



China Macro Economy and Equity Market Outlook for Q1 2024

February 2024

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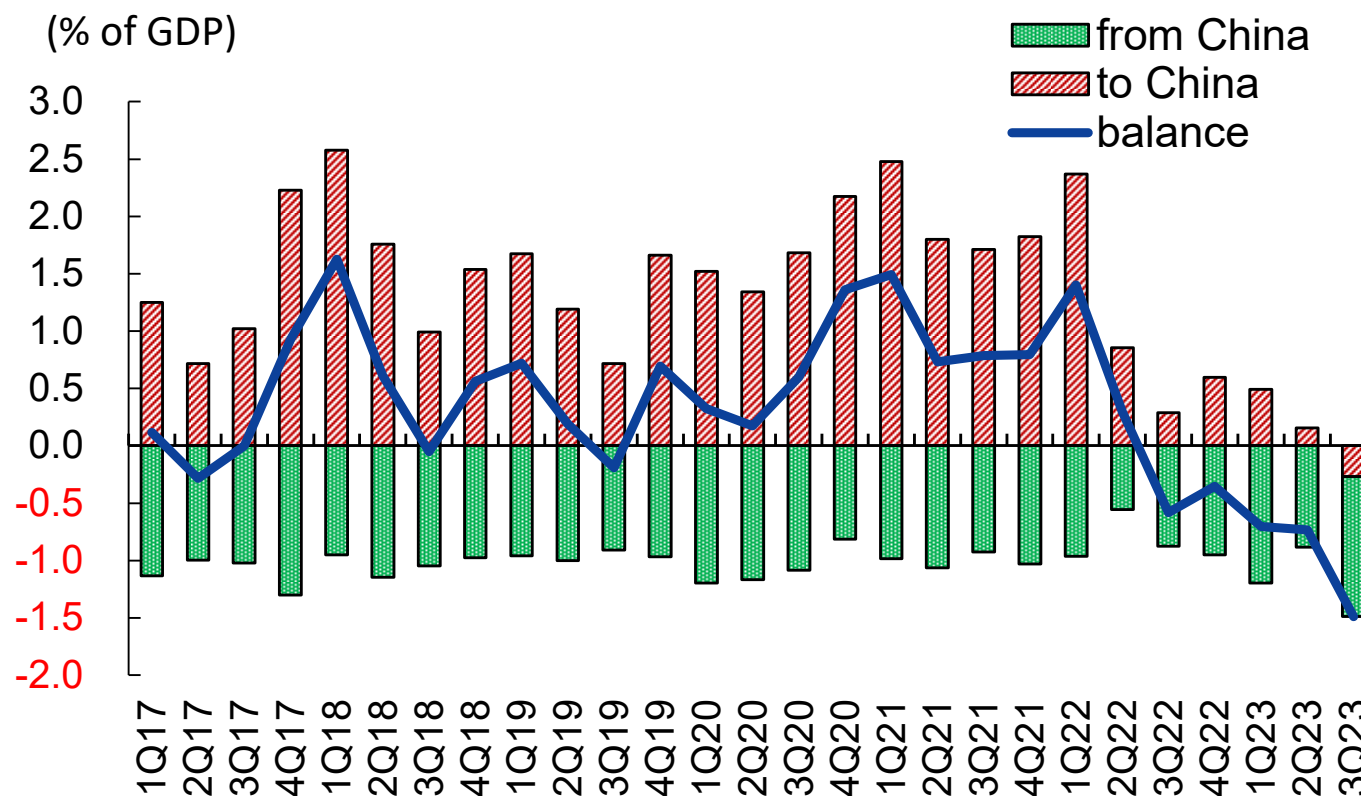
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Quarterly Macro Highlight (1) : Shift in FDI

- Gross Inward FDI (Foreign Direct Investment) contracted in 3Q.23 for the first time since 2017. On the contrary, Gross Outward FDI from China accelerated. We expect that mounting tension between Sino-U.S Relationship would cause accelerating FDI outflow.

China FDI Balance



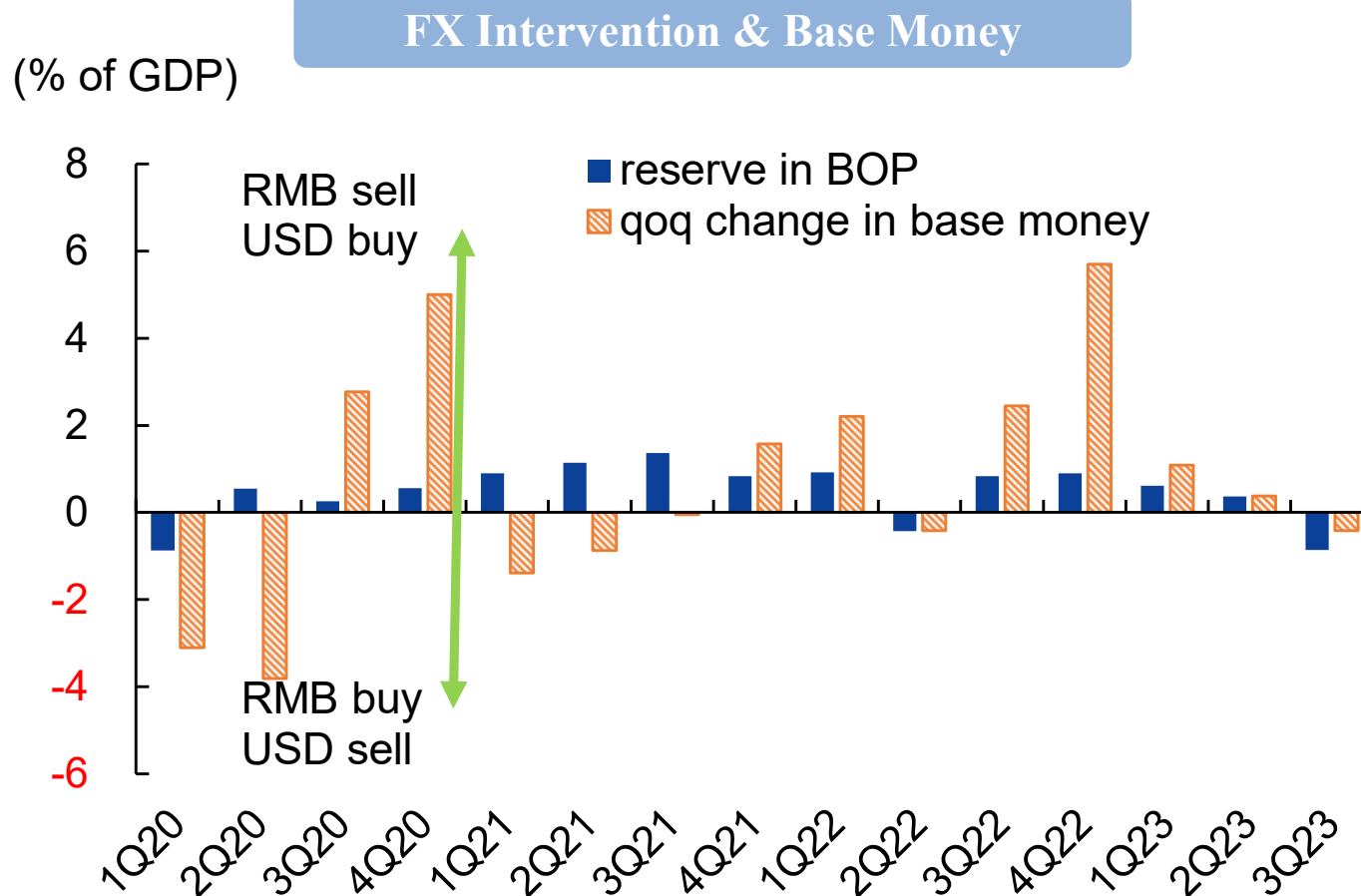
(Source: CEIC, SMDAM) (As of September, 2023)

Note: The above views represent SMDAM's forecast as at the date of this presentation and may be subject to change without notice. Those do not guarantee future trends or results.

Quarterly Macro Highlight (2) : Currency Intervention

- PBOC defended RMB by purchasing RMB in FX markets in 3Q.23. In spite of more liquidity into interbank markets via RRR* cut, Base Money shrank in 3Q.23 which may turn out to be obstacles for accommodative monetary policy stance.

*RRR: Reserve Requirement Ratio



Note: "reserve in BOP" comes from Balance of Payment.
In this exhibit, negative figures mean capital outflow caused mainly by intervention of buying RMB.

(Source: CEIC, SMDAM) (As of September, 2023)

Quarterly Macro Highlight (3) : Deflationary Pressure

- GDP Deflator in 4Q.23 dropped 1.4% yoy, decelerating from 2Q and 3Q.23.



(Source: CEIC, SMDAM) (As of December, 2023)

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China Macro Economy Outlook

China Macro Economy Outlook

| | 2023 | 2024 | 2025 | 1Q23 | 2Q23 | 3Q23 | 4Q23 | 1Q24 | 2Q24 | 3Q24 | 4Q24 | 1Q25 | 2Q25 | 3Q25 | 4Q25 | 2024 | 2025 |
|----------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|------|------|------|------|-----------|------|
| | | (F) | (F) | | | | | (F) | (F) | (F) | (F) | (F) | (F) | (F) | (F) | consensus | |
| Real GDP (%) | 5.2 | 4.8 | 4.6 | 4.5 | 6.3 | 4.9 | 5.2 | 4.9 | 5.0 | 4.8 | 4.6 | 4.5 | 4.7 | 4.6 | 4.5 | 4.6 | 4.5 |
| consumption | 7.9 | 5.4 | 5.1 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| investment | 3.6 | 4.6 | 4.3 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| net exports (contribution) | -0.6 | -0.1 | -0.1 | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Nominal GDP (%) | 4.6 | 4.5 | 4.7 | 5.0 | 4.8 | 3.5 | 3.7 | 4.1 | 4.7 | 4.6 | 4.5 | 4.7 | 4.8 | 4.7 | 4.5 | NA | NA |
| GDP deflator (%) | -0.5 | -0.3 | 0.1 | 0.9 | -0.9 | -0.8 | -1.4 | -0.8 | -0.3 | -0.2 | -0.1 | 0.2 | 0.1 | 0.1 | 0.0 | NA | NA |
| Industrial production (%) | 4.5 | 4.2 | 4.1 | 3.0 | 4.6 | 4.2 | 6.0 | 4.5 | 4.3 | 4.1 | 4.0 | 3.9 | 4.1 | 4.2 | 4.1 | 4.5 | 4.2 |
| PPI inflation (%) | -3.0 | 0.2 | 0.5 | -1.6 | -4.6 | -3.3 | -2.7 | -1.1 | 0.8 | 0.7 | 0.6 | 1.0 | 0.7 | 0.3 | 0.0 | 0.6 | 1.5 |
| CPI inflation (%) | 0.2 | 0.9 | 0.8 | 1.3 | 0.1 | -0.1 | -0.3 | 0.1 | 1.0 | 1.1 | 1.3 | 0.9 | 0.9 | 0.8 | 0.7 | 1.0 | 1.7 |
| 7D reverse repo rate (%) | 1.80 | 1.60 | 1.60 | 2.00 | 1.90 | 1.80 | 1.80 | 1.80 | 1.80 | 1.70 | 1.60 | 1.60 | 1.60 | 1.60 | 1.60 | 1.70 | 1.60 |
| 1Y MLF rate (%) | 2.50 | 2.30 | 2.30 | 2.75 | 2.65 | 2.50 | 2.50 | 2.50 | 2.50 | 2.40 | 2.30 | 2.30 | 2.30 | 2.30 | 2.30 | 2.35 | 2.30 |
| CNY/USD | 7.10 | 7.00 | 6.85 | 6.87 | 7.25 | 7.30 | 7.10 | 7.15 | 7.10 | 7.05 | 7.00 | 6.95 | 6.90 | 6.85 | 6.85 | 6.99 | 6.80 |

(note) gothic figures for actual

yo-y growth expect for next exports and interest rates

(source) SMDAM, CEIC and Bloomberg

(Source: CEIC, Bloomberg, SMDAM) (As of 24th January, 2024)

Note: The above views represent SMDAM's forecast as at the date of this presentation and may be subject to change without notice. Those do not guarantee future trends or results.

Outlook for China A-Share Equity Market (CSI300)

- Current CSI300 valuation has already been at discounted level. Under our base case scenario, gradual recovery is expected based on 2024/2025 earnings growth as well as moderate adjustment of discounted valuation.



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12 month forward EPS forecast for CSI300

- Earnings Expectation had remained lackluster throughout 2023. 2024 earnings, due partly to the low base, will see some recovery while deflationary environment may cap earnings upside.

CSI300 Outlook 12M Forward EPS



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Earnings multiples* for CSI300

* Price-to-earnings ratio based on 12 month forward EPS

- 12 month forward P/E stands at 10.0 times, which is well below its Long Term Average. Our base case assumes there will be some adjustment in this discounted valuation due to the stabilization of structured product unwinding which drove down equity market recently.

Price to Earnings ratio for CSI300

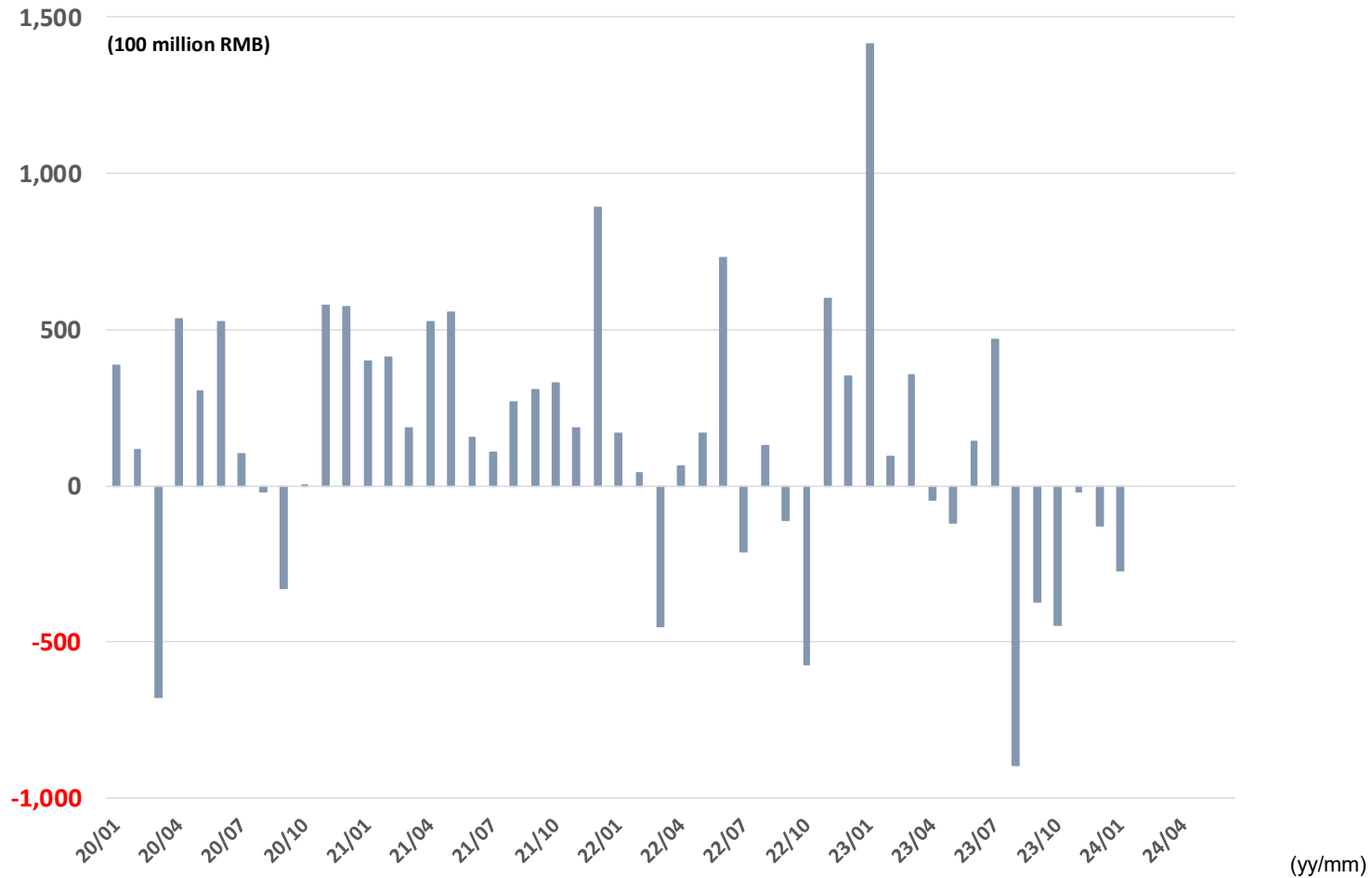


(Source: Bloomberg, SMDAM)(Date: As of 19th January, 2024)

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- Stock Connect has seen consistent **outflow** from Mainland China due to Higher Geopolitical Tension, Tepid Economic momentum.

Northbound Stock Connect Flow from Hong Kong to Shenzhen / Shanghai



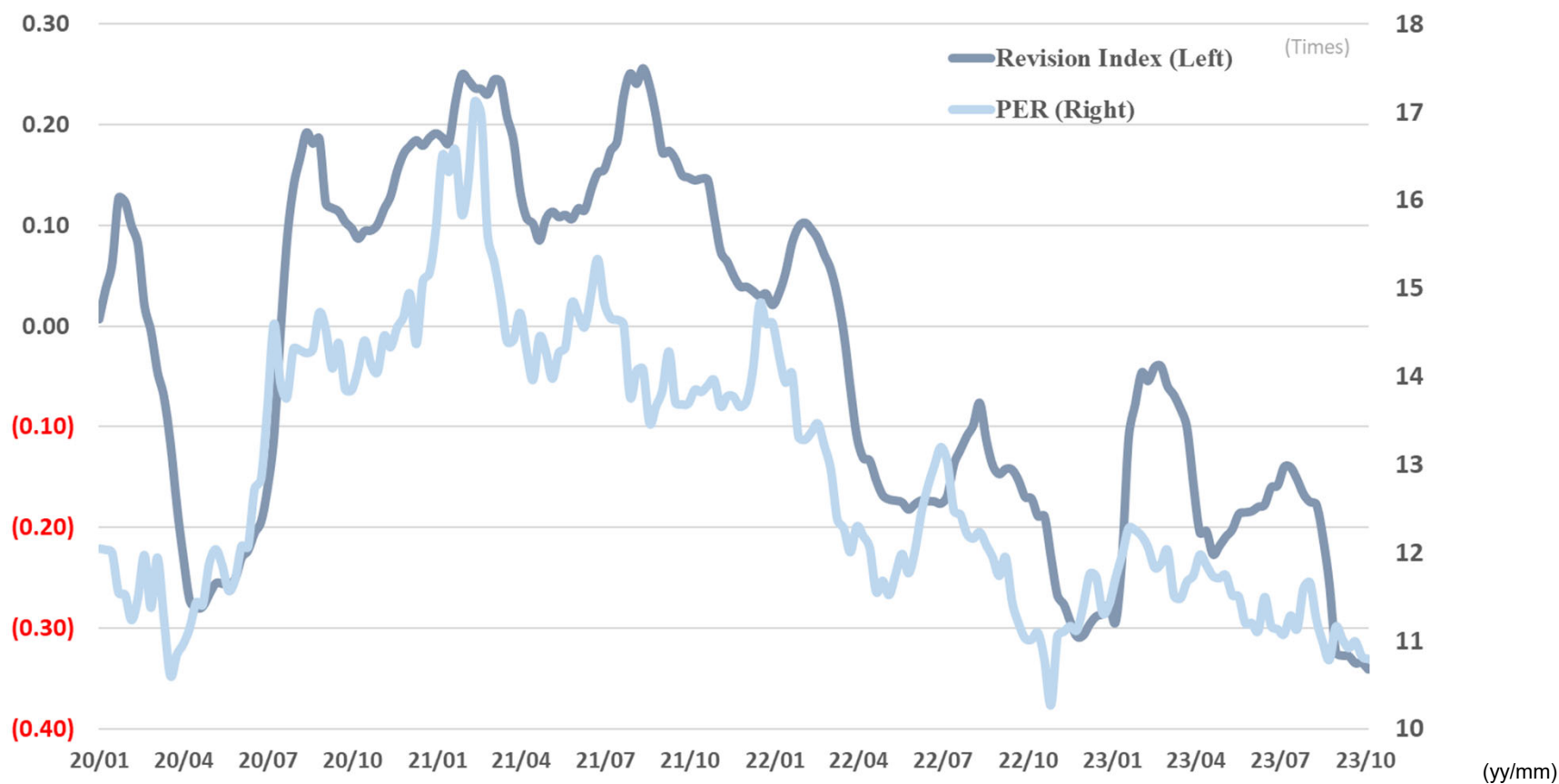
Note: The above views represent SMDAM's forecast as at the date of this presentation and may be subject to change without notice. Those do not guarantee future trends or results.

Monitoring Point: Earnings revision index* for CSI300

* (Number of upward revisions – downward revisions) /
Number of revisions with earnings forecast

- Earnings Revision is one of the key factors for valuation. Signs of macro economic stability and further government stimulus policy will be the keys to ease earnings downward pressure.

Earnings Revision Index and P/E Ratio



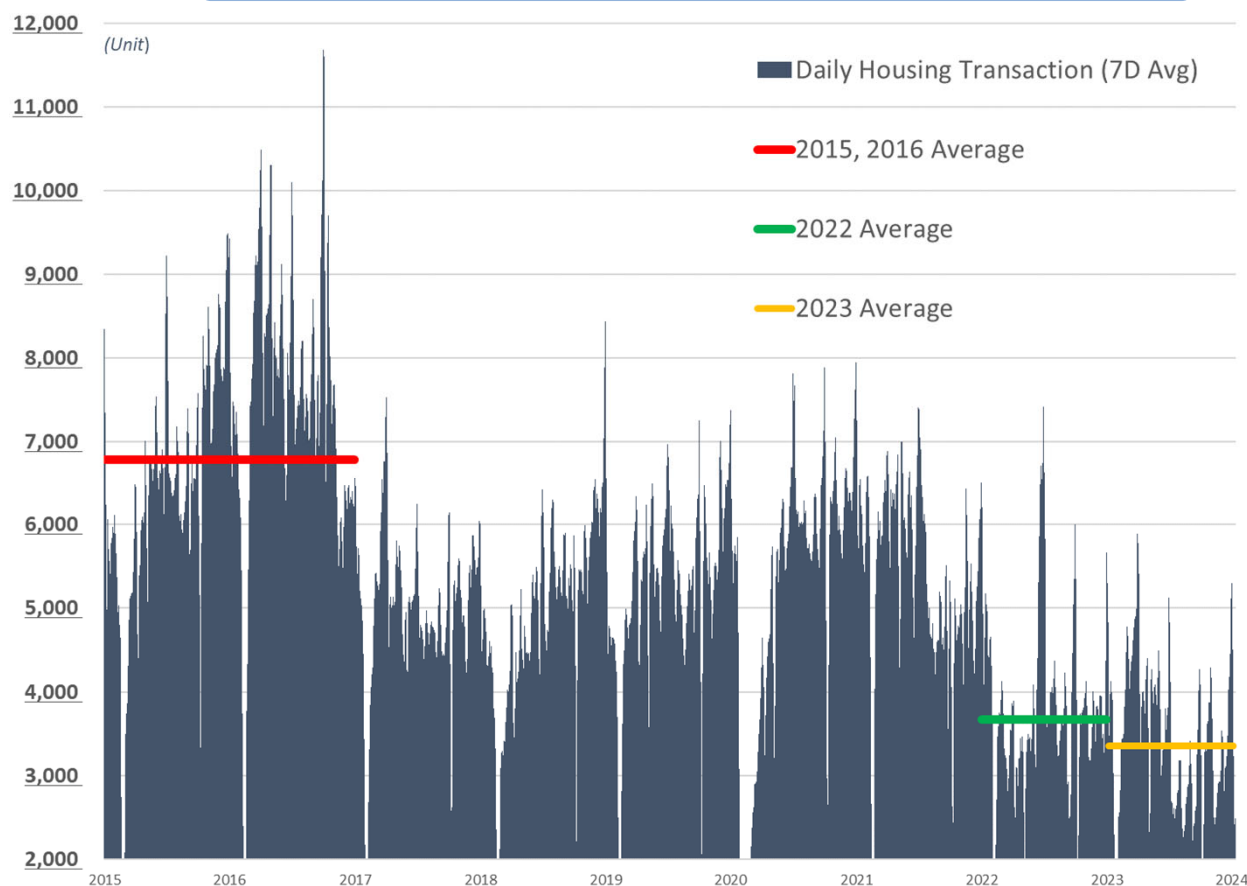
(Source: Factset, I/B/E/S, Bloomberg, SMDAM)(Date: As of 29th December, 2023)

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Monitoring Point: Property Market

- Property Market remains one of the most important industry for Chinese Economy. In December 2023, transaction showed signs of demand recovery due to the Government Stimulus Policies including down payment reduction and Mortgage Rate Cut. Continuous stimulus is needed for property market sentiment moderation.

Daily New Home Transaction (7 Days Average)

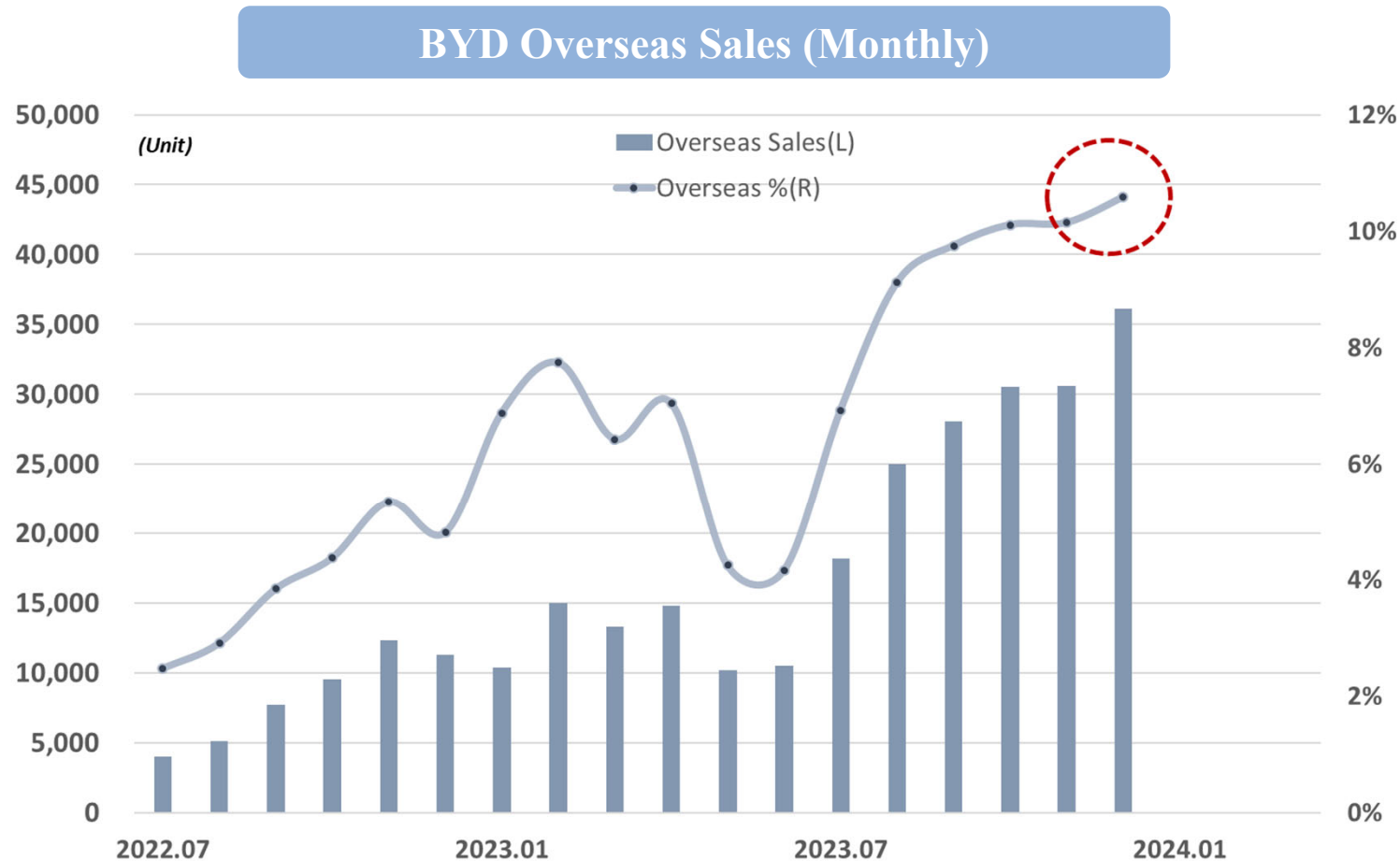


(Source: Wind, SMDAM) (Date: As of 11th January, 2024)

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Quarterly Investment Theme: Exporters

- Moderating Chinese Economy has incentivized Chinese Companies to search for growth opportunities in overseas market. Competitive Landscape in Domestic Chinese market is fairly fierce in most industries. Thus, those gaining high market share domestically such as BYD in Auto sector has successfully accumulated competitive edge, which makes them also competitive in overseas market.



(Source: BYD Monthly Report, SMDAM) (As of December 2023)

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