liquidity that had pushed Hang Seng Index from 27,231 to 29,447 and has breached closing above 30,000 point since May 2019.

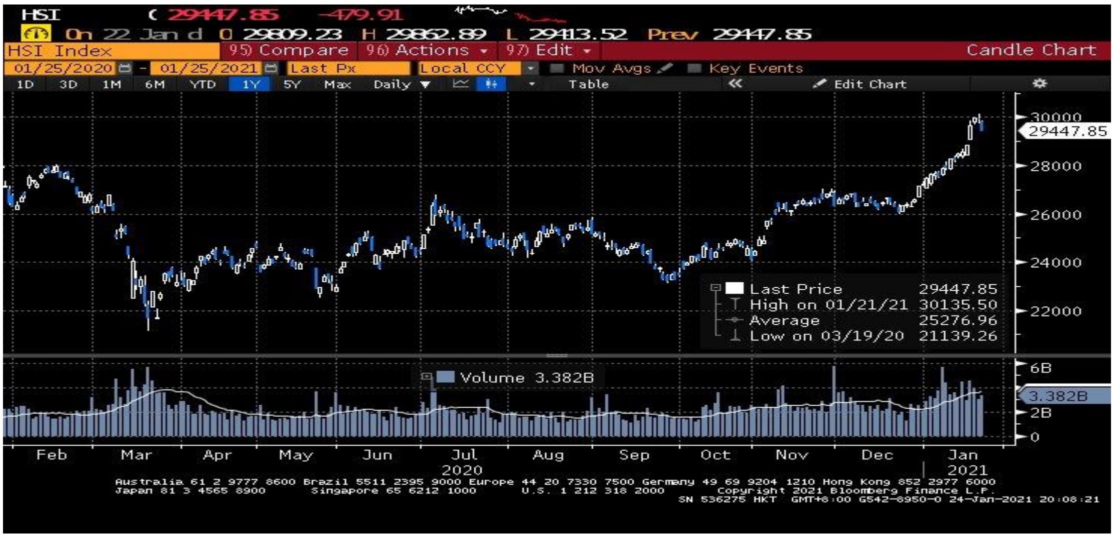
Refer to the inflows, many of them are concentrated on Tencent, Meituan, Xiaomi and Hong Kong Exchanges. Due to the inflows, their share prices has increased substantially in the past weeks and contributed to a sharp risk in the Hang Seng Index. For example, on 25 January, Tencent and HKEX accounted for 366 and 141 index points of the Hang Seng Index's 711 index point. Tencent jumped by 35% YTD to $766.5 on 25 January and took its market capitalization to almost HK$6 trillion. Apart from chasing the hot stocks, inflows from north of the border also picked up earlier this month after a US ban on some Chinese securities likes of China Mobile. Mainland buyers are also encouraged a rotation into Hong Kong's cheaper shares compare to extreme valuations onshore. To conclude, the recent rally is most likely driven by mainland investors' unprecedented interest in Hong Kong stocks which brought flush of hot money into certain mainland stocks listed in Hong Kong.

A deluge amount of inflows through Northbound Stock Connect to Hong Kong stocks has lifted up the stock market. The average trading value for the Hong Kong stock market in 2021 is about HK$100-200 billion per day, and recent northbound funds net inflow already accounted for 10% or even more than 10% of the total trading value in Hong Kong.



Source: Bloomberg

Hong Kong Hang Seng Index surged from about 26,000 in late December 2020 to 30,000 level for the first time since May 2019

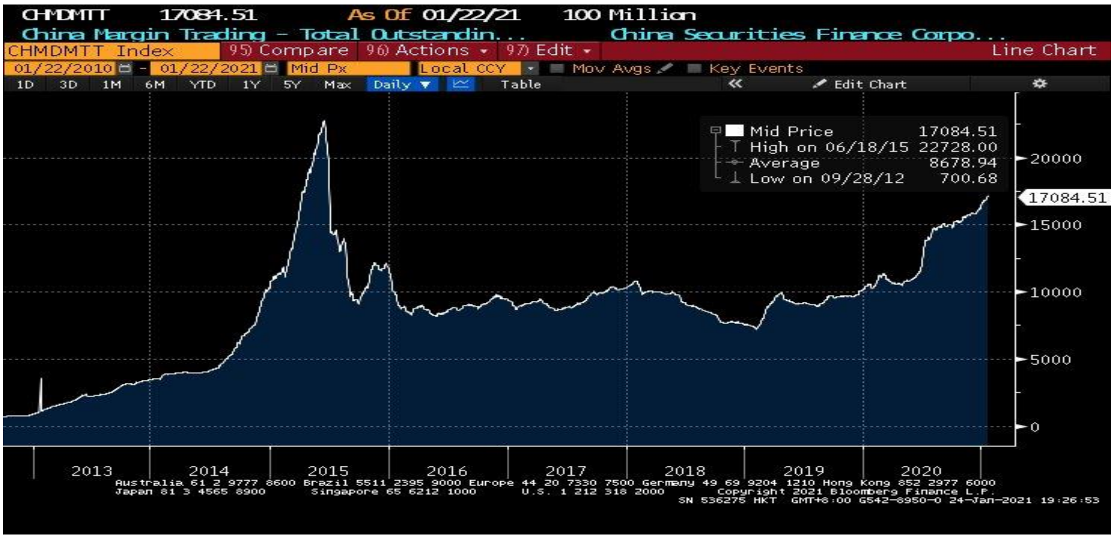


Source: Bloomberg

As the market was fired up by the hot money inflows from the Mainland investors, three of the following can be seen as the indicators to see if the HK/China markets has already reached the overheated and dangerous level or the recent hot sentiment has been faded.

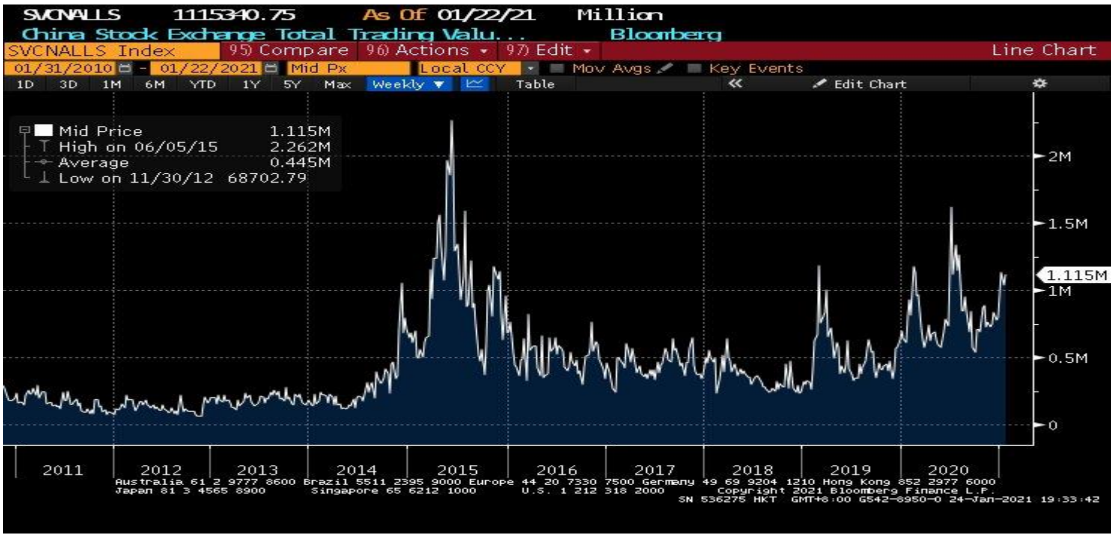
1. The amount of securities margin trading in Chinese stock market
2. The daily turnover value of the Chinese stock market
3. The amount of inflows thought Northbound Stock Connect to Hong Kong stocks

The amount of securities margin trading in Chinese stock market has continued to rise in the past few months. Although it has already increased about 70% since mid-2020, it may still not in a very dangerous level comparing to the peak of 2.2 trillion in 2015.



Source: Bloomberg

The daily turnover value of Chinese stock market: Despite it had a substantial increase last week, the daily turnover value last week is only about RMB 1.1 trillion per day. It still remains at a relatively low level comparing to the peak in 2020 or 2015.



Source: Bloomberg

Therefore, it is necessary to keep an eye on the following changes.

1. If the amount of securities margin trading in Chinese stock market and the daily turnover value of Chinese stock market had near the peak or even has reached the peak in 2015, it may imply that the stock market is more likely getting closer to another stock bubbles.
2. On the contrary, If the amount of securities margin trading in Chinese stock market and the daily turnover value of Chinese stock market has dropped substantially from the current peak, it may imply that mainland investors are losing their enthusiasm for the stock market, which may lead to correction in both the Chinese stock market and the HK stock market.
3. Same, if the amount of inflows thought Northbound Stock Connect to Hong Kong stocks drop significantly, such as drop below RMB 10 billion per day, there is also a significant chance of Hong Kong stock market likely to suffer substantial adjustments.

Important Note & Disclaimer:

- The document is property of AMG FINANCIAL GROUP. All information in this document is strictly for information purposes only and should not be considered as an invitation, an offer, or solicitation, to invest or a recommendation to buy or sell any particular security or to adopt any investment strategy mentioned herein. AMG Financial Group Limited (here after AMG) endeavors to ensure the accuracy and reliability of the information provided but do not guarantee its accuracy or reliability and accept no liability for any loss or damage arising from any inaccuracies or omission. Some of the information in this document may contain projections or other forward looking statements regarding future events or future financial performance of countries, markets or companies. These statements are only predictions and actual events or results may differ materially. Any opinion or estimate contained in this document is made on a general basis and is not to be relied on by the reader as advice. AMG reserves the right to make changes and corrections to its opinions expressed in this document at any time, without notice to the recipients of this document. Any unauthorized disclosure, use or dissemination, either whole or partial, of this document is prohibited and this document is not to be reproduced, copied, and made available to others. Investment involves risks. The value of any investment and the income from it can rise as well as fall as a result of different market risks, such as currency and market fluctuations. Past performance figures shown are not indicative of future performance. The recipients of this document should seek for professional advice if they are in any doubt about any of the information contained herein. This material has not been reviewed or approved by the Securities and Futures Commission.

For any comments, please send email to us at enquiries@amgwealth.com.

AMG FINANCIAL GROUP
40/F, 118 Connaught Road West, Hong Kong
Telephone: (852) 3970 9531 Facsimile: (852) 3426 2650