



## *China Macro Economy and Equity Market Outlook for Q2 2025*

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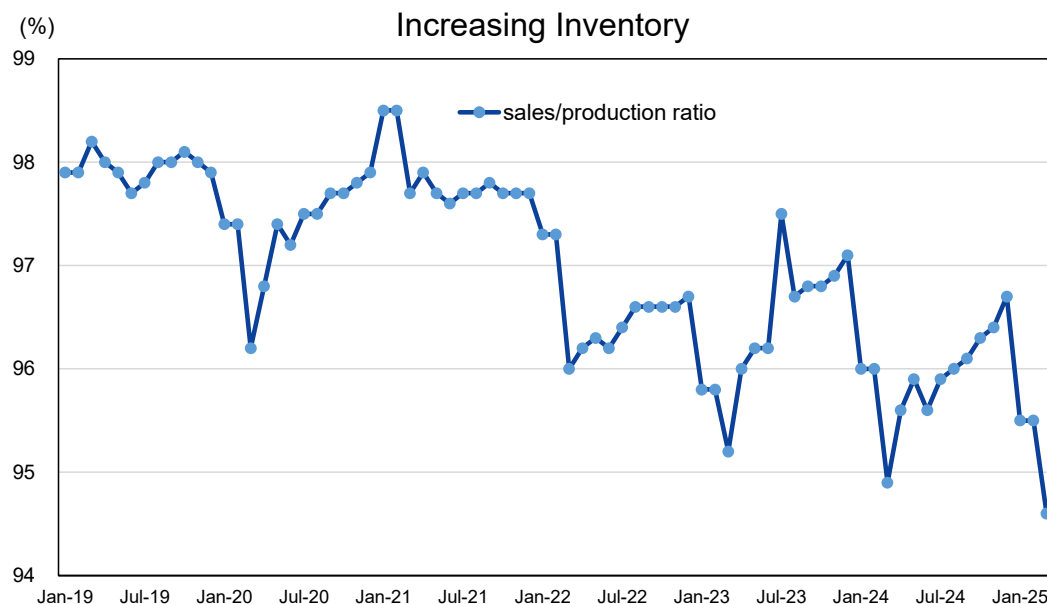
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1. Property Market Transaction
2. Quarterly Investment Theme: High Dividend Yield Opportunities

## Quarterly Macro Highlight (1) : Economic Phase for Deeper Deflationary Pressure

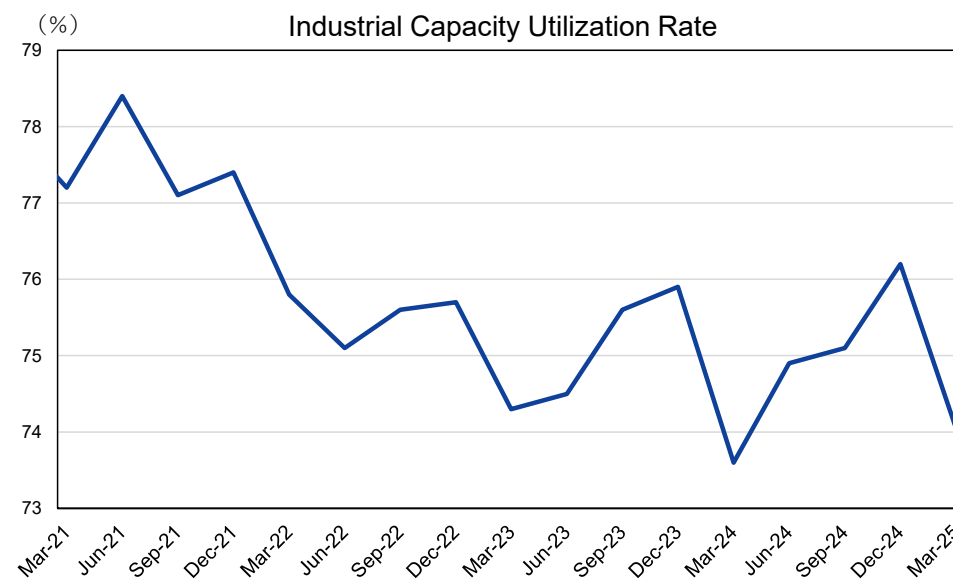
- Sales to production ratio fell further in Mar, despite of accelerating industrial production in 1Q25.
- Decreasing this ratio suggests increasing inventory reflecting wider output gap, which should cause deflationary pressure.
- Industrial capacity utilization rate fell further in 1Q25, despite of accelerating industrial production.
- Lower capacity utilization suggests further deflationary pressure via increasing production capacity under insufficient demand.
- Under increasing external pressure, Government has encouraged exporters to shift to domestic-focused, which further heightened over-supply issue and deflation pressure.

### Increasing Inventory



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

### Declining Capacity Utilization Rate



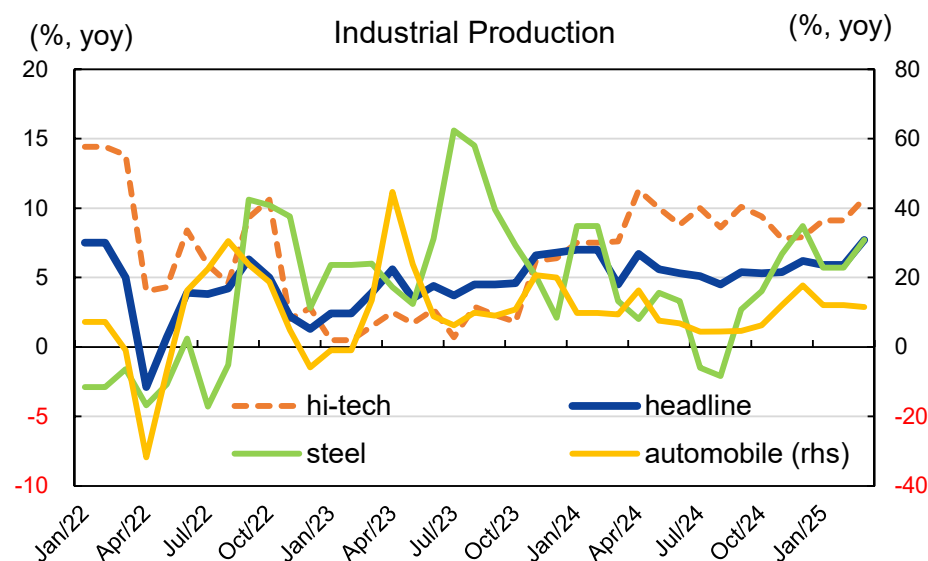
(Source: CEIC, WIND, SMDAM) (As of Jan-Mar, 2025)

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) : Working Economic Measures

- Industrial production growth accelerated in Mar led by hi-tech, trade-in program and government's supply-side approach.
- Upside steel production reflected government's supply-side approach, it also reflected infrastructure support and policy confidence on auto/property market.
- Wider targeted items under consumer trade-in program worked well. This program should suppress targeted items' prices. Meanwhile, this shall frontload consumer demand and marginal policy effect shall fade as time goes by.
- General consumer sentiment seemed to remain muted represented by stagnant cosmetics sales momentum.

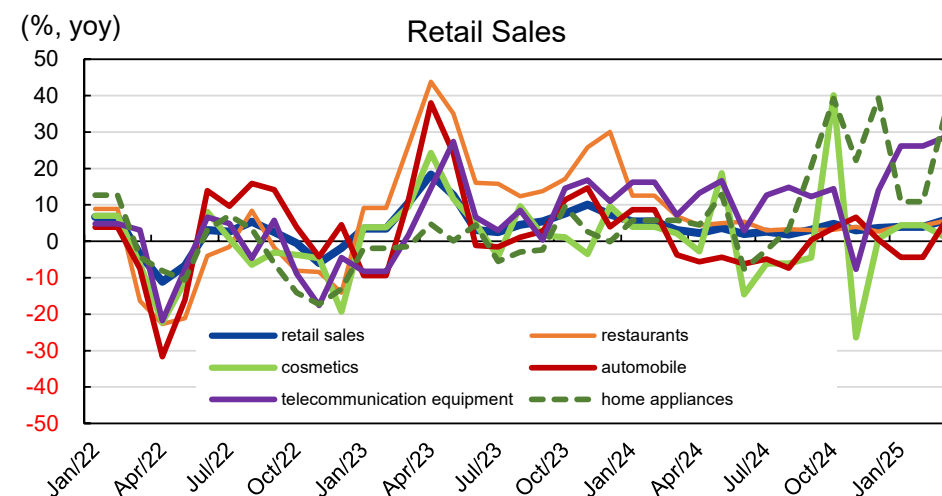
### Production Momentum Accelerated



(note) The data for January and February are averaged

(Source: CEIC, WIND, SMDAM) (As of Mar, 2025)

### Consumer Trade-In Worked Well

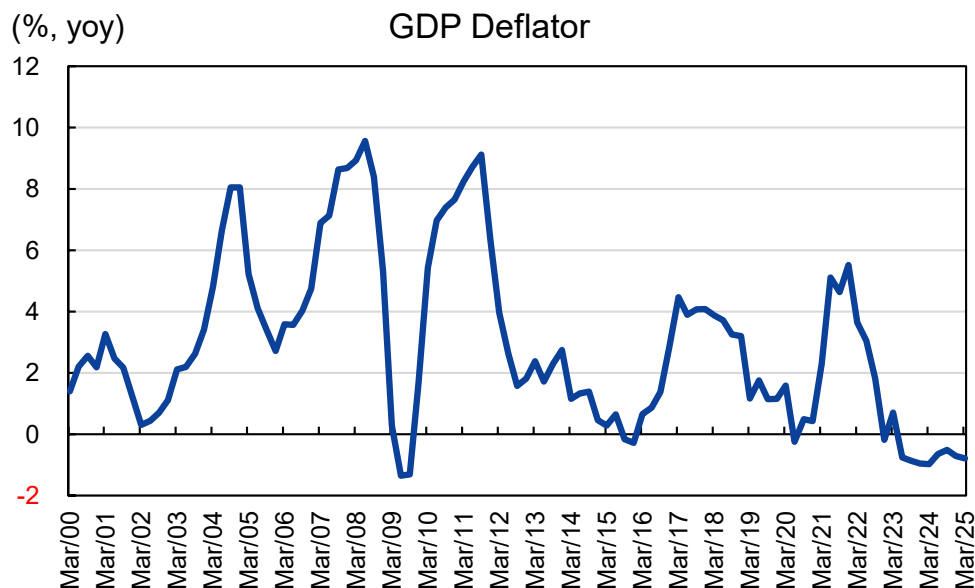


(Source: CEIC, WIND, SMDAM) (As of Mar, 2025)

## Quarterly Macro Highlight (3) : Continuous Deflation

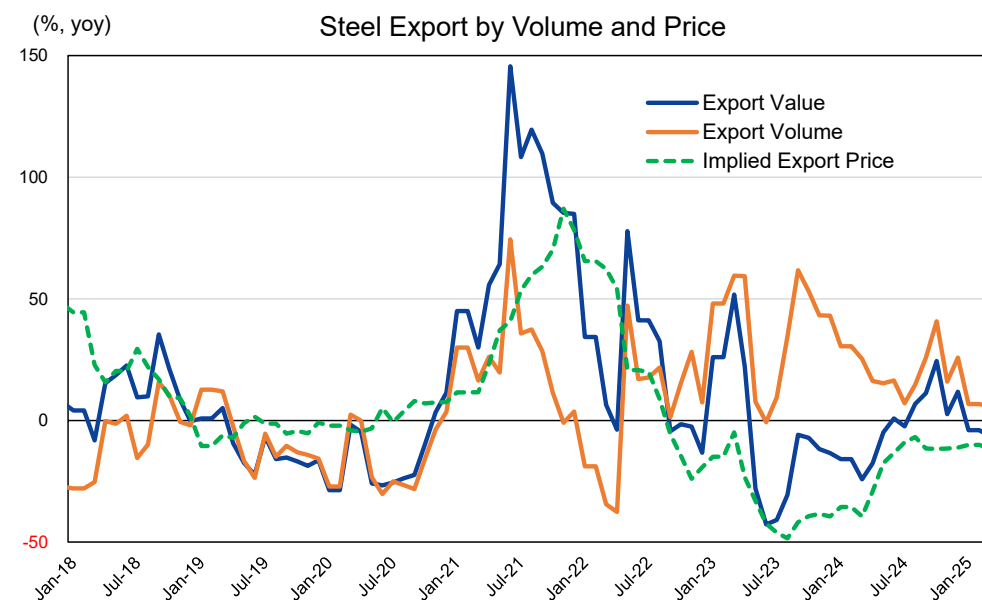
- GDP deflator contracted by 0.8% yoy in 1Q25, deflation for the eighth consecutive quarter.
- We judge that deflation should last beyond 2026.
- China steel industry still exports deflation to overseas.

### Continuous Deflation



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

### Steel Exports



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

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# China Macro Economy Outlook

- We assume that China government should keep hawkish stance until US will decrease unilateral tariff against China.
- We judge that China government should review some stimulus packages after they acknowledge negative magnitude on growth.
- Government's supply-side approach should deepen deflationary pressure via wider output gap under insufficient demand.
- Under risk-off phase, CNY should depreciate against USD led by capital outflow.

## China Macro Economy Outlook

	2023	2024	2025	2026	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26	4Q26	2025	2026
			(F)	(F)					(F)	(F)	(F)	(F)	(F)	(F)	(F)	(F)	consensus	
Real GDP (%)	5.2	5.0	3.8	3.8	5.3	4.7	4.6	5.4	5.4	3.2	3.3	3.6	3.5	3.8	4.0	4.0	4.2	4.2
Consumption	8.3	3.9	3.4	3.3	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Investment	3.5	3.2	5.9	4.8	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Net exports (contribution)	-0.8	1.5	-0.4	0.6	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Nominal GDP (%)	4.6	4.2	3.1	3.5	4.2	4.0	4.1	4.6	4.6	2.6	2.4	2.8	3.1	3.6	3.7	3.6	NA	NA
GDP deflator (%)	-0.5	-0.7	-0.8	-0.3	-1.3	-0.6	-0.5	-0.7	-0.8	-0.6	-0.9	-0.8	-0.4	-0.2	-0.3	-0.4	NA	NA
Industrial production (%)	4.5	5.8	4.7	4.7	6.1	5.8	5.0	5.7	6.5	4.0	4.1	4.4	4.3	4.6	4.8	5.0	4.7	4.2
PPI inflation (%)	-3.0	-2.2	-2.0	-0.6	-2.7	-1.6	-1.7	-2.6	-2.3	-2.5	-1.8	-1.2	-0.7	-0.6	-0.5	-0.5	-1.5	0.3
CPI inflation (%)	0.2	0.2	-0.1	0.0	0.0	0.3	0.5	0.2	-0.1	0.1	-0.2	-0.3	-0.1	-0.1	0.2	0.1	0.4	1.0
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	1.10	1.10	1.00	1.00	1.20	1.00
CNY/USD	7.10	7.30	7.40	7.50	7.22	7.27	7.02	7.30	7.26	7.30	7.35	7.40	7.40	7.45	7.45	7.50	7.35	7.28

(note) gothic figures for actual

yoy growth except for net exports and interest rates figures

Consensus figures are based on Bloomberg on 2 May 2025.

(source) SMDAM, CEIC and Bloomberg

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

- Current CSI 300 valuation has moved to slightly above historical average level after rally triggered by a barrage of stimulus policies. Under our base case scenario, near term index upside is very limited as EPS has further downward revision pressure.

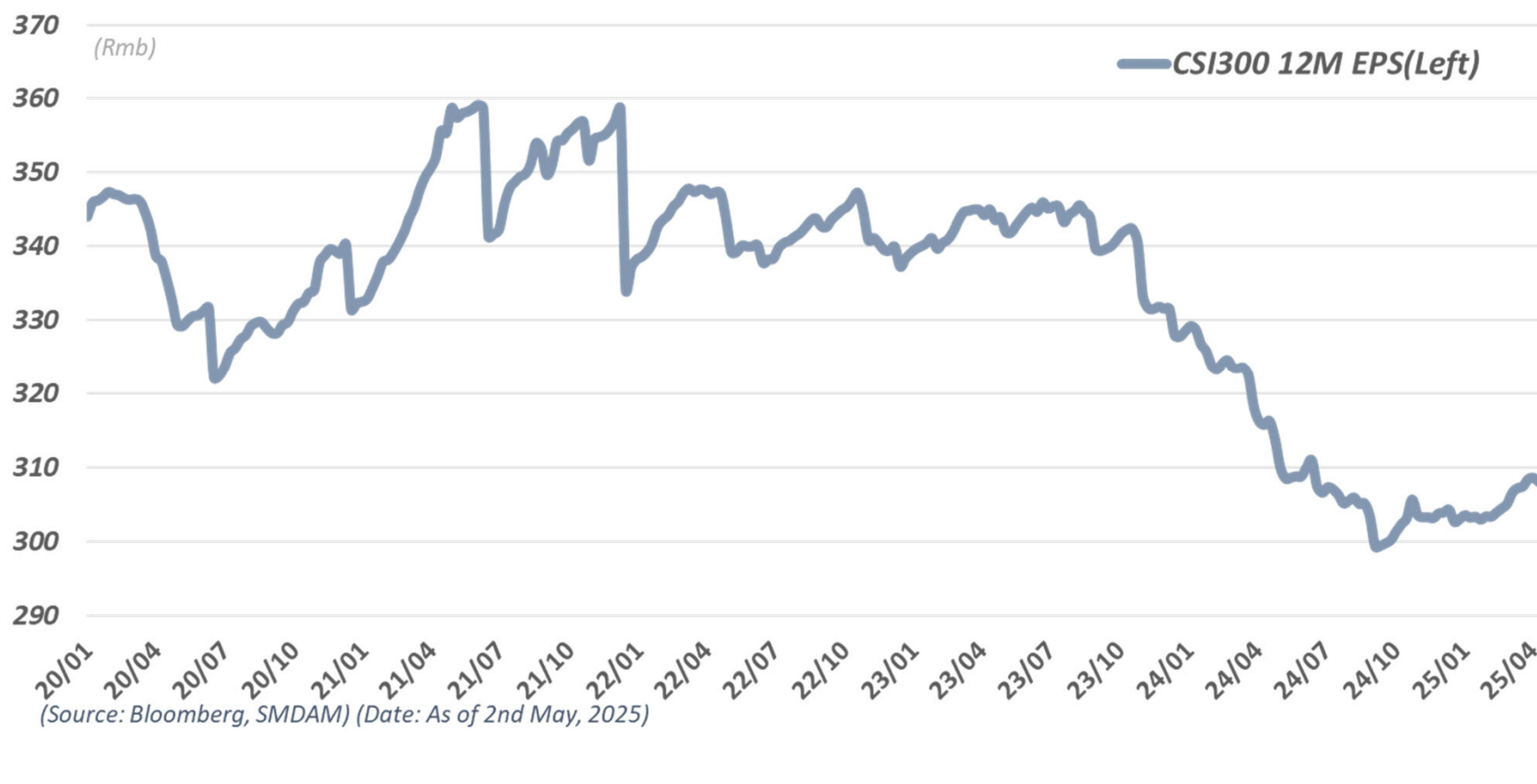


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## 12 month forward EPS forecast for CSI300

- Earnings expectation had remained lackluster throughout last 12M. There was some upward revision driven by Financial and Consumption sectors in 1Q25, but sustainability is less convincing.

### CSI300 Outlook 12M Forward EPS



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## Earnings multiples\* for CSI300

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

- 12 month forward PER stands at 12.4 times, which is slightly above its Long Term Average. Our base case assumes it will be reasonable to stay around this level due to China's pivot on stimulus and the National Team's support. Further sharp re-rating depends on potential EPS upward revision along with effects from stimulus policies starting to realize, which is of low chance right now.

Price to Earnings ratio for CSI300

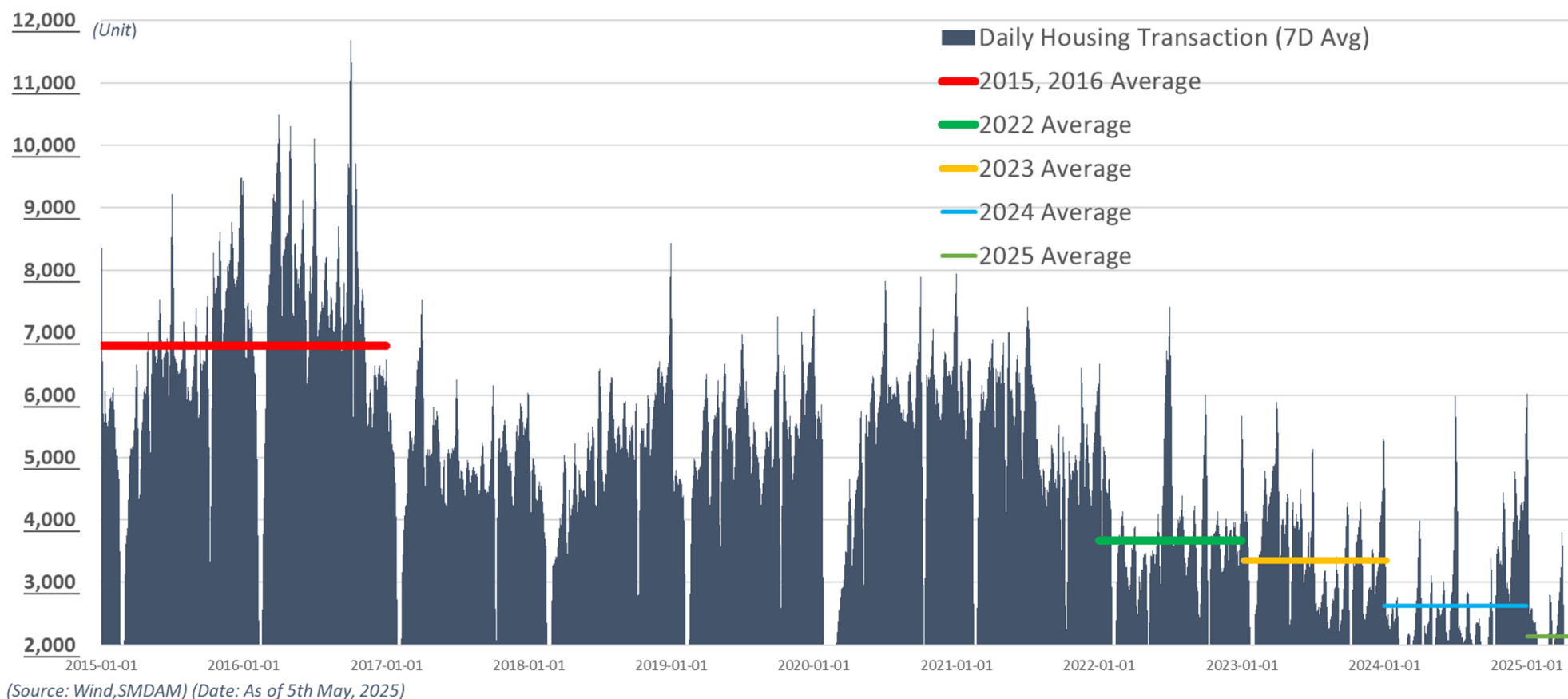


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## Monitoring Point: Property Market

- Property Market remains one of the most important industries for Chinese Economy. In 2025 ytd, transaction is showing a weakening trend again despite of existing down payment reduction and Mortgage Rate Cut.

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



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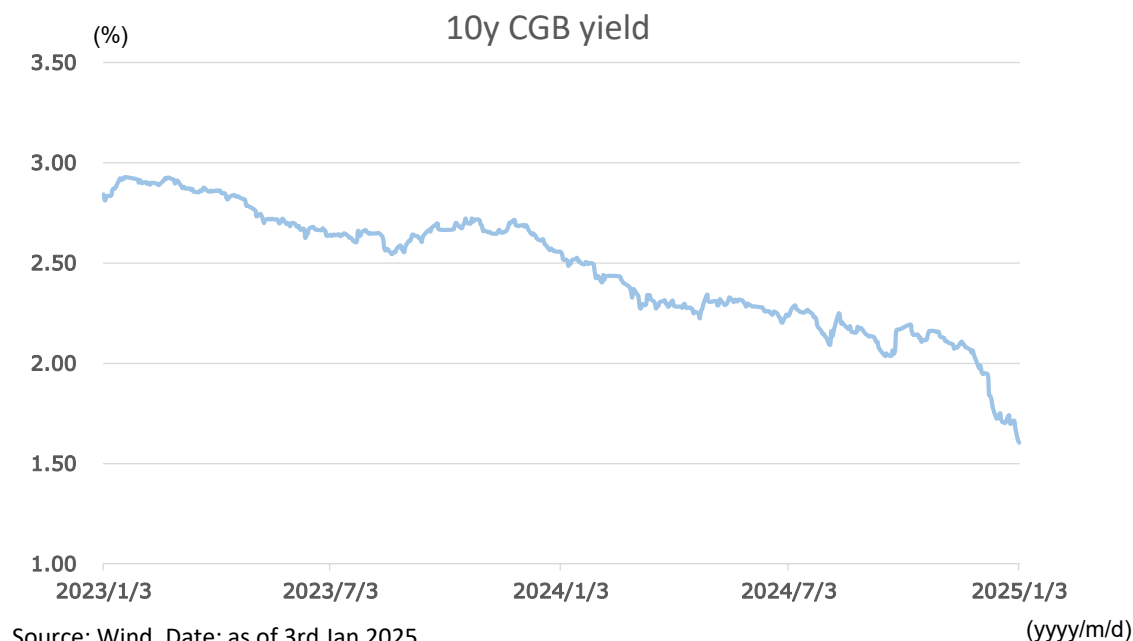
## Quarterly Investment Theme: High Dividend Yield Opportunities

- As deflation pressure hasn't eased in China, and long term bond yield is also declining, companies with stable free cash flow are likely to survive and outperform in the longer term. Chinese companies within CSI300 index have been raising payout ratio in the recent years, while dividend yield has been more attractive vs. 10y Chinese Government Bond (CGB) yield.

### CSI 300 dividend yield and payout ratio vs. 10y CGB yield

CSI300	2020	2021	2022	2023
Payout ratio	34.68%	34.71%	37.85%	38.90%
Dividend yield	2.03%	2.94%	3.31%	3.05%

Source: Wind



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