

China Macro Economy and Equity Market Outlook for Q1 2023

February 2023

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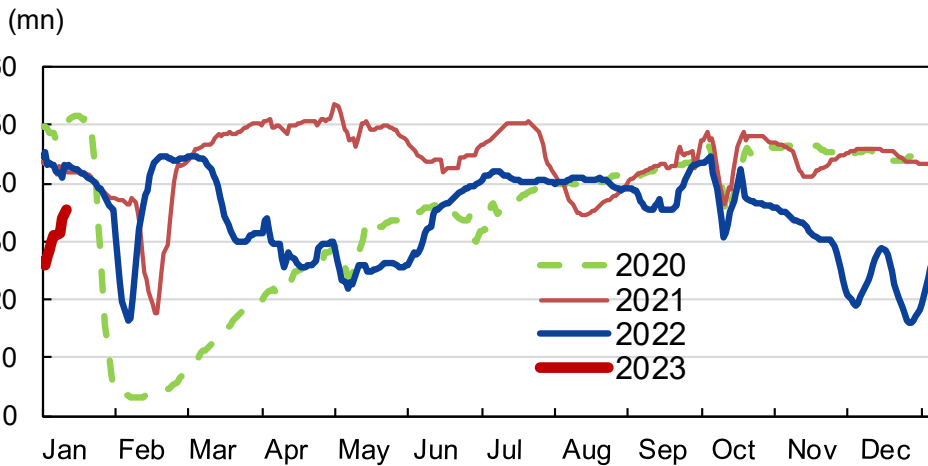
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Quarter's Highlight : Bottoming Out Traffic

- After the abolishment of Zero-Corona Policy, city traffic is bottoming out.

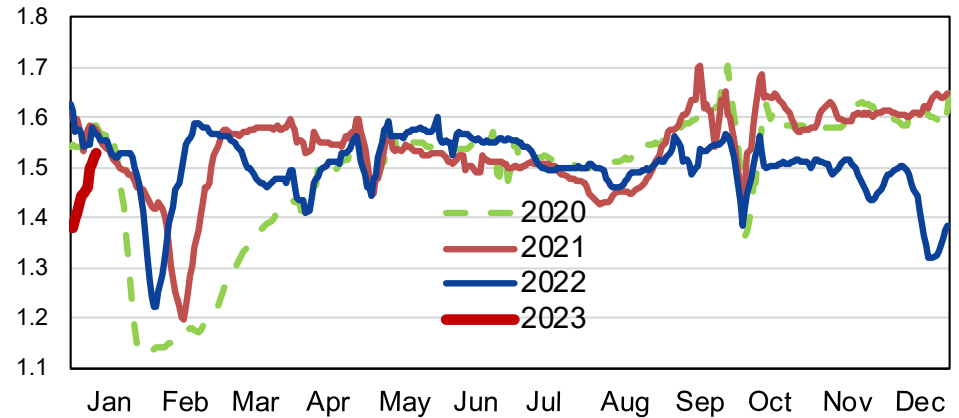
Subway Passenger Volume (Top 10 Cities*) (7DMA**)



(Source: Wind, SMDAM) (As of 12th January, 2023)

* Top 10 Cities: Beijing, Shanghai, Guangzhou, Chengdu, Nanjing, Wuhan, Xian, Suzhou, Zhengzhou, Chongqing
 ** 7DMA: 7 days moving average

Traffic Congestion Index*** : 99 Cities (7DMA)

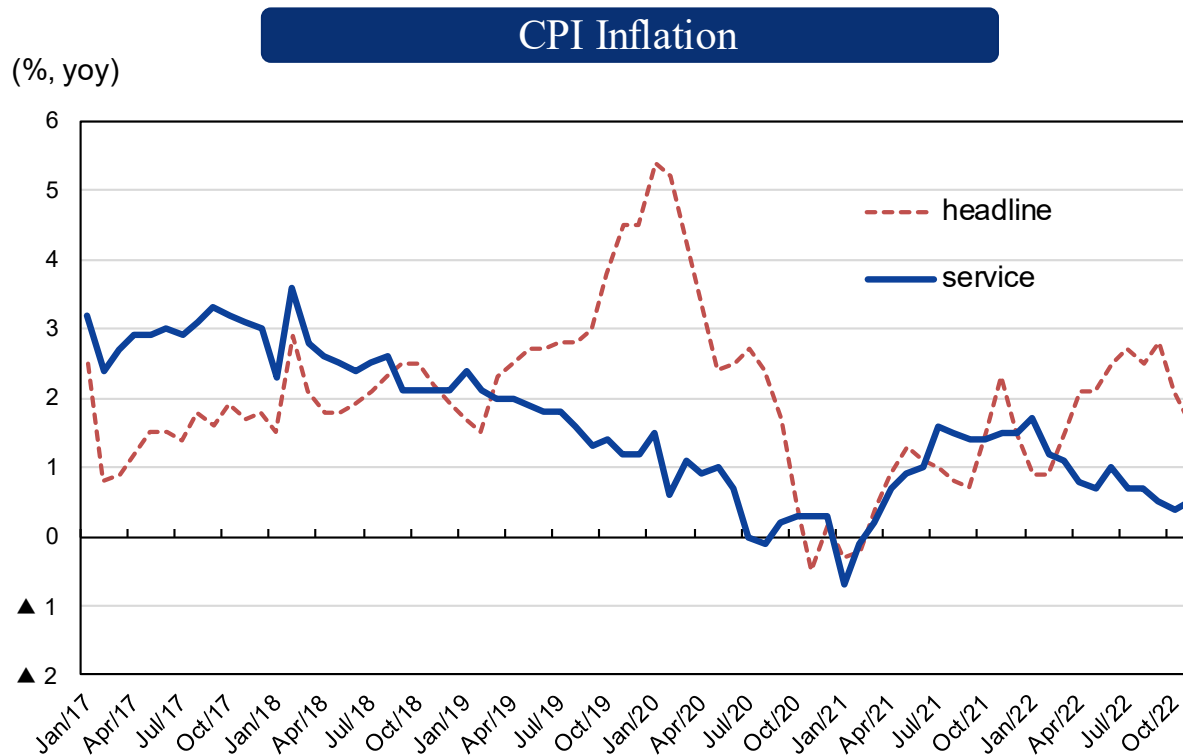


(Source: Wind, SMDAM) (As of 12th January, 2023)

*** Urban citizens' actual travel time per trip divided by travel time at free-flow status with no traffic. The higher the index, the more time people spend due to traffic delay.

Quarter's Highlight : Service Inflation to Accelerate

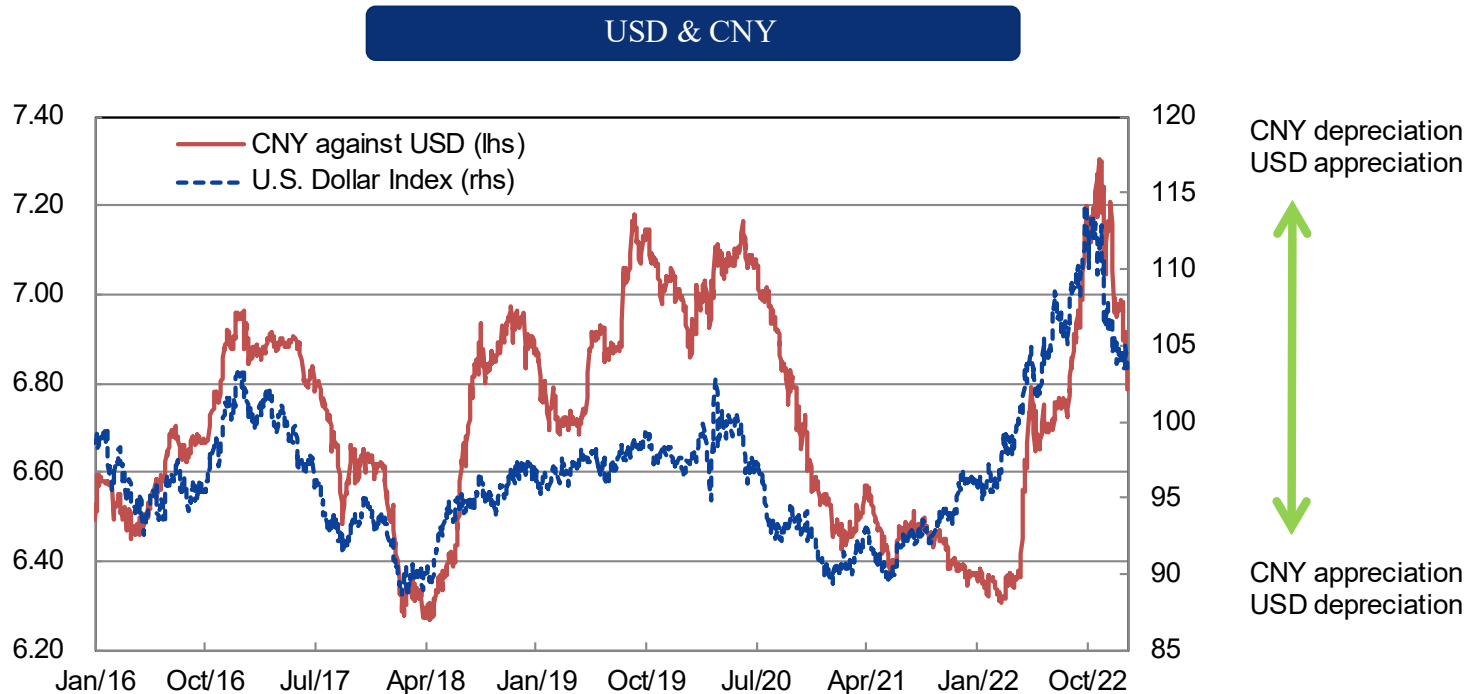
- Zero-corona policy had caused service inflation to decelerate.
- Service inflation should accelerate after the zero-corona policy was lifted.
- Higher inflation should cause a positive factor for nominal GDP outlook



(Source: CEIC, SMDAM) (As of 10th January, 2023)

Quarter's Highlight : CNY to Appreciate

- Given softening USD trend, CNY is likely to appreciate against USD.
- Capital inflow into China should support CNY's appreciation scenario



(Source: CEIC, SMDAM) (As of 10th January, 2023)

China Economic Outlook

- Without zero-corona policy, our economic growth forecast is higher than consensus.
- Consumption rebound should lead the economy.
- We expect one-time rate cut in late Mar 2023.
- Given softening USD trend, we expect CNY to appreciate against USD further

China Economic Outlook

	2021	2022	2023		2024				2023				2024				Consensus	
			(F)	(F)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	2023	2024
Real GDP (%)	8.4	3.0	5.3	5.2	4.8	0.4	3.9	2.9	2.5	6.2	5.9	6.2	6.2	5.1	4.9	4.9	5.1	5.0
Consumption	10.0	1.9	7.5	7.0	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Investment	2.7	3.8	4.5	4.3	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Net exports (contribution)	1.7	0.5	-0.5	-0.3	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Nominal GDP (%)	13.4	5.3	7.3	7.2	8.9	3.9	6.1	3.5	4.1	8.2	8.0	8.5	8.4	7.1	6.7	6.8	NA	NA
GDP deflator (%)	4.8	2.4	2.0	2.0	4.0	3.5	2.1	0.2	1.6	2.0	2.1	2.3	2.2	2.0	1.8	1.9	NA	NA
Industrial production (%)	9.6	3.6	4.9	5.0	6.5	0.7	4.8	2.7	1.8	6.0	5.5	6.1	5.8	4.8	4.7	4.7	5.0	4.9
PPI (%)	8.1	4.1	0.9	0.9	8.7	6.9	2.5	-1.1	0.2	0.8	1.2	1.5	1.2	1.0	0.7	0.7	0.6	1.7
CPI (%)	0.9	2.0	2.4	2.2	1.1	2.3	2.7	1.8	2.0	2.3	2.4	2.7	2.4	2.2	2.1	2.0	2.3	2.2
7 days reverse repo (%)	2.20	2.00	1.90	1.90	2.10	2.10	2.00	2.00	1.90	1.90	1.90	1.90	1.90	1.90	1.90	1.90	2.00	2.00
1Y money lending facility (%)	2.95	2.75	2.65	2.65	2.85	2.85	2.75	2.75	2.65	2.65	2.65	2.65	2.65	2.65	2.65	2.65	2.75	2.75
USD/CNY	6.36	6.90	6.40	6.20	6.35	6.70	7.12	6.90	6.70	6.60	6.50	6.40	6.35	6.30	6.25	6.20	6.70	6.50

(Source: CEIC, SMDAM) (As of 20th January, 2023)

(note) Interest rates & foreign exchange rates are the ones at end of period. Other indicators are year-on-year growth rate.

Outlook for China A-Share Equity Market (CSI300)

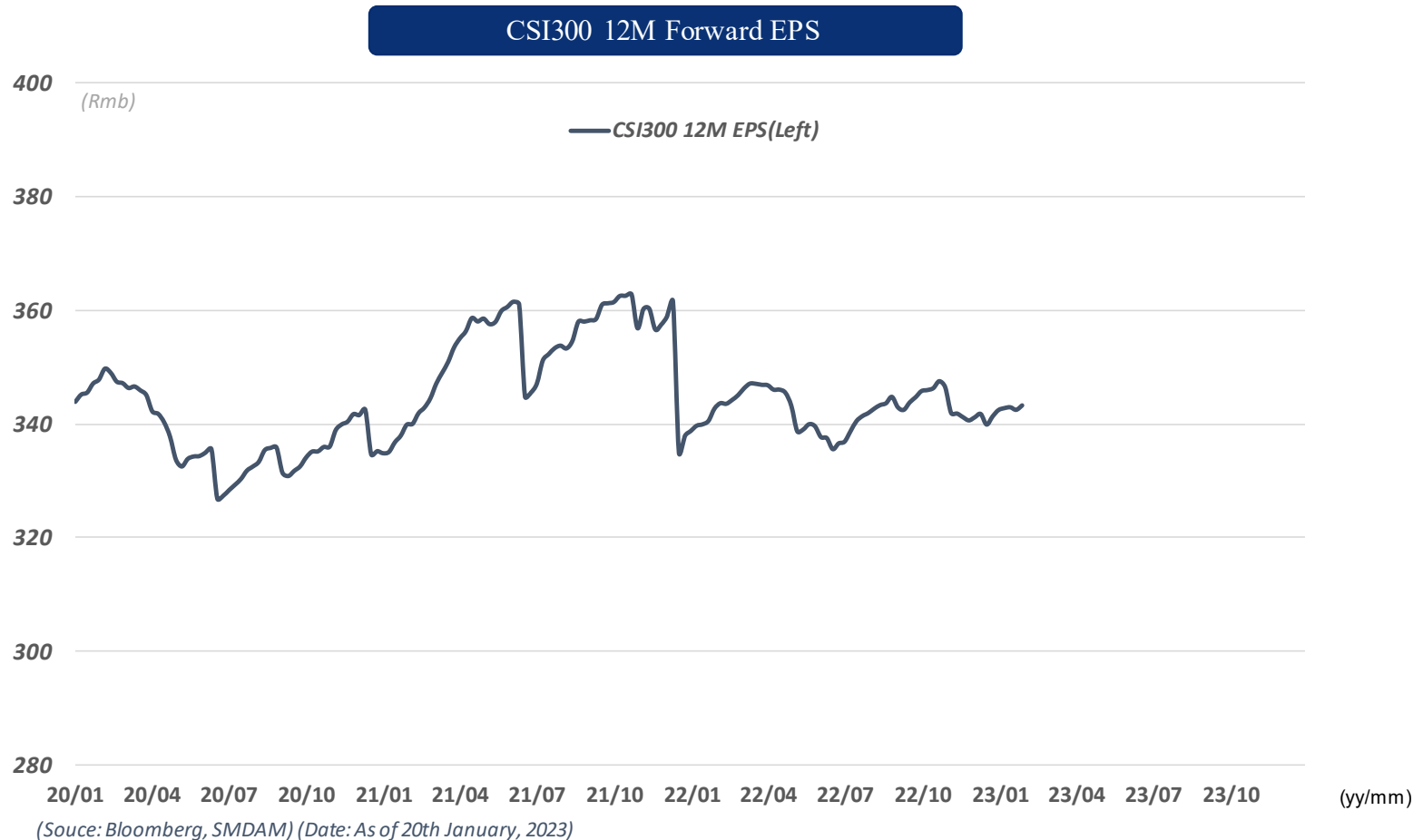
- (A) Strict COVID control and (B) Lackluster property market dampened CSI300 in 2022.
- Our base case assumes a market recovery in 12 months timeframe supported by improving earnings growth.



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 months forward EPS forecast for CSI300

- Chinese Corporate Earnings remained under pressure throughout 2022.
- Due to low base and COVID policy adjustment, higher growth is estimated for 2023.

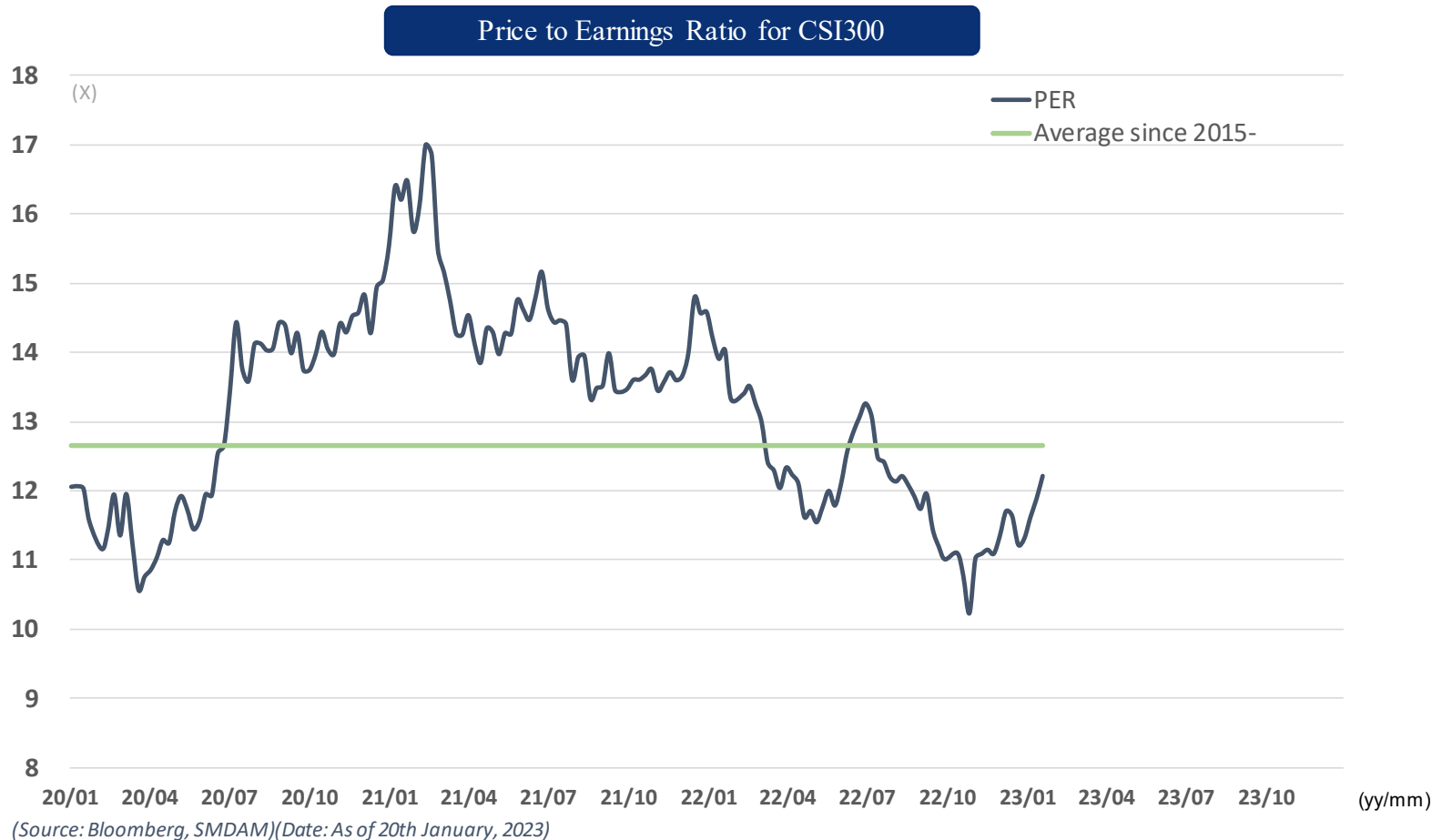


Note: The above views represent SMDAM's forecast as at the date of this presentation and may be subject to change without notice. Those do not guarantee future trends or results.

Earnings multiples* for CSI300

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

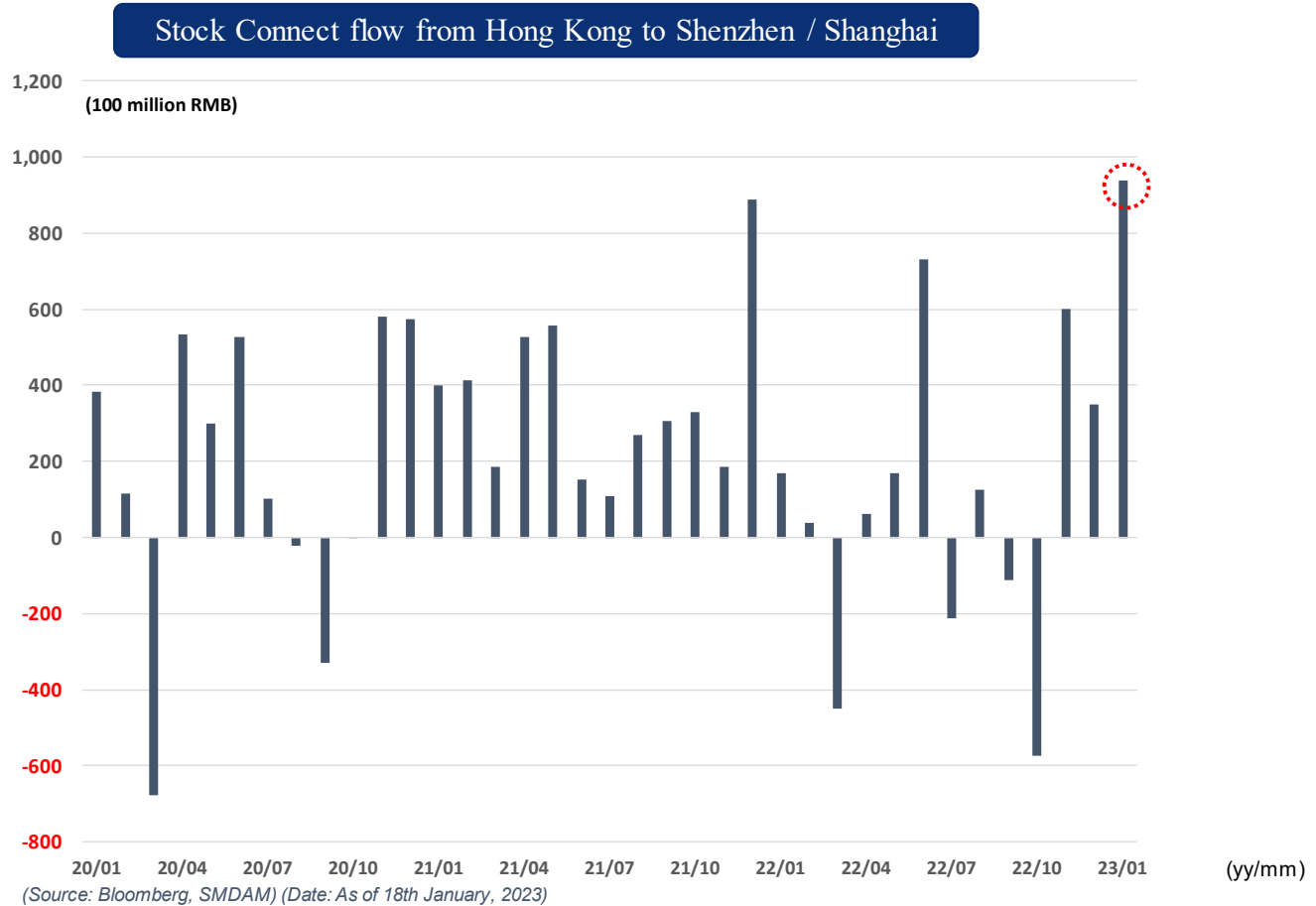
- 12 months forward PER stands at 12.2 times, which is almost in line with long term average.
- We expect there still remains upside for multiples given clearer economic growth outlook going forward.



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

- Stock Connect flow in recent months saw inflow toward Mainland China Market.
- Market sentiment has turned positive due to abolishment of Zero-corona Policy and improving economic outlook.



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: Policy Support

- Various policy supports play pivotal roles for strong economic recovery.

Policy Supports Announced in January 2023

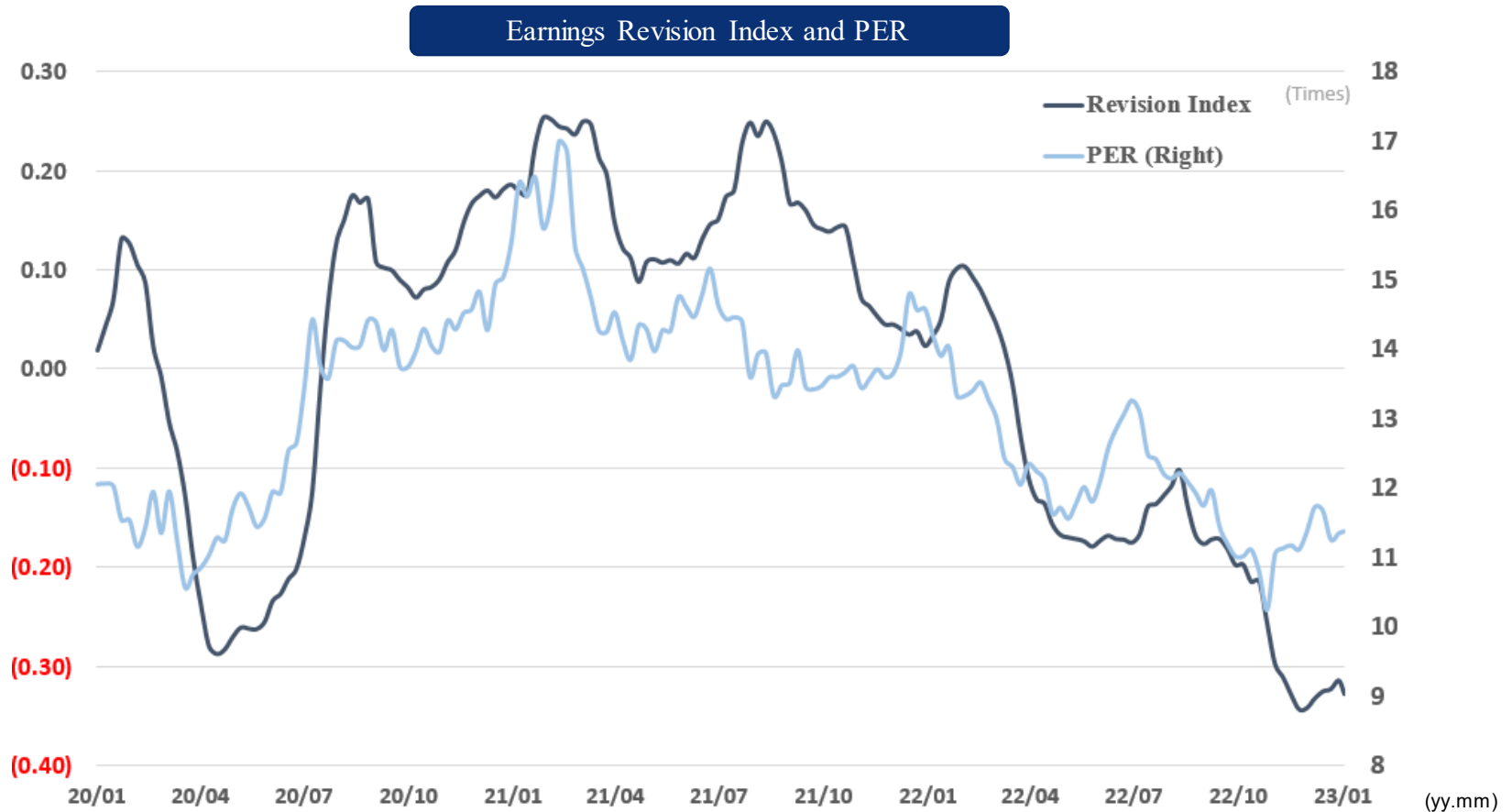
Category	Contents
Property	Bloomberg reported that China is planning to relax restrictions on borrowing for property developers.
Property	PBOC announced to relax 【Three Red Line Policy】 in the property sector.
Property	Vice Premier Liu He stated in the World Economic Forum that Property Sector is the pillar for the economic growth.
Internet	China Video Game Regulator granted 88 online publishing licenses, including titles belonging to Tencent and NetEase.
Fiscal Stimulus	China is reportedly considering record local debt quota and wider budget deficit
Tax Cut	Ministry of Finance reduces Value Added Tax Rate applicable to small businesses

(Source: Bloomberg, Reuters, Nikkei, China Daily, SMDAM)

Monitoring Point: Earnings revision index* for CSI300

- Earnings Revision index is one of the key factors for valuation
- Improvement of Revision index should be the key for the multiple recovery

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



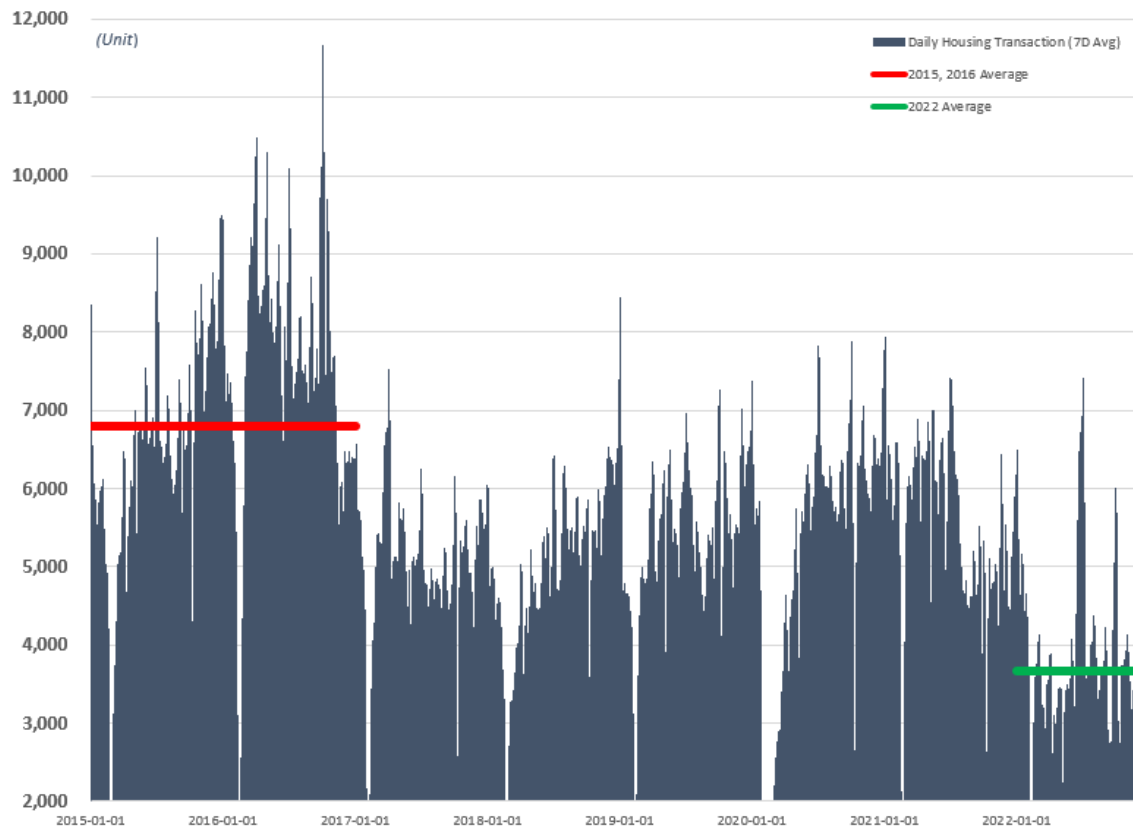
(Source: Factset, I/B/E/S, Bloomberg, SMDAM)(Date: As of 4th January, 2023)

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

- Once buyer's sentiment recovers, investor sentiment would be boosted.

Daily New Home Transaction (7 Days Average)



(Source: Wind) (Date: As of 31st December, 2022)

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