



China Macro Economy and Equity Market Outlook for Q3 2023

August 2023

Macro economy

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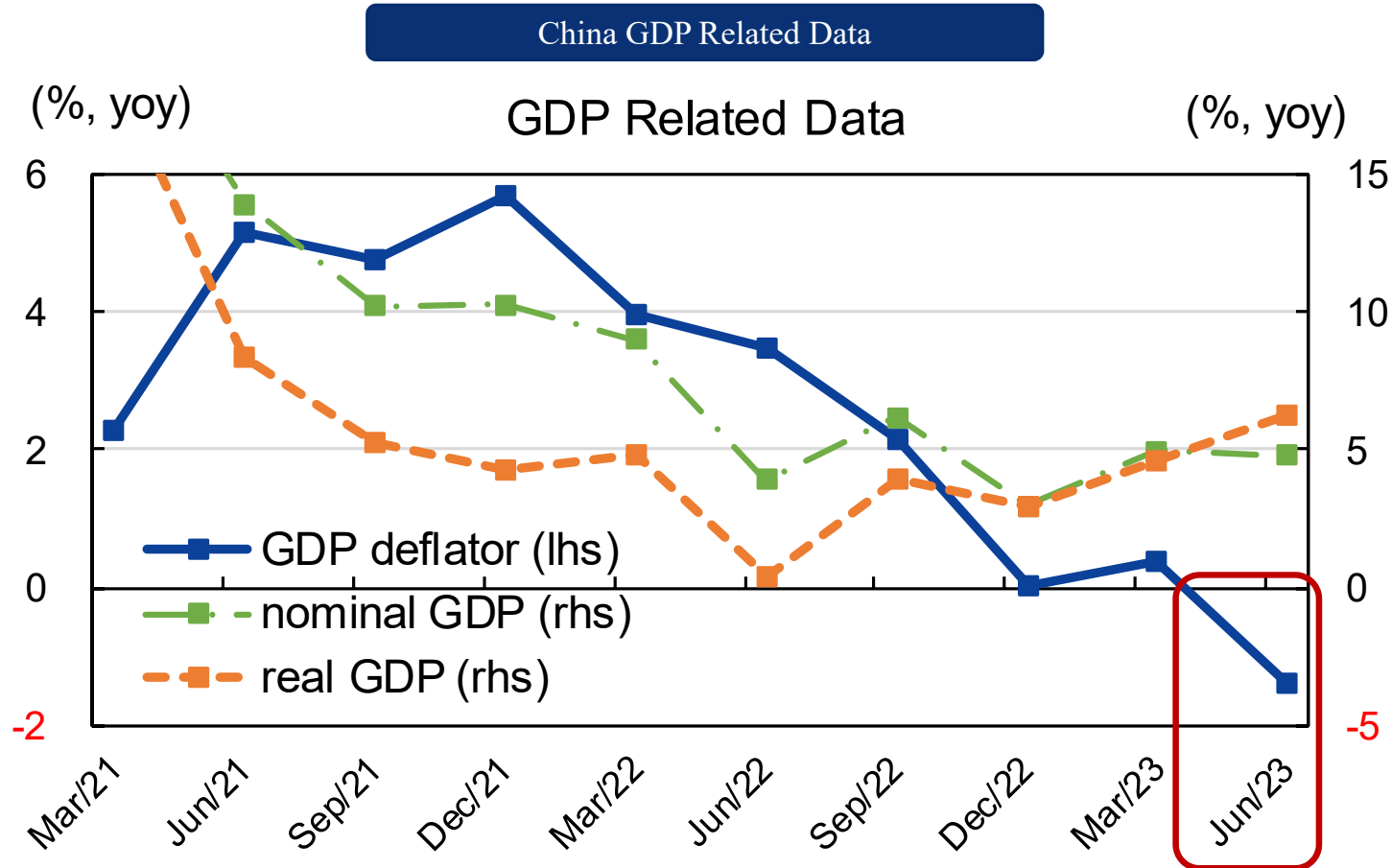
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Quarter's Macro Highlight : Deflation Phase Has Come

- Nominal GDP Growth Slowed to 4.8% yoy in 2Q.23 because GDP Deflator dropped 1.4% yoy.

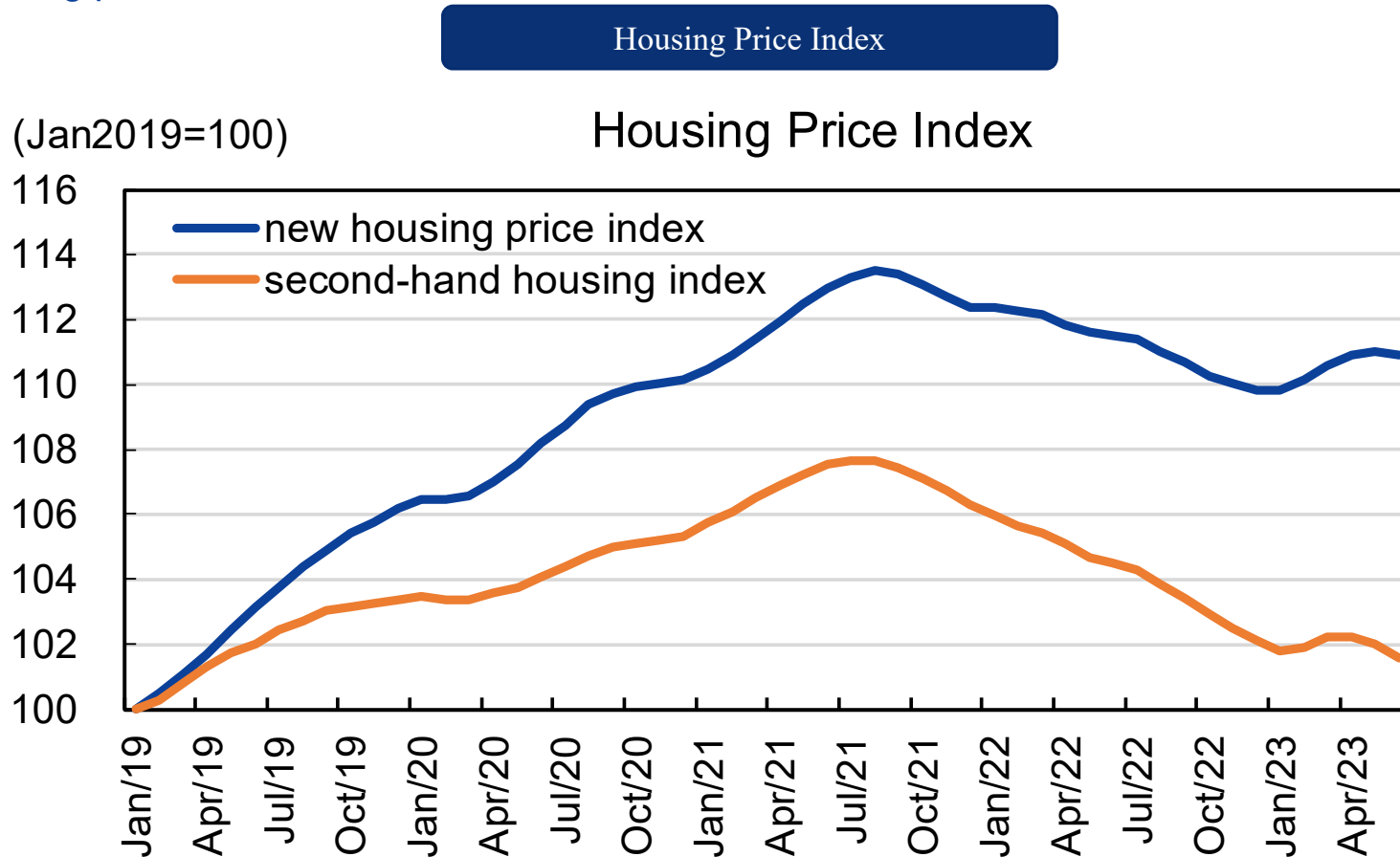


(Source: CEIC, SMDAM) (As of June, 2023)

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.

Quarter's Macro Highlight : Housing Prices Downward Trend

- Lower Housing Prices should cause weaker consumer sentiment via a negative asset effect
- 1) Demographic Change, 2) Concerns over property tax and house deliver problems are the main background for lower housing prices



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

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Quarter's Macro Highlight : Weaker Sentiment in Household

- Many Sub-Index worsened below 50 level in 2Q.23

PBOC Household Survey Index

| | Price Expectation Index | Income Sentiment Index | Income Confidence Index | Employment Sentiment Index | Employment Expectation Index |
|-------|-------------------------|------------------------|-------------------------|----------------------------|------------------------------|
| 20.2Q | 58.3 | 46.1 | 47.9 | 37.5 | 50.1 |
| 20.3Q | 62.2 | 49.3 | 49.2 | 39.7 | 50.4 |
| 20.4Q | 61.6 | 50.6 | 51.2 | 41.4 | 51.2 |
| 21.1Q | 58.4 | 51.7 | 51.0 | 43.9 | 53.1 |
| 21.2Q | 59.5 | 51.2 | 51.0 | 44 | 52.2 |
| 21.3Q | 58.7 | 49.7 | 49.5 | 40.8 | 49.4 |
| 21.4Q | 63.8 | 49.9 | 50.0 | 41.4 | 49.3 |
| 22.1Q | 58.7 | 50.2 | 50.0 | 42.4 | 50.5 |
| 22.2Q | 60.4 | 44.5 | 45.7 | 35.6 | 44.5 |
| 22.3Q | 61 | 47 | 46.5 | 35.4 | 45.3 |
| 22.4Q | 62.8 | 43.8 | 44.4 | 33.1 | 43 |
| 23.1Q | 58.6 | 50.7 | 49.9 | 39.9 | 52.3 |
| 23.2Q | 57.7 | 49.7 | 48.5 | 37.6 | 48.7 |

(Source: PBOC, SMDAM) (As of 2Q 2023) (Neutral = 50)

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Macro: China Outlook

- Consensus GDP growth for 2023/2024 is 5.2%/4.8% respectively while our economic view is lower than Cons.
- Inflation wise, CPI will be in negative territory in 3Q/4Q 2023 and will be back to positive level in 2024.

China Economic Outlook

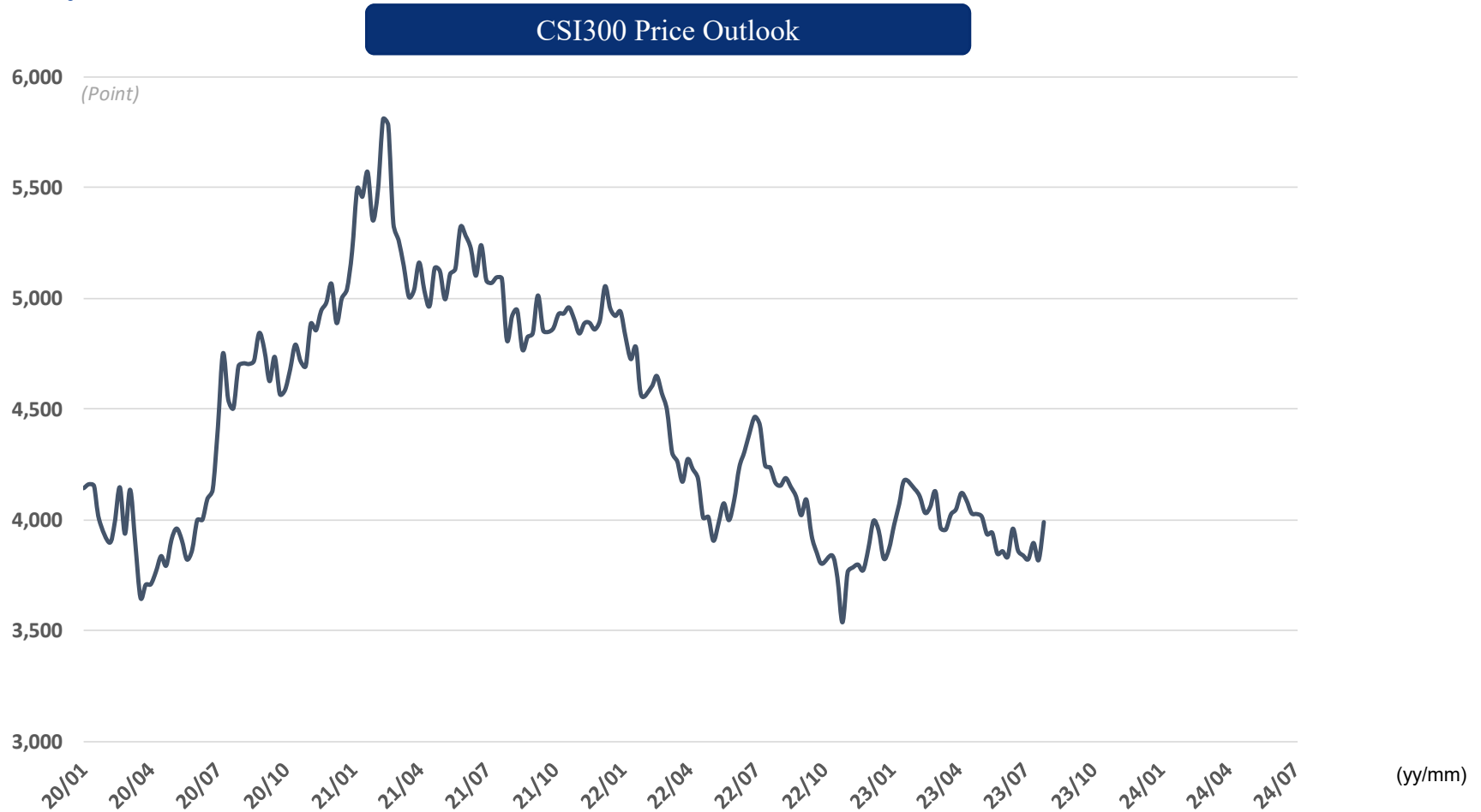
| | 2021 | 2022 | 2023 | 2024 | 1Q22 | 2Q22 | 3Q22 | 4Q22 | 1Q23 | 2Q23 | 3Q23 | 4Q23 | 1Q24 | 2Q24 | 3Q24 | 4Q24 | Consensus | |
|----------------------------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|-----------|------|
| | | | (F) | (F) | | | | | | | (F) | (F) | (F) | (F) | (F) | (F) | 2023 | 2024 |
| Real GDP (%) | 8.4 | 3.0 | 5.0 | 4.4 | 4.8 | 0.4 | 3.9 | 2.9 | 4.5 | 6.3 | 4.2 | 5.1 | 4.8 | 4.5 | 4.3 | 4.2 | 5.2 | 4.8 |
| Consumption | 9.0 | 1.8 | 6.8 | 5.4 | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA |
| Investment | 4.0 | 3.7 | 4.5 | 3.6 | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA |
| Net exports (contribution) | 1.9 | 0.5 | -0.5 | -0.1 | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA |
| Nominal GDP (%) | 13.4 | 5.3 | 4.2 | 4.8 | 9.0 | 3.9 | 6.2 | 2.9 | 5.0 | 4.8 | 2.4 | 4.6 | 4.7 | 4.8 | 4.8 | 4.8 | NA | NA |
| GDP deflator (%) | 4.5 | 2.4 | -0.8 | 0.3 | 4.0 | 3.5 | 2.2 | 0.0 | 0.4 | -1.4 | -1.8 | -0.5 | -0.1 | 0.3 | 0.5 | 0.6 | NA | NA |
| Industrial production (%) | 9.6 | 3.6 | 4.0 | 4.0 | 6.5 | 0.7 | 4.8 | 2.7 | 3.0 | 4.6 | 3.7 | 4.8 | 4.3 | 4.1 | 3.9 | 3.8 | 4.6 | 4.8 |
| PPI (%) | 8.1 | 4.1 | -2.5 | 0.8 | 8.7 | 6.9 | 2.5 | -1.1 | -1.6 | -4.6 | -3.0 | -1.0 | 0.1 | 1.5 | 1.0 | 0.7 | -2.5 | 0.9 |
| CPI (%) | 0.9 | 2.0 | 0.2 | 0.9 | 1.1 | 2.3 | 2.7 | 1.8 | 1.3 | 0.1 | -0.6 | -0.1 | 0.0 | 0.8 | 1.3 | 1.6 | 0.9 | 2 |
| 7D reverse repo (%) | 2.20 | 2.00 | 1.80 | 1.80 | 2.10 | 2.10 | 2.00 | 2.00 | 2.00 | 1.90 | 1.80 | 1.80 | 1.80 | 1.80 | 1.80 | 1.80 | 1.80 | 1.80 |
| 1Y MLF (%) | 2.95 | 2.75 | 2.55 | 2.55 | 2.85 | 2.85 | 2.75 | 2.75 | 2.75 | 2.65 | 2.55 | 2.55 | 2.55 | 2.55 | 2.55 | 2.55 | 2.55 | 2.55 |
| CNY/USD | 6.36 | 6.90 | 7.10 | 6.80 | 6.35 | 6.70 | 7.12 | 6.90 | 6.87 | 7.25 | 7.20 | 7.10 | 7.00 | 7.00 | 6.90 | 6.80 | 7.00 | 6.70 |

Source: CEIC, Bloomberg. (F) = forecast by SMDAM as of 31st July, 2023

(note) Interest rates & foreign exchange rate are at end of period. Other indicators are yoy growth rate.

Outlook for China A-Share Equity Market (CSI300)

- Policy pivot had excited Onshore Equity Sentiment in the 2H of July.
- Our base case assumes market recovery in 12 month timeframe supported by policy measures and gradual earnings recovery.

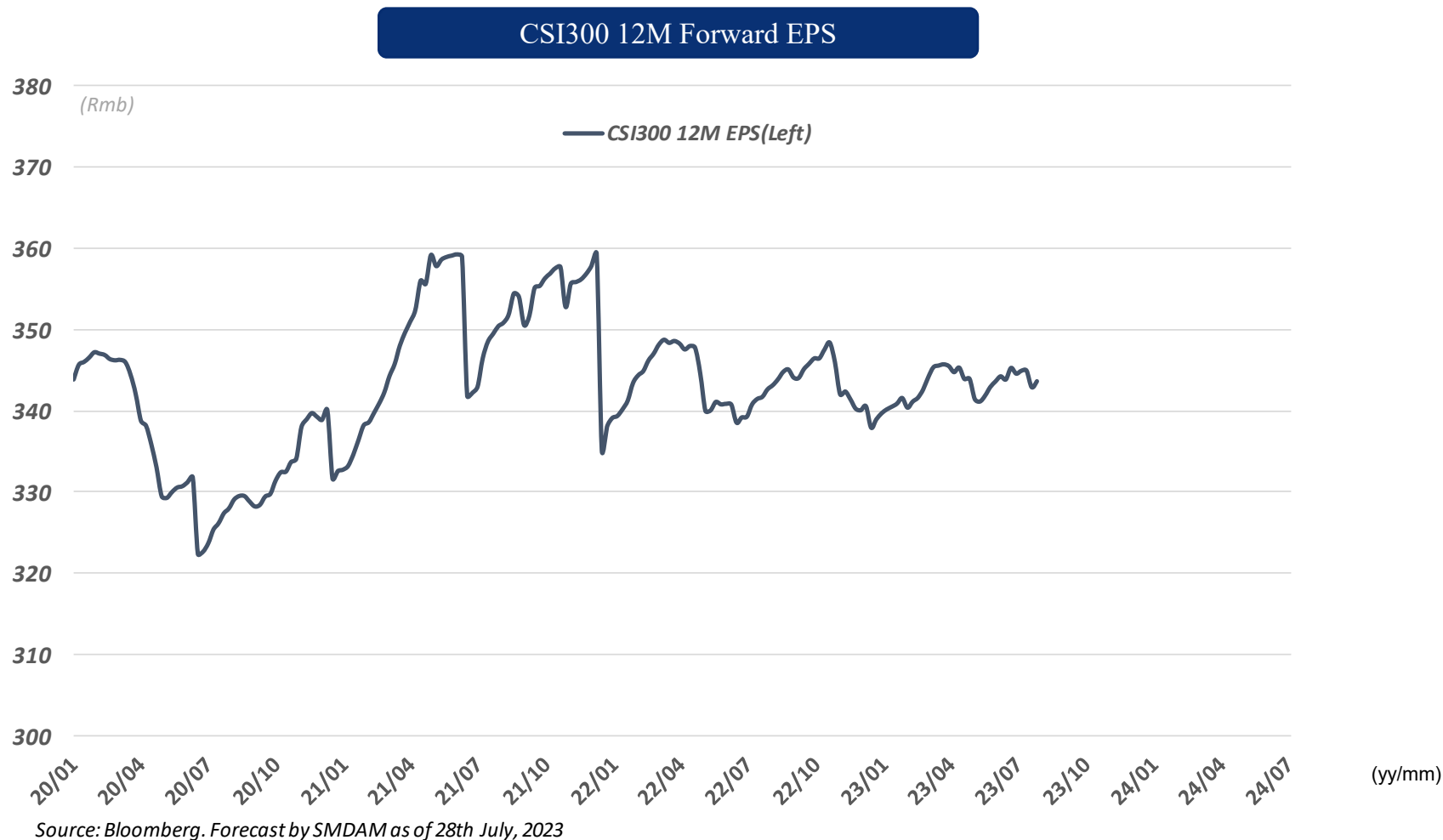


Source: Bloomberg. Forecast by SMDAM as of 28th July, 2023

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.

12 month forward EPS forecast for CSI300

- Earnings expectation remains lackluster YTD.
- In the near term, earnings expectation is expected to remain subdued owing to slower economic recovery. Still, due partly to low base, in 1 year time frame, robust earnings growth is estimated.



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Earnings multiples* for CSI300

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

- 12 month forward PER stands at 11.6 times, which is below its Long Term Average.
- We expect there still remains upside for multiples assuming more clarity in policy stimulus.

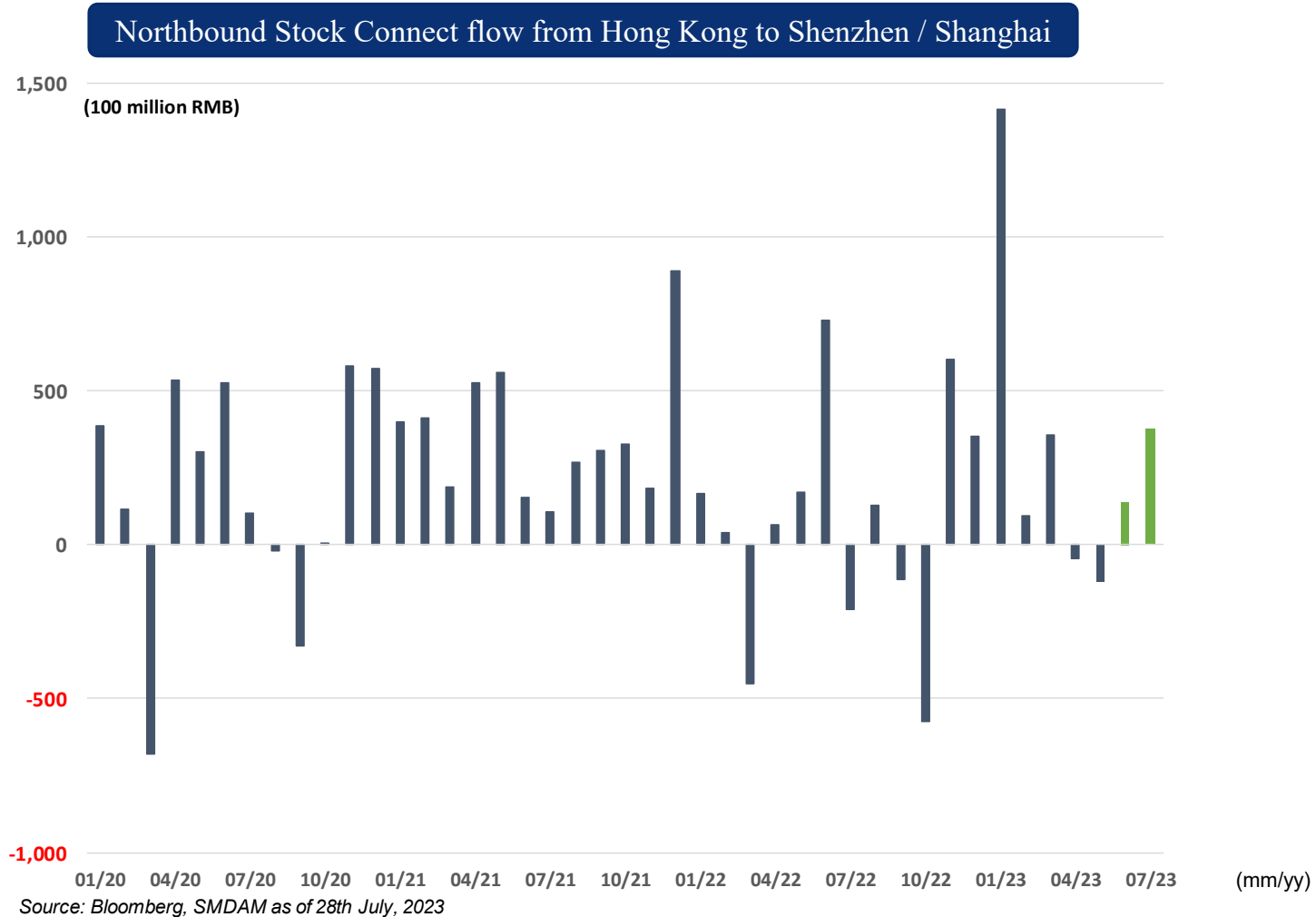


Source: Bloomberg. Forecast by SMDAM as of 28th July, 2023

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.

Stock Connect

- In April-May 2023, Stock Connect saw an **outflow** from Mainland China.
- But in June and especially in July, northbound flow **turned to positive** toward Mainland China.



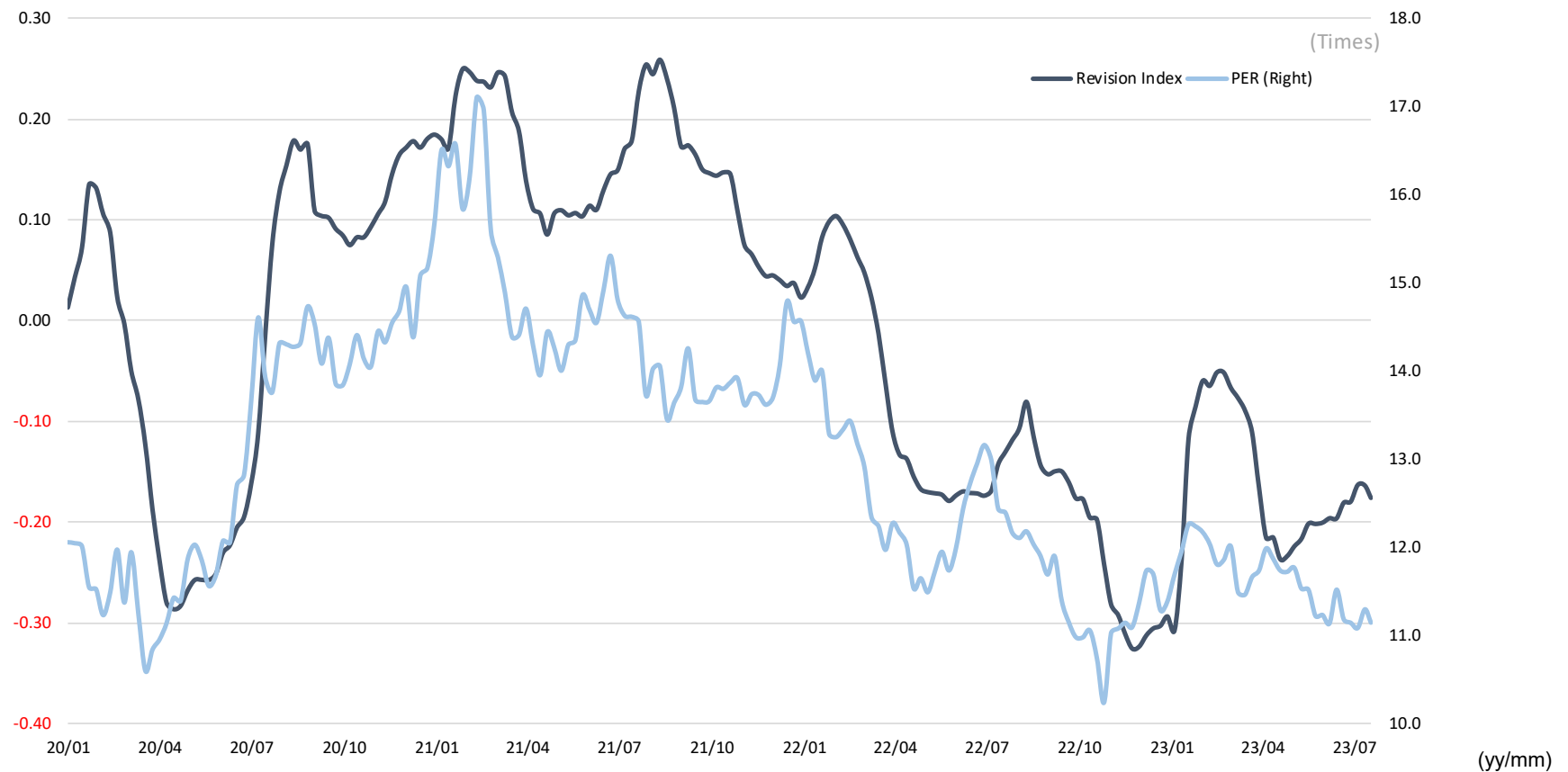
Note: Past performance is not necessarily indicative of future trends or results.

Monitoring Point: Earnings revision index* for CSI300

- Earnings Revision is one of the key factors for valuation.
- Earnings momentum may face some pressure in near term, but once downward revision settles down, CSI300 valuation is expected to be supported.

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

Earnings Revision Index and PER



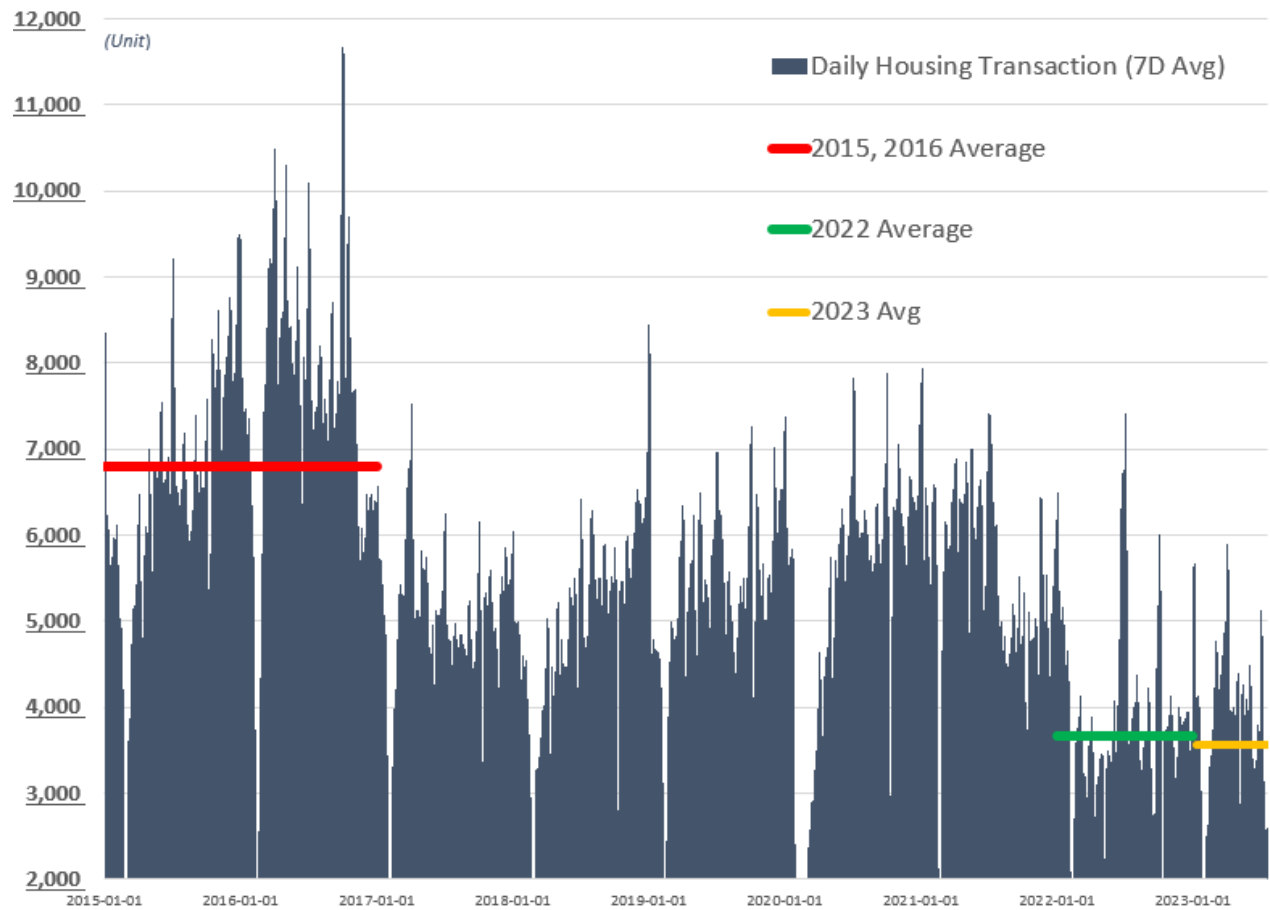
Source: FactSet, I/B/E/S, Bloomberg, SMDAM as of 20th July, 2023

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.

Monitoring Point: Property Market

- In 2Q.23, property transactions have not shown yet signs of recovery with average transaction volume remaining below 4,000. **Strong Policy Stimulus** is awaited for the market sentiment recovery.

Daily New Home Transaction (7 Days Average)



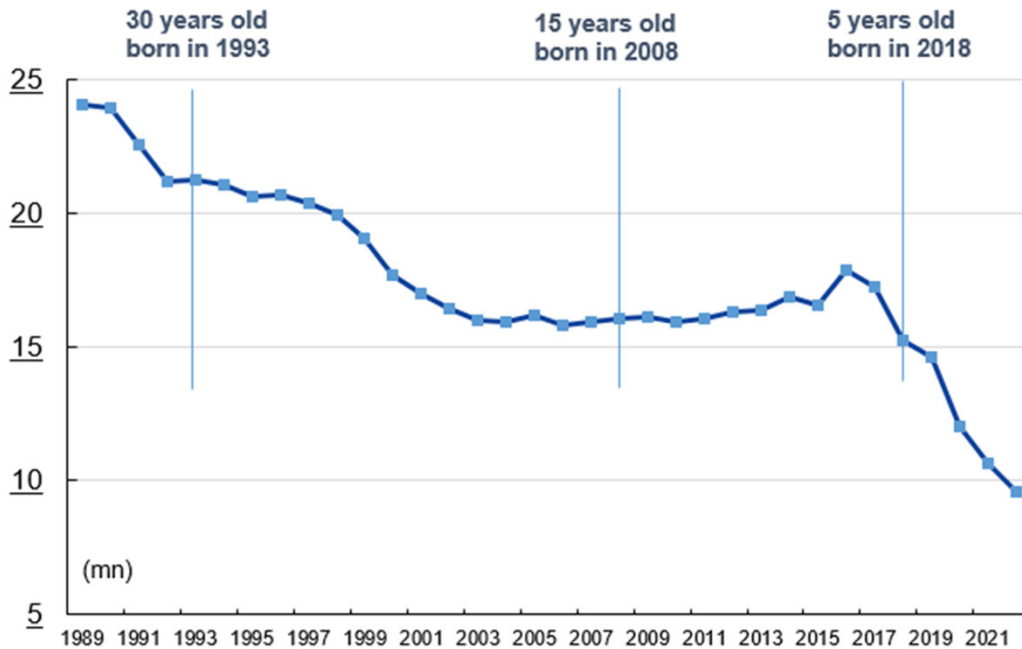
(Source: Wind) (Date: As of 21st July, 2023)

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.

Monitoring Point: Japanization

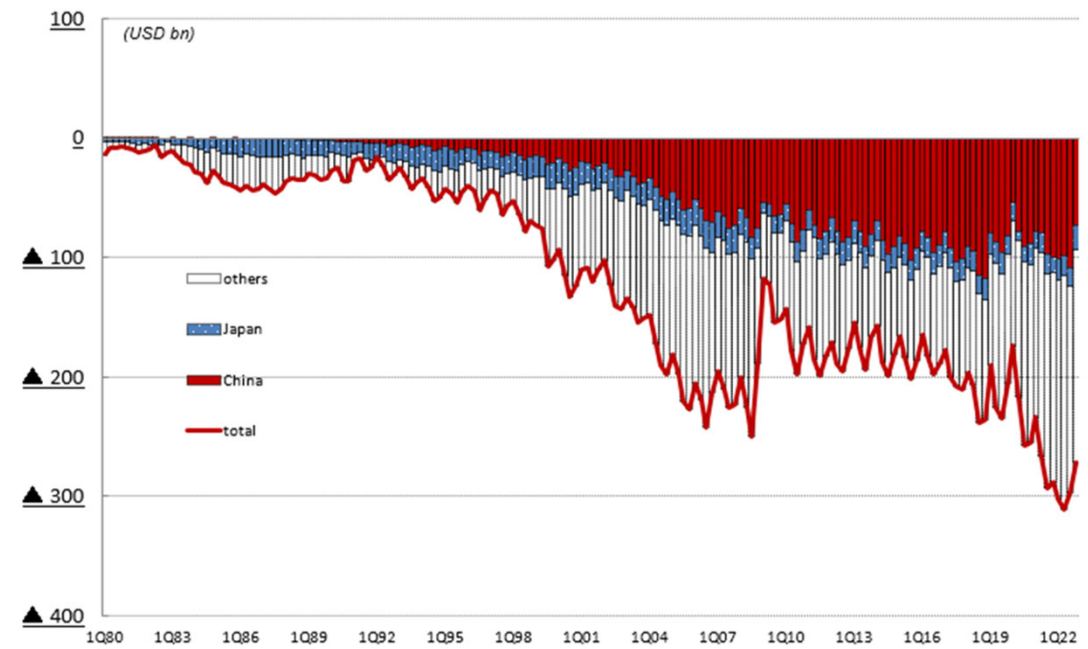
- As current Chinese Economic condition is similar to that of Japan in 1990s, some started to call today's China as "Japanization"

China New Birth Population



(Source: NBS, SMDAM) (Date: As of 2022)

U.S Trade Deficit to China and Japan



(Source: IMF, SMDAM) (Date: As of 4Q.2022)

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Monitoring Point: Policy Announcement

- Due to the slower economic recovery after Zero Covid Policy, especially since June, Chinese government has aggressively announced stimulus policies to shore up economy.
- Even stronger supportive signal is expected to boost Chinese Equity Market under the current condition where valuation is at a discounted level

Policy Support Announced since June 2023

| Date | Category | Contents |
|-----------|-------------------|--|
| 12th June | Financial | PBOC surprisingly Cut LPR (Loan Prime Rate) by 10bps. |
| 21st June | Consumption | Chinese Government extended New Energy Vehicle Tax Reduction period toward 2027. |
| 30th June | Financial | In PBOC's monetary policy committee, it showed more accommodative stance by vowing to intensify countercyclical adjustment. |
| 12th July | Private Companies | Premier Li Qiang met firms such as Alibaba and Meituan and urged them to do more to support the economy. |
| 24th July | Politburo Meeting | China's top leaders pledged to step up policy support for the economy amid a tortuous post-COVID recovery, focusing on boosting domestic demand, signalling more stimulus steps. |

(Source: Bloomberg, Reuters, Nikkei, SMDAM)

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