



# China Macro Economy and Equity Market Outlook for Q4 2023

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November 2023

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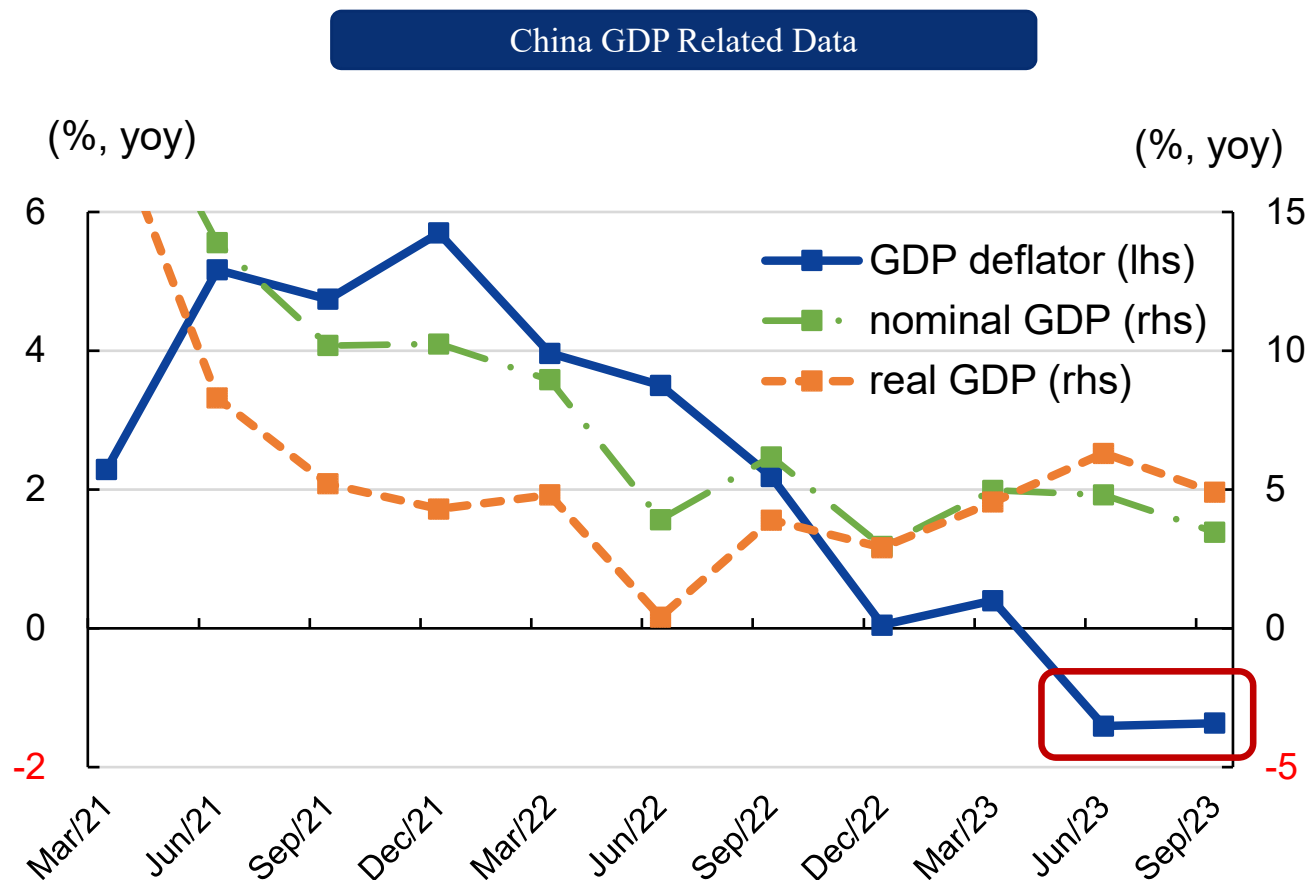
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# Macro economy Highlight: Deflation for 2 Quarters

- Nominal GDP Growth Slowed to 3.5% yoy in 3Q.23 because GDP Deflator continuously dropped 1.4% yoy.

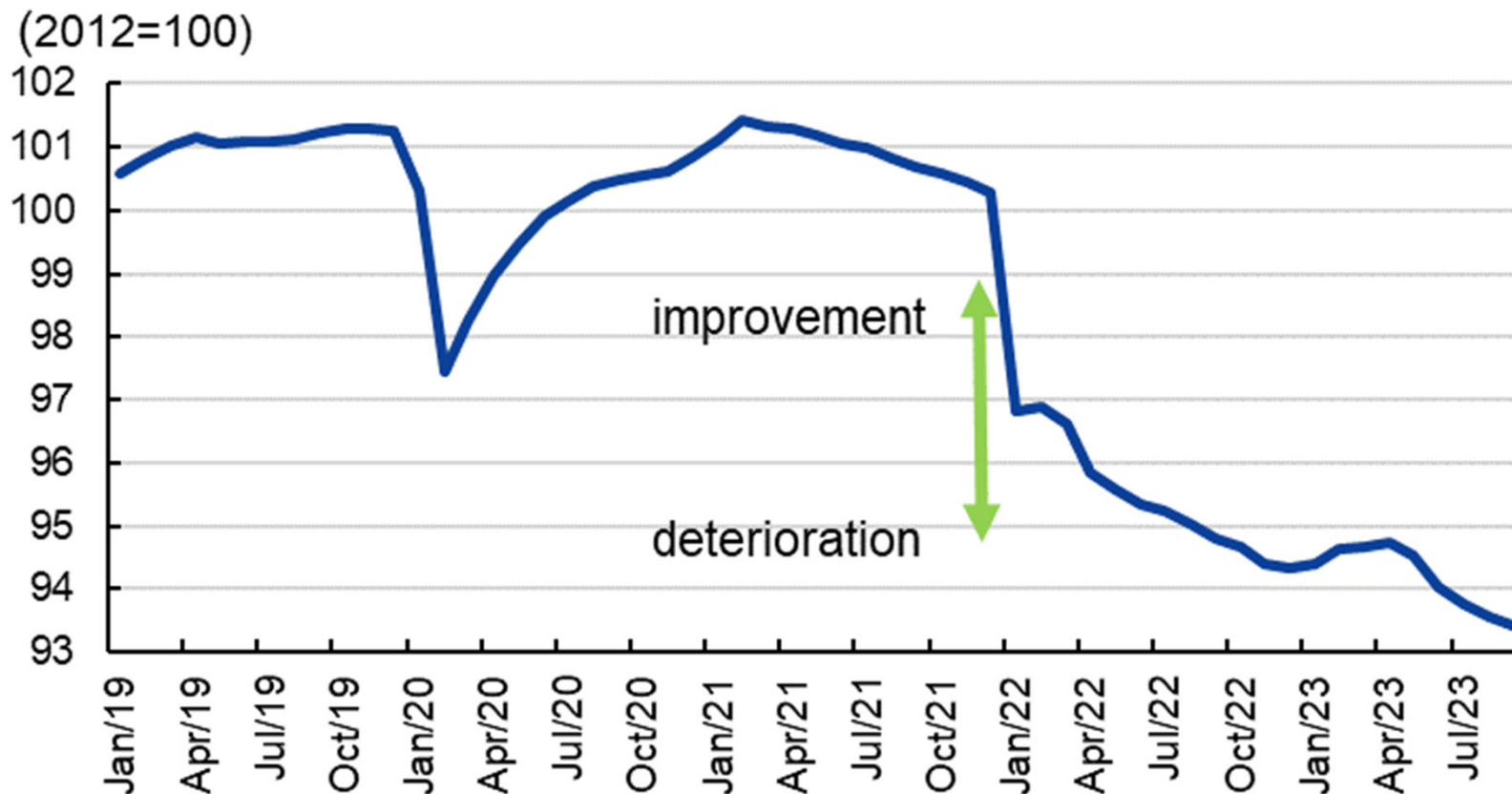


(Source: CEIC, SMDAM) (As of October, 2023)

# Macro economy Highlight: Worsening Property Sentiment

- Property Sentiment did not improve in September even though local governments eased housing regulation.

Property Sentiment Index



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

# Macro economy: China Outlook

- Nominal GDP Growth slowed to 3.5% yoy in 3Q because GDP Deflator dropped by 1.4%.

## China Economic Outlook

	2022	2023 (F)	2024 (F)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23 (F)	1Q24 (F)	2Q24 (F)	3Q24 (F)	4Q24 (F)	2023 consensus	2024
Real GDP (%)	<b>3.0</b>	5.2	4.4	<b>4.8</b>	<b>0.4</b>	<b>3.9</b>	<b>2.9</b>	<b>4.9</b>	<b>6.3</b>	<b>4.9</b>	5.1	4.8	4.5	4.3	4.2	5.0	4.5
consumption	<b>1.8</b>	7.5	5.4	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
investment	<b>3.7</b>	3.9	3.6	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
net exports (contribution)	<b>0.5</b>	<b>-0.5</b>	<b>-0.0</b>	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Nominal GDP (%)	<b>5.3</b>	4.4	4.7	<b>9.0</b>	<b>3.9</b>	<b>6.2</b>	<b>2.9</b>	<b>5.0</b>	<b>4.8</b>	<b>3.5</b>	4.4	4.5	4.8	4.8	4.8	NA	NA
GDP deflator (%)	<b>2.4</b>	<b>-0.8</b>	0.3	<b>4.0</b>	<b>3.5</b>	<b>2.2</b>	<b>0.0</b>	<b>0.4</b>	<b>-1.4</b>	<b>-1.4</b>	<b>-0.7</b>	<b>-0.3</b>	0.3	0.5	0.6	NA	NA
industrial production (%)	<b>3.6</b>	4.2	4.0	<b>6.5</b>	<b>0.7</b>	<b>4.8</b>	<b>2.7</b>	<b>3.0</b>	<b>4.6</b>	<b>4.2</b>	4.8	4.3	4.1	3.9	3.8	4.3	4.6
PPI inflation (%)	<b>4.1</b>	<b>-3.0</b>	0.5	<b>8.7</b>	<b>6.9</b>	<b>2.5</b>	<b>-1.1</b>	<b>-1.6</b>	<b>-4.6</b>	<b>-3.3</b>	<b>-2.3</b>	<b>-0.7</b>	1.2	1.0	0.7	<b>-3.0</b>	0.8
CPI inflation (%)	<b>2.0</b>	0.4	0.9	<b>1.1</b>	<b>2.3</b>	<b>2.7</b>	<b>1.8</b>	<b>1.3</b>	<b>0.1</b>	<b>-0.1</b>	0.3	0.3	1.1	1.2	1.1	0.5	1.8
7D reverse repo rate (%)	<b>2.00</b>	1.80	1.80	<b>2.10</b>	<b>2.10</b>	<b>2.00</b>	<b>2.00</b>	<b>2.00</b>	<b>1.90</b>	<b>1.80</b>	1.80	1.80	1.80	1.80	1.80	1.70	1.70
1Y MLF rate (%)	<b>2.75</b>	2.50	2.50	<b>2.85</b>	<b>2.85</b>	<b>2.75</b>	<b>2.75</b>	<b>2.75</b>	<b>2.65</b>	<b>2.50</b>	2.50	2.50	2.50	2.50	2.50	2.40	2.40
CNY/USD	<b>6.90</b>	7.33	7.35	<b>6.35</b>	<b>6.70</b>	<b>7.12</b>	<b>6.90</b>	<b>6.87</b>	<b>7.25</b>	<b>7.30</b>	7.33	7.35	7.35	7.35	7.35	7.25	6.90

(Source: CEIC, Bloomberg, SMDAM) (As of 24<sup>th</sup> October, 2023)

(note) Interest rates & foreign exchange rate are at end of period. Other indicators are yoy growth rate. (F): Forecast by SMDAM

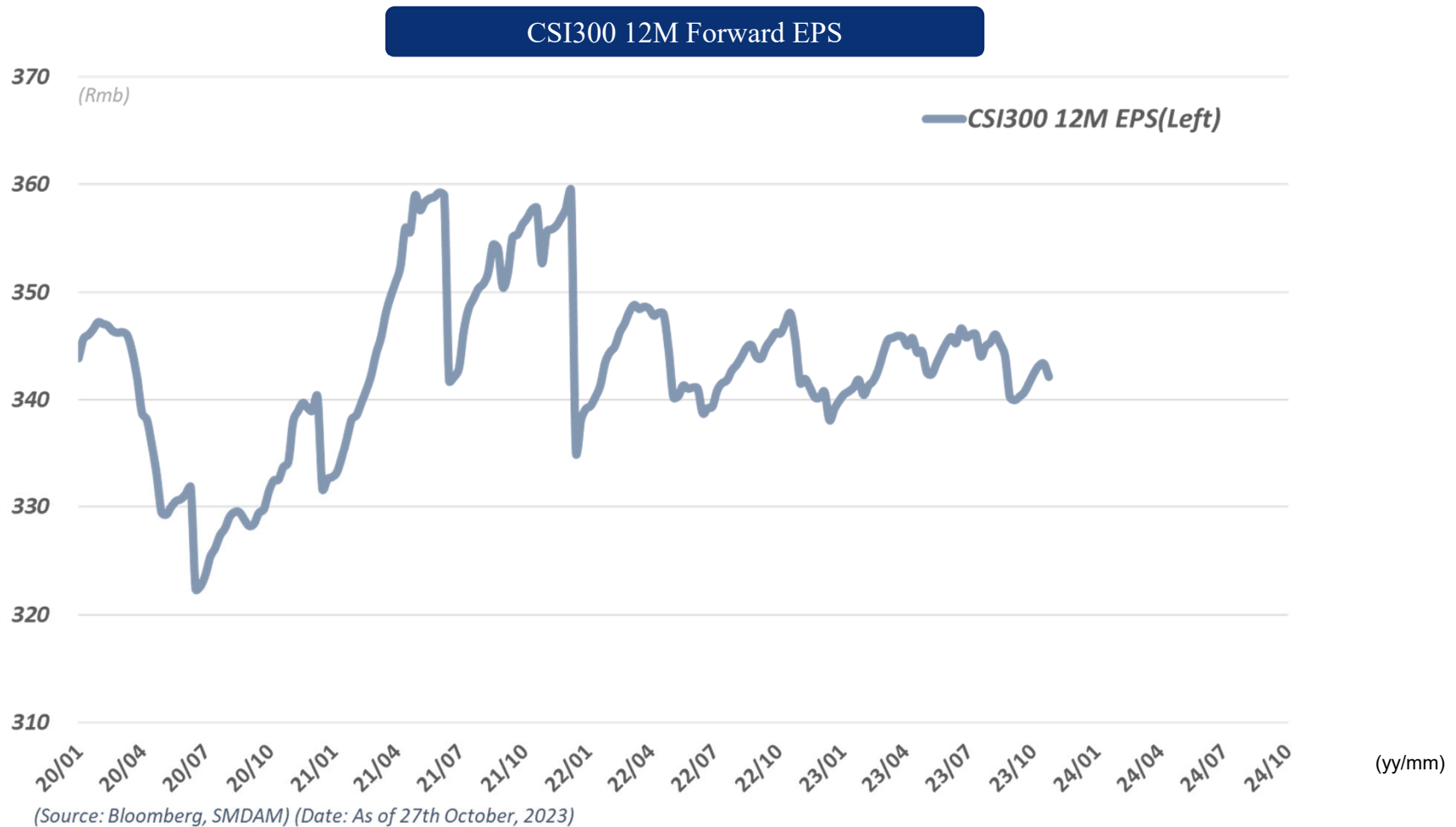
# Outlook for China A-Share Equity Market (CSI300)

- Ongoing uncertainty around property market and tepid economic recovery are the culprits for downward market.
- Our base case assumes market recovery in 12 month timeframe as we started to observe early sign of economic stability in PPI and PMI as well as government stimulus policies.



# 12 month forward EPS forecast for CSI300

- Earnings Expectation remains lackluster YTD.
- In the near term, earnings expectation is expected to be bottoming owing to some signs of macro stability. And due partly to low base, in 1 year time frame, earnings growth is estimated.



# Earnings multiples\* for CSI300: China A Share Market is cheap

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

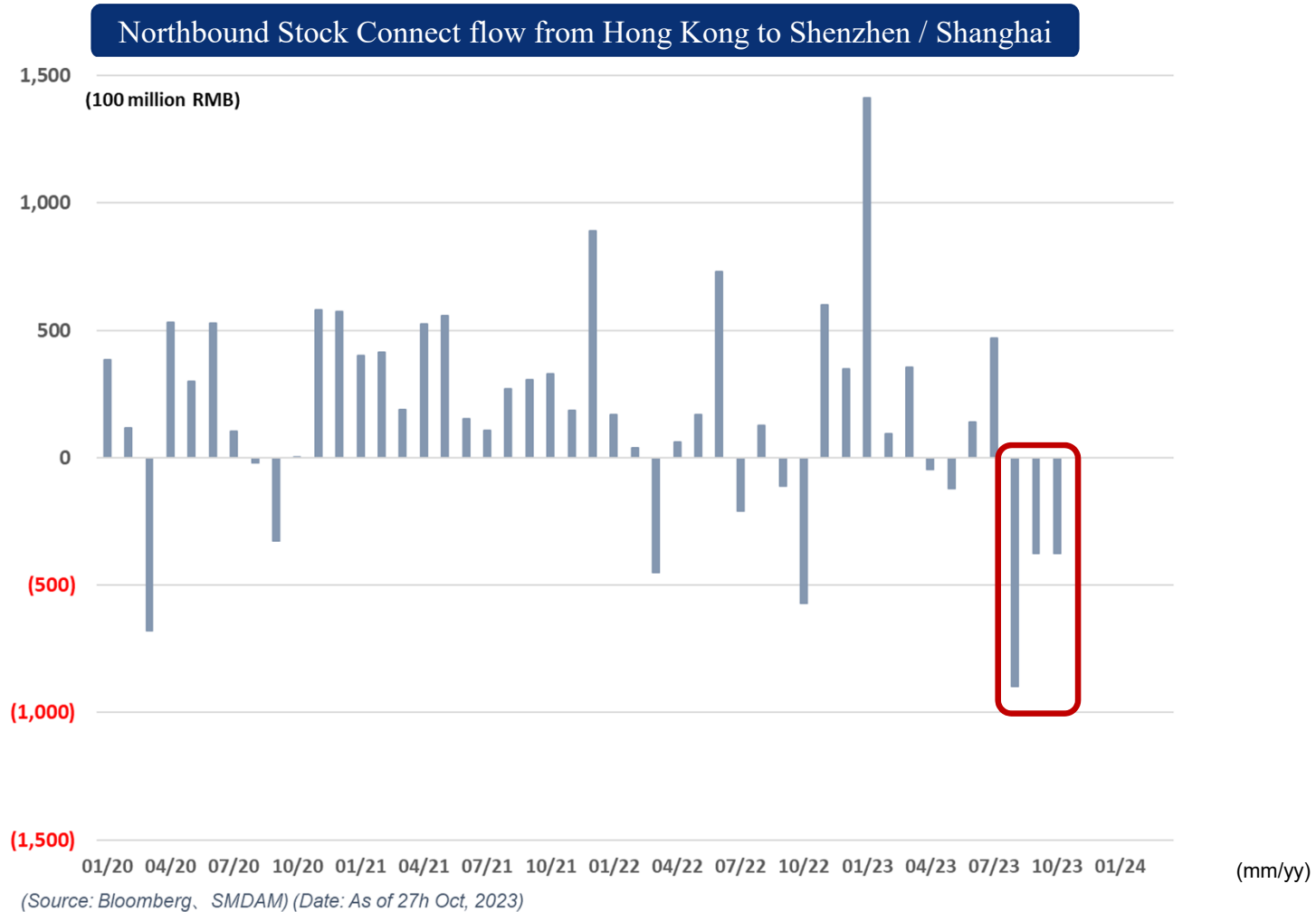
- 12 month forward PER stands at 10.4 times, which is below its Long Term Average.
- We expect there still remains upside for multiples assuming more clarity in policy stimulus and economic bottoming.





# Stock Connect

- In August-October 2023, Stock Connect saw outflow from Mainland China.
- Higher Geopolitical Tension, Tepid Economic Recovery and higher global yields are the main drivers.

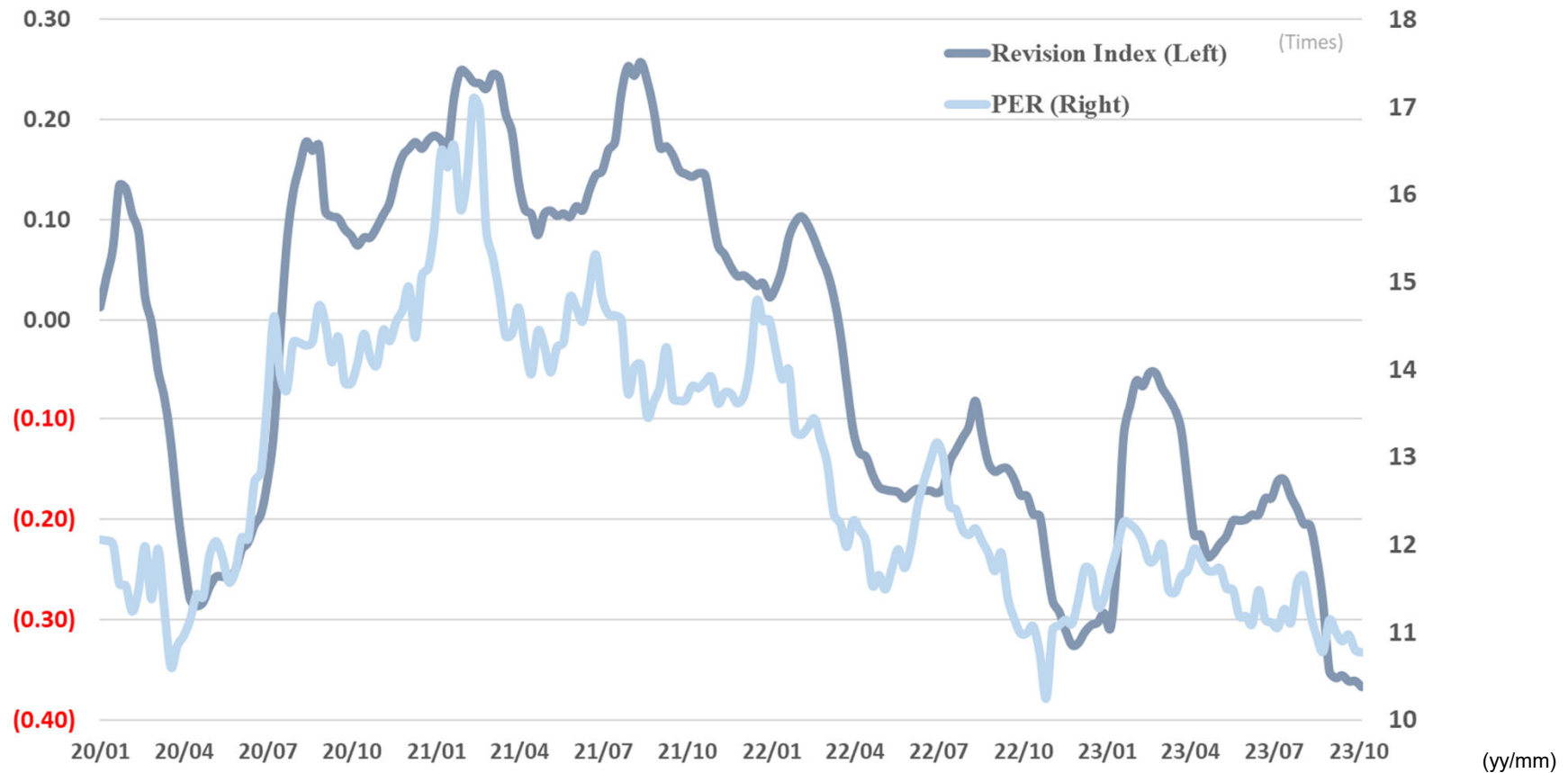


# Monitoring Point: Earnings revision index\* for CSI300

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

- Earnings Revision is one of the key factors for valuation.
- Early signs of macro economic stability and government stimulus policy is expected to ease earnings downward pressure.

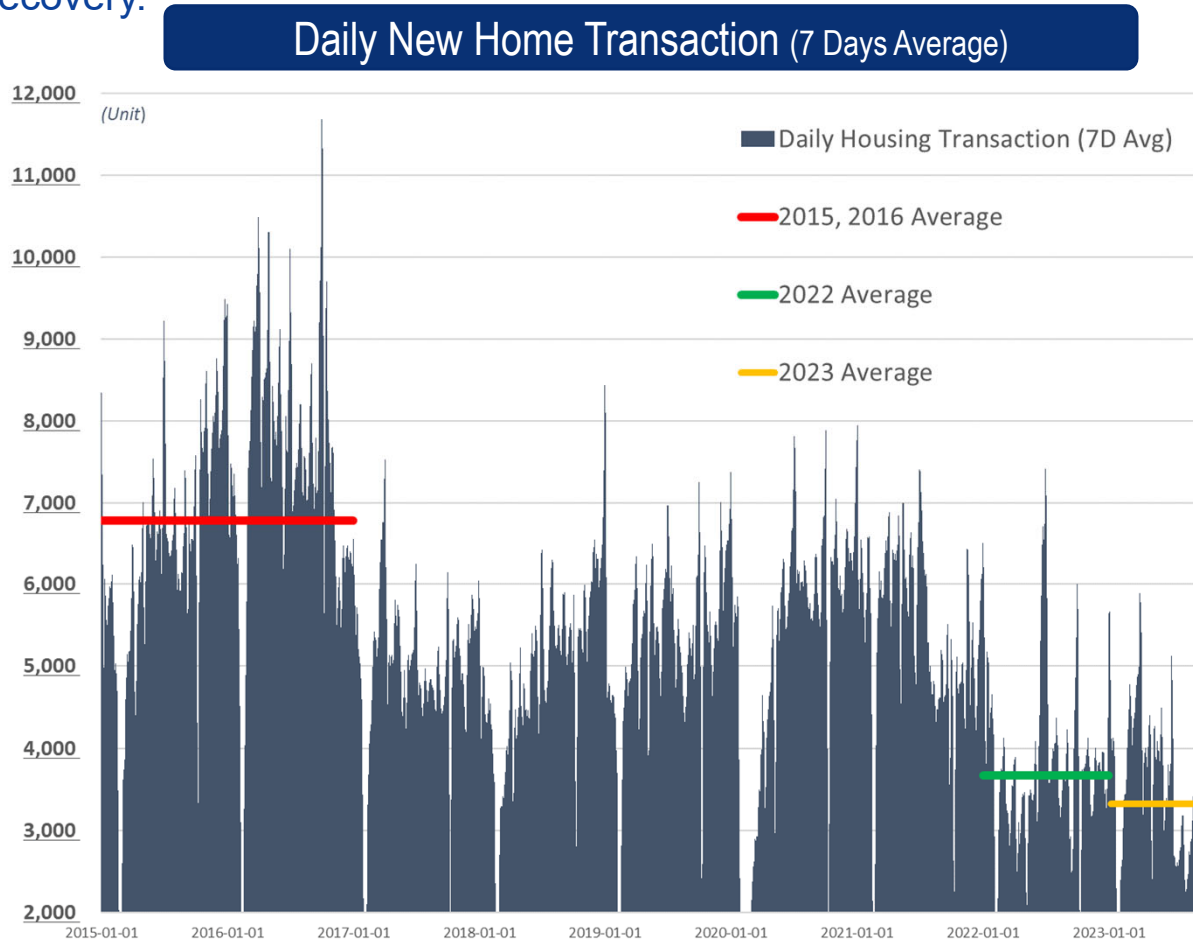
Earnings Revision Index and PER



(Source: Factset, I/B/E/S, Bloomberg, SMDAM)(Date: As of 6th October, 2023)

# Monitoring Point: Property Market

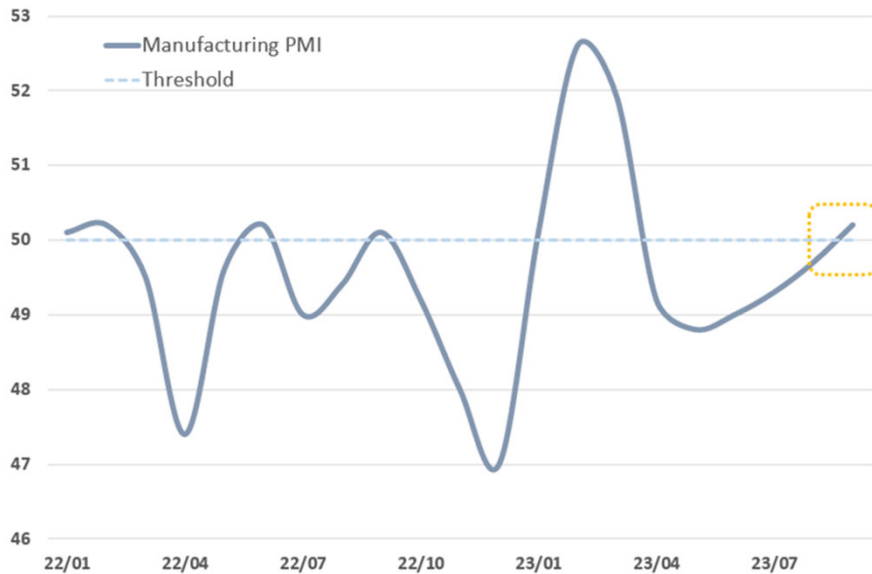
- Property Market remains one of the most important industry for Chinese Economy.
- Daily Home transaction # was around 6,800 units per day during 2015 – 2016. In 3Q.2023, transaction is not yet showing signs of recovery with average volume remains below 3,000. Stronger supportive Policy is needed for the market sentiment recovery.



(Source: Wind, SMDAM) (Date: As of 18th October, 2023)

# Monitoring Point: Policy Announcement

## Manufacturing PMI



(Source: Bloomberg, SMDAM) (Date: 30th September, 2023)

- Early signs of economic bottoming has emerged supported by government stimulus.
- Should **further signs of economic recovery is witnessed**, market sentiment is expected to stabilize and gradually improve, especially considering the fact that CSI300 Index PER is already traded at depressed level.

## Recent Policy Support Announced

Date	Category	Contents
27 <sup>th</sup> August	Financial	Reduced stock transaction tax fee to stimulate equity market
14 <sup>th</sup> September	Financials	PBOC reduced Reserve Requirement Ratio
15 <sup>th</sup> September	Consumption	Shenzhen city of Guangdong announced multiple consumption boost measures, including RMB 10k NEV replacement subsidy
28 <sup>th</sup> September	Tax	Extend Preferential Income Tax measures up to 2027
12 <sup>th</sup> October	Technology	Country's Premier Li Qiang urged more efforts to beef up technology to boost industrialization and the application of artificial intelligence
12 <sup>th</sup> October	Financial	China's sovereign wealth fund Central Huijin Investment bought stakes in China's Big Four banks
24 <sup>th</sup> October	Financial	China's top parliament has approved 1 trillion yuan sovereign bond issues to support economy
24 <sup>th</sup> October	Financial	Chinese President Xi Jinping made his first known visit to PBOC

(Source: Bloomberg, Reuters, Nikkei, SMDAM)



# Monitoring Point: Sino-U.S Relation

- Worsening relationship between China and U.S has been one of the major factors on depressed China A Share valuations.
- In October, however, some early signs of easing tensions between the both parties was witnessed due to their gradual efforts. Should this momentum continues, current lower valuation may have some potential to be revised up.

## China-U.S Development in October

Date	Contents
<b>(POSITIVE)</b>	
5th	Washington Post reported that White House has begun making plans for an in-person meeting in San Francisco in November between President Biden and Chinese leader Xi Jinping.
26th	U.S Treasury Secretary Yellen says the US relationship with China is in a more positive place now after a "dangerous" period.
26th	Chinese President Xi Jinping has said China is willing to cooperate with the US as both sides manage their differences and work together to respond to global challenges.
28th	Chinese President Xi Jinping and U.S President Joe Biden have agreed to meet in San Francisco
<b>(NEGATIVE)</b>	
4th	US Commerce Secretary Raimondo said chip breakthrough of Huawei is "incredibly disturbing" and shows US needs "different tools"
17th	The U.S. Commerce Department tightened its export controls to keep China from acquiring advanced computer chips that it could use to help develop hypersonic missiles and artificial intelligence
23rd	Taiwan's Foxconn, one of Apple's largest suppliers, is being investigated by authorities in China, according to state media.

(Source: Bloomberg, Reuters, CNN, SMDAM)



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