



China Macro Economy and Equity Market Outlook for Q4 2024

November 2024

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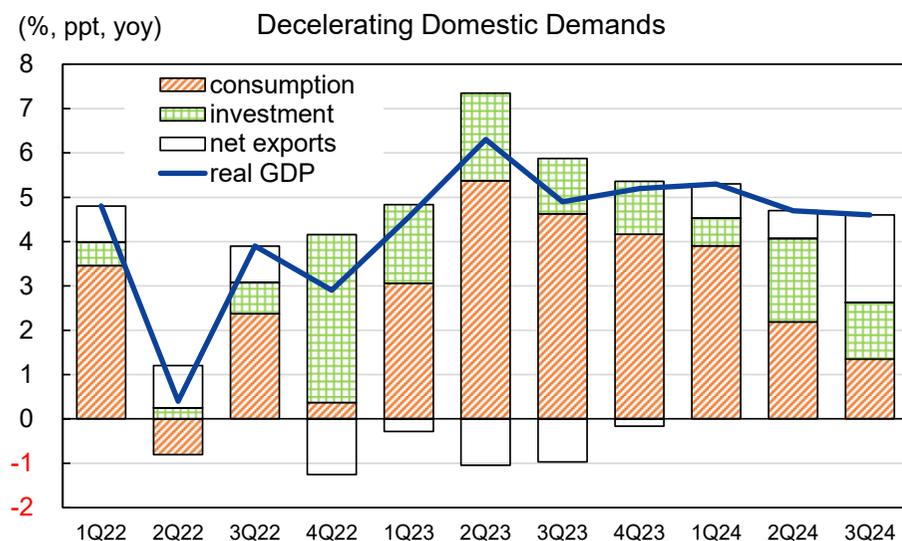
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Quarterly Macro Highlight (1) : Much Lower Demand Phase

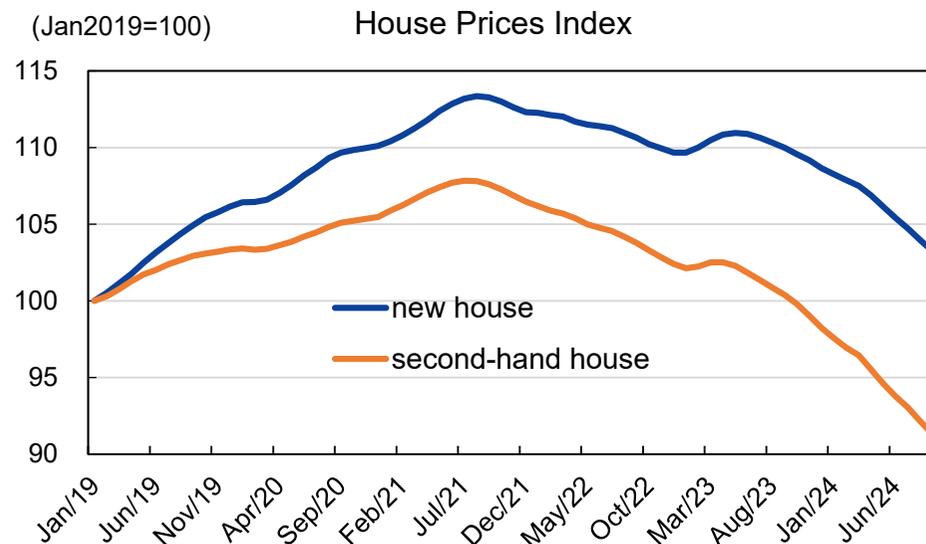
- Demands contribution sharply decelerated to 2.6ppt in 3Q24 under insufficient demand phase.
- Decreasing imports caused net exports contribution to accelerate in 3Q24.
- Suppression over exports caused by potential higher tariff would cause a critical downside factor for economic growth.
- Lower housing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

Demand Contribution



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

Housing Price Index

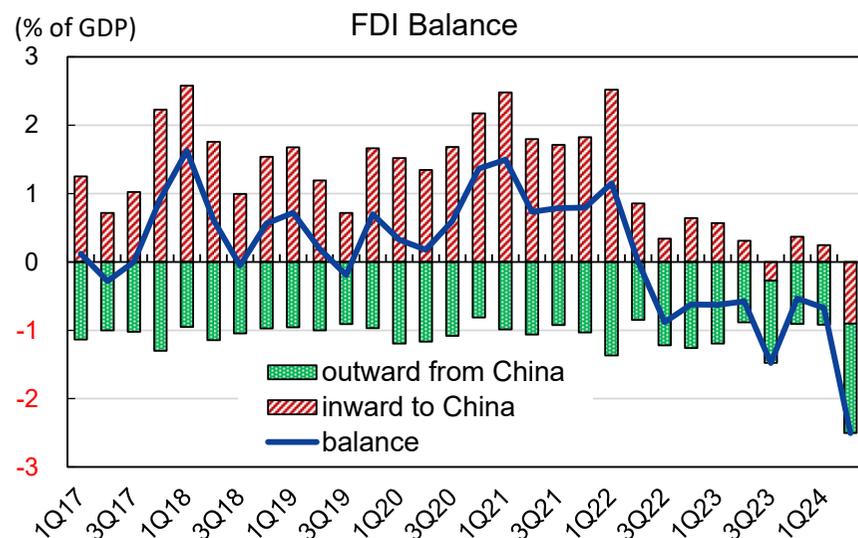


(Source: CEIC, WIND, SMDAM) (As of Sep, 2024)

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

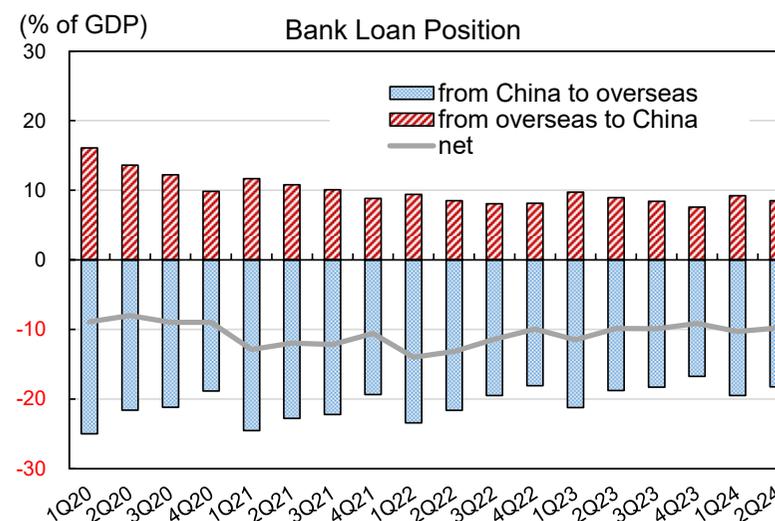
- Gross outward Foreign Direct Investment (FDI) from China would last under de-coupling.
- Net bank loan position would be hit to the down side under de-coupling.

FDI Balance



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

Bank Loan Position



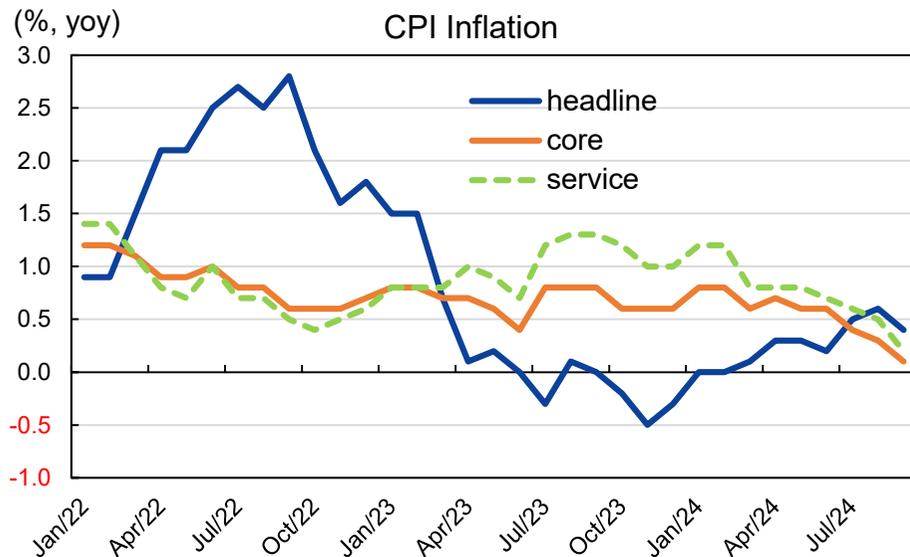
(Source: CEIC, WIND, SMDAM) (As of Apr-Jun, 2024)

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

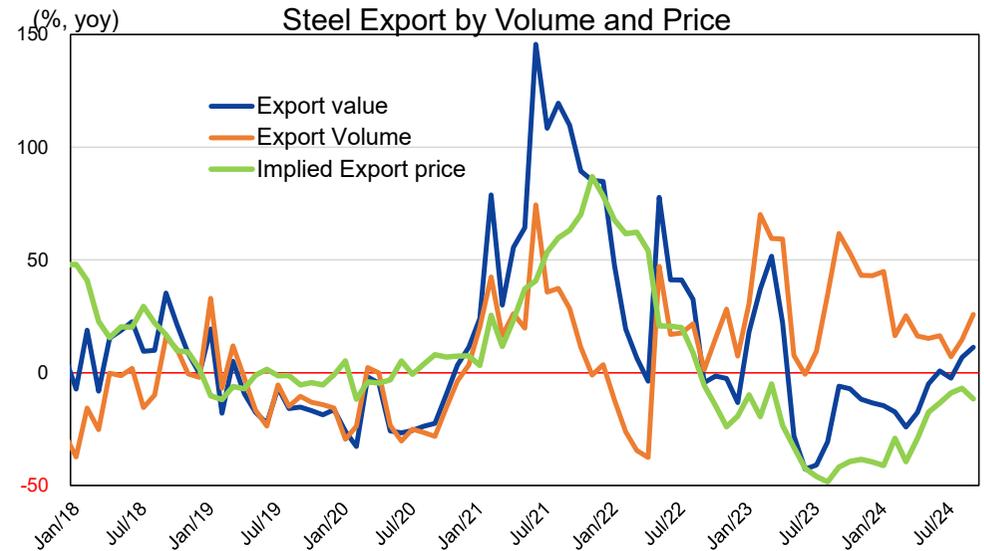
- Service inflation has faced downside pressure under vicious cycle between lower corporate sales and lower income.
- Actual inflation should be lower than CPI inflation, which is Laspeyres index.
- China steel industry still exports deflation to overseas.

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	2025	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q24	3Q24	4Q24	2024	2025
		(F)	(F)								(F)	(F)	(F)	(F)		consensus	
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												
investment	3.6	3.1	4.0	NA	NA												
net exports (contribution)	-0.6	1.1	0.4	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

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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.

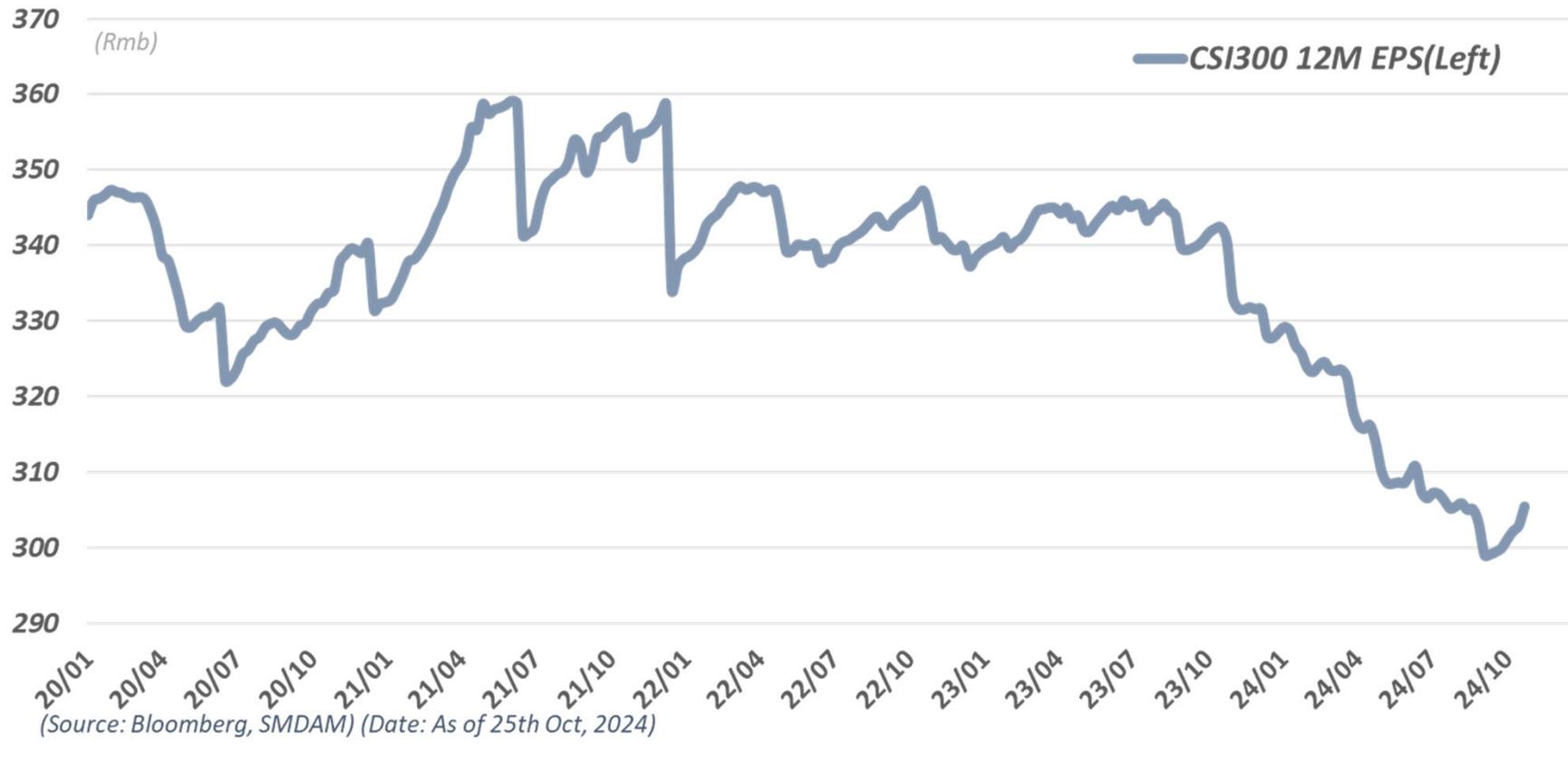


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12 month forward EPS forecast for CSI300

- 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



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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



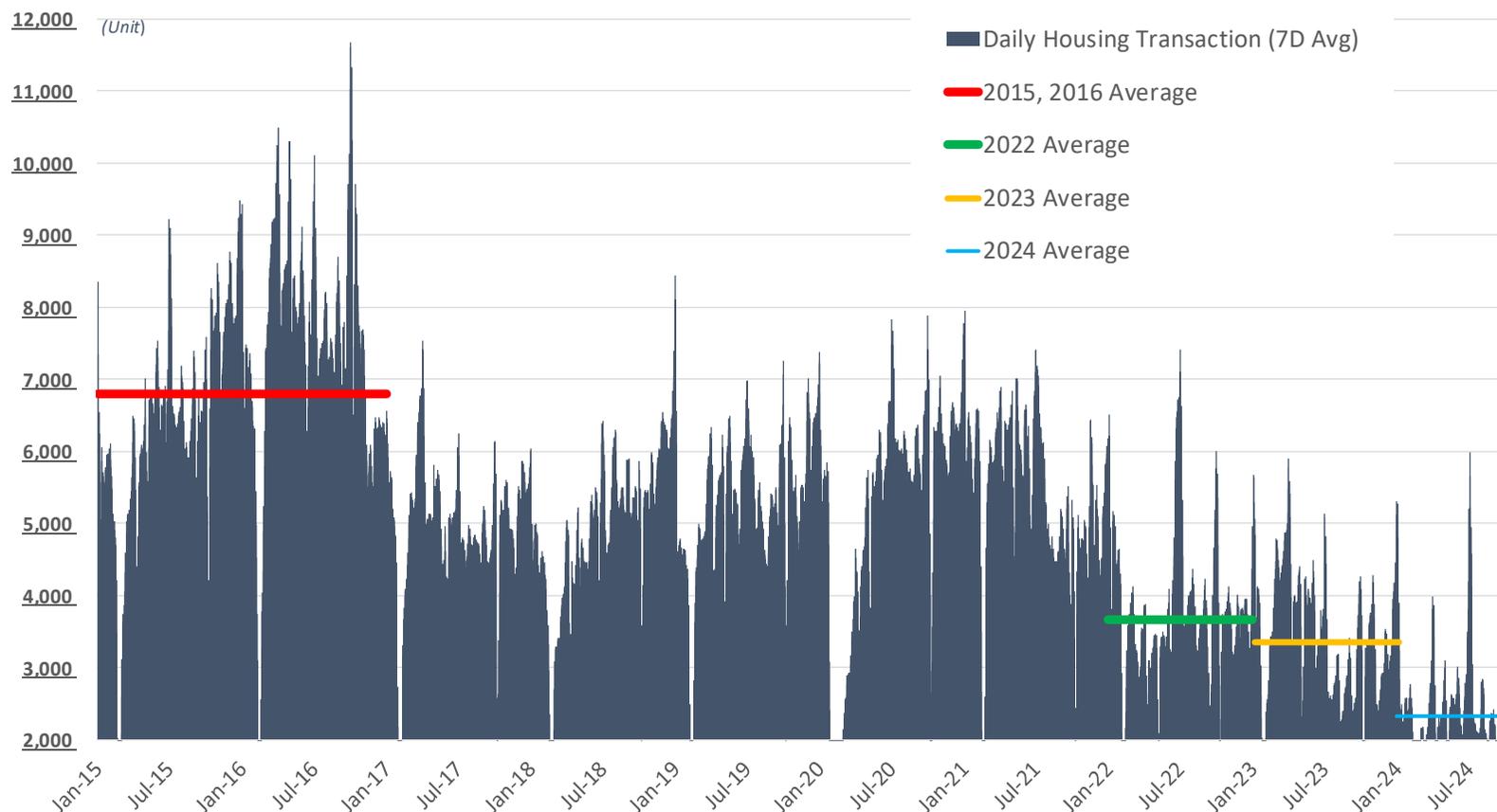
(Source: Bloomberg, SMDAM)(Date: As of 25th October, 2024)

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)



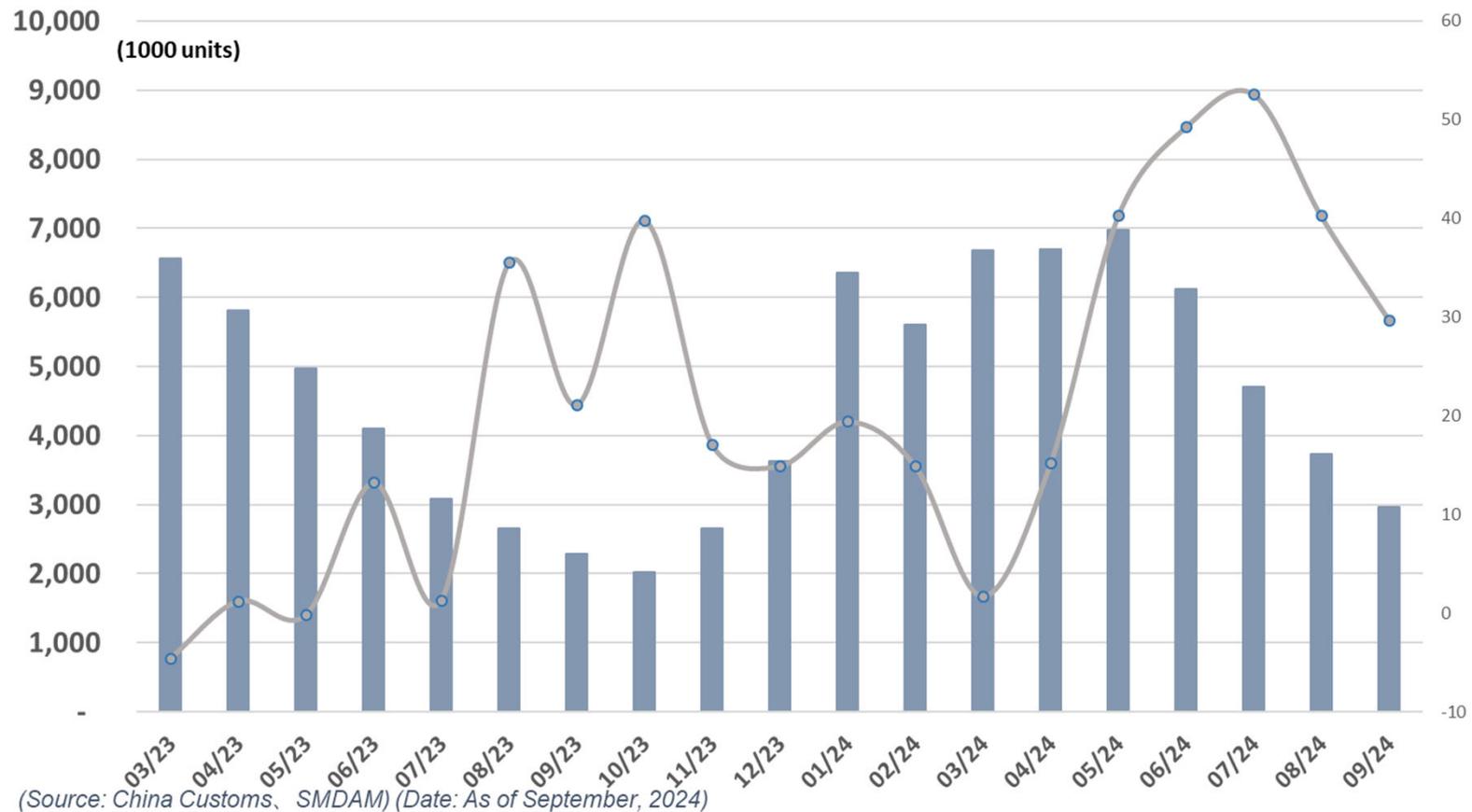
(Source: Wind, SMDAM) (Date: As of 28th October, 2024)

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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)



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