



## *China Macro Economy and Equity Market Outlook for Q4 2024*

---

November 2024

Macro economy	Page 2
---------------	--------

---

1. Lower Demand
2. Decoupling and FDI
3. Deflationary Pressure
4. Economy Outlook

Market Outlook	Page 6
----------------	--------

---

1. Market outlook
2. Earnings
3. Valuation

Monitoring Points & Investment Theme	Page 9
--------------------------------------	--------

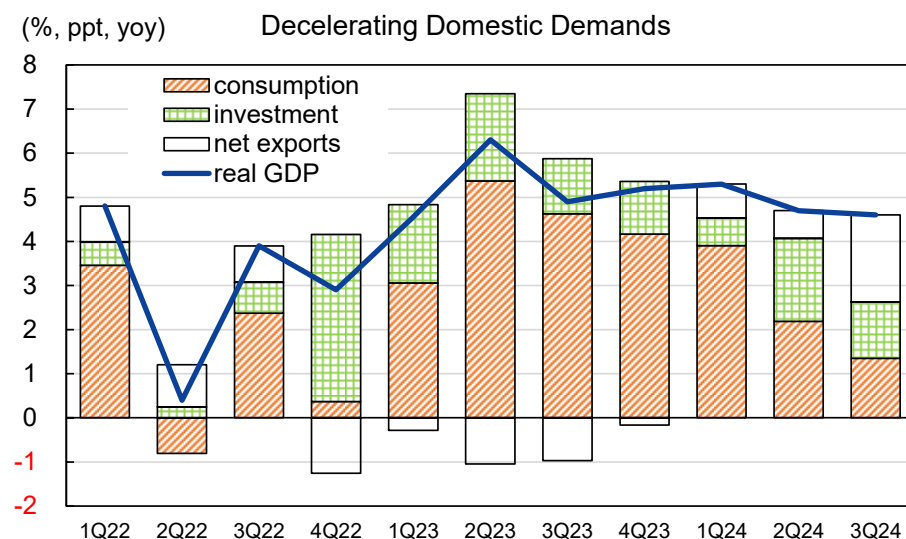
---

1. Property Market Transaction
2. Quarterly Investment Theme

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

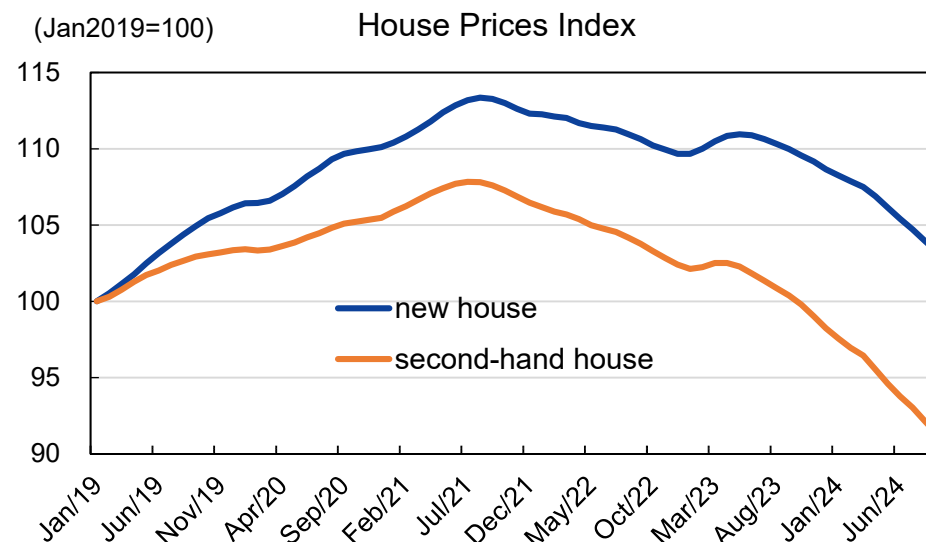
- Demands contribution sharply decelerated to 2.6ppt in 3Q24 under insufficient demand phase.
- Decreasing imports caused net exports contribution to accelerate in 3Q24.
- Suppression over exports caused by potential higher tariff would cause a critical downside factor for economic growth.
- Lower housing price would cause insufficient demand via balance sheet recession of household.

### Demand Contribution



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

### Housing Price Index



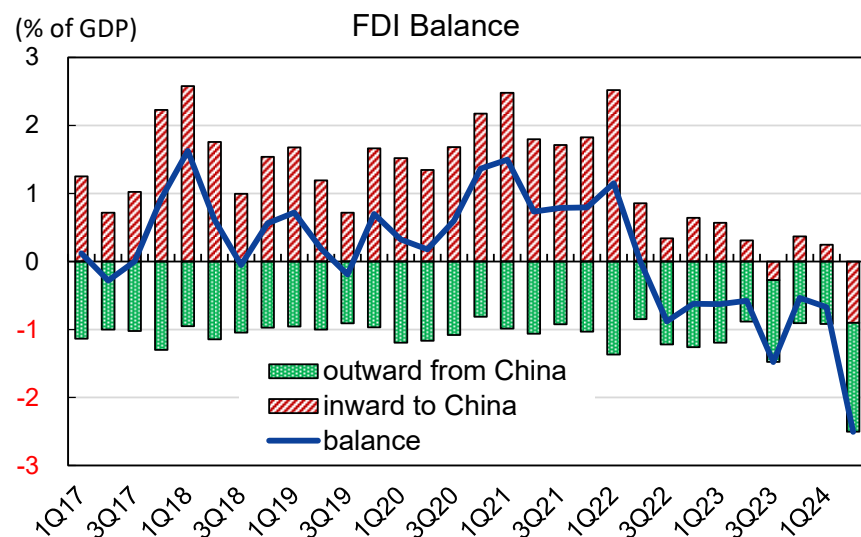
(Source: CEIC, WIND, SMDAM) (As of Sep, 2024)

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

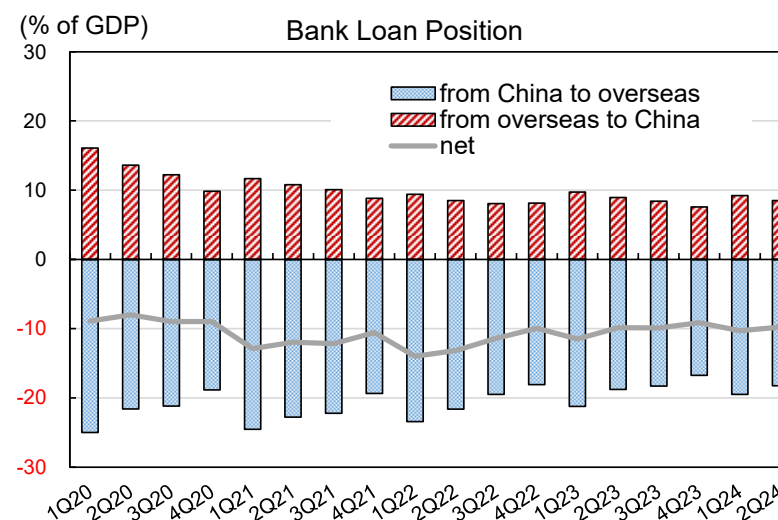
- Gross outward Foreign Direct Investment (FDI) from China would last under de-coupling.
- Net bank loan position would be hit to the down side under de-coupling.

### FDI Balance



(Source: CEIC, WIND, SMDAM) (As of Apr-Jun, 2024)

### Bank Loan Position



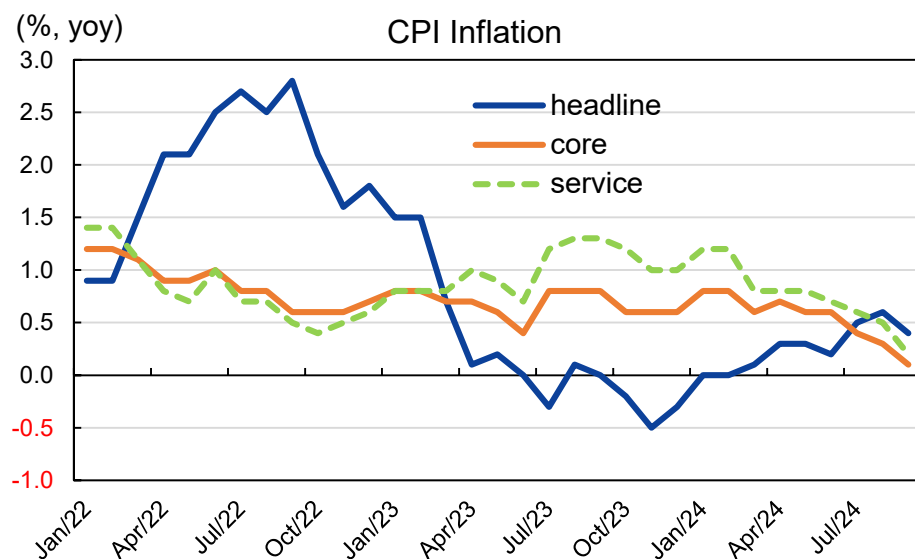
(Source: CEIC, WIND, SMDAM) (As of Apr-Jun, 2024)

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 (3) : Deflationary Pressure

- Service inflation has faced downside pressure under vicious cycle between lower corporate sales and lower income.
- Actual inflation should be lower than CPI inflation, which is Laspeyres index.
- China steel industry still exports deflation to overseas.

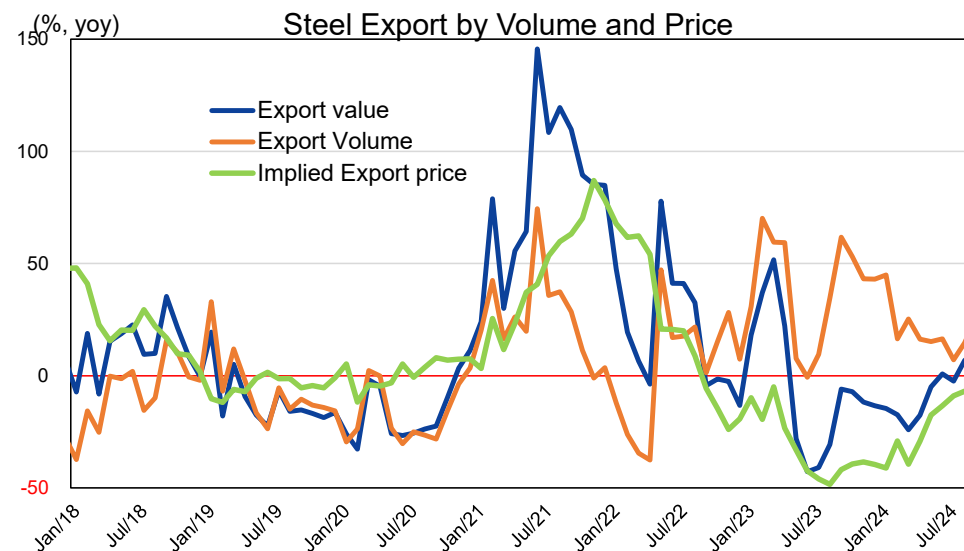
### CPI Inflation



(note) Jan and Feb figures: average of the two months' data

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

### Steel Exports



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

# China Macro Economy Outlook

- GDP deflator dropped 0.5% yoy in 3Q24, contraction for the sixth consecutive quarter.
- We forecast continuous deflation phase until 2Q25.
- Low nominal GDP growth outlook suggests low corporate sales outlook.
- 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	4Q24 (F)	1Q25 (F)	2Q25 (F)	3Q25 (F)	4Q25 (F)	2024 consensus	2025
Real GDP (%)	5.2	4.7	4.4	4.5	6.3	4.9	5.2	5.3	4.7	4.6	4.5	4.3	4.5	4.4	4.3	4.8	4.5
consumption	7.9	4.3	4.2	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
investment	3.6	3.1	4.0	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
net exports (contribution)	-0.6	1.1	0.4	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Nominal GDP (%)	4.6	4.1	4.3	5.2	5.4	3.9	4.2	4.2	4.0	4.0	4.1	4.0	4.3	4.5	4.3	NA	NA
GDP deflator (%)	-0.5	-0.6	-0.1	0.9	-0.9	-0.8	-1.4	-1.3	-0.6	-0.5	-0.4	-0.3	-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	5.0	4.8	3.9	4.1	4.2	4.1	5.3	4.5
PPI inflation (%)	-3.0	-1.7	0.2	-1.6	-4.6	-3.3	-2.7	-2.7	-1.6	-1.7	-0.8	0.0	0.7	0.3	0.0	-1.5	0.6
CPI inflation (%)	0.2	0.4	0.7	1.3	0.1	-0.1	-0.3	0.0	0.3	0.5	0.7	0.6	0.7	0.7	0.7	0.5	1.3
7D reverse repo rate (%)	1.80	1.50	1.20	2.00	1.90	1.80	1.80	1.80	1.80	1.50	1.50	1.50	1.50	1.30	1.20	1.50	1.30
CNY/USD	7.10	7.20	7.10	6.87	7.25	7.30	7.10	7.22	7.27	7.02	7.20	7.20	7.15	7.15	7.10	7.08	6.93

(note) Gothic figures for actual

Showing yoy growth except for net exports and interest rates

(source) SMDAM, CEIC and Bloomberg

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.

## Outlook for China A-Share Equity Market (CSI 300)

- Current CSI 300 valuation has rebounded back to historical average level after rally triggered by recent stimulus policy. Under our base case scenario, near term upside for the index is very limited as rally since end of Sep was too sharp while earnings growth hasn't caught up yet.



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 has remained lackluster in 2024. However, recent 2024 EPS got some upward revision driven by Financial and Consumption sectors. Further recovery depends on the effect from recent stimulus policies.

### CSI300 Outlook 12M Forward EPS



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 P/E ratio for CSI300

- 12 month forward PER stands at 13 times, which is above its long term average since 2018. Our base case assumes it will be reasonable to retreat back to the average level after the sharp rally upon stimulus pivot as effect on EPS upward revision is too mild to justify such a big multiple expansion.

Price to Earnings ratio for CSI300



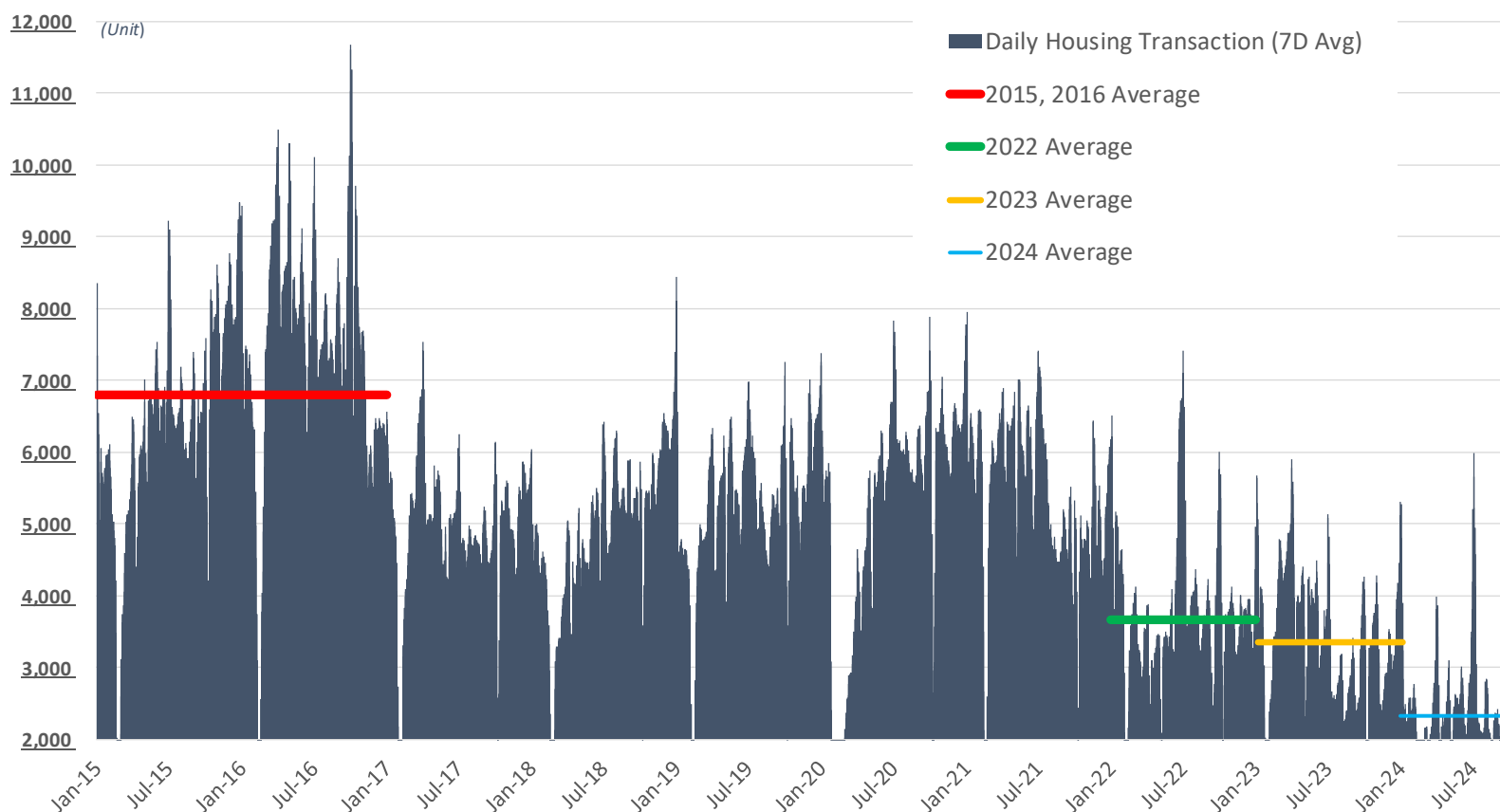
(Source: Bloomberg, SMDAM)(Date: As of 25th October, 2024)

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.

## Monitoring Point: Property Market

- Property market remains one of the most important industry for Chinese economy. In Oct 2024, transaction showed signs of demand recovery due to the Government stimulus measures including accelerating de-stocking and promoting housing delivery through reduced down payments and mortgage rate cut.

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



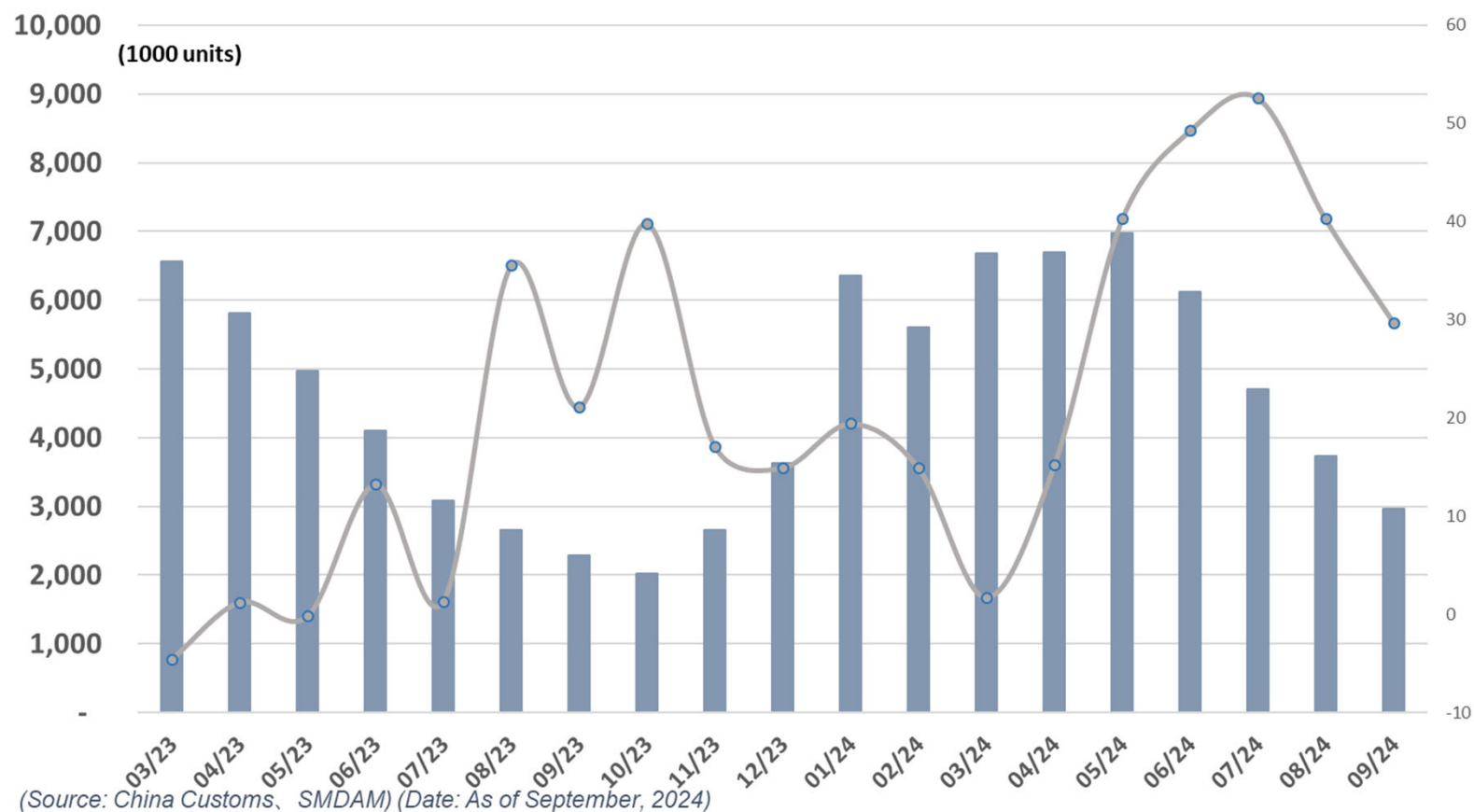
(Source: Wind, SMDAM) (Date: As of 28th October, 2024)

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 Investment Theme: Exporters

- Traditional Chinese home appliance manufacturers especially AC players have developed very strong competitiveness in global market over the years. Many have gained very high market share both domestically and globally. Thus, these leading air conditioner exporters shall most benefit from the restocking in US and other overseas market.

### China Air Conditioner Overseas Sales (Monthly)



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.



# 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) Pte. 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.

### 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.