



## *China Macro Economy and Equity Market Outlook for Q1 2025*

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March 2025

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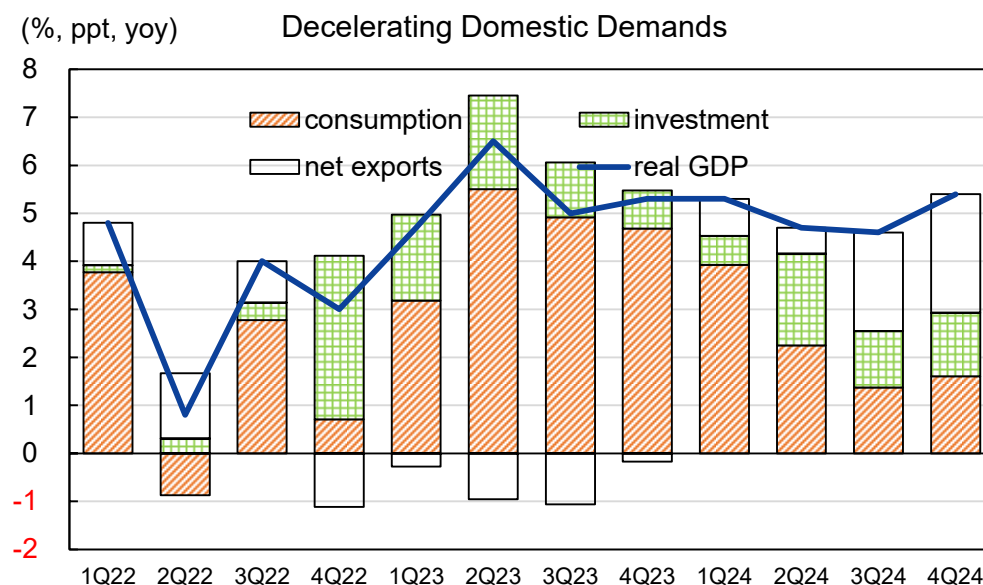
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1. Property Market Transaction
2. Quarterly Investment Theme

## Quarterly Macro Highlight (1) : Much Lower Demand Phase

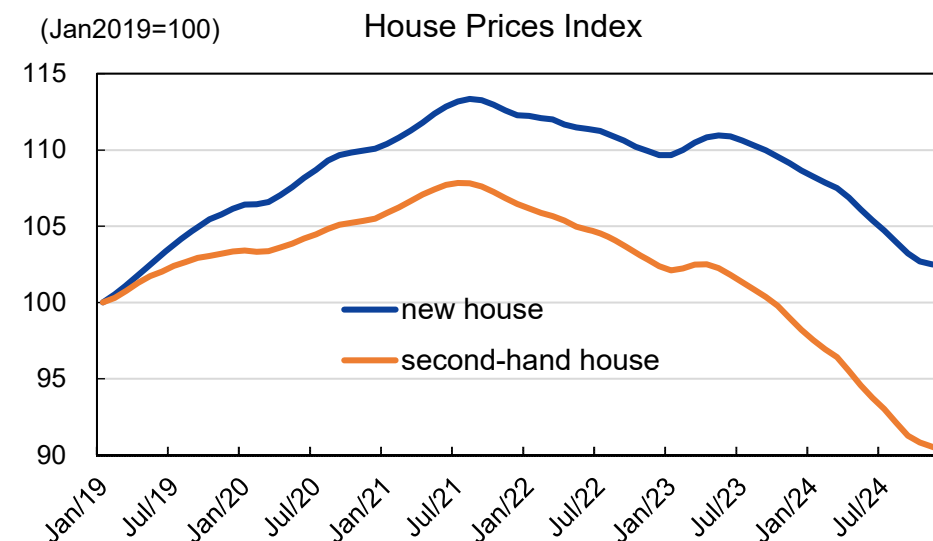
- Demands contribution sharply decelerated to 2.7ppt in 2H24 under insufficient demand phase.
- Frontloading exports as well as downside imports should cause net exports contribution to accelerate in 4Q24.
- Suppression over exports caused by potential higher tariff should cause a critical downside factor for economic growth.
- Lower housing price should cause insufficient demand via balance sheet recession of household.

### Demand Contribution



(Source: CEIC, SMDAM) (As of Oct-Dec, 2024)

### Housing Price Index



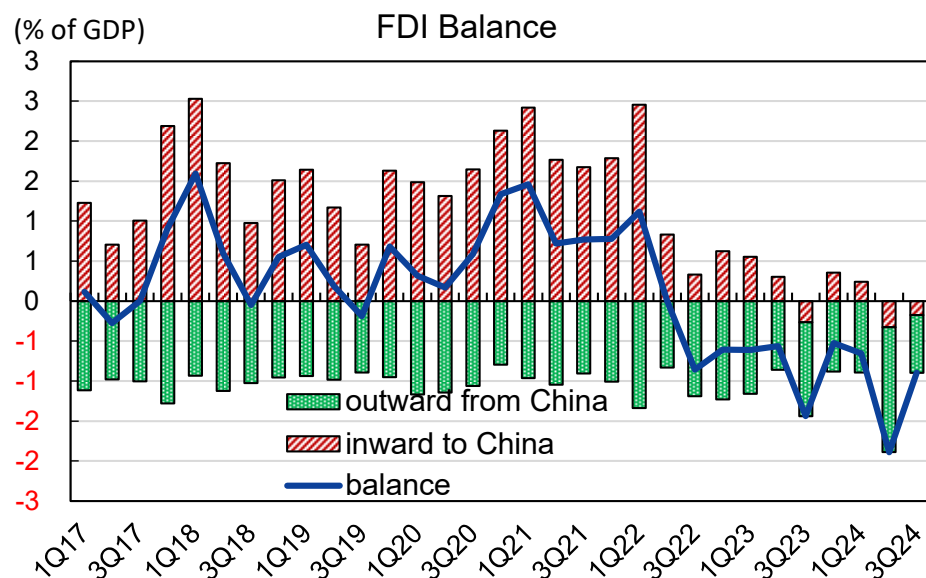
(Source: CEIC, WIND, SMDAM) (As of Dec, 2024)

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.

## Quarterly Macro Highlight (2) : De-coupling and FDI

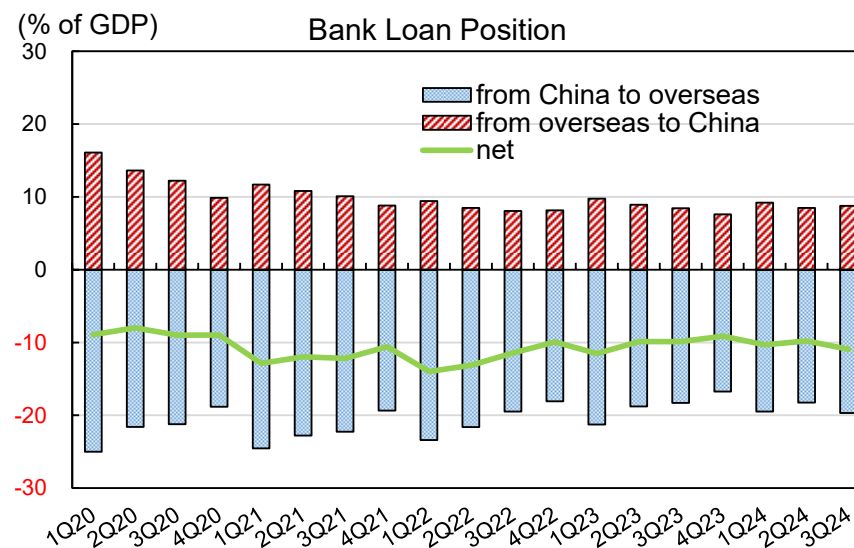
- Gross outward Foreign Direct Investment (FDI) from China should last under de-coupling.
- Net bank loan position should be hit to the down side under de-coupling.

### FDI Balance



(Source: CEIC, WIND, SMDAM) (As of Jul-Sep, 2024)

### Bank Loan Position

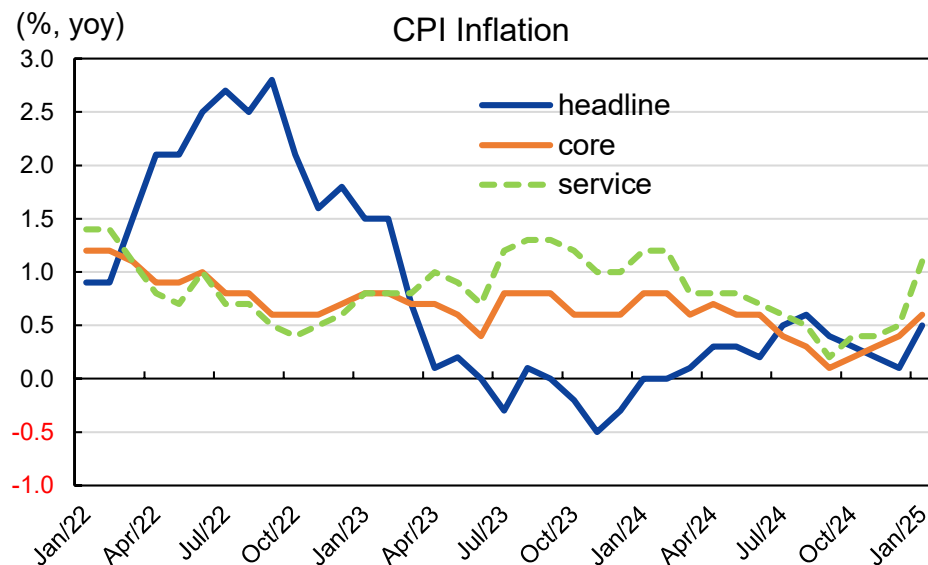


(Source: CEIC, WIND, SMDAM) (As of Jul-Sep, 2024)

## Quarterly Macro Highlight (3) : Deflationary Pressure

- Feb CPI inflation should decelerate due to base effect after acceleration of Jan reading due to seasonality.
- Actual inflation should be lower than CPI inflation, which is Laspeyres index.
- China steel industry still exports deflation to overseas.

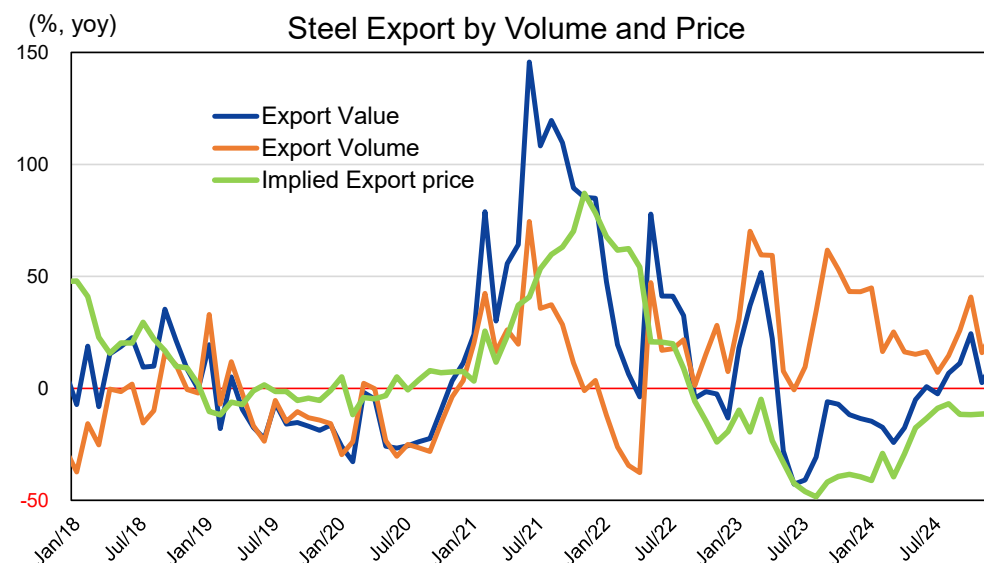
### CPI Inflation



(note) average for Jan and Feb

(Source: CEIC, SMDAM) (As of Jan, 2025)

### Steel Exports



(Source: CEIC, SMDAM) (As of Dec, 2024)

# China Macro Economy Outlook

- GDP deflator dropped 0.7% yoy in 4Q24, contraction for the seventh consecutive quarter.
- We judge continuous deflation phase until 4Q26.
- Low nominal GDP growth outlook suggested low corporate sales outlook.
- Tension should mount between Sino-US.

## China Macro Economy Outlook

	2023	2024	2025	2026	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	2025	2026
			(F)	(F)					(F)	(F)	(F)	(F)	consensus	
Real GDP (%)	5.2	5.0	4.1	4.0	5.3	4.7	4.6	5.4	4.3	4.1	4.1	4.1	4.5	4.2
Consumption	8.3	3.9	3.8	3.8	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Investment	3.5	3.2	5.2	4.1	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Net exports (contribution)	-0.8	1.5	-0.1	0.4	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Nominal GDP (%)	4.6	4.2	3.8	3.8	4.2	4.0	4.1	4.6	3.8	3.7	3.8	3.9	NA	NA
GDP deflator (%)	-0.5	-0.7	-0.3	-0.2	-1.3	-0.6	-0.5	-0.7	-0.5	-0.4	-0.3	-0.2	NA	NA
Industrial production (%)	4.5	5.8	4.2	4.2	6.1	5.8	5.0	5.7	4.0	4.2	4.4	4.3	4.7	4.2
PPI inflation (%)	-3.0	-2.2	-1.4	-0.5	-2.7	-1.6	-1.7	-2.6	-2.5	-1.5	-1.0	-0.5	-0.9	1.0
CPI inflation (%)	0.2	0.2	0.3	0.2	0.0	0.3	0.5	0.2	0.3	0.3	0.3	0.3	0.8	1.3
7D reverse repo rate (%)	1.80	1.50	1.20	1.10	1.80	1.80	1.50	1.50	1.50	1.30	1.20	1.20	1.20	1.05
CNY/USD	7.10	7.30	7.50	7.40	7.22	7.27	7.02	7.30	7.30	7.40	7.45	7.50	7.43	7.35

(Note) Gothic figures for actual

YoY growth expect for next exports and interest rates

(Source) SMDAM, CEIC and Bloomberg

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

- Current CSI300 valuation has already been at discounted level. Under our base case scenario, near term index upside is very limited as 2024 earnings growth is subdued and lack of catalyst for sharp uptick of discounted valuation.



(Source: Bloomberg, SMDAM)(Date: As of 21st January, 2025)

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## 12 month forward EPS forecast for CSI300

- Earnings Expectation had remained lackluster throughout 2024. Overall earnings growth was decelerating under the backdrop of prolonged deflation. Recovery needs further fiscal support from Chinese government.

### CSI300 Outlook 12M Forward EPS



(Source: Bloomberg, SMDAM) (Date: As of 17th Jan, 2025)

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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. Our base case assumes there will be slight uptick in this discounted valuation due to the stabilization of sentiment upon potential government support on goods trade-in program and equipment upgrades.

### Price to Earnings ratio for CSI300



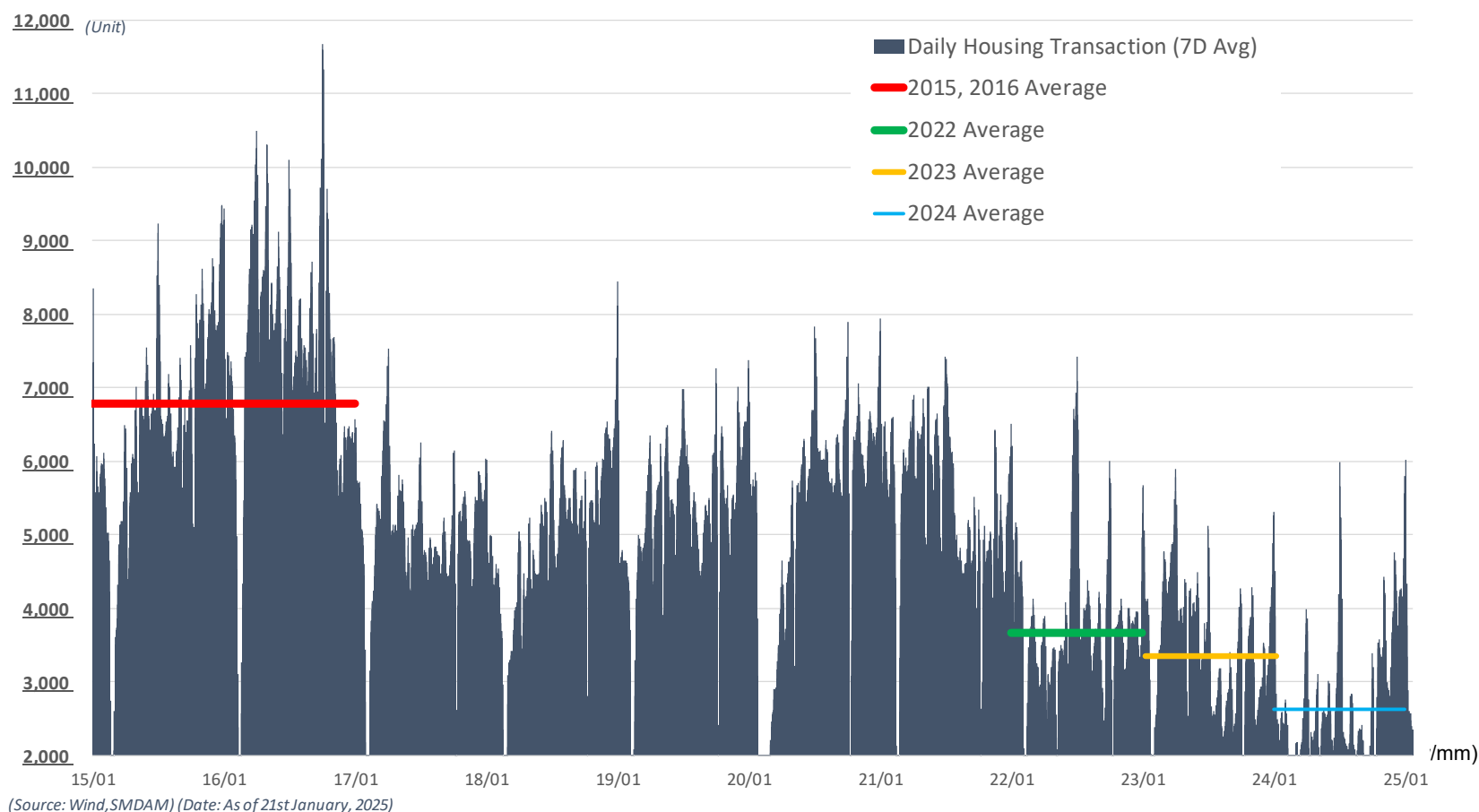
(Source: Bloomberg, SMDAM)(Date: As of 17th January, 2025)

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## Monitoring Point: Property Market

- Property Market remains one of the most important industry for Chinese Economy. In Jun 2024, transaction showed signs of demand recovery due to the Government Stimulus Policies including accelerating de-stocking and promoting housing delivery upon existing down payment reduction and Mortgage Rate Cut. However transaction slowed down in Jul.

### Daily New Home Transaction (7 Days Average)

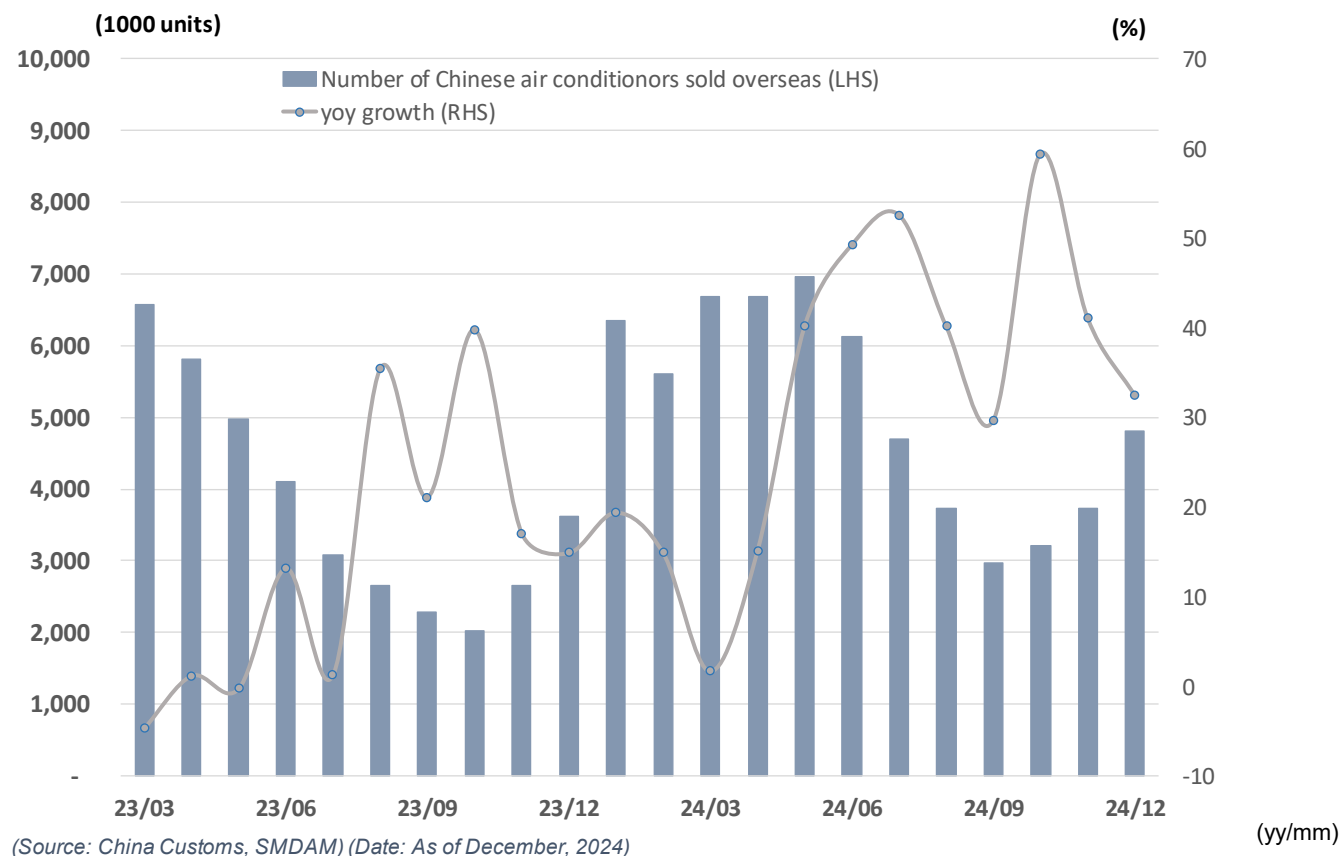


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## Quarterly Investment Theme: Exporters

- Traditional Chinese Home Appliance players especially AC players have built up very strong competitiveness in global market after years of accumulation. Many have gained very high market share both domestically and globally. Thus, these leading Air Conditioner exporters shall benefit the most upon the restocking in US and other overseas market.

### China Air Conditioner Overseas Sales (Monthly)



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