



## *China Macro Economy and Equity Market Outlook for Q3 2025*

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*Jul 2025*



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## Macro economy Page 2

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1. Deflation To Last With Easing Sign
2. Frontloading Effect To Be Paid Back In 2H25
3. Divergence For Policy Support Impact On 2H25 Outlook
4. China Macro Outlook

## Market Outlook Page 6

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1. Market outlook
2. Earnings
3. Valuation
4. Liquidity

## Monitoring Points & Investment Theme Page 10

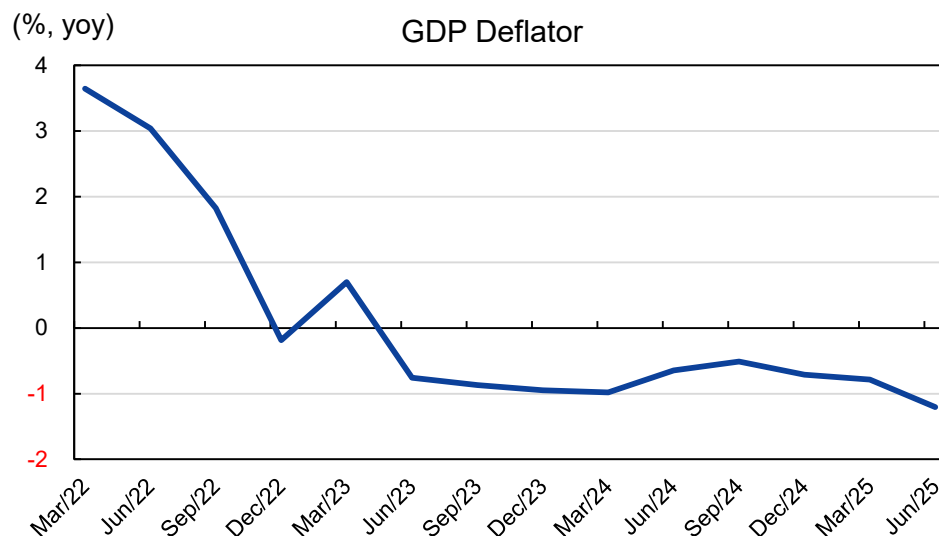
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1. Property Market Transaction
2. Quarterly Investment Theme

## Quarterly Macro Highlight (1) : Deflation To Last With Easing Sign

- GDP deflator contracted yoy in 2Q25, deflation for the 9<sup>th</sup> consecutive quarter.
- We judge that deflation should last at least until the end of 2026 due to insufficient demand.
- However, we do not expect deflation to deepen further, going forward. Daily steel prices showed a sign of PPI deflation to ease in 3Q25.

### Continuous Deflation



(Source: CEIC, SMDAM) (As of Apr-Jun 2025)

### Easing Steel Deflation



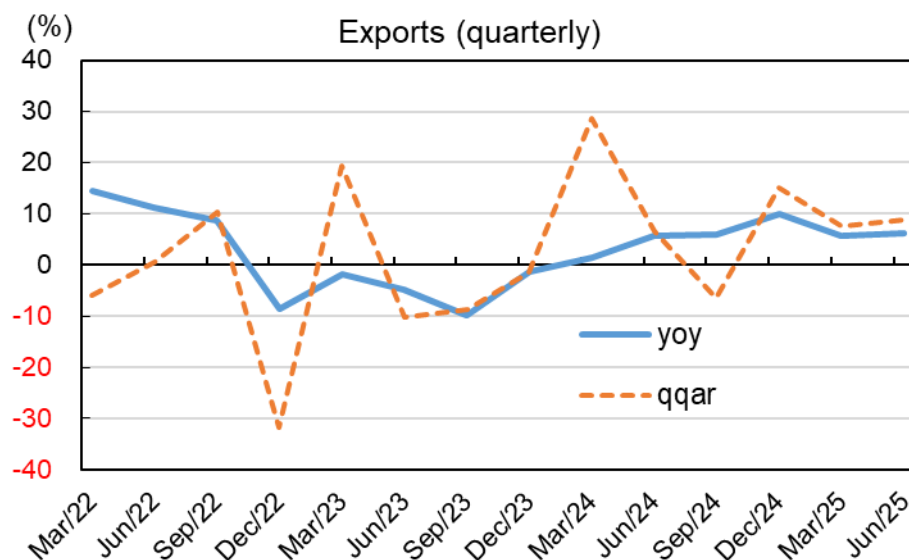
(Source: CEIC, SMDAM) (As of 24 Jul 2025)

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) : Export Frontloading To Be Paid Back In 2H25

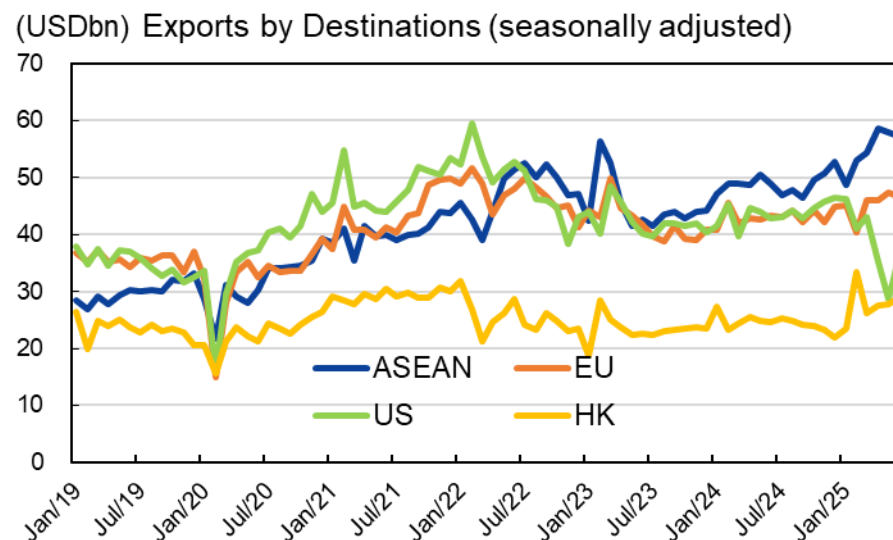
- Despite of higher tariff imposed by US, China export momentum held up well so far.
- On seasonally adjusted basis, exports to US bottomed out in Jun reflecting decrease in tariff rate in May.
- However, exports to ASEAN started to show sign of slowdown in Jun due to negative backlash from frontloading exports.
- We think more payback shall happen going forward, on strong frontloading exports till Aug, end of 90 days grace period.

### Export Momentum Remained Solid



Note: qqar based on seasonally adjusted basis  
(Source: CEIC, SMDAM) (As of Jun 2025)

### Normalizing Exports to US

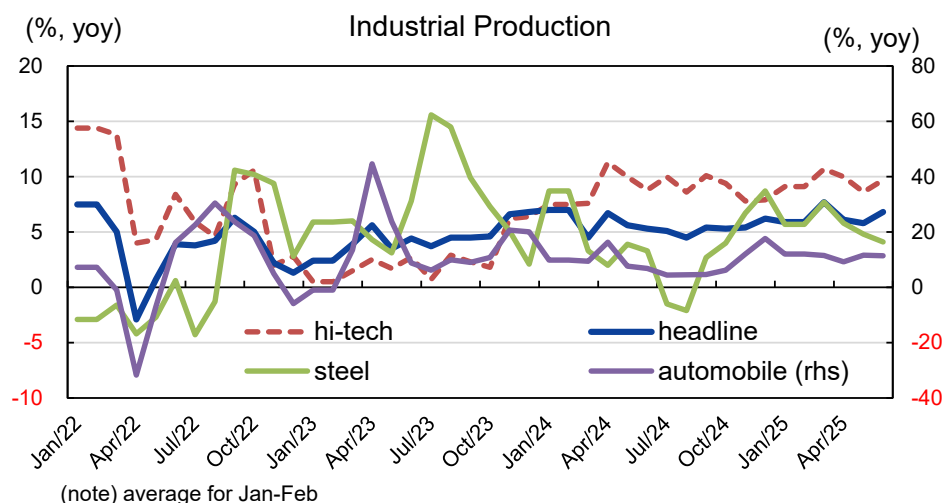


(Source: CEIC, SMDAM) (As of Jun 2025)

## Quarterly Macro Highlight (3) : Divergence For Policy Support Impact On 2H25 Outlook

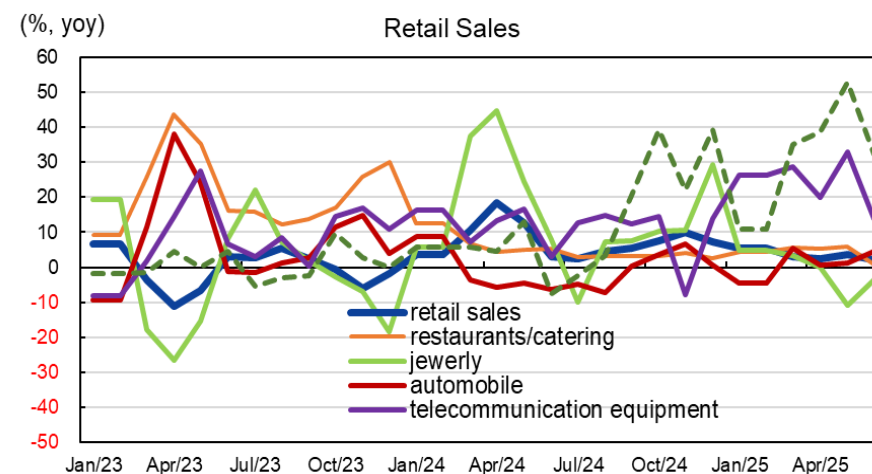
- Industrial production growth accelerated in Jun led by high-tech sector. Steel production momentum continuously decelerated in Jun.
- Going forward, we think high-tech sector shall continue to lead the industrial production growth; while certain sectors may subject to policy headwind due to ‘anti-involution’ vow.
- Retail sales have outperformed in 1H25 due to strong policy support. However, we think momentum should decelerate in 2H25 partly due to negative backlash from frontloading trade-in program.

### Solid Industrial Production Performance



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

### Declining Consumption Momentum



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

# China Macro Economy Outlook

- We expect real GDP growth momentum to decelerate in 2H25.
- We judge deflation to last beyond 2026 but not to deepen further.
- CNY should face some depreciation pressure under USD range-bound phase.

## China Macro Economy Outlook

	2023	2024	2025 (F)	2026 (F)	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25 (F)	4Q25 (F)	1Q26 (F)	2Q26 (F)	3Q26 (F)	4Q26 (F)	2025 consensus	2026
Real GDP	5.2	5.0	4.8	4.6	5.3	4.7	4.6	5.4	5.4	5.2	4.7	4.3	4.5	4.6	4.6	4.7	4.7	4.2
consumption	8.3	3.9	3.8	3.7	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
investment	3.5	3.2	4.6	3.8	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
net exports (contribution)	-0.8	1.5	0.9	1.3	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Nominal GDP	4.6	4.2	3.9	4.2	4.2	4.0	4.1	4.6	4.6	3.9	3.8	3.6	3.8	4.1	4.3	4.4	NA	NA
GDP deflator	-0.5	-0.7	-0.9	-0.5	-1.3	-0.6	-0.5	-0.7	-0.8	-1.2	-0.9	-0.7	-0.7	-0.5	-0.3	-0.3	NA	NA
industrial production	4.5	5.8	6.0	5.5	6.1	5.8	5.0	5.7	6.5	6.3	5.8	5.5	5.3	5.5	5.5	5.5	5.0	4.5
PPI inflation	-3.0	-2.2	-2.8	-0.9	-2.7	-1.6	-1.7	-2.6	-2.3	-3.3	-3.0	-2.5	-1.5	-0.8	-0.6	-0.5	-2.5	-0.5
CPI inflation	0.2	0.2	-0.1	0.1	0.0	0.3	0.5	0.2	-0.1	-0.1	-0.1	0.0	0.0	0.1	0.2	0.1	0.2	1.0
7D reverse repo rate	1.80	1.50	1.20	1.10	1.80	1.80	1.50	1.50	1.50	1.40	1.20	1.20	1.10	1.10	1.00	1.00	1.30	1.20
CNY/USD	7.10	7.30	7.20	7.30	7.22	7.27	7.02	7.30	7.26	7.16	7.18	7.20	7.20	7.25	7.25	7.30	7.15	7.10

(note) gothic figures for actual

yoy growth expect for next exports and interest rates

Consensus figures are based on Bloomberg on 24 Jul 2025.

(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 moved to slightly above historical average level after rally triggered by better than expected 1H results in AI related Tech companies. Under our base case scenario, near term index upside is very limited as EPS has further downward revision pressure despite being moderate.

### CSI 300 Outlook



(Source: Bloomberg, SMDAM)(Date: As of 23rd Jul, 2025)

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## 12 month forward EPS forecast for CSI300

- Earnings Expectation had remained stable throughout last 12M. There was some upward revision driven by Consumer and IT sectors after interim profit alert in Jul 2025, but sustainability still needs monitoring.

### 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 13.3 times, which is above its Long Term Average. Our base case assumes it will be reasonable to stay around this level due to stimulus pivot and National Team support. Further sharp re-rating depends on potential EPS upward revision along with effects from stimulus policies starting to realize.

### Price to Earnings ratio for CSI300

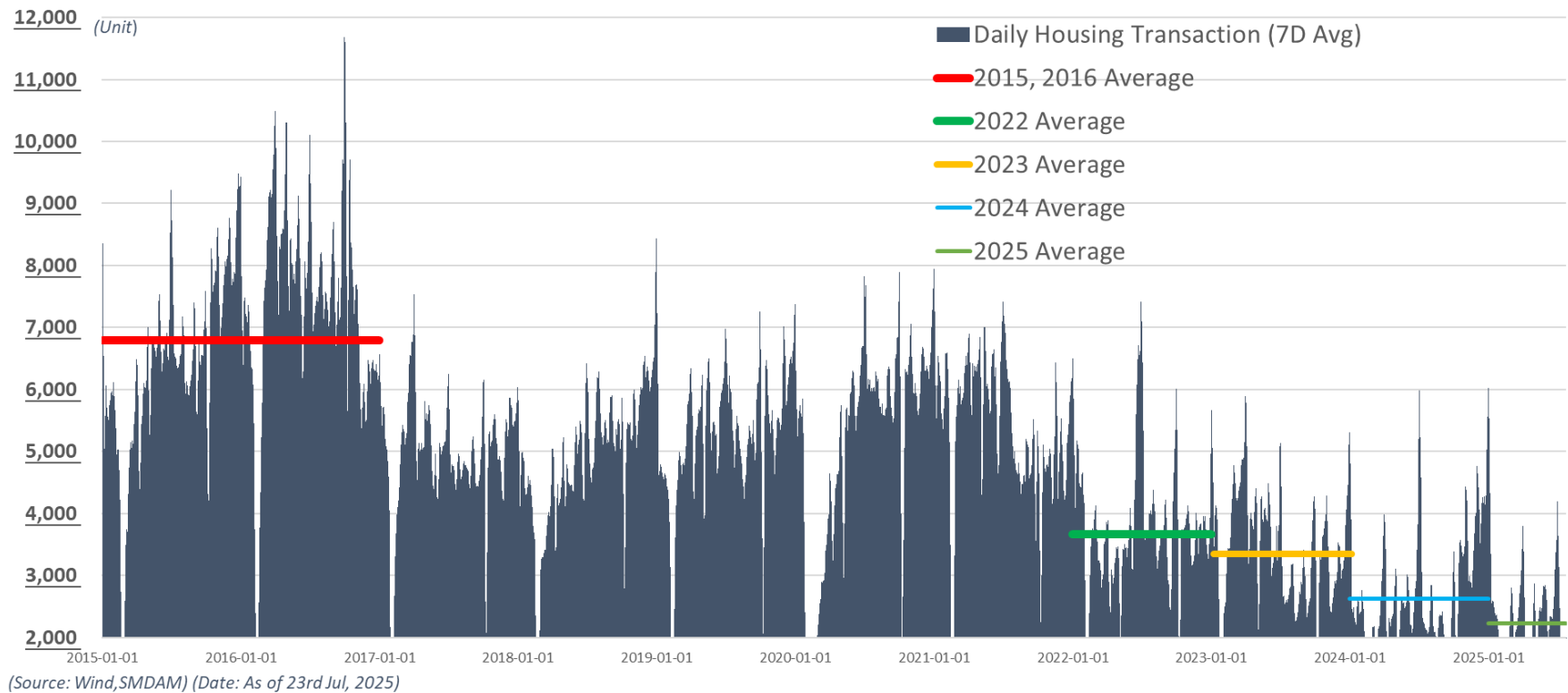


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## Monitoring Point: Property Market

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

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



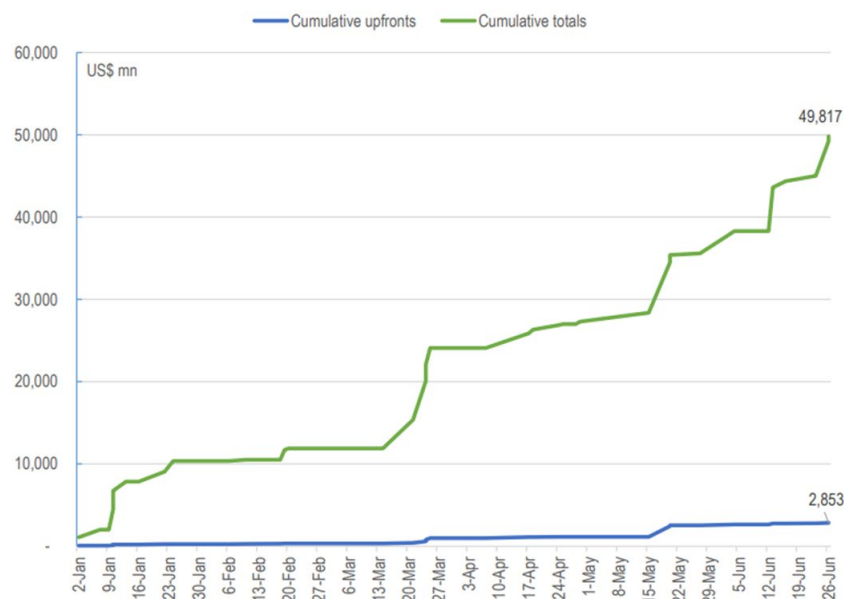
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## Quarterly Investment Theme: Innovative Drugs Opportunities

- Robust out-licensing activity of innovative drugs by Chinese developers has been a major driver of the year-to-date sector rally. In 1H25, there was a total of 50 documented out-licensing deals by Chinese developers with multinationals.
- Global data reported that Chinese out-licensing deals to the US only in 2024 amounted to US\$21.3bn, up 36% vs. 2023.

### Strong Momentum on Chinese Innovative Drugs out-licensing

**Exhibit 1:** Cumulative upfront and total deal sizes of Chinese out-licensing deals in the biopharmaceutical sector in 1H25



Note: Above data is to the extent disclosed. Of 50 out-licensing deals in 1H2025, 34 companies disclosed upfront and/or total deal size. Source: Drug Times; Morgan Stanley Research.

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