



China Macro Economy and Equity Market Outlook for Q3 2024

August 2024

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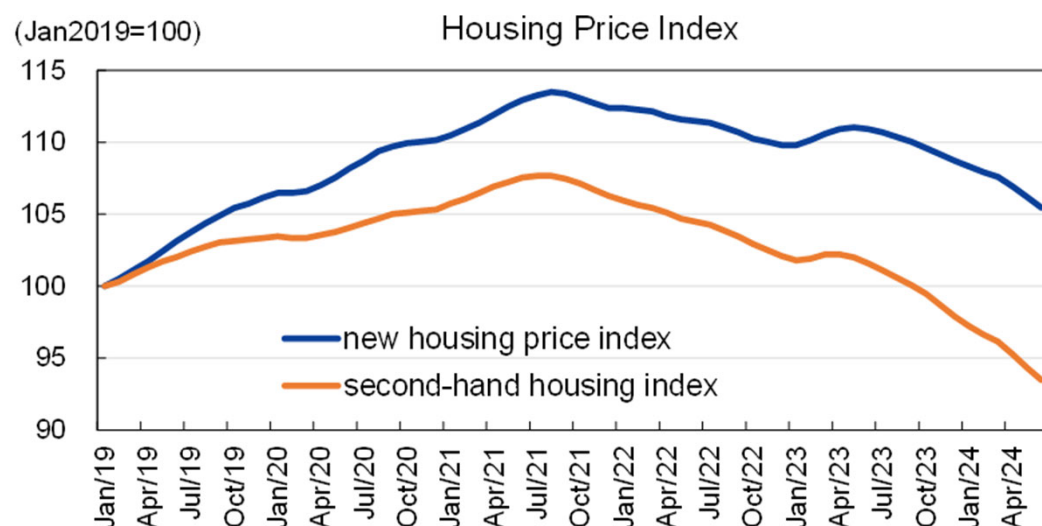
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Quarterly Macro Highlight (1) : Balance Sheet Recession

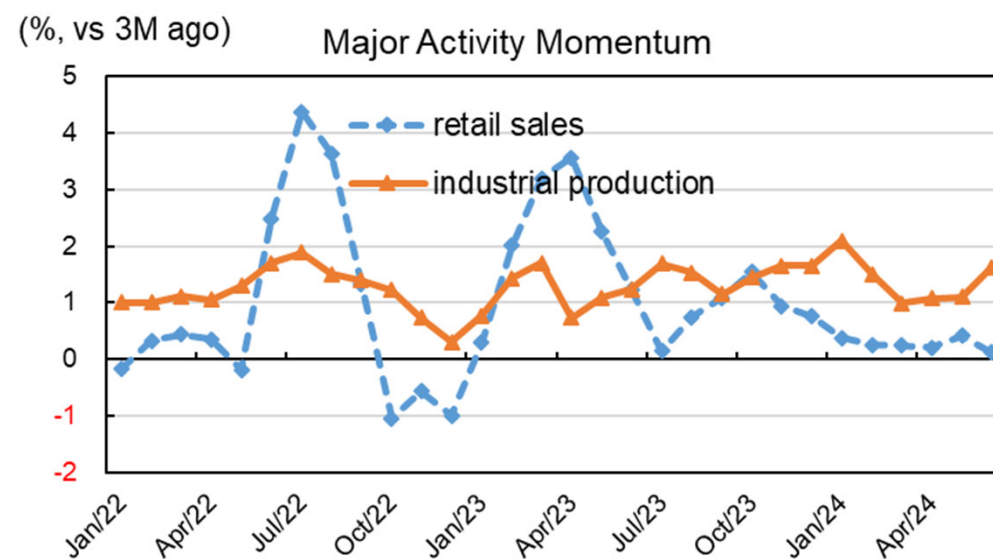
- Continuous lower housing prices should cause insufficient demands via balance sheet recession in household sector.
- Retail sales momentum has remained subdued.

Housing Price Index



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

Major Activity Momentum



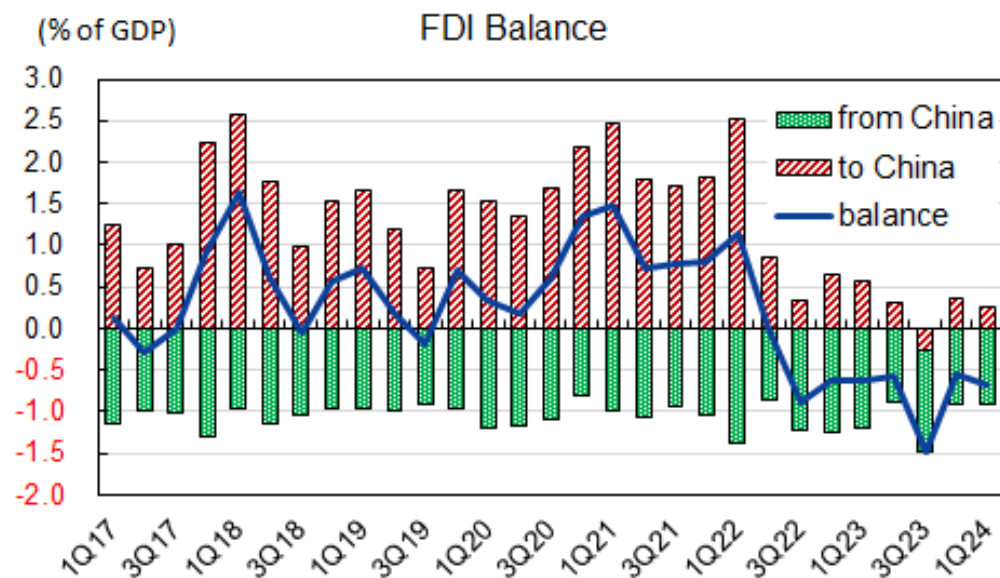
(Source: CEIC, WIND, SMDAM) (As of June, 2024)

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.
- Corporates have started to shift their production base to ASEAN.

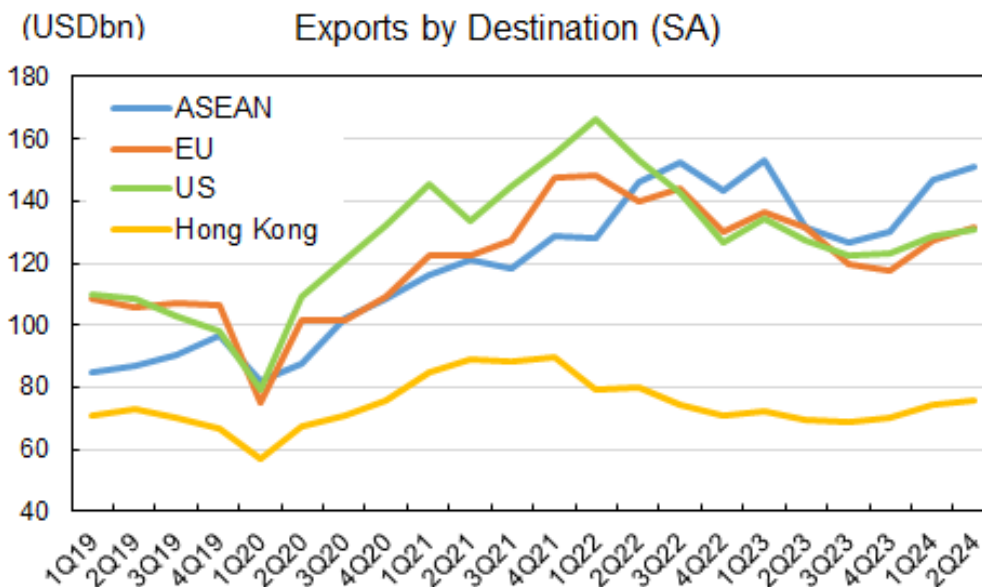
FDI Balance



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

China Exports by Destination (SA*)

*Seasonally Adjusted



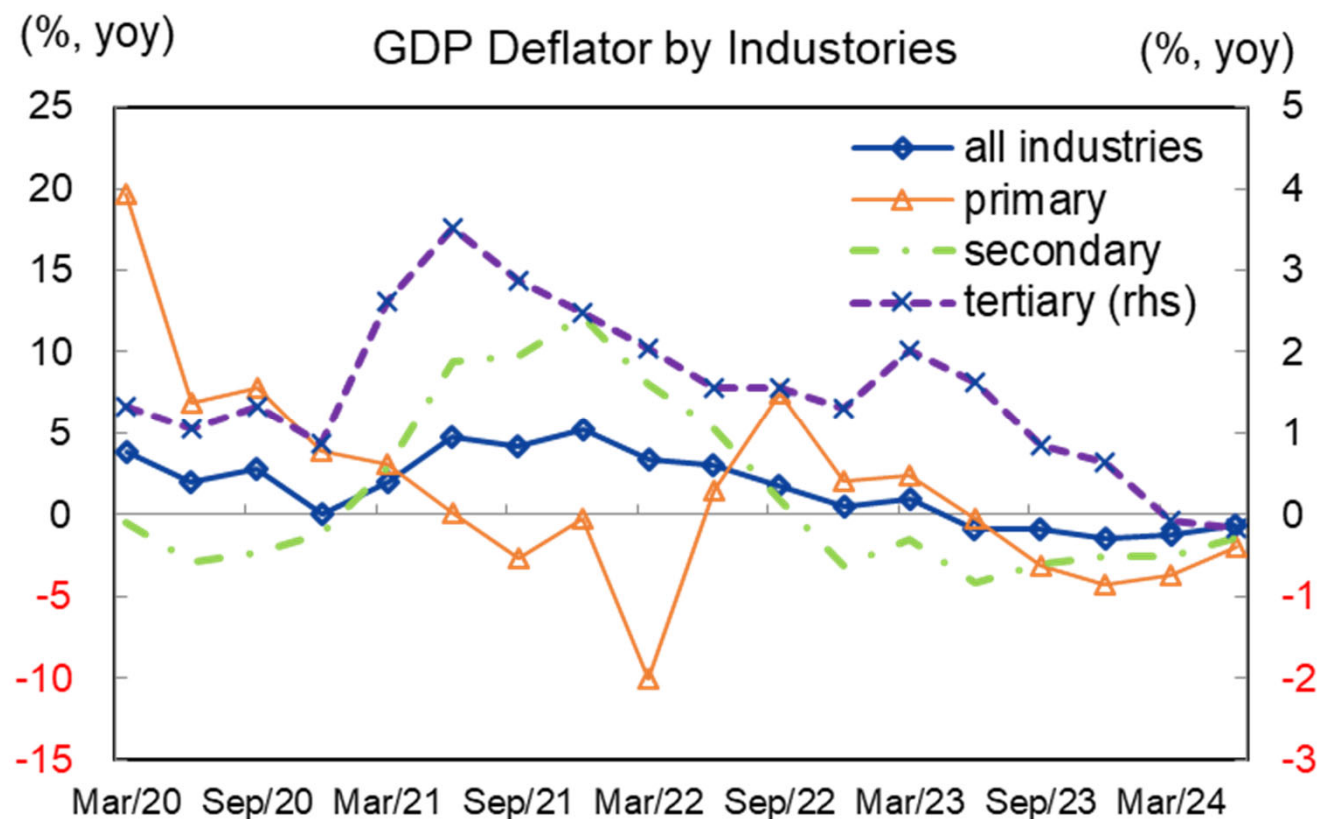
(Source: CEIC, WIND, SMDAM) (As of June, 2024)

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Quarterly Macro Highlight (3) : Service Deflator

- GDP deflator dropped 0.6% yoy in 2Q24, deflation for the fifth consecutive quarter.
- Service deflation slightly deepened in 2Q24.

China GDP Deflator by industries



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

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China Macro Economy Outlook

- GDP deflator dropped 0.6% yoy in 2Q24, contraction for the fifth consecutive quarter.
- We judge continuous deflation phase until 2Q25.
- Low nominal GDP growth outlook suggested low corporate sales outlook.
- In industry-wise, we are positive on high-tech sector.

China Macro Economy Outlook

	2023	2024 (F)	2025 (F)	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24 (F)	4Q24 (F)	1Q25 (F)	2Q25 (F)	3Q25 (F)	4Q25 (F)	2024 consensus	2025
Real GDP (%)	5.2	4.8	4.6	4.5	6.3	4.9	5.2	5.3	4.7	4.8	4.6	4.5	4.7	4.6	4.5	4.9	4.4
consumption	7.9	5.1	5.0	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
investment	3.6	3.7	4.6	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
net exports (contribution)	-0.6	0.5	-0.1	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Nominal GDP (%)	4.6	4.2	4.5	5.2	5.4	3.9	4.2	4.2	4.0	4.2	4.2	4.3	4.5	4.7	4.5	NA	NA
GDP deflator (%)	-0.5	-0.7	-0.1	0.9	-0.9	-0.8	-1.4	-1.3	-0.6	-0.6	-0.4	-0.2	-0.2	0.1	0.0	NA	NA
industrial production (%)	4.5	5.4	4.1	3.0	4.5	4.3	6.0	6.1	5.8	5.2	4.7	3.9	4.1	4.2	4.1	5.2	4.5
PPI inflation (%)	-3.0	-1.5	0.5	-1.6	-4.6	-3.3	-2.7	-2.7	-1.6	-1.1	-0.5	1.0	0.7	0.3	0.0	-1.1	1.1
CPI inflation (%)	0.2	0.5	0.8	1.3	0.1	-0.1	-0.3	0.0	0.3	0.7	1.0	0.8	1.0	0.8	0.7	0.6	1.5
7D reverse repo rate (%)	1.80	1.70	1.50	2.00	1.90	1.80	1.80	1.80	1.80	1.70	1.70	1.70	1.70	1.60	1.50	1.70	1.60
CNY/USD	7.10	7.20	7.00	6.87	7.25	7.30	7.10	7.22	7.27	7.25	7.20	7.15	7.10	7.05	7.00	7.25	7.08

(note) gothic figures for actual, consensus figures as of 25/Jul/2024

yoy growth expect for next exports and interest rates

(source) SMDAM, CEIC, WIND and Bloomberg

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Outlook for China A-Share Equity Market (CSI300)

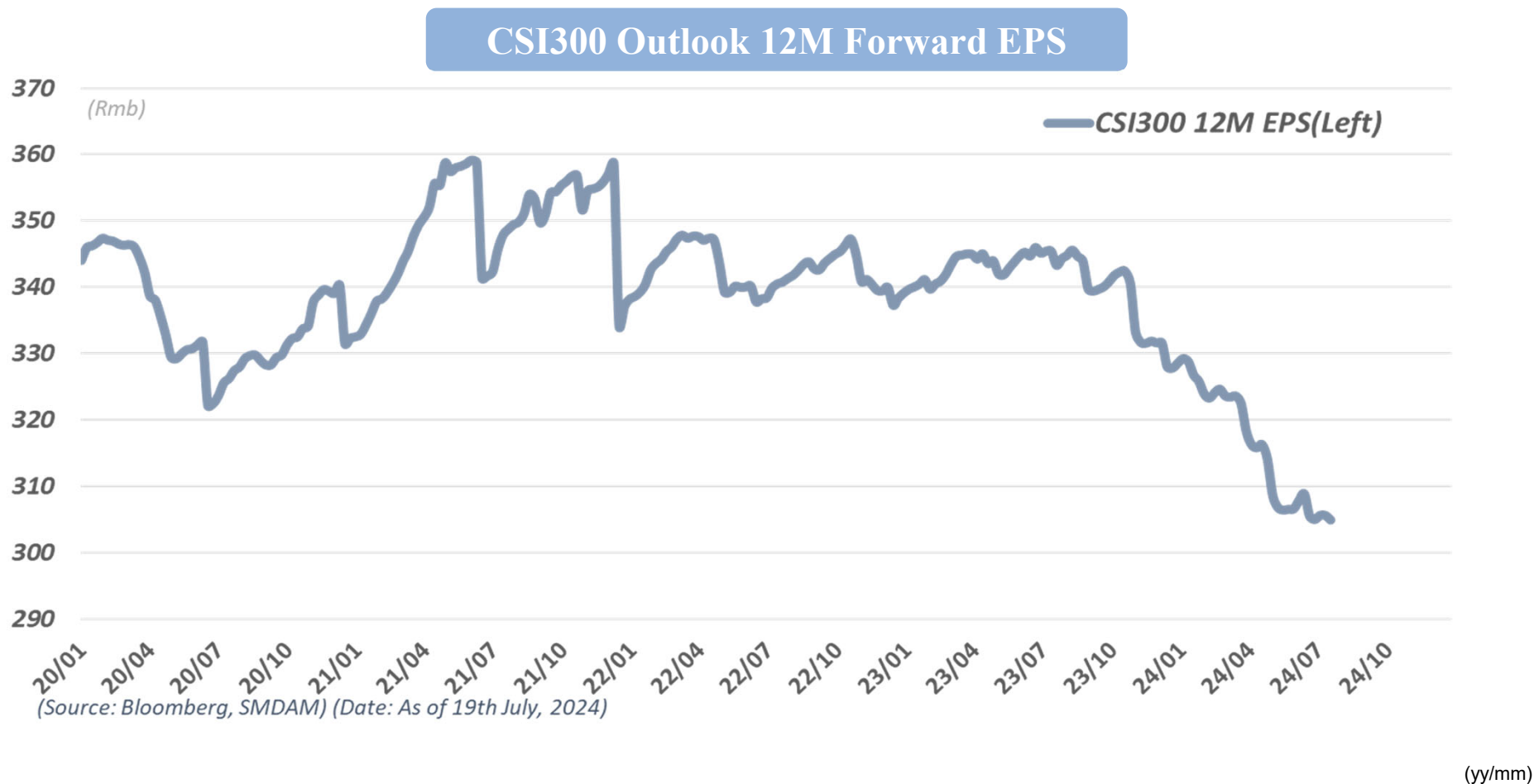
- Current CSI300 valuation has already been at discounted level. Under our base case scenario, near term index upside is very limited as 2024 earnings growth is subdued and lack of catalyst for sharp uptick of discounted valuation.



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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.



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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

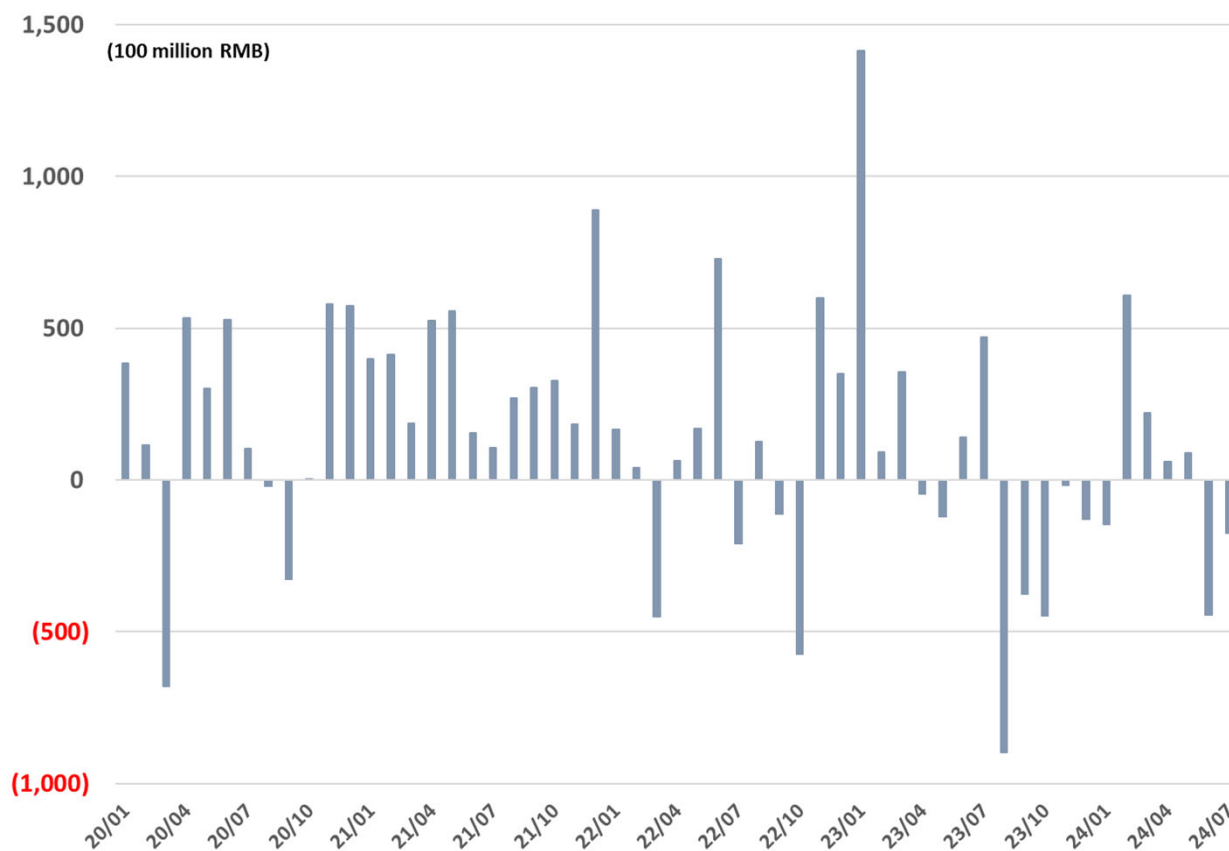


(Source: Bloomberg, SMDAM)(Date: As of 19th July, 2024)

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- Stock Connect has seen inflow back into Mainland China market after January due to attractive valuation and diversification need. But resumed outflow in Jun and Jul due to geopolitical concerns and subdued earnings outlook.

Northbound Stock Connect Flow from Hong Kong to Shenzhen / Shanghai



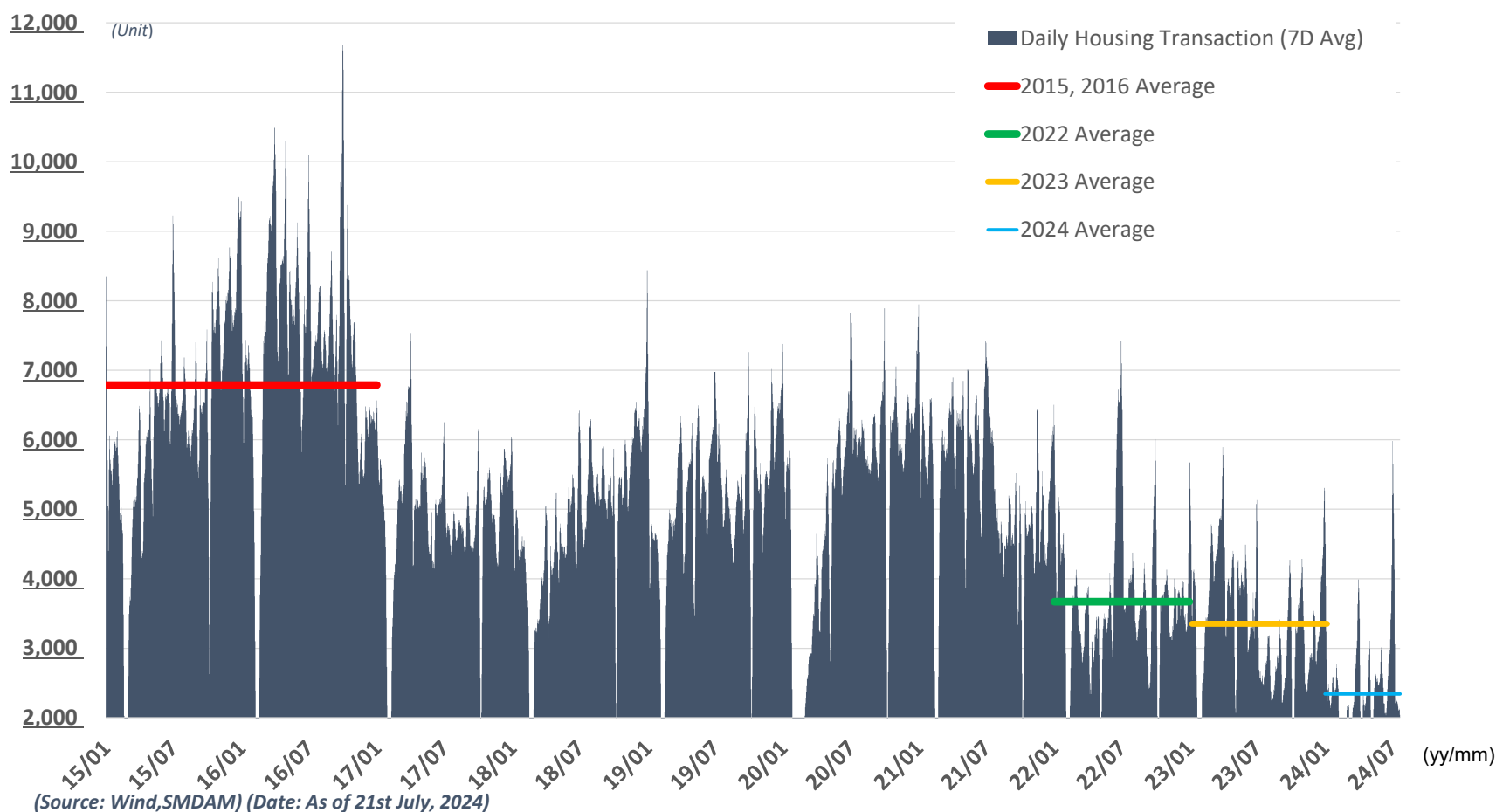
(Source: Bloomberg, SMDAM) (Date: As of 19th July, 2024)

(yy/mm)

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)

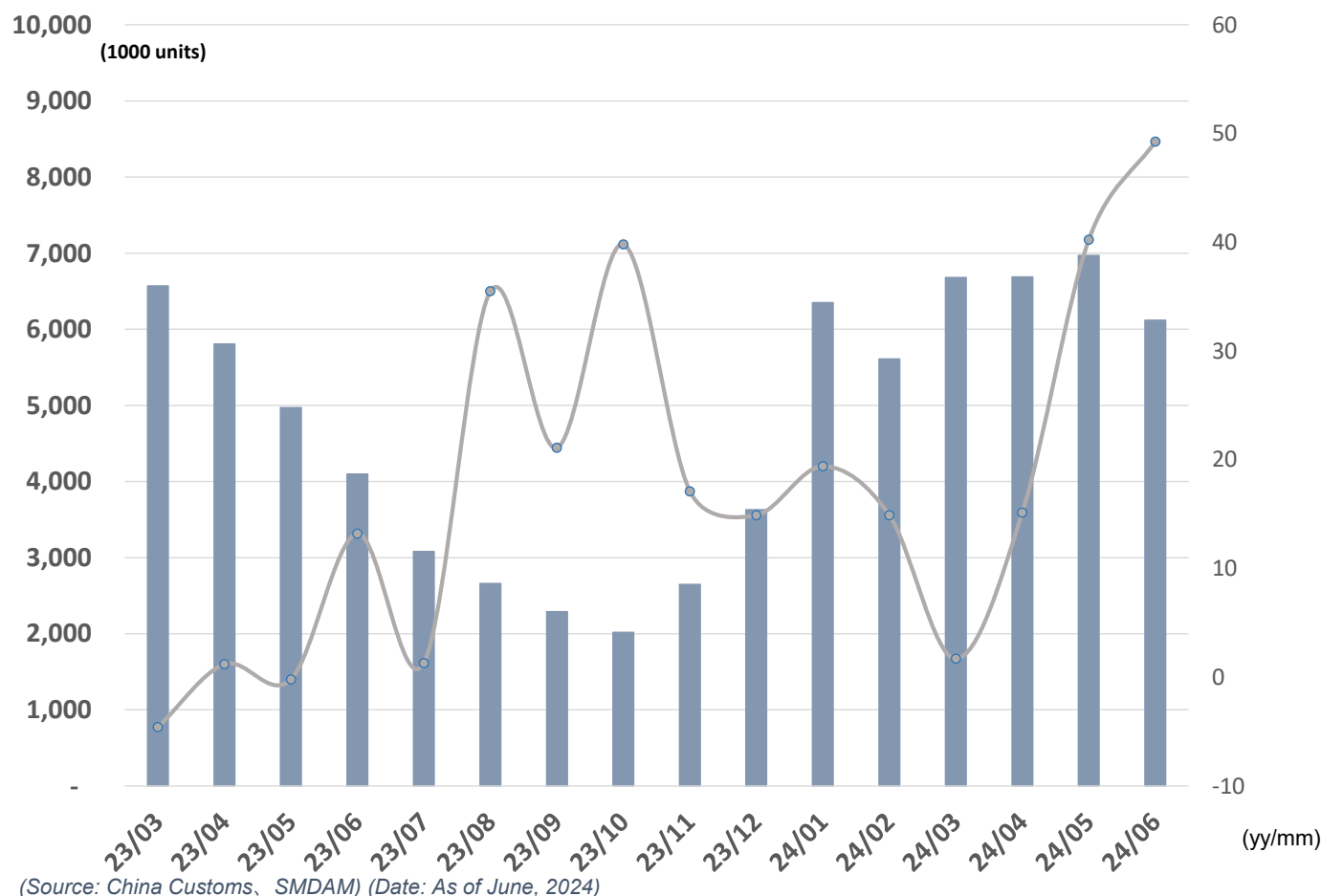


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Quarterly Investment Theme: Exporters

- 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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