

# Whose Confidence Is Gold?

- ✓ Confidence of various market participants is neutral to contrarianly positive, against a backdrop of better monetary environment.
- ✓ As the 20<sup>th</sup> Congress proceeds and uncertainties subside, Chinese market will likely consolidate and even stumbling higher.
- ✓ The US remains a significant overhang, and will disrupt Chinese markets.

Hao Hong, CFA  
[hao.hong@growim.com](mailto:hao.hong@growim.com)

## Confidence in China and US trying to recover from lows.

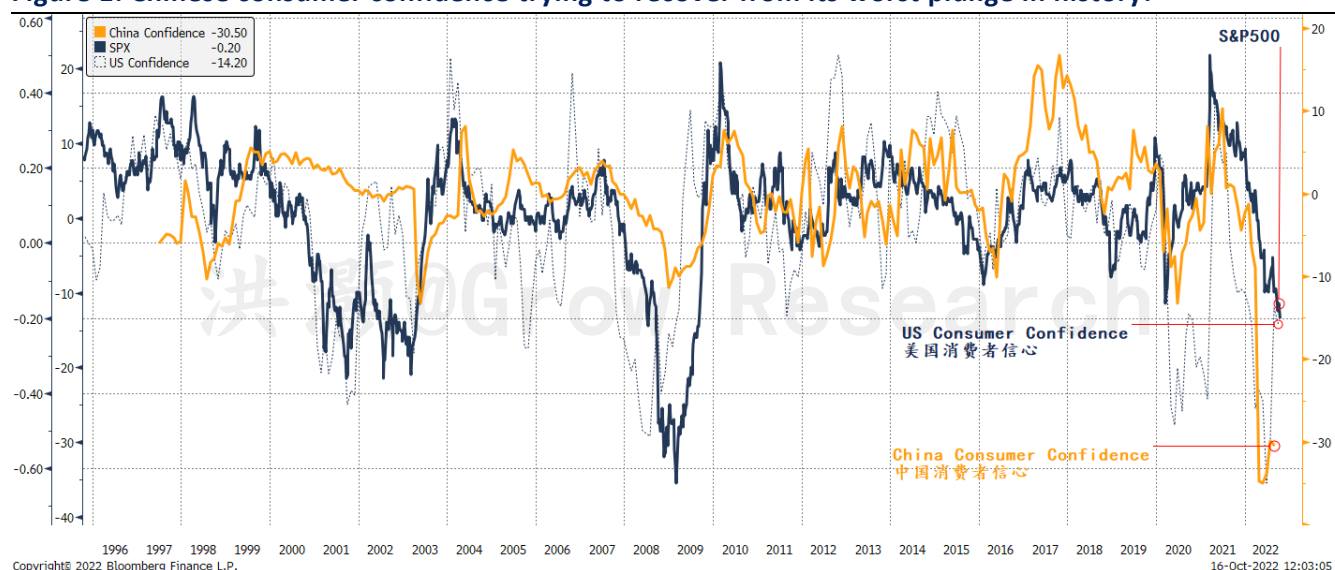
Chinese version:  
[《谁的情绪靠谱?》](#)

“Confidence is gold”, so we are told. But in today’s world of increasingly intertwining markets with myriads of market participants, whose confidence is really gold? To see, we survey the underlying sentiment of various market participants.

In our last note *“Saving Hong Kong”* (published on 2022-10-10), we discussed how the US market sentiment appeared depressed while the actual equity positioning was still very high. As such, we concluded that the US market had not yet bottomed and would likely to continue to disturb the Chinese markets.

The epic volatility in the US market indeed persisted last week, dragging down the Hang Seng and the A-shares with it. Our call of “a trade for the brave” only eventuated on Friday. For the week, the Hang Seng was barely break even, while the A-shares fared a lot better after dipping briefly below 3,000.

**Figure 1: Chinese consumer confidence trying to recover from its worst plunge in history.**



We have discussed the relationship between the Chinese and the US economy at great length in our previous notes. It is thus not surprising to find close correlation between Chinese consumer confidence and that of the US, as well as the US stocks.

On Friday, the US market was spooked by better consumer confidence reading and had a negative reversal. Yet meanwhile, Chinese consumer confidence is trying to recover from its historic plummet to its all-time low (**Figure 1**).

As such, although we believe that the US market has not yet bottomed due to looming recession risks, the Chinese consumer confidence indeed heralded better US confidence data last week. Unfortunately, the Fed trumps the Chinese and US confidence.

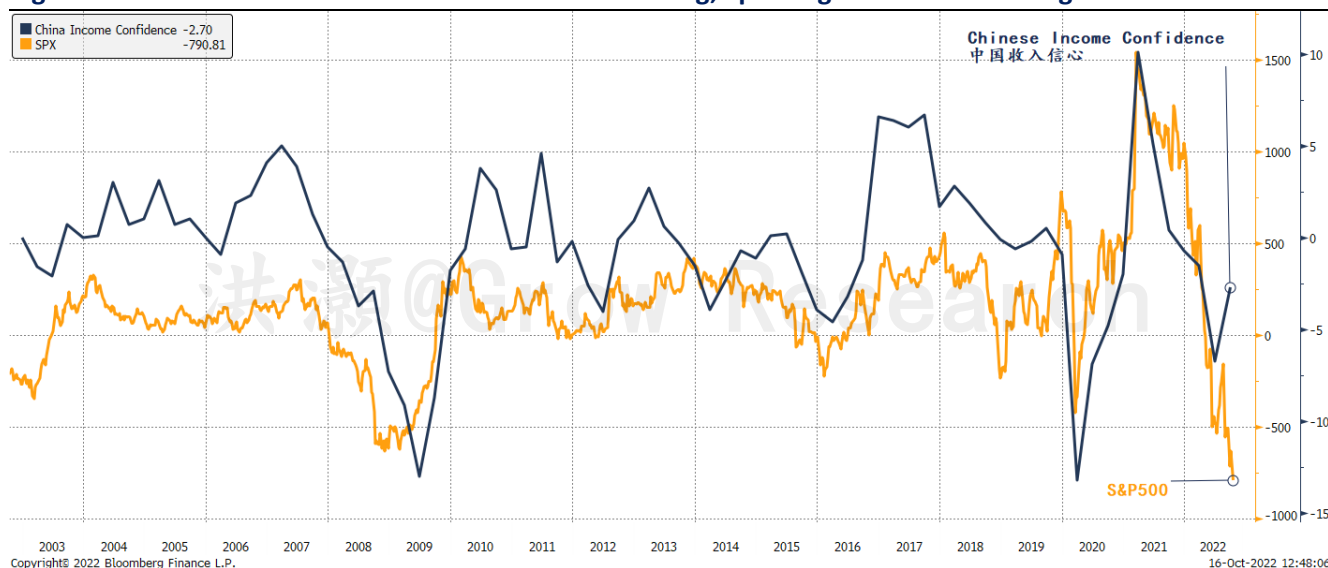
### Chinese income confidence also mending

According to the latest PBoC Survey, Chinese urban depositor income confidence is also rebounding, and splitting from the S&P500. We can see that despite COVID and the subsequent damages, depositor confidence had never worsened much beyond the lowest point seen in the 2008 global financial crisis (**Figure 2**).

The Chinese economy struggles in 2022, and confidence has been shattered many times over. But confidence has never fallen below its all-time low and is indeed recovering. Historically, Chinese depositor income confidence had been highly correlated with the S&P 500, and at important turning points tended to lead.

We would take comfort in the fact that the Chinese urban depositors are trying to come back. Cautious as we are about the US market, we will continue to look for further improvement in Chinese depositor income confidence. It is a very slim silver lining in these dark days.

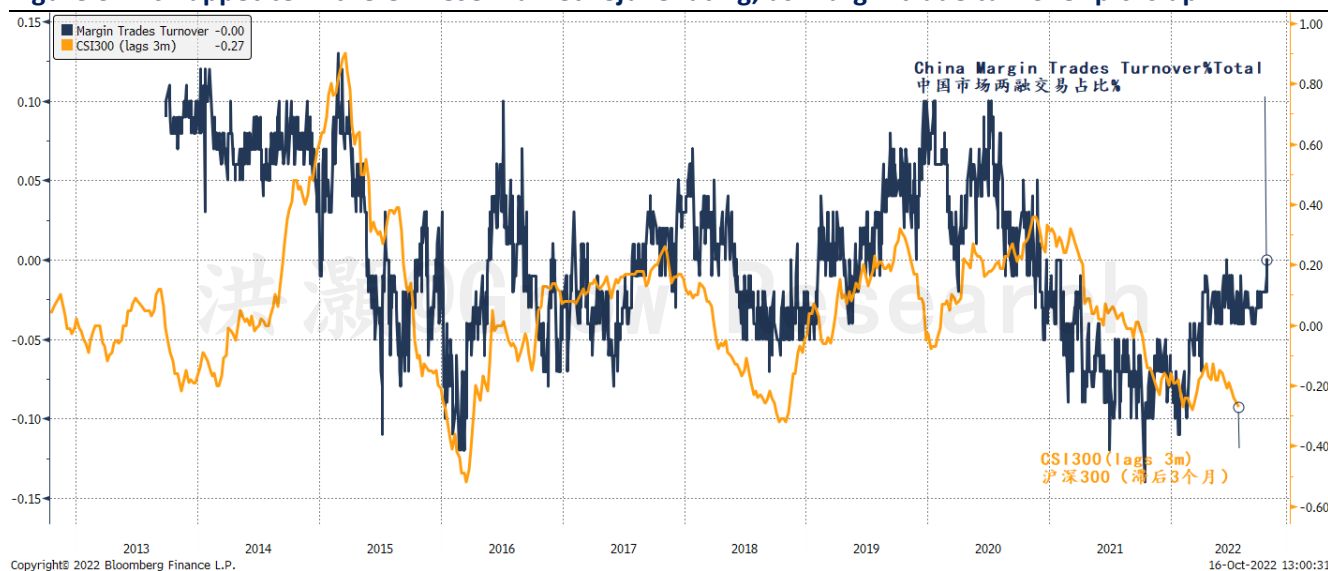
**Figure 2: China's income confidence seems rebounding, splitting from the tumbling S&P500.**



## Margin traders' risk appetite picks up.

What about the aggressive traders in the Chinese markets who trade with leverage? These are supposedly smarter and better-informed market participants. Our data analysis shows that margin trades, or leveraged bets on the Chinese market, are picking up. The turnover of margin trades as a percentage of total market turnover is rising (**Figure 3**). But the Chinese market is not yet responding.

**Figure 3: Risk appetite in the Chinese market rejuvenating, as margin trade turnover picks up.**

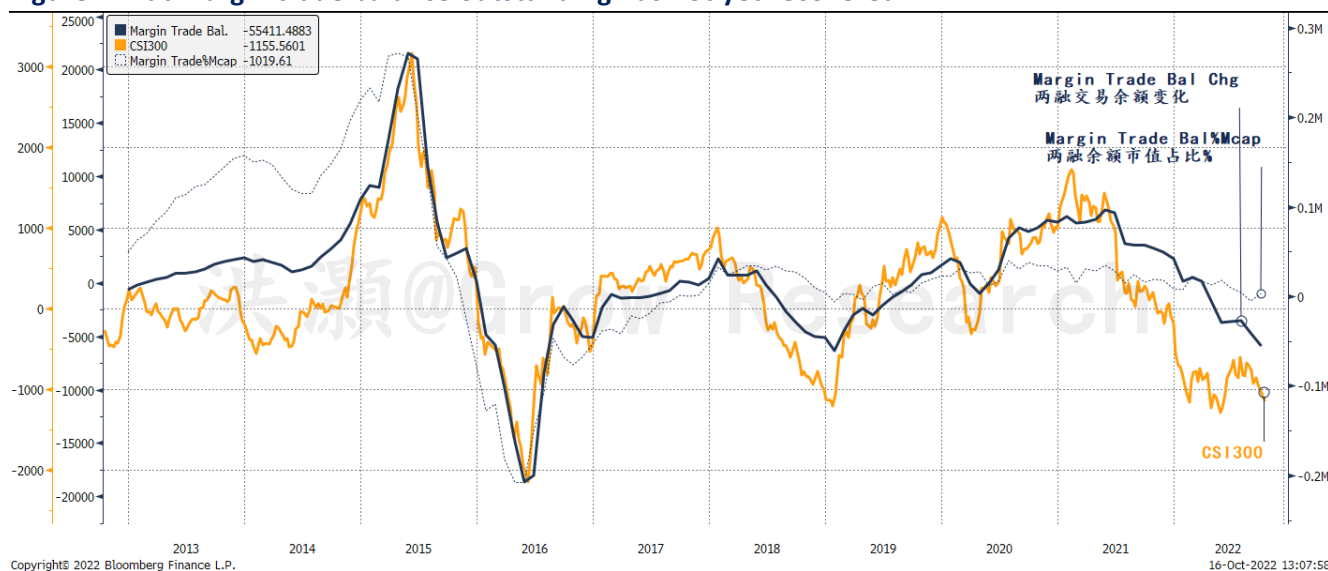


Note that this measure is highly correlated with the onshore Chinese market, and tends to lead by around three months. Last time when we saw such divergence between margin trades and the onshore market was around mid-2016, when the market tumbled to its lowest after the stock market bubble burst.

In the current cycle, note that the margin trading activities plummeted to a similar level as the 2016 low and then starting to bounce back. Of course, there is no guarantee that these aggressive traders would continue to bet on the market and continue their lead in the crowd. After all, this is a year when many historical norms have been broken.

But there are subtle changes in the economic fundamentals that make this recovery in margin traders' confidence more plausible. That said, given this measure tends to lead by around three months, the last quarter of 2022 will likely see continued market volatility and consolidation. Recall that the onshore market finally bottomed out around Feb 2016, and then spent the rest of that year consolidating and struggling slightly higher.

The balance of margin trade also supports this *déjà vu*. The balance is still falling, hinting at margin traders are not putting in more money to work, but are probably trading more frequently instead (**Figure 4**).

**Figure 4: But margin trade balance outstanding has not yet recovered.**

## Offshore CNY traders' sentiment crushed

Another group of traders that is sensitive to changes in market conditions and economic fundamentals is the currency traders. As the offshore CNY market is in general less regulated and thus more efficient, we can read from the implied volatility in the currency options to gauge traders' sentiment towards the CNY.

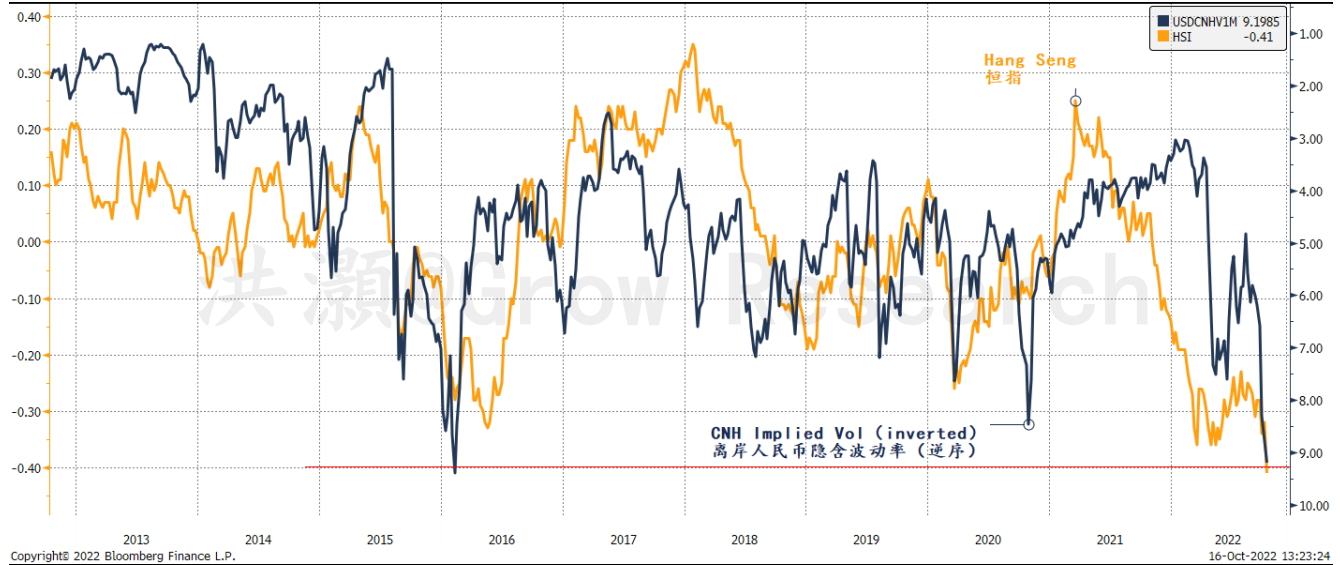
Interestingly, the implied vol in the CNH has surged to a level similar to that in Feb 2016 after the 2015 stock market bubble burst. This observation seems to be consistent with the above discussions about the margin traders' sentiment (**Figure 5**).

Note that this measure is highly correlated with the on and offshore Chinese markets. Such heightened implied volatility, or depressed sentiment correspondingly, has historically been a contrarian indicator of the Chinese market – very much like the other crowd sentiment indicators that we track.

Again, there is no guarantee that volatility would not surge beyond what was witnessed during the 2015 Chinese bubble market crash. Last week, there were reports about some extreme VIX trades, with substantial bets of VIX going to 100 and 150. The highest level VIX had ever traded at so far was 89 in late 2008.

Even so, the timing of rising risk appetite among the margin traders coincides with depressed sentiment regarding the CNY. Both are auguring well for the market in the near term. These sentiment readings are also observed in tandem with better monetary stats and a re-expanding PSL.

**Figure 5: CNH implied vol surging back to the level in Feb 2016. Offshore market sentiment depressed.**



## Conclusion

Sentiment of different market participants is on the mend: both Chinese and US consumer confidence rebounding from lows, as well as that of Chinese urban depositors.

Meanwhile, margin traders' risk appetite perks up, and they are trading more actively. This is a prescient group of traders who tend to lead the market. Depressed CNH trader's outlook is a contrarian bullish indicator and is supporting margin traders' positions. All these sentiment readings are observed against a backdrop of better monetary environment.

Like 2016 after the stock bubble burst, the Chinese markets will strive to consolidate from here and struggle for higher grounds. But the US remains a significant overhang.

**Appendix Figure 1: Performance of stock market sectors (annual)**

Asset Class	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
<b>U.S. S&amp;P 500 GICS Groups Index</b>														
S&P 500 GICS Groups Index	-24.8%	26.9%	16.3%	28.3%	-6.2%	19.4%	9.5%	-0.7%	11.4%	29.6%	13.4%	0.0%	12.8%	23.5%
Info. Tech.	-33.1%	33.4%	42.2%	48.0%	-1.6%	36.9%	12.0%	4.3%	18.2%	26.2%	13.1%	1.3%	9.1%	59.9%
Energy	46.1%	47.7%	-37.3%	7.6%	-20.5%	-3.8%	23.7%	-23.6%	-10.0%	22.3%	2.3%	2.8%	17.9%	11.3%
Financials	-20.8%	32.5%	-4.1%	29.2%	-14.7%	20.0%	20.1%	-3.5%	13.1%	33.2%	26.3%	-18.4%	10.8%	14.8%
Health Care	-12.3%	24.2%	11.4%	18.7%	4.7%	20.0%	-4.4%	5.2%	23.3%	38.7%	15.2%	10.2%	0.7%	17.1%
Consumer Discretionary	-33.9%	23.7%	32.1%	26.2%	-0.5%	21.2%	4.3%	8.4%	8.0%	41.0%	21.9%	4.4%	25.7%	38.8%
Consumer Staples	-12.6%	15.6%	7.6%	24.0%	-11.2%	10.5%	2.6%	3.8%	12.9%	22.7%	7.5%	10.5%	10.7%	11.2%
Utilities	-13.3%	14.0%	-2.8%	22.2%	0.5%	8.3%	12.2%	-8.4%	24.3%	8.8%	-2.9%	14.8%	0.9%	6.8%
Communication	-39.7%	20.5%	22.2%	30.3%	-16.4%	-6.0%	17.8%	-1.7%	-1.9%	6.5%	12.5%	0.8%	12.8%	2.6%
Industrials	-19.9%	19.4%	9.0%	26.3%	-15.0%	18.5%	16.1%	-4.7%	7.5%	37.6%	12.5%	-2.3%	23.9%	17.3%
Material	-24.7%	25.0%	18.1%	21.3%	-16.4%	21.4%	14.1%	-10.4%	4.7%	22.7%	12.2%	-11.6%	19.9%	45.2%
Real Estate	-34.9%	42.5%	-5.2%	24.5%	-5.6%	7.2%	0.0%	1.2%	26.1%	-1.5%	16.2%	7.9%	28.0%	20.8%
<b>Chin Shanghai Stock Exchange Sector Index</b>														
Info.Tech.	-40.8%	-0.2%	22.5%	65.4%	-34.1%	-4.9%	-26.9%	60.0%	36.5%	46.8%	-14.1%	-39.2%	27.2%	100.4%
Energy	32.6%	29.6%	-11.3%	2.4%	-26.3%	6.4%	-3.9%	-15.0%	24.0%	-33.0%	-4.3%	-23.5%	-10.9%	125.7%
Financials	-17.1%	-12.7%	-3.0%	29.6%	-17.4%	23.4%	-7.8%	-9.7%	82.0%	-9.9%	20.9%	-13.9%	-26.8%	99.9%
Health Care	-25.9%	-8.3%	57.4%	24.3%	-26.4%	18.2%	-11.4%	45.3%	6.3%	32.6%	10.3%	-31.2%	33.8%	88.4%
Consumer Discretionary	-21.5%	1.6%	55.3%	15.2%	-28.8%	7.5%	-17.2%	28.5%	29.1%	12.8%	3.2%	-31.3%	-4.7%	139.0%
Consumer Staples	-19.7%	-6.9%	81.6%	47.5%	-19.3%	43.8%	1.1%	24.1%	15.1%	7.7%	4.5%	-22.1%	12.7%	89.9%
Utilities	-9.1%	39.4%	-3.8%	3.4%	-11.1%	-3.0%	-20.5%	6.2%	73.1%	-1.2%	3.4%	-17.2%	-16.8%	54.2%
Telecom	-10.6%	9.2%	-6.2%	29.9%	-29.8%	12.1%	-7.6%	56.0%	34.6%	30.6%	-22.8%	-38.8%	4.6%	61.1%
Industrials	-14.9%	14.3%	25.3%	13.7%	-23.6%	5.5%	-15.0%	10.7%	68.0%	-3.2%	-4.3%	-32.5%	-4.9%	62.9%
Materials	-22.0%	15.9%	22.7%	29.0%	-30.1%	27.3%	-7.6%	-1.0%	38.9%	-24.0%	9.1%	-35.1%	-3.2%	132.8%
<b>HK Hang Seng Sector Index</b>														
Info.Tech.	-40.7%	-32.3%	69.6%	23.7%	-29.6%	92.3%	18.2%	22.3%	8.9%	70.0%	36.5%	-18.6%	-7.0%	205.1%
Energy	14.4%	20.5%	-33.7%	-4.1%	-2.8%	11.4%	14.3%	-31.3%	-17.3%	-16.2%	12.7%	-15.1%	16.5%	77.3%
Financials	-22.0%	-6.8%	-6.9%	7.5%	-14.8%	31.2%	-3.1%	-10.0%	7.6%	3.0%	24.2%	-24.6%	-0.7%	57.8%
Consumer Goods	-33.9%	19.1%	-27.1%	51.5%	-6.5%	-10.3%	-11.1%	11.2%	10.1%	-24.3%	9.3%	116.6%	-52.6%	33.7%
Consumer Services		6.7%	-22.6%	39.7%	3.6%	-23.9%	-30.5%	40.1%	22.2%	-20.6%	25.3%	70.6%	-62.1%	50.4%
Utilities	-37.0%	17.6%	-9.4%	-0.9%	1.2%	15.7%	-7.4%	-8.1%	6.2%	13.8%	15.0%	2.3%	6.1%	15.8%
Telecom	1.5%	0.5%	-29.9%	-9.7%	-3.4%	-1.0%	-6.0%	-5.1%	11.5%	-10.2%	11.7%	2.7%	8.4%	-4.7%
Industrials	-46.2%	-2.3%	30.5%	21.8%	-20.9%	39.0%	-7.6%	-5.7%	5.0%	0.5%	12.0%	-44.7%	38.0%	84.3%
Materials	-31.0%	9.4%	30.0%	-0.4%	-29.5%	30.5%	21.0%	-18.7%	-1.1%	-21.9%	8.1%	-42.4%	4.4%	114.7%
Real Estate	-32.6%	-18.8%	-15.9%	15.7%	-10.2%	48.8%	-1.8%	-2.5%	3.1%	-9.9%	42.9%	-26.5%	4.9%	61.2%

Source: Bloomberg, GROW Research

**Figure 2: Performance of stock market sectors (weekly)**

Asset Class	14/10/2022	7/10/2022	30/9/2022	23/9/2022	16/9/2022	9/9/2022	2/9/2022	26/8/2022	19/8/2022	12/8/2022	5/8/2022
<b>U.S. S&amp;P 500 GICS Groups Index</b>											
S&P 500 GICS Groups Index	-1.55%	1.51%	-2.91%	-4.65%	-4.77%	3.65%	-3.29%	-4.04%	-1.21%	3.26%	0.36%
Info. Tech.	-3.23%	1.64%	-4.19%	-3.59%	-6.12%	3.24%	-4.98%	-5.58%	-1.71%	2.44%	1.95%
Energy	-1.85%	13.86%	1.83%	-9.00%	-2.60%	0.60%	-3.31%	4.27%	0.99%	7.14%	-6.82%
Financials	0.20%	1.84%	-2.43%	-5.58%	-3.81%	4.38%	-2.51%	-3.58%	-1.72%	5.45%	-0.06%
Health Care	0.80%	1.30%	-1.38%	-3.38%	-2.38%	4.35%	-1.79%	-4.32%	-0.57%	1.64%	-0.70%
Consumer Discretionary	-4.09%	-1.12%	-2.38%	-7.02%	-4.15%	5.62%	-2.66%	-4.75%	-1.58%	3.24%	1.17%
Consumer Staples	1.45%	-0.40%	-3.96%	-2.15%	-3.63%	1.92%	-2.38%	-3.33%	1.94%	1.20%	0.10%
Utilities	-2.58%	-2.63%	-8.81%	-3.05%	-3.82%	3.68%	-1.57%	-2.60%	1.23%	3.06%	0.38%
Communication	-1.86%	1.47%	-3.03%	-5.10%	-6.43%	2.85%	-2.37%	-4.82%	-3.28%	4.48%	1.16%
Industrials	-0.56%	2.94%	-2.44%	-4.55%	-6.38%	3.39%	-3.59%	-3.45%	-1.05%	3.74%	0.56%
Material	-1.89%	2.15%	-0.73%	-5.67%	-6.65%	4.94%	-4.99%	-1.33%	-2.45%	5.14%	-1.29%
Real Estate	-2.36%	-4.15%	-3.95%	-6.44%	-6.48%	4.13%	-3.94%	-3.83%	-1.94%	4.10%	-1.35%
<b>China Shanghai Stock Exchange Sector Index</b>											
Info.Tech.	1.14%	0.00%	-3.02%	-6.60%	-3.22%	0.23%	0.26%	-6.18%	-3.04%	-2.57%	10.52%
Energy	-0.70%	0.00%	-3.05%	3.22%	-6.77%	6.16%	-3.04%	6.85%	2.90%	7.88%	-2.98%
Financials	-0.82%	0.00%	-2.17%	-0.67%	-2.14%	2.17%	0.28%	0.76%	-0.61%	0.86%	-1.54%
Health Care	7.35%	0.00%	4.74%	-5.96%	-4.98%	-0.06%	-1.74%	-1.52%	-3.60%	-0.51%	2.76%
Consumer Discretionary	0.69%	0.00%	-0.36%	-3.02%	-4.64%	3.04%	-2.93%	-0.39%	-0.65%	-0.08%	-3.73%
Consumer Staples	-3.72%	0.00%	3.26%	-0.95%	-0.62%	-1.01%	-2.82%	2.14%	-3.08%	0.07%	1.25%
Utilities	6.98%	0.00%	-3.42%	-0.70%	-7.59%	5.24%	-2.36%	0.90%	5.04%	2.93%	-2.92%
Telecom	4.39%	0.00%	-2.02%	-0.64%	-4.96%	1.34%	1.21%	-1.87%	1.50%	1.56%	-0.32%
Industrials	4.12%	0.00%	-3.41%	-0.75%	-5.87%	4.22%	-2.91%	-2.19%	-0.03%	1.58%	-3.18%
Materials	1.25%	0.00%	-4.56%	-0.80%	-6.21%	5.72%	-4.06%	0.53%	-3.19%	3.23%	-0.68%
<b>HK Hang Seng Sector Index</b>											
Info.Tech.	-9.75%	2.76%	-2.11%	-7.06%	-4.78%	-2.64%	-2.05%	4.65%	-1.43%	-1.85%	1.39%
Energy	-3.36%	4.22%	-5.72%	0.41%	-1.50%	-1.59%	-2.47%	8.88%	-1.20%	5.76%	-4.16%
Financials	-4.23%	2.41%	-5.64%	-2.96%	-2.73%	0.44%	-2.54%	0.46%	-2.85%	1.03%	-0.59%
Consumer	-8.60%	5.35%	-3.42%	-4.23%	-0.80%	-0.53%	-5.17%	-0.22%	-0.63%	-0.08%	0.97%
Utilities	-3.72%	-0.41%	-6.37%	-3.60%	-3.80%	0.46%	-3.18%	-2.45%	2.14%	0.44%	-1.93%
Telecom	-1.30%	1.18%	-5.02%	0.18%	0.19%	-0.55%	-2.15%	-0.96%	0.58%	2.59%	1.20%
Industrials	-4.90%	1.75%	-6.24%	-7.16%	-4.13%	-0.44%	-7.45%	-1.30%	-1.50%	-1.35%	-1.09%
Materials	-3.40%	4.10%	-7.46%	-4.37%	-5.06%	6.31%	-8.90%	3.74%	-4.05%	4.28%	-1.26%
Real Estate	-5.10%	1.87%	-7.16%	-5.86%	-0.82%	4.15%	-2.78%	0.24%	0.28%	-1.28%	-1.89%

Source: Bloomberg, GROW Research

## Recent Reports

20221009 [Saving Hong Kong](#)  
 20220925 [Can Property Save the Day - Again?](#)  
 20220919 [“Chill” about CNY Beyond 7](#)



## Required Disclosures

This report has been prepared by GROW Asset Management (HK) Limited ("GROW AM"). GROW AM, its subsidiaries, branches and affiliates are referred to herein as GROW. For information on the ways in which GROW manages conflicts and maintains independence of its research product; historical performance information; certain additional disclosures concerning GROW research recommendations; and terms and conditions for certain third party data used in research report, please contact GROW. The figures contained in performance charts refer to the past; past performance is not a reliable indicator of future results. Additional information will be made available upon request. GROW AM is licensed by Securities and Futures Commission to conduct Type 9 (asset management) activities. Analyst Certification: Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers and were prepared in an independent manner, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report. For a complete set of disclosure statements associated with the companies discussed in this report, including information on valuation and risk, please contact GROW.

## Global Disclaimer

This document has been prepared by GROW Asset Management (HK) Limited ("GROW AM"). GROW AM, its subsidiaries, branches and affiliates are referred to herein as GROW. **This Document is provided solely to recipients who are expressly authorized by GROW to receive it. If you are not so authorized you must immediately destroy the Document.** GROW research is provided to our clients. When you receive GROW research through, your access and/or use of such research is subject to this Global Disclaimer. When you receive GROW research via a third party vendor, e-mail or other electronic means, you agree that use shall be subject to this Global Disclaimer. **If you receive GROW research by any other means, you agree that you shall not copy, revise, amend, create a derivative work, provide to any third party, or in any way commercially exploit any GROW research provided, and that you shall not extract data from any research or estimates provided to you via GROW research or otherwise, without the prior written consent of GROW.**

In certain circumstances (including for example, if you are an academic or a member of the media) you may receive GROW research and you understand and agree that (i) the GROW Research is provided to you for information purposes only; (ii) for the purposes of receiving it you are not intended to be and will not be treated as a "client" of GROW for any legal or regulatory purpose; (iii) the GROW research must not be relied on or acted upon for any purpose; and (iv) such content is subject to the relevant disclaimers that follow. This document is for distribution only as may be permitted by law. It is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or would subject GROW to any registration or licensing requirement within such jurisdiction.



This document is a general communication and is educational in nature; it is not an advertisement nor is it a solicitation or an offer to buy or sell any financial instruments or to participate in any particular trading strategy. Nothing in this document constitutes a representation that any investment strategy or recommendation is suitable or appropriate to an investor's individual circumstances or otherwise constitutes a personal recommendation. By providing this document, none of GROW or its representatives has any responsibility or authority to provide or have provided investment advice in a fiduciary capacity or otherwise. Investments involve risks, and investors should exercise prudence and their own judgment in making their investment decisions. None of GROW or its representatives is suggesting that the recipient or any other person take a specific course of action or any action at all. By receiving this document, the recipient acknowledges and agrees with the intended purpose described above and further disclaims any expectation or belief that the information constitutes investment advice to the recipient or otherwise purports to meet the investment objectives of the recipient. Past performance is not necessarily indicative of future results. Neither GROW nor any of its directors, employees or agents accepts any liability for any loss (including investment loss) or damage arising out of the use of all or any of the Information. Prior to making any investment or financial decisions, any recipient of this document or the information should take steps to understand the risk and return of the investment and seek individualized advice from his or her personal financial, legal, tax and other professional advisors that takes into account all the particular facts and circumstances of his or her investment objectives. Any prices stated in this document are for information purposes only and do not represent valuations for individual securities or other financial instruments. Different assumptions by GROW or any other source may yield substantially different results. No representation or warranty, either expressed or implied, is provided in relation to the accuracy, completeness or reliability of the information contained in any materials to which this document relates (the "Information"). The Information is not intended to be a complete statement or summary of the securities, markets or developments referred to in the document. GROW does not undertake to update or keep current the Information. Any opinions expressed in this document may change without notice and may differ or be contrary to opinions expressed by other business areas or groups, personnel or other representative of GROW. Any statements contained in this report attributed to a third party represent GROW's interpretation of the data, information and/or opinions provided by that third party either publicly or through a subscription service, and such use and interpretation have not been reviewed by the third party. In no circumstances may this document or any of the Information (including any forecast, value, index or other calculated amount ("Values")) be used for any of the following purposes: (i) valuation or accounting purposes; (ii) to determine the amounts due or payable, the price or the value of any financial instrument or financial contract; or (iii) to measure the performance of any financial instrument including, without limitation, for the purpose of tracking the return or performance of any Value or of defining the asset allocation of portfolio or of computing performance fees. By receiving this document and the Information you will be deemed to represent and warrant to GROW that you will not use this document or any of the Information for any of the above purposes or otherwise rely upon this document or any of the Information. GROW has policies and procedures, which include, without limitation, independence policies and

permanent information barriers, that are intended, and upon which GROW relies, to manage potential conflicts of interest and control the flow of information within divisions of GROW and among its subsidiaries, branches and affiliates. For further information on the ways in which GROW manages conflicts and maintains independence of its research products, historical performance information and certain additional disclosures concerning GROW research recommendations, please contact GROW. Research will initiate, update and cease coverage solely at the discretion of GROW, which will also have sole discretion on the timing and frequency of any published research product. The analysis contained in this document is based on numerous assumptions. Different assumptions could result in materially different results.

GROW specifically prohibits the redistribution of this document in whole or in part without the written permission of GROW and in any event GROW accepts no liability whatsoever for any redistribution of this document or its contents or the actions of third parties in this respect. Images may depict objects or elements that are protected by third party copyright, trademarks and other intellectual property rights. The key symbol and GROW are among the registered and unregistered trademarks of GROW. All rights reserved.