



China Macro Economy and Equity Market Outlook for Q2 2023

May 2023

Macro Economy

Page 2

-
1. Realistic & Conservative Growth Target at NPC
 2. Disinflation Phase Has Come
 3. March Sequential Momentum Remained Weak
 4. Macro Economy Outlook

Market Outlook

Page 6

-
1. Market outlook
 2. Earnings
 3. Valuation
 4. Liquidity

Key Monitoring Points

Page 10

-
1. Supportive Policies
 2. Earnings Revision
 3. Property Market Transaction
 4. AI Development

Macro Quarter's Highlight: Realistic & Conservative Target

- Priority to stable inflation rather than higher economic growth to keep social stability with many poor people.
- Fiscal deficit of GDP should shrink to 4.5% for 2023, down from 4.7% for 2022 in general accounts.
- Comprehensive accommodative stance is over for monetary policy.

Target at National Party Congress (NPC)

	2023	2022
real GDP growth	around 5%	around 5.5%
fiscal deficit of GDP	around 3%	around 2.8%
local gov special bonds	RMB3.8tri	RMB3.65tri
CPI inflation	around 3%	around 3%
new employed in urban	around 12mn	not less than 11mn
unemployment rate in urban	around 5.5%	not more than 5.5%

(Source: National People Congress, SMDAM) (As of 19th April, 2023)

(Source: National People Congress, SMDAM) (As of 19th April, 2023)

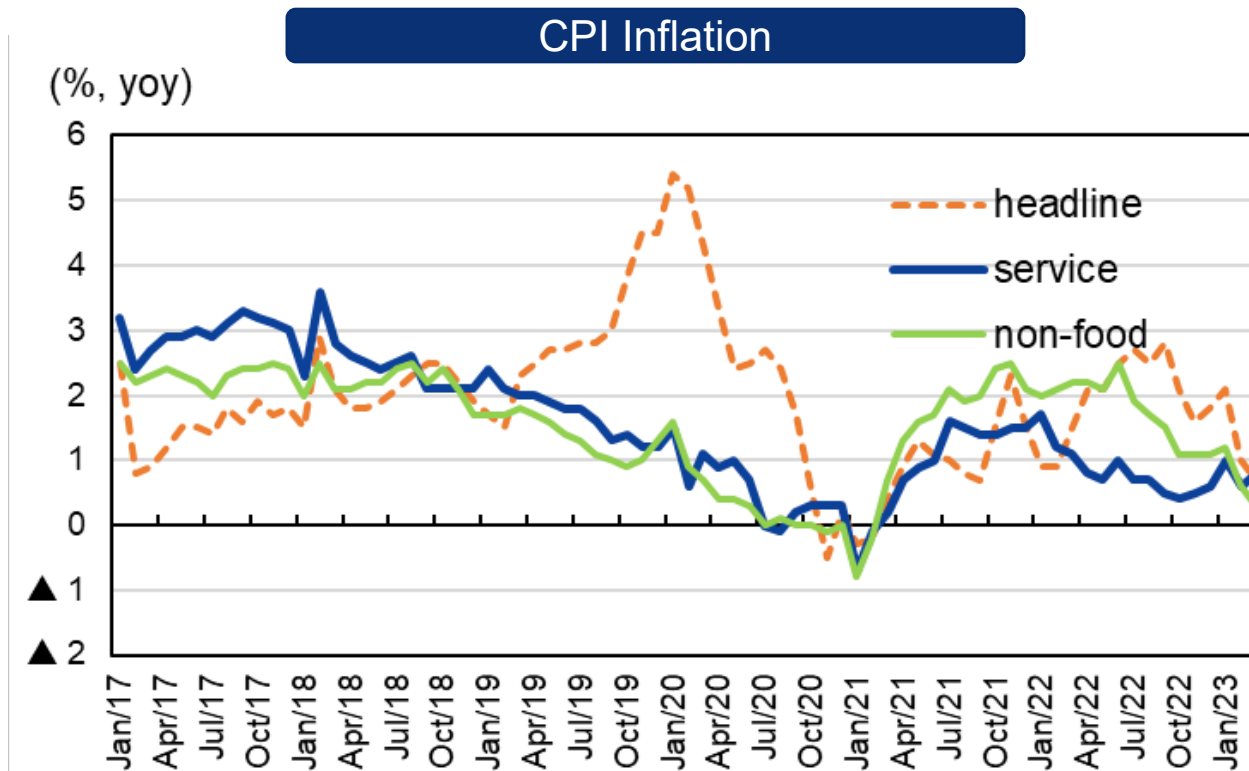
China Fiscal Budget at NPC

	2022		2023	
	A	B	vs A	vs B
	budget	actual	budget	
total revenue	23,343	22,824	23,633	23,633
(%, yoy)	8.9	6.5	1.2	3.5
revenue (general account)	21,014	20,370	21,730	21,730
(%, yoy)	3.8	0.6	3.4	6.7
from off-budget	2,329	2,454	1,903	1,903
total expenditure	26,713	26,194	27,513	27,513
(%, yoy)	6.9	4.8	3.0	5.0
expenditure (general account)	26,663	26,061	27,513	27,513
(%, yoy)	8.2	5.8	3.2	5.6
from off-budget	50	134	0	0
fiscal balance	(3,370)	(3,370)	(3,880)	(3,880)
(% of GDP)	-2.8	-2.8	-3.0	-3.0
fiscal balance (general accounts)	(5,649)	(5,691)	(5,783)	(5,783)
(% of GDP)	-4.7	-4.7	-4.5	-4.5

(note) both growth figures for 2022 against actual figures for 2021

Macro Quarter's Highlight: Disinflation Phase Has Come

- China Economy has entered into disinflation phase against government's concern over upside risk to inflation.
- CPI Inflation decelerated further to 0.7% yoy in Mar.
- Difficult for corporates to raise prices under tamed income expectation.

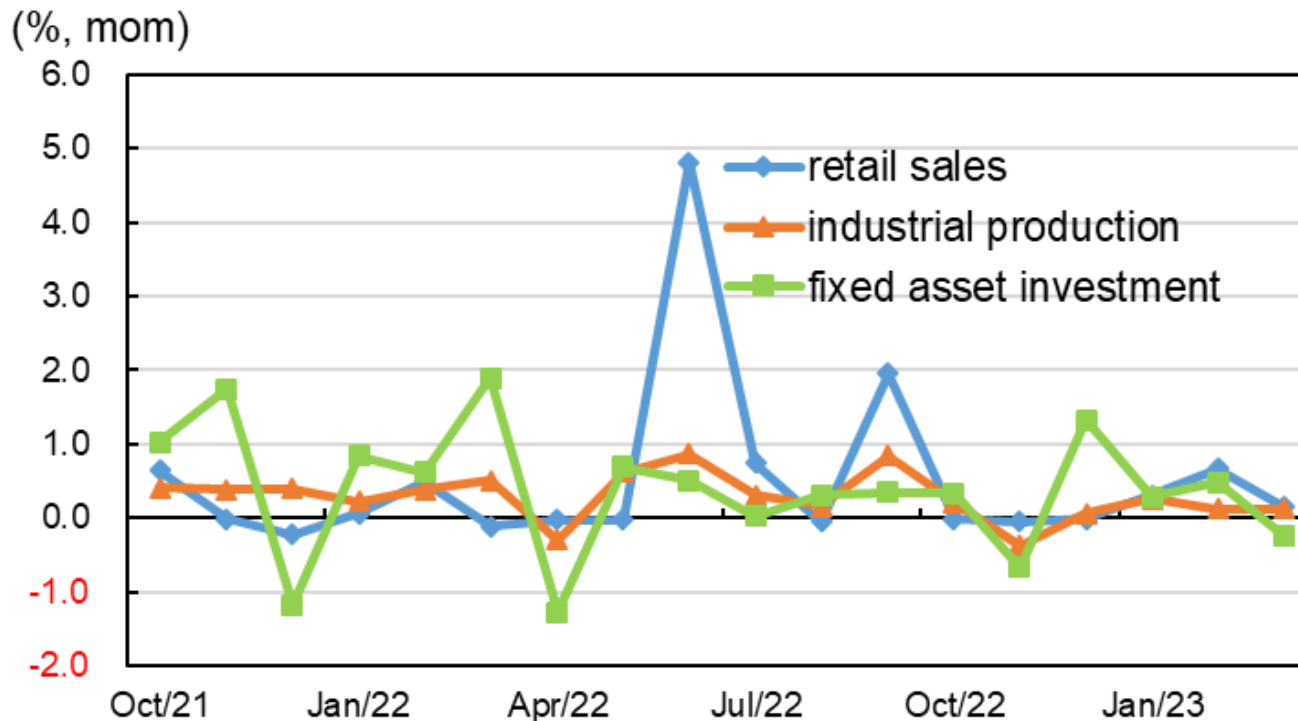


(Source: CEIC, SMDAM) (As of 20th April, 2023)

Macro Quarter's Highlight: Sequential Momentum was Weak

- Economic Momentum decelerated in March 2023.
- We should focus on sequential economic momentum in 2Q2023 instead of y/y growth.

Retail Sales, Industrial Production, FAI Trend (MoM)



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

(Note: Seasonally Adjusted by NBS)

Macro: China Outlook

- Consumption and service should lead economic recovery in 2023.
- Consumption pace should be mild under some concern for employment.
- Given softening USD trend, we expect CNY to appreciate against USD further.
- Upside economic outlook in 1H.23 but downward potential in 2H.23.

China Economic Outlook

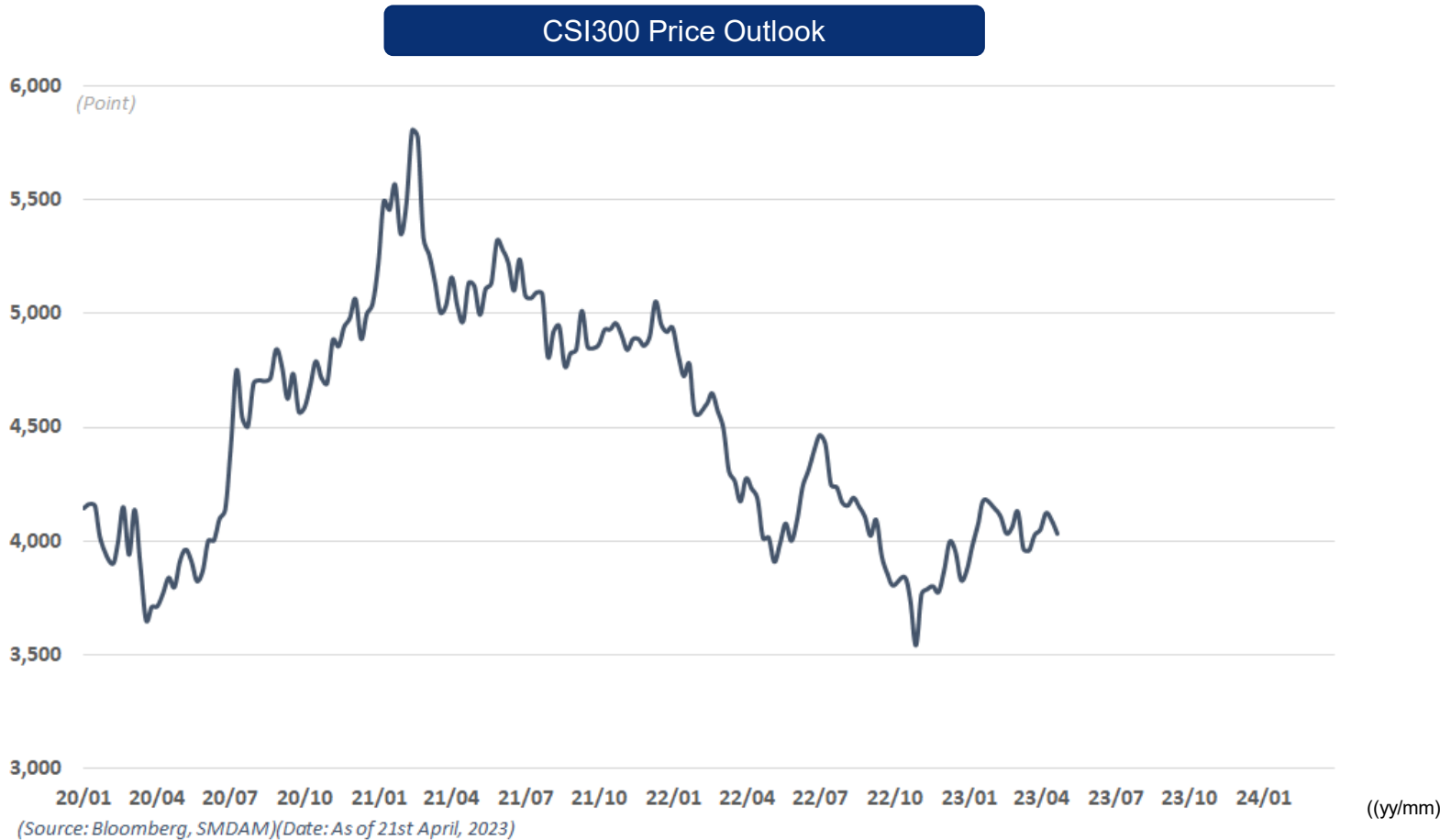
	2021	2022	2023	2024	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	consensus	
			(F)	(F)					(F)	(F)	(F)	(F)	(F)	(F)	(F)	(F)	2023	2024
real GDP	8.4	3.0	5.3	4.8	4.8	0.4	3.9	2.9	4.5	7.0	4.8	5.3	5.3	4.8	4.7	4.6	5.5	5.1
consumption	9.0	1.8	7.5	6.2	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
investment	4.0	3.7	4.5	4.0	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
net exports (contribution)	1.9	0.5	-0.6	-0.3	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
nominal GDP	13.4	5.3	6.1	6.0	9.0	3.9	6.2	2.9	5.0	7.0	5.8	6.9	6.9	6.4	5.6	5.4	NA	NA
GDP deflator	4.5	2.4	0.8	1.2	4.0	3.5	2.2	0.0	0.4	0.0	1.0	1.6	1.6	1.6	0.9	0.8	NA	NA
industrial production	9.6	3.6	4.8	4.6	6.5	0.7	4.8	2.7	3.0	6.7	4.5	5.1	5.0	4.6	4.5	4.5	5.2	5.0
PPI	8.1	4.1	-1.2	1.2	8.7	6.9	2.5	-1.1	-1.6	-3.2	-0.9	1.0	1.5	1.8	1.0	0.7	0.0	1.9
CPI	0.9	2.0	1.5	2.0	1.1	2.3	2.7	1.8	1.3	0.9	1.6	2.3	2.3	2.1	1.9	1.7	2.2	2.4
7D reverse repo	2.20	2.00	2.00	2.00	2.10	2.10	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
1Y MLF	2.95	2.75	2.75	2.75	2.85	2.85	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75
CNY/USD	6.36	6.90	6.65	6.40	6.35	6.70	7.12	6.90	6.87	6.85	6.75	6.65	6.55	6.45	6.40	6.40	6.70	6.53

(Source: CEIC, Asia Pacific Consensus Forecasts Apr Issue, Bloomberg, SMDAM) (As of 20th April, 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)

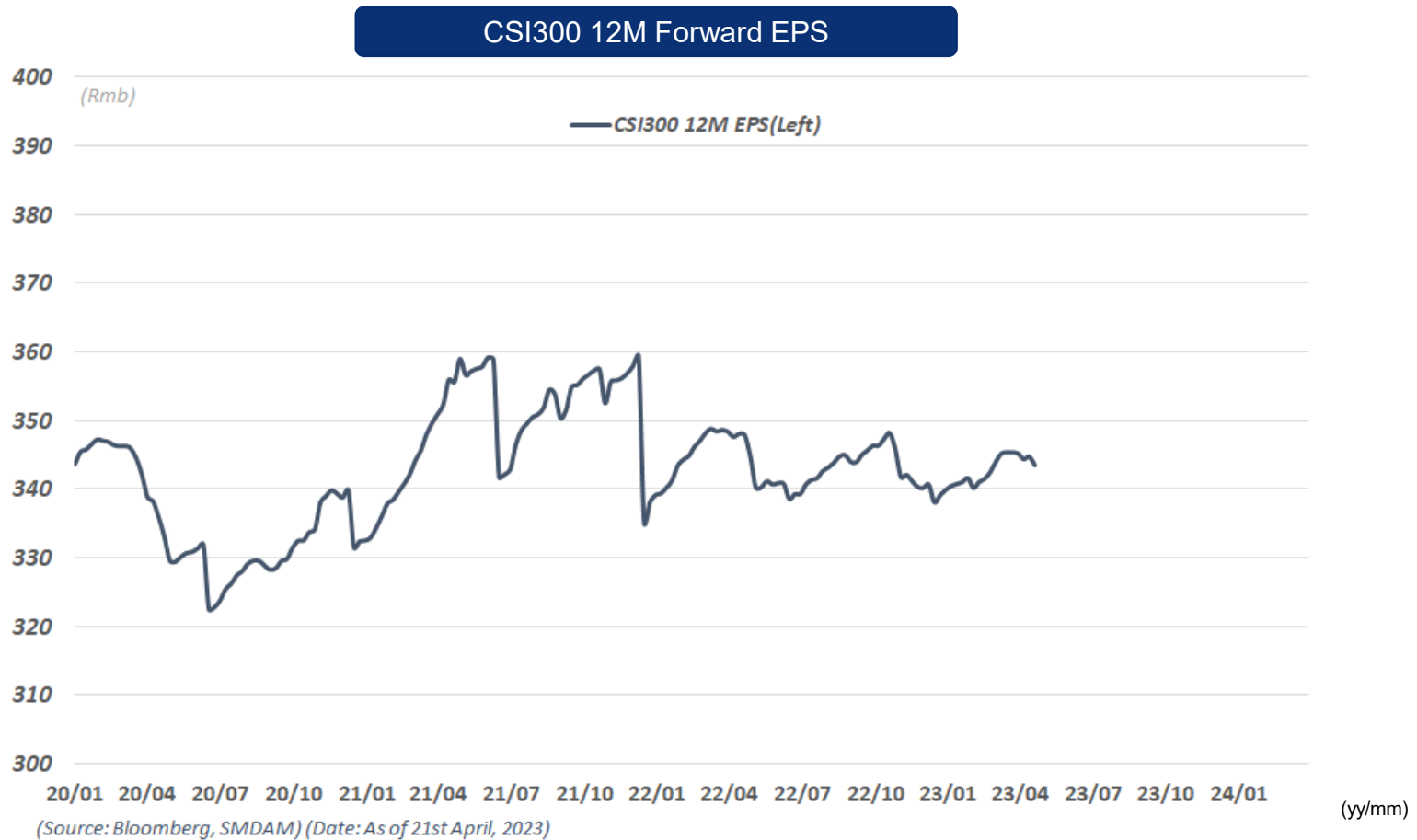
- Policy pivot had excited Onshore Equity Sentiment at the year beginning, but progress of economic recovery seems somewhat slower than expected. Still our base case assumes market recovery in 12 month timeframe supported by improving earnings.



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. Still, due partly to low base and gradual economic recovery toward 2H.2023, earnings growth is estimated.



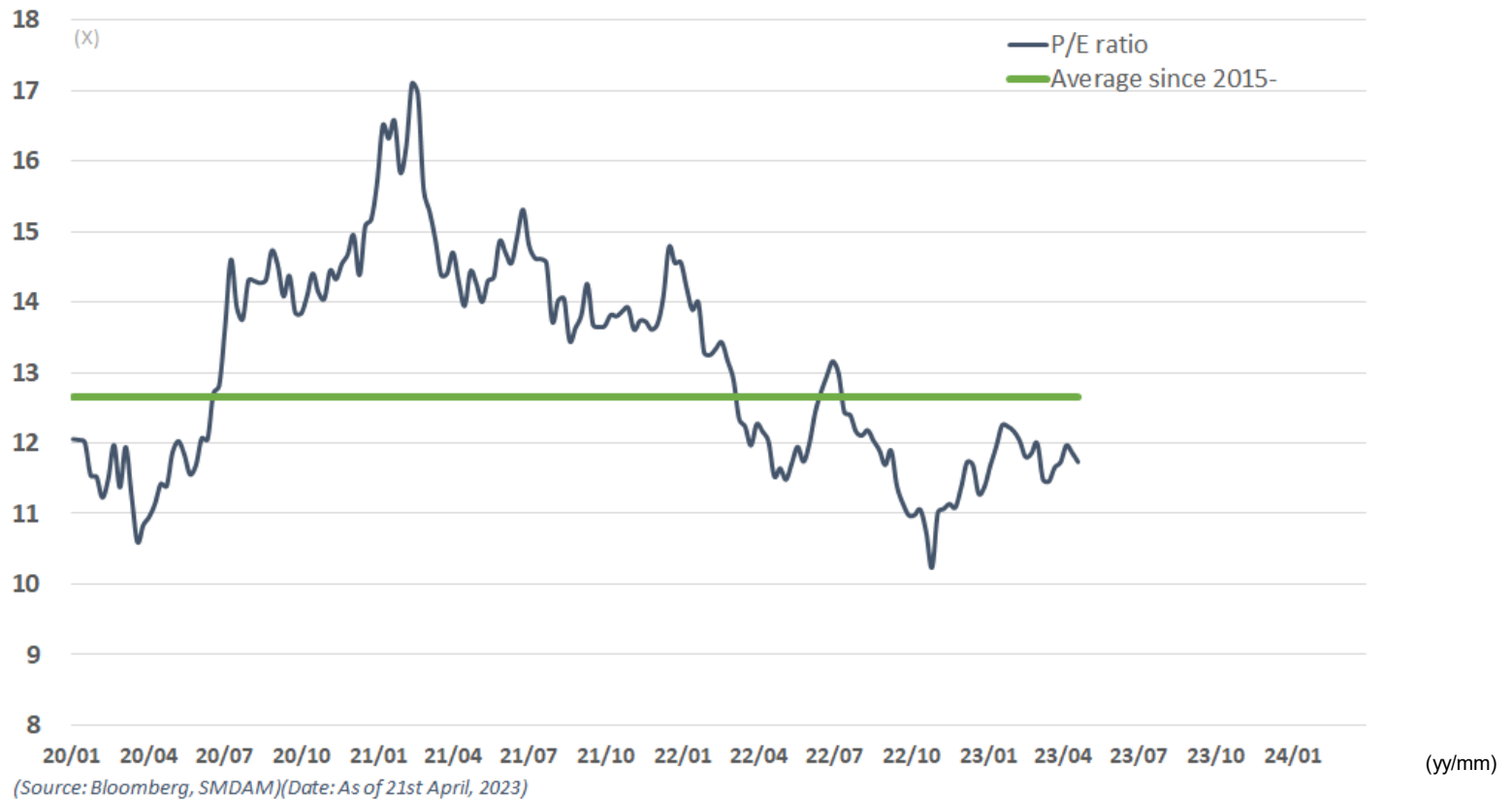
Note: The above views represent SMDAM's forecast as at the date of this presentation and may be subject to change without notice. Those do not guarantee future trends or results.

Earnings multiples* for CSI300

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

- 12 month forward P/E ratio stands at 11.7 times, which is below its Long Term Average.
- We expect there still remains upside for multiples assuming more visible economic growth outlook going forward.

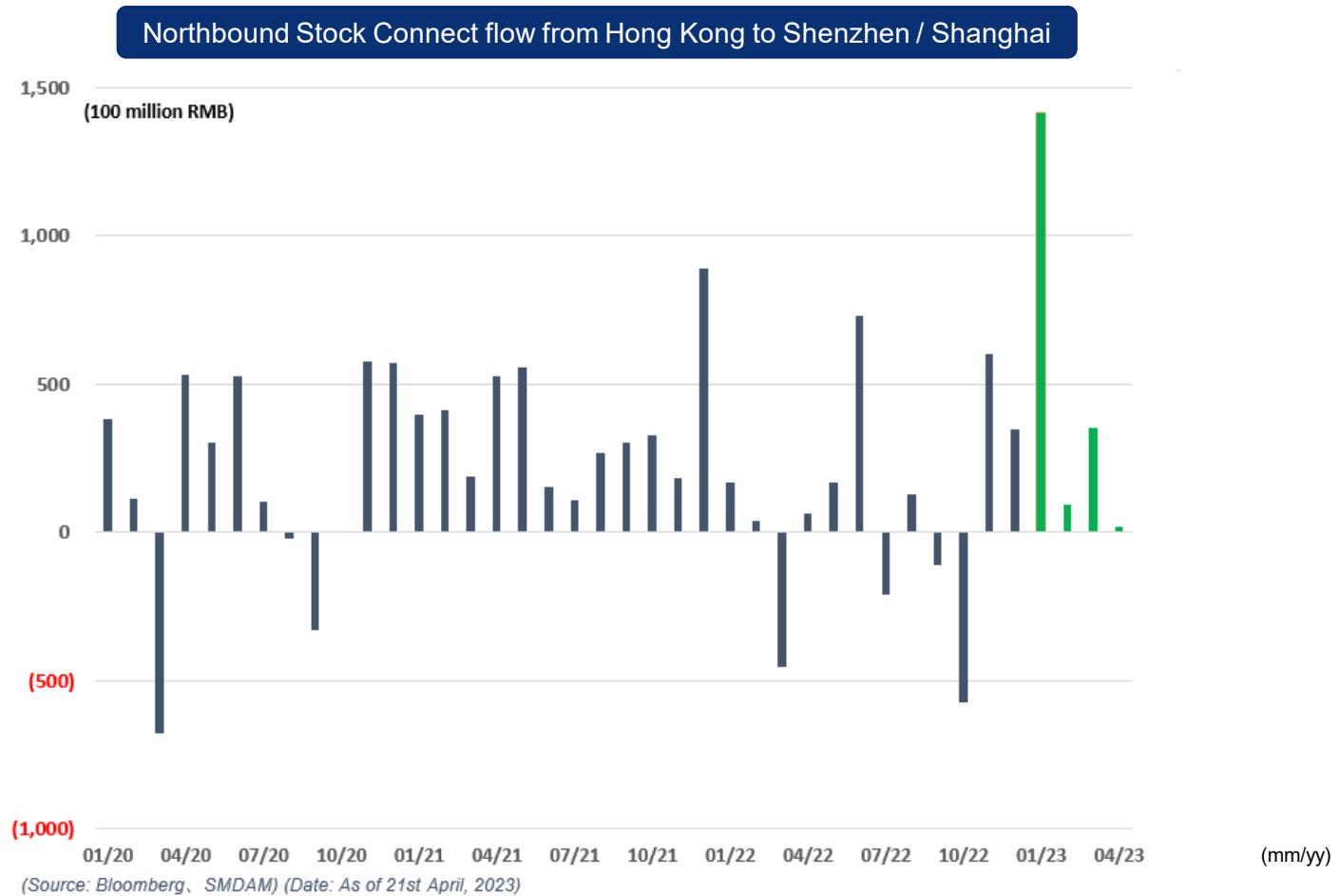
Price to Earnings Ratio for CSI300



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 January, Stock Connect flow saw **large inflow toward** Mainland China. And inflow continued in March despite heightened risk surrounding global financial institutions.



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 role for strong economic recovery.

Policy Support 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 publishing licences to 88 online including titles belonging to Tencent and Netease.
Fiscal Stimulus	China is reported to consider record local debt quota and wider budget deficit
Tax Cut	Ministry of Finance reduces Value Added Tax Rate applicable to small business

Policy Support Announced in March – April 2023

Category	Contents
Consumption	Beijing and Xian are latest Chinese cities to offer cash subsidies on EV purchases.
Consumption	China making plans to boost consumption amid demand concerns announced by NDRC
IT Industry	Guangdong Province planned 30 billion Yuan Semiconductor fund to promote Chip Industry.
IT Industry	China sets up artificial intelligence alliance including China Mobile
Manufacturing	President Xi Jinping vows "Solid Step after Step" in advancing Chinese Modernation after visiting LG Display
Tax Cut	Premier Li Qiang said in March that China will cut some taxes for small companies and extend such policies until the end of 2024

(Source: Bloomberg, Reuter, Nikkei, China Daily, CGTN, SMDAM)

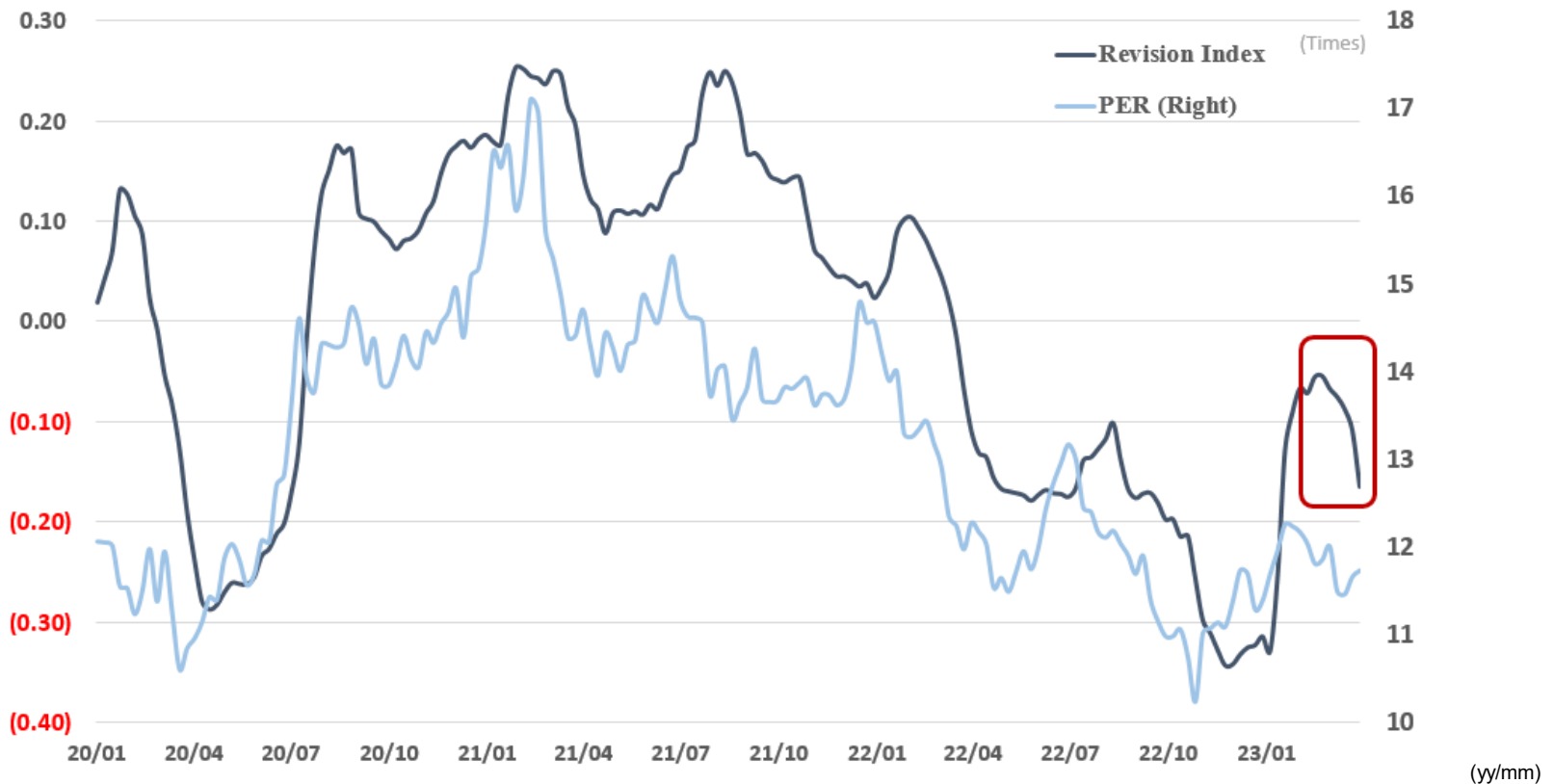
Monitoring Point: Earnings revision index* for CSI300

■ Earnings Revision is one of the key factors for valuation

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

■ Revision index witnesses downward trend in recent months due to the adjustment of earnings recovery expectations, but once earnings momentum is to recover, CSI300 Valuation is expected to be supported.

Earnings Revision Index and P/E

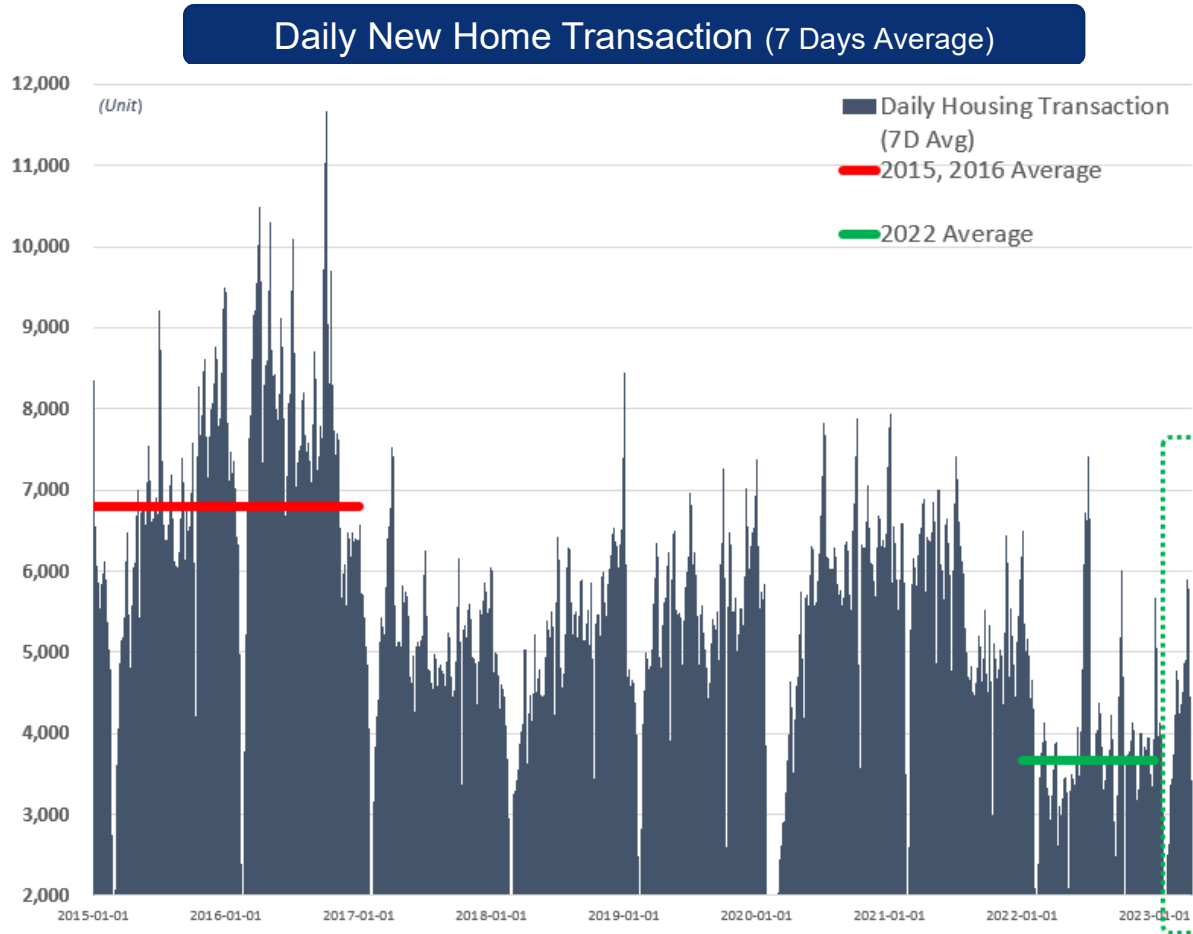


(Source: Factset, I/B/E/S, Bloomberg, SMDAM)(Date: As of 31st March, 2023)

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

- Buyer's sentiment has started to recover.
- Should level of transaction continues to be maintained or even recover, investor sentiment would be boosted.



(Source: Wind) (Date: As of 11th April, 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: Stocks in AI Arena

- **Emergence of ChatGPT** has drawn equity investors' attention toward **AI**-related stocks even in Onshore Market. Stocks and themes we are interested in are as follows;
 - **IT Innovation**: iFlytek (002230) / Kingsoft Office Software (688111)
 - Software in **Robot**: Leader Harmonious Drive Systems (688017) / Zhejiang Sanhua Intelligent Controls (002050)
 - Software in **Healthcare**: Shenzhen Mindray Bio-Medical Electronics (300760)
 - **Optical Module**: Zhongji Innolight (300308) / Eoptolink Technology (300502)



(Source: IDC Report published on March 29th 2023)

Note: This page is solely for the purpose of showing examples of China A Shares equity. SMDAM does not intend to recommend any specific stocks. This page is subject to change without prior notice. 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.

General Disclaimer

This material is for general information purposes only without regard to any particular user's investment objectives or financial situation. It is educational in nature and should not be interpreted or constituted as an offer, solicitation or recommendation or advice to buy or sell securities or pursue any particular investment strategy or investment product in any jurisdiction or country, nor is it a commitment from Sumitomo Mitsui DS Asset Management Company, Limited or any of its subsidiaries ("SMDAM Group") to participate in any of the transactions mentioned herein. Any examples used are generic, hypothetical and for illustration purposes only. No representation or promise as to the performance of funds or the return on any investment is made. Any forecasts, figures, opinions or investment techniques and strategies set out are for information purposes only, and are based on certain assumptions and current market conditions that are subject to change without prior notice.

The material is correct to the best of our knowledge at the date of issue and subject to change without notice. We do not guarantee its accuracy, completeness, fairness or timeliness, and make no representations or warranties, express or implied, as to the accuracy or completeness of the statements or any information contained therein and any liability for any error, inaccuracy or omission is expressly disclaimed. This material does not contain sufficient information to support an investment decision and it should not be relied upon by you in evaluating the merits of investing in any securities or products. Nothing in this material constitutes accounting, legal, regulatory, tax or other advice.

It should be noted that investment involves risks, including the possible loss of the principal amount invested, and the value of your investment may rise or fall. **Past performance and yields are not necessarily indicative of current or future results.**

This material is issued by the following entities:

In the European Economic Area, this product is not available, nor available to any EEA domiciled investors.

In Japan, by Sumitomo Mitsui DS Asset Management Company, Limited. It is for non-Japanese institutional investors only and is not intended to offer or solicit investments, provide investment advice or service, or to be considered as disclosure documents under the Financial Instruments and Exchange Law of Japan.

In the United Kingdom, by Sumitomo Mitsui DS Asset Management (UK) Limited. It constitutes a financial promotion for the purposes of the Financial Services and Markets Act 2000 (as amended) (FSMA) and the rules of the FCA in the United Kingdom, and is directed at professional clients as defined in the FCA Handbook of Rules and Guidance.

General Disclaimer (continued)

In Hong Kong, by Sumitomo Mitsui DS Asset Management (Hong Kong) Limited. The contents of this material has not been reviewed by the Securities and Futures Commission.

In Singapore, by Sumitomo Mitsui DS Asset Management (Singapore) Ptd. Ltd. It is only for accredited investors and institutional investors as defined in the Securities and Futures Act 2001 (“SFA”). You may wish to seek advice from an independent professional and financial advice before investing in any investment, and if you choose not to seek such advice, you should consider carefully whether the investment is suitable for you.

In the United States and Canada, by Sumitomo Mitsui DS Asset Management (USA) Inc. Some statements contained in this material concerning goals, strategies, outlook or other non-historical matters may be forward-looking statements and are based on current indicators and expectations. These forward-looking statements or opinions of the author speak only as of the date on which they are made, and the Company undertakes no obligation to update or revise any forward-looking statements. These forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those contained in the statements. The Company and/or its affiliates may or may not have a position in any financial instrument mentioned and may or may not be actively trading in any such securities.

The organizations and/or financial instruments mentioned are for reference purposes only. The content of this material should not be construed as a recommendation for their purchase or sale. Charts and graphs are provided for illustrative purposes only. This document may not be copied, redistributed or reproduced in whole or in part without prior written approval from Sumitomo Mitsui DS Asset Management (USA) Inc. The content of this document should not be interpreted as a solicitation for business and is intended as background information for professional institutional investors only. Please contact us should you require further information. Both Sumitomo Mitsui DS Asset Management Company, Limited and Sumitomo Mitsui DS Asset Management (USA) Inc. are registered as investment advisory firms under the US Investment Advisor’s Act of 1940.

General Terms

The intellectual property and all rights of the benchmarks/indices belong to the publisher and the authorized entities/individuals. The video itself or the contents of the video may not be copied, redistributed, reproduced or relied upon by any person, in whole or in part, without prior written approval from SMDAM Group. All rights, titles and interests in this material and any content contained herein are the exclusive properties of SMDAM Group, except as otherwise stated.