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ABCI China/HK Equity Research

2024 Economic Outlook and Investment Strategy

Progress amid stability
Tech innovation as lead

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Global / China Economic Outlook

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2024 Global Economic Outlook

- Since the beginning of 2023, global economic growth has remained uneven due to high inflation pressure, tightening monetary conditions, and ongoing geopolitical tensions
- As a result of monetary tightening, improved supply chains, and lower energy and food prices, global headline inflation has declined since 2023. Core inflation rate has also fallen in many countries, though at a slower pace due to rising wages
- Global economic growth is expected to remain slow in 2024 due to tightened financial conditions in most regions, high debt levels, and persistent geopolitical conflicts. Global inflation is likely to decline in 2024 as global demand ebbs and supply improves
- We expect economies in the US, China, Eurozone, Japan, and UK to grow 2.3%, 5.3%, 0.6%, 1.9%, and 0.5% for 2023E, and 1.5%, 5.0%, 0.8%, 1.4%, and 0.5% for 2024E, compared with 1.9%, 3.0%, 3.4%, 0.9%, and 4.5% in 2022

Global economic growth stayed divergent

Global economic growth has remained uneven since the start of 2023 due to still-high inflation pressure, tightening monetary conditions, and geopolitical conflicts. As shown in Exhibit 1, economies in the US, China, and Japan expanded by 2.3%[1], 5.2% and 1.6% in 9M23, up from 1.9%, 3.0%, and 0.9% in 2022. Eurozone and UK growth slowed from 3.4% and 4.5% in 2022 to 0.6% and 0.6% in 9M23. Since the beginning of 2023, the JP Morgan manufacturing PMI and service PMI have also shown divergent trends (Exhibit 2). The JP Morgan global service PMI has maintained above 50, while the JP Morgan global manufacturing PMI has remained below 50, indicating the global service sector has performed better than the global manufacturing sector.

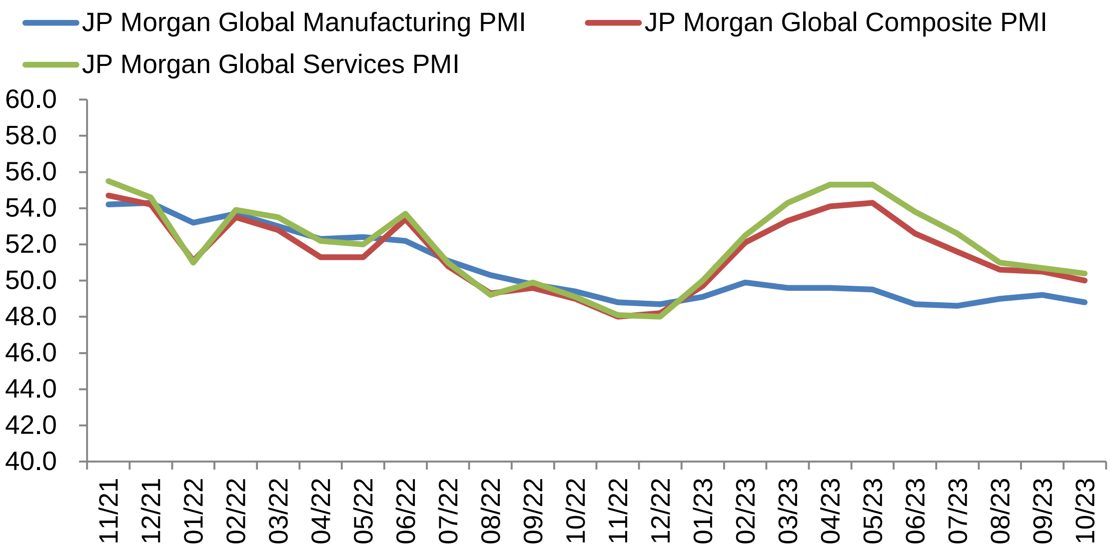
Exhibit 1: GDP growth of global major economies (%)

Real GDP Growth (YoY)	2021	2022	9M23
US	5.8	1.9	2.3
China	8.4	3.0	5.2
Eurozone	5.9	3.4	0.6
Japan	2.4	0.9	1.6
UK	9.6	4.5	0.6

Source(s): Bloomberg, ABCI Securities

[1] All growth rates are year-on-year except specified otherwise

Exhibit 2: JP Morgan Global PMIs (%)



Source(s): Bloomberg, ABCI Securities

The global trade has slowed since the start of 2023 as a result of USD appreciation, geopolitical tensions, and global economic slowdown. According to the latest WTO quarterly trade value statistics, merchandise value trade for exports dropped 8.0% in 2Q23 after decreasing 2.0% in 1Q23, compared with the 12.0% growth in 2022. The WTO is now forecasting a global merchandise volume trade growth of 0.8% for 2023, down from the 3.0% increase in 2022. Meanwhile, global service trade increased 7.0% in 2Q23 and 9.0% in 1Q23, compared with 15.0% in 2022.

In many countries, headline inflation has declined since the start of 2023 due to monetary tightening, improved supply chains, and lower energy and food prices. According to IMF estimates, oil prices are expected to drop by 16.5% in 2023, while the non-fuel commodity prices are expected to decline by 6.3%. Core inflation, excluding the volatile energy and food components, has also dropped in many countries, though at a more gradual pace due to the rising wage pressure. According to the IMF estimates, global headline consumer inflation is set to fall from 8.7% in 2022 to 6.9% in 2023 on the back of lower food and energy prices and softening global demand, but core inflation is likely to decline more gradually. In most countries, inflation will unlikely return to target before 2025. While wage pressure remains contained in most developing countries, the tight labor market in certain advanced economies has pushed up wages.

Since the start of 2023, major central banks except PBOC and BOJ have tightened monetary policies amid high inflation, resulting in a marked rise in government bond yields. The Fed has raised the Fed Funds rate by 100 bps since Feb. It has continued to reduce the size of its balance sheet by US$ 95bn per month. The ECB has also raised policy rate 200bps since Feb, with the main refinancing operations rate, the marginal lending facility rate, and the deposit facility rate rising to 4.50%, 4.75% and 4.00%, respectively. The BOE, the Bank of Canada, and the Reserve

Bank of Australia have all raised their main policy rates since the start of 2023. However, PBOC has reduced interest rates twice since the beginning of 2023 due to mild inflation pressure. BOJ has also maintained a loose monetary policy to support economic growth.

Global growth will stay slow in 2024

In 2024, global economic growth is expected to remain slow due to still-tightened financial conditions in most regions, high debt levels, and ongoing geopolitical conflicts. Global inflation is expected to decline in 2024 as demand declines and supply improves. Core inflation, however, will decline more gradually than headline inflation because labor markets remain tight and services inflation will be stickier than expected. According to IMF's latest World Economic Outlook in Oct 2023, global economic growth is projected at 2.9% for 2024, down from an estimated 3.0% for 2023 (Exhibit 3). It expects global inflation to ease to 5.8% for 2024 from an estimated 6.9% for 2023. In OECD's latest Economic Outlook released in Nov 2023, the global economy is projected to expand by 2.7% for 2024, down from an estimated 2.9% for 2023.

We expect the US economy to grow by 1.5% in 2024E, down from the 2.3% rise in 2023E due to slowing wage growth, depletion of savings accumulated during the pandemic and still-tightened monetary policy. Consumer spending is expected to be normal with real disposable income slowing and unemployment rate rising. Still-high interest rates are taking an important toll on residential investment. However, the US government's funding for the CHIPS Act and Inflation Reduction Act will continue to support the high-end manufacturing sector. Despite a significant decline in headline inflation expected for 2024E, core inflation is likely to exceed the Fed's 2% target. Due to falling inflation and an easing job market, we expect the Fed to keep rates steady until the two rate cuts in 2H24. We expect the target range for the Fed Funds rate to reach 4.75-5.00% by the end of 2024. The Fed will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities in 2024.

The Chinese economy is expected to slow slightly in 2024 due to continued weakness in China's property sector, substantial local government debt, and ebbing external demand. We believe China's economy will expand by 5.0% for 2024E, down from an estimated 5.3% for 2023E, supported by a continuous recovery of consumption and a moderate pickup in manufacturing investment. Inflation in expected to remain moderate in 2024E and macro policy is unlikely to be constrained by inflation. The PBOC will maintain a neutral monetary policy with a loosening bias. It is likely to keep liquidity abundant to support loan growth for manufacturing firms and SMEs. The benchmark interest rates and RRR would continue to trend down in 2024E. The Chinese government is expected to adopt an active fiscal policy to support economic growth through tax and fee reductions, measures to boost infrastructure investment, and specific-consumption initiatives.

We project a slight rebound to 0.8% in Eurozone economic growth in 2024E, up from 0.6% growth in 2023E, as consumption recovers on the back of a steady labor market, sustained wage increases, and easing inflation. Total investment is projected to continue increasing thanks to strong corporate balance sheets. However, the cancellation of energy and inflation compensation measures will drag down household consumption. External demand will be weak due to the moderating global growth. In 2024, lower energy and food costs will keep headline inflation under control, but core inflation will still be elevated. On the monetary front, we expect the ECB to lower interest rates twice in 2H24 due to a weak economic momentum. We project the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility to be 4.00%, 4.25% and 3.50% respectively, at end-2024. Meanwhile, we expect the UK economy to grow 0.5% in 2024E, same as the estimated 0.5% growth for 2023E as tightened monetary policy will suppress consumer spending and business investment. With high inflation pressure, we expect BOE to remain the policy interest rate unchanged during the year of 2024.

We forecast Japan's economic growth to slow from 1.9% in 2023E to 1.4% in 2024E as a softer external demand would bring down exports in 2024. However, the government unveils a stimulus package of totalling about JPY17tr (around 3% of GDP) in a bid to protect households from persistent inflation, which will support household spending. Loosened monetary policy will continue to support investment growth. Inflation pressure in Japan will remain moderate compared to other advanced economies in 2024, while core inflation is projected to ease to below 2%. While BOJ will likely cancel yield curve control in late-2024, policy rates will remain unchanged. Short-term policy rate is likely to stay at -0.10% till end-2024E.

Exhibit 3: GDP growth forecasts for global major economies (%)

Real GDP Growth (YoY)	2022	2023E	2024E
US	1.9	2.3	1.5
China	3.0	5.3	5.0
Eurozone	3.4	0.6	0.8
Japan	0.9	1.9	1.4
UK	4.5	0.5	0.5
World (IMF)	3.5*	3.0*	2.9*

* IMF estimates and forecasts
Source(s): IMF, OECD, Bloomberg, ABCI Securities estimates

2024 China Economic Outlook

- China economic growth, despite showing a significant rebound in 10M23 due to the low base in 10M22, was recovering slower than expected as aggregate demand of overall economic activity was weak. In particular, structural problems in the property sector and high debts in some local governments continue to weigh on domestic demand. Official figures show the world's second-largest economy had expanded by 5.2% in the first three quarters of 2023, up from 3.0% in the same period in 2022

- We expect growth in China's economy to slow slightly in 2024 due to continued weakness in China's property sector, substantial local government debts, and subdued external demand. We believe the economy will expand by 5.0% for 2024E, down from an estimated 5.3% for 2023E. The primary drivers will be a moderate increase in manufacturing investment and a sustained recovery in consumer spending. Main challenges in 2024 will be a weak real estate market and excessive levels of debt for some municipal governments

- We expect inflation to rebound in 2024 on the back of low base effect. CPI inflation would rise to 1.5% in 2024E, up from an estimated 0.4% in 2023E, thanks to improving consumer confidence. Core CPI is likely to rebound slightly as China's demand will likely pick up in 2024. Rebounding commodity prices and low base effect will drive up PPI inflation to 0.5% in 2024E from an estimated decrease of 3.0% in 2023E

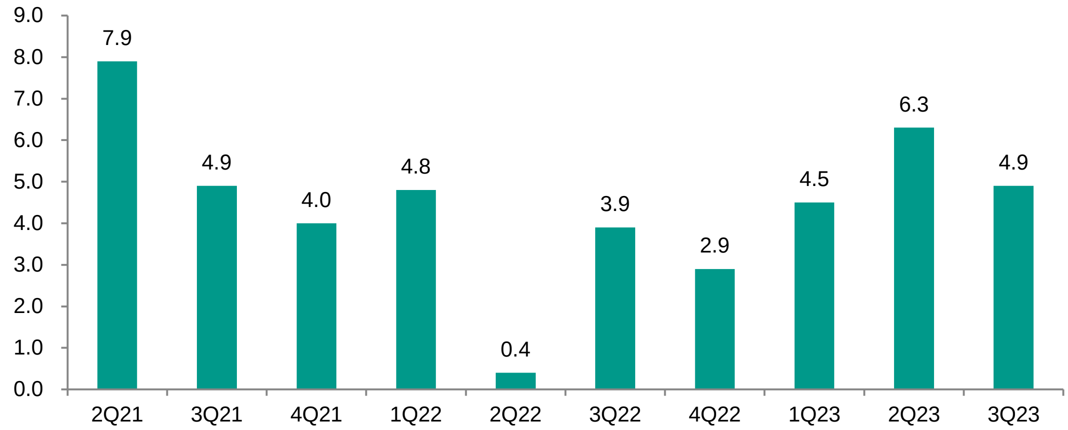
- PBOC will maintain a supportive monetary policy in 2024. We predict new RMB-denominated loans and new aggregate financing to be ~RMB 24.0tr and ~RMB 37.0tr in 2024E. Meanwhile, we expect the authority to continue slashing the benchmark interest rates in 2024 to lower financing costs for real economy. The rates for 1-year LPR and 5-year LPR would fall to 3.25% and 4.00% for end-2024E. RRR would be cut twice in order to increase liquidity for financial market; RRR would be 8.50% for large banks and 6.50% for medium banks by end-2024E, while RRR for small banks is likely to stay at 5.0%. Broad money supply (M2) is set to expand by 9.5% in 2024E. We expect spot USD/CNY rate to approach 6.8000 by end-2024E, as compared to the estimate of 7.0000 for end-2023E. Fed's policy rate cut, rebound of China's economy, and China's still-high trade surplus, are the main supporting factors

- The central government will continue to adopt a proactive fiscal policy in 2024 to support economic growth. With global economic growth decelerating and China's economy still in need of fiscal policy support, we expect fiscal deficit ratio to remain at 3.8% of GDP in 2024E, same as that in 2023. In order to increase the fiscal space of local governments, we expect the issuance quota of local government special bonds to be ~RMB 4.0tr, slightly higher than RMB 3.8tr in 2023. Following the issuance of RMB 1.0tr special refinancing bonds since Sep 2023, another RMB 1.0tr will likely issued in 2024. We anticipate the scale of transfer payments to be ~RMB 11tr in 2024E

China's economic recovery was weaker than expected in 10M23

Although China's economic growth rebounded significantly in 10M23, it can mostly be attributed to low base from 2022. Its recovery was slower than expected amid the weak aggregate demand of overall economic activity. More specifically, structural problems in the property sector and high debts in some local governments continued to weigh on domestic demand. Official figures show the world's second-largest economy had expanded by 5.2%[2] in the first three quarters of 2023, up from 3.0% in the same period in 2022 (Exhibit 1).

Exhibit 1: China's GDP growth (%)



Source(s): NBS, ABCI Securities

A breakdown of the GDP components shows consumption was still the key growth driver contributing to 4.4ppt to the economic growth in the first three quarters of 2023. Investment added 1.6ppt to overall expansion, while growth in net exports of goods and services decreased 0.8ppt (Exhibit 2). Meanwhile, the tertiary sector accounted for 55.1% of the economy in 9M23, up from 52.8% in 2022 and above the secondary sector's share of 38.7%.

Exhibit 2: Contribution to China's real GDP growth (percentage points)

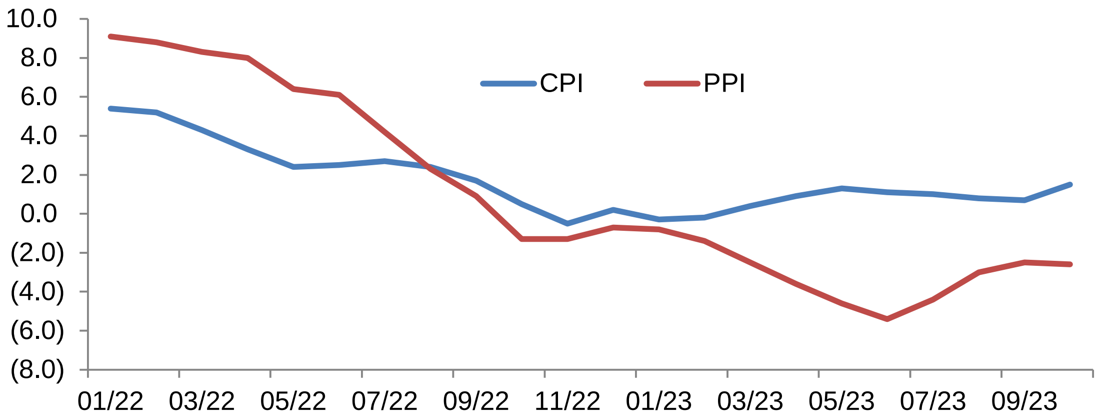
Economic items	2021	2022	9M23
Consumption (household + government)	4.9	1.0	4.4
Investment (private + public)	1.7	1.5	1.6
Net exports of goods & services	1.8	0.5	-0.8
Real GDP growth %	**8.4**	**3.0**	**5.2**

Source(s): NBS, ABCI Securities

[2] All growth rates are year-on-year except specified otherwise

Deflationary pressure was increasing in 10M23 due to weak demand of overall economic activity (Exhibit 3). CPI only rose 0.4% in 10M23 as non-food inflation eased and food inflation escalated, especially for pork prices. Core CPI inflation, excluding food and energy, remained low at 0.7% during the same period. PPI dropped 3.1% in 10M23, down from 4.2% increase in 2022, mainly due to the high base effect and the moderation in commodity prices, including those of oil, non-ferrous metals, and ferrous metals.

Exhibit 3: China's CPI and PPI (%)



Source(s): NBS, ABCI Securities

On the monetary front, PBOC has adopted a loose monetary policy to support economic growth since the start of 2023. It slashed RRR and LPR to lower financing costs for the real economy, especially for SMEs and private companies. Broad money supply (M2) grew by 10.3% as of the end of Oct 2023, while total social financing− a comprehensive measure of all types of financing for the real economy, increased to RMB 31.19tr in 10M23 from RMB 28.86tr during the same period in 2022.

China's economy to slow slightly in 2024

Looking ahead, we expect growth in China's economy to slow slightly in 2024 due to continued weakness in China's property sector, substantial local government debts, and subdued external demand. We believe the economy will expand by 5.0% for 2024E, down from an estimated 5.3% for 2023E (Exhibit 4). A continued recovery of consumption and a moderate pickup of manufacturing investment will be the main drivers. On the contrary, weak property sector and high debt level for some local governments will be the major challenge in 2024.

Exhibit 4: Economic forecasts

Economic indicators	2022	2023E	2024E
Real GDP growth, %	3.0	5.3	5.0
FAI growth, %	5.1	3.0	4.0
Retail Sales growth, %	-0.2	7.0	6.0
Export growth in USD terms, %	7.0	-5.5	2.0
Import growth in USD terms, %	1.1	-6.0	2.5
Industrial Production growth, %	3.6	4.1	4.5
CPI, %	2.0	0.4	1.5
PPI, %	4.2	-3.0	0.5
M2 growth, %	11.8	10.0	9.5
Aggregate Financing, RMB bn	32,010	35,500	37,000
New Yuan Loans, RMB bn	21,310	23,000	24,000
Spot CNY per USD, End-year	6.8986	7,0000	6.8000
One-year LPR, %	3.65	3.45	3.25
Five-year LPR, %	4.30	4.20	4.00

Source(s): NBS, PBOC, ABCI Securities estimates

Domestically, the overall investment growth will accelerate in 2024 as growth in property investment will rebound moderately on the back of policies stabilizing the property sector, especially those pertain to the transformation of urban villages. Property sales are likely to regain some traction thanks to the lower mortgage rates for property purchasers. Manufacturing investment and private investment will accelerate slightly in 2024 due to the rebound of PPI and the profit improvement for manufacturing enterprises. Meanwhile, high-tech manufacturing investment will increase substantially with the support of macro policies. Infrastructure investment is expected to remain high in 2024 as fiscal policy support would continue throughout whole year. Overall, we predict total FAI to grow 4.0% in 2024E, up from an estimated 3.0% in 2023E.

Although increasing income would support consumer spending, retail sales are expected to slow in 2024 due to high base effect. We expect a 6.0% growth for 2024E, down from an estimated 7.0% in 2023E. The still-weak property sales will continue to drag on property-related consumption such as furniture, home appliances, and decoration. Driven by the central and local policies to promote automobile consumption and the middle-income group continuing to expand, automobile retail sales, which accounted for 10% of overall retail sales, are expected to remain high in 2024.

Externally, export growth is expected to quicken in 2024 as the advanced countries, especially for US, will start to replenish inventories, which is likely to increase imports from China. In its latest forecasts released in Oct 2023, WTO projects merchandise trade volume to grow 3.3% for 2024E, up from the 0.8% for 2023E. With the agreement of Regional Comprehensive Economic Partnership (RECP) coming into force, China's trade with Asian economies in 2024, especially with Japan, will increase. Meanwhile, with deepening economic cooperation, China's exports to Africa and other Belt-and-Road regions, especially Russia, will maintain a strong growth. We expect import growth to quicken in 2024 as import price rebounds with rising global commodity prices. Overall, we forecast exports and imports to expand 2.0% and 2.5% in 2024E, compared with the estimated decrease of 5.5% and 6.0% in 2023E.

We expect inflation to rebound in 2024 with the low base effect. CPI inflation would rise to 1.5% in 2024E from an estimated 0.4% in 2023E, thanks to improving consumer confidence. Pork prices are likely to rise in 2024 on tightening supply and low base effect. Core CPI is likely to rise slightly as China’s demand picks up in 2024. We forecast PPI inflation to rise to 0.5% in 2024E from an estimated decrease of 3.0% in 2023E with the rebounding commodity prices and the low base effect.

PBOC will maintain a supportive monetary policy in 2024. The authority is likely to keep liquidity abundant to support loan growth for manufacturing firms, property companies, and SMEs. We predict new RMB-denominated loans and new aggregate financing to be ~RMB 24.0tr and ~RMB 37.0tr in 2024E. Meanwhile, we expect the authority to continue slashing the benchmark interest rates in 2024 to lower financing costs for real economy. The rates for 1-year LPR and 5-year LPR would fall to 3.25% and 4.00% for end-2024E. RRR would be cut twice to increase liquidity for financial market; RRR would be 8.50% for large banks and 6.50% for medium banks by end-2024E, while RRR for small banks is likely to stay at 5.0%. Broad money supply (M2) is set to grow by about 9.5% in 2024E. Regarding the exchange rate, we expect spot USD/CNY rate to approach 6.8000 by end-2024E with Fed starting to cut the policy rate, China’s economy rebounding and still-high trade surplus, as compared to the estimate of 7.0000 for end-2023E.

The central government will continue to adopt a proactive fiscal policy in 2024 to support economic growth. With global economic growth decelerating, China's economy will need support from fiscal policy. We expect fiscal deficit ratio to remain at 3.8% of GDP in 2024E, same as that in 2023. The ratio deviates from the 3.0% target in the Government Work Report as we take into account of the recent issuance of RMB 1.0tr special government bonds. With the sharp contraction in property sector, revenue of local government-managed funds fell 16.8% in 10M23, of which proceeds from selling state-owned land-use rights fell by 20.5% during the same period. In order to increase the broad fiscal space of local governments, we expect that the issuance quota of local government special bonds is likely to be around RMB 4.0tr, slightly higher than RMB 3.8tr in 2023. Following the issuance of RMB 1.0tr for special refinancing bonds since Sep 2023, we expect another RMB 1.0tr of special refinancing bonds to be issued to help resolve local government debt problems in 2024. Currently, more risks in local government debt lie in hidden liabilities, that is, debts raised by local government financing platform companies. The special refinancing bonds to replace existing high interest rate debt will help local governments reduce interest expenses and free up more fiscal space to support local growth. To enhance local fiscal capability, we expect transfer payments from the central government to local governments to increase in 2024. According to the "Report on Fiscal Transfer Payments of the State Council", the scale of transfer payments from the central government to local governments will reach to RMB 10.06tr in 2023E. We expect that the scale to reach to ~RMB 11tr in 2024E. With the property sector recovering moderately and the package of debt reduction plans proposed by the central government, we expect local government debt risks to gradually ease in 2024.

2024 is the fourth year of the 14th FYP. We anticipate that the West, led by the US, will continue to impose a technical blockade on China through 2024.China will keep stepping up its basic science research and working toward important technology breakthroughs in important fields. To gain complete control over these fundamental technologies, more funds will be directed toward high-tech industries including chips and semiconductors, software, specialized machinery, and new materials. More financial support will be given to specialized and newly formed "little giants" with core technology and high innovation capacities. We predict that the green industry will grow and become more profitable in 2024 compared to most other industries, as China aims to reach carbon neutrality by 2060 and peak emissions before 2030.

Investment Strategy

Head of Research: Philip Chan

2024 Investment Strategy

Topics covered in this section:

1. 2024 Inflation Outlook
2. 2024 Interest Rate Outlook
3. Economic Shocks4. China's local government debts
5. China Property Market – Supply-Side Reform
6. Government-supported industries: Technology finance, Green finance, Inclusive finance, Pension finance, and Digital finance.
7. Cross-border liquidity inflow and outflow
8. NEV market: Highly differentiated performance
9. Hang Seng Index (HSI)

1. 2024 Inflation Outlook

The disparity in interest rates across economies greatly influences asset pricing and liquidity movement among regions. Anticipating the inflation trajectory in developed nations, such as the US and Europe, becomes critical, as it will significantly shape the monetary policy decisions of central banks in 2024. Thus, accurately forecasting inflation trends in major developed economies becomes pivotal for projecting interest rates in those regions.

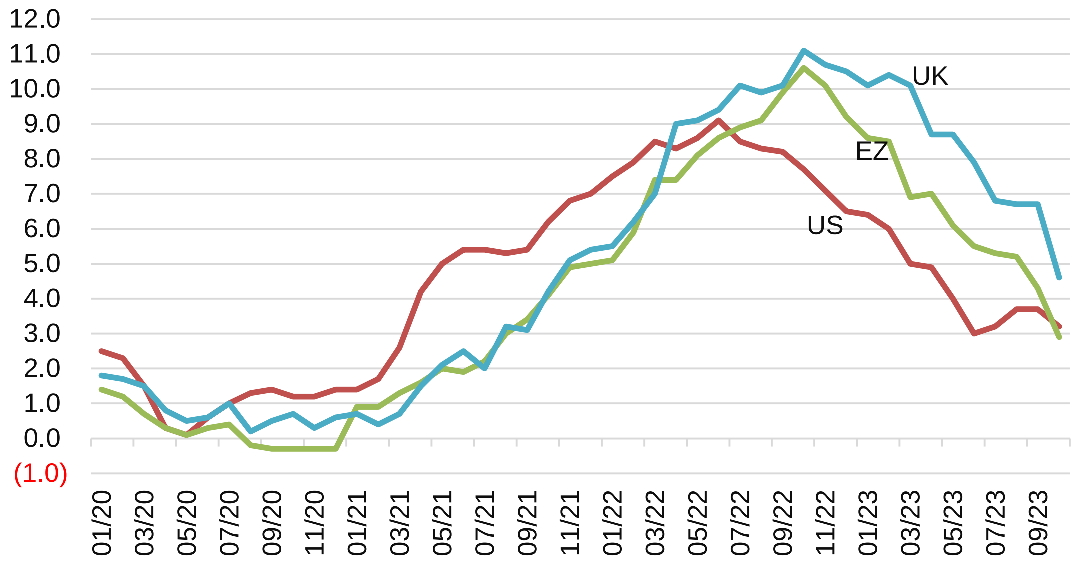
In 2H23, cost-push inflation pressure is decreasing in the US, Japan, UK, and Eurozone. Furthermore, the PPI trend for 2H23 shows that the Eurozone is experiencing an increase in deflationary risk. The risk does not originate from the supply side, as the manufacturing PMI in these developed economies has exhibited weakness. Sluggish demand is responsible for the declining inflationary pressure or the increasing deflationary pressure. Given the price trend and assuming there will not be any supply-side disruptions from a "black swan" event, we predict that these regions' declining inflation rates will persist in 2024.

Inflationary pressure in the Eurozone is abating more quickly in 2H23 than it is in the US. While the risk of inflation is diminishing, the possibility of deflation looms as a "gray rhino" risk in 2024. This concern arises from the substantial decline in the Eurozone's PPI, which plummeted from -3.4% YoY in Jun 2023 to -12.4% YoY in Sep 2023. The CPI in the Eurozone experienced a notable decline, dropping from 9.2% YoY in Dec 2022 to 2.9% YoY in Sep 2023; meanwhile, the CPI in the US dropped from 6.5% YoY in Dec 2022 to 3.2% YoY in Sep 2023. The rapid decline of inflation fuelled by sluggish demand is bad news to the economy. Retail sales value in the US grew 2.5%YoY in Oct 2023, 6.3ppt lower than that in Oct 2022. Retail sales value in Eurozone declined 2.9%YoY in Sep 2023, 3.0ppt lower than that in Sep 2022. Given the prevailing inflation rates, it is our belief that the actual volume of retail sales in the US and Eurozone have been shrinking.

At present, both the interest rate futures market and the interest rate swap market are anticipating a reduction in interest rates by the Fed and ECB in 2Q24. In 2024, the futures market is anticipated that both will reduce interest rates by 75-100bp. Nonetheless, even with an expected 100-bp rate cut in 2024, interest rates will remain elevated.

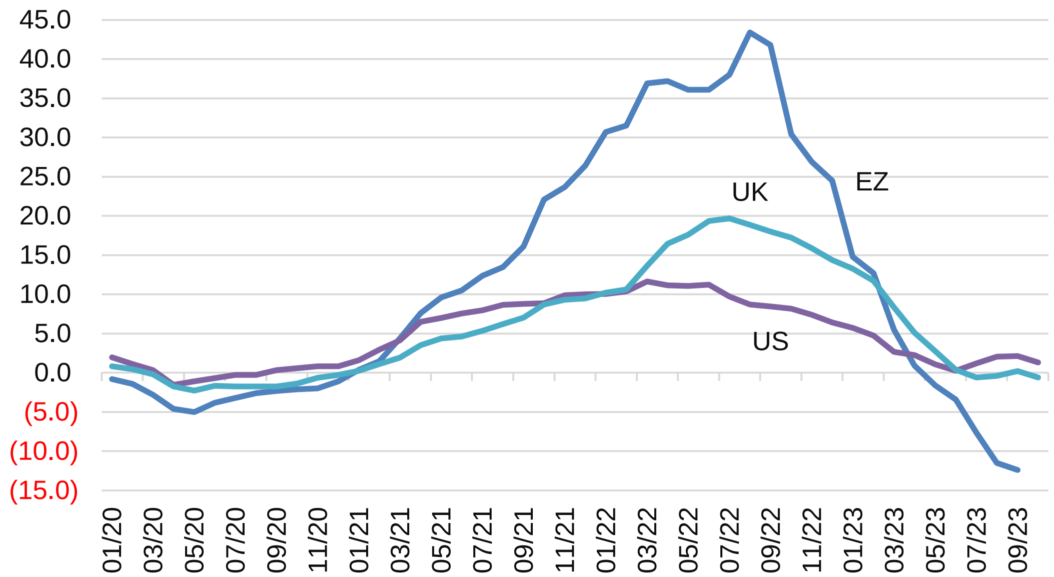
China is seen by the market as experiencing deflation in 2H23. According to our analysis, excess supply, not weak demand, is what is distorting China's inflation pattern. Core inflation pressure in China is minimal, as indicated by 0.7% YoY of core CPI (ex-food & ex-energy CPI) in 10M23. In view of 6.9% YoY retail sales value growth in 10M23 and 0.4% YoY growth in overall CPI, the growth in retail sales volume closely mirrored the growth in value. This implies that the relatively low core inflation pressure during that time resulted from an increase in supply rather than sluggish demand. If the decrease in prices of food and energy resources is the cause of deflationary or low inflationary pressure in China, we view this as a positive factor. It allows consumers and households to allocate less of their budget towards food and fuel, enabling them to spend more on other consumer goods and services to enhance their living standards.

Exhibit 1: CPI (%YoY) trending down



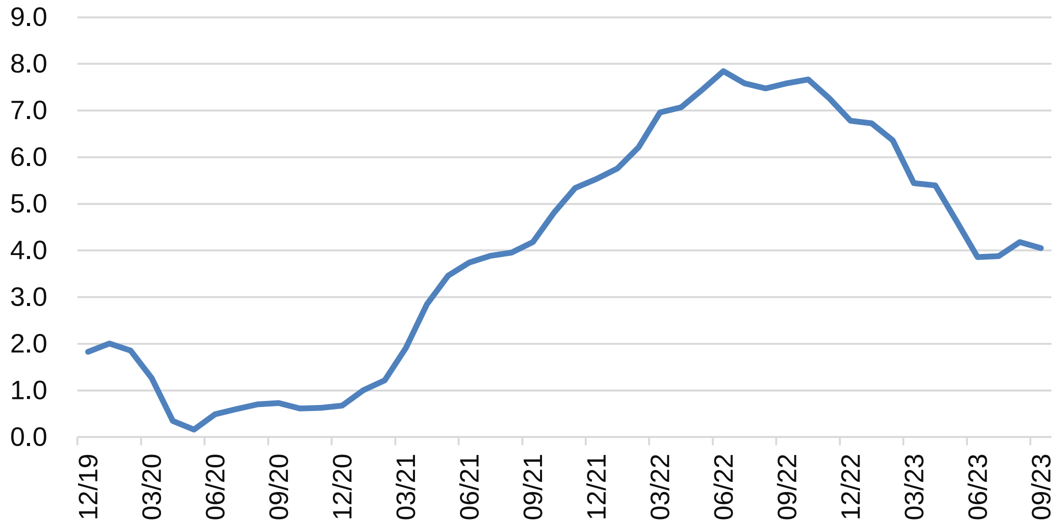
Source(s): Bureau of Labor Statistics, Eurostat, UK Office for National Statistics, Bloomberg, ABCI Securities

Exhibit 2: PPI (%YoY) - Elevating deflationary risk in Europe



Source(s): Bureau of Labor Statistics, Eurostat, UK Office for National Statistics, Bloomberg, ABCI Securities

Exhibit 3: OECD G7 CPI (%YoY) – Inflation in Japan slowed the fall of G7 CPI



Source(s): OECD, Bloomberg, ABCI Securities

2. 2024 Interest Rate Outlook

Our interest rate outlook in 2024 is summarized in the following points:

1. Assuming no unforeseen "black swan" events, we anticipate a gradual easing of the high interest rate environment in the US and Europe throughout 2024. With regards to the inflation trend, the futures market anticipated that the central banks in the US and Europe may initiate a reduction in nominal interest rates during the latter part of 2Q24. Despite the anticipated rate cuts in 2024, interest rates are projected to remain relatively high compared to 2022. We are of the opinion that central banks in the US and Europe are endeavouring to decrease real interest rates (nominal interest rates-deducting inflation rates) as a preventive measure against recession.

2. In 2023, BOJ, unlike other central banks in the advanced regions, refrained from increasing interest rates as a means to curb inflationary pressure because it was targeting to raise inflation. However, this choice resulted in the emergence of bubbles in the Japanese stock market, a bearish government bond market, and a weakened Japanese yen. In 2024, investors should closely monitor Japan's interest rate cycle. If the central banks in the US and Europe decide to decrease interest rates while BOJ initiates an upward interest rate cycle, it could have a significant impact on the global liquidity flow.

3. In 2024, we anticipate PBOC to diligently monitor the real interest rates with the aim of reducing them. In 2023, while nominal interest rates experienced a decline, real interest rates persisted at elevated levels as a result of subdued inflationary pressure. In 2023, despite the diligent efforts of PBOC and commercial banks to reduce nominal lending rates and boost domestic demand, their actions were somewhat offset by the rise in real interest rates resulting from a significant decline in inflationary pressure. While economists employ various methodologies to calculate real interest rates, we contend that the rise in real interest rates significantly hindered consumption and investments in 2023. The one-year LPR and five-year LPR fell 20bp and 10bp in the 11M23, but CPI declined 1.60ppt from 2.0% YoY in 2022 to 0.4% YoY in 10M23. If we use 1-year LPR and CPI as proxies to compute real interest rate, it becomes apparent that real interest rate has gained ~ 140bp in 10M23.

4. The interest rate cycle in the Hong Kong market tends to mirror that of the US, albeit with a certain time lag. Typically, the Hong Kong Monetary Authority establishes the base rate at a level 25 basis points higher than the upper end of the Fed Funds rate. As the US Fed Funds rate cycle reaches its peak, Hong Kong's base rate will also follow suit. Considering historical trends, it is worth noting that the HK$ HIBOR rate cycle may exhibit a lag in response compared to the US Fed Fund rate cycle. This can be attributed to the interplay between HIBOR and changes in interbank liquidity supply.

3. Economic Shocks

Aggressive fiscal expansion policy in the US in 2023 is a positive economic shock. In our view, the positive economic surprise in the US may not extend into 2024. In Dec 2022, the Fed expected 4Q23/4Q24 GDP to grow 0.5% /1.6%YoY. In Mar 2023, the Fed lowered the GDP growth forecasts to 0.4%/1.2%YoY; in Sep 2023, the Fed raised GDP growth forecasts to 2.1%/1.5%YoY. Up till Nov 2023, although the Fed has reduced the balance sheet by ~8.8% YTD (or US$0.76 tr), the US government debt has increased by 7.8% YTD (or US$ 2.46tr) over the same period. The favourable impact of fiscal expansion in the US during 2023 has counteracted the detrimental effects of the Fed's monetary tightening policy. However, we anticipate a gradual reduction in the benefits as we move into 2024.

Another potential shock in 2024 would be the US's failure to achieve a soft landing. In 2023, the fiscal stimulus has delivered a positive economic shock, instilling market confidence in the US's ability to achieve a soft landing. We hold reservations regarding this perspective and contend that the aggressive expansion of fiscal policy in 2023 would prove difficult to sustain in 2024. Continued contraction of the Fed's balance sheet and a potential slowdown in fiscal expansion could limit the economic growth of the US. Additionally, as we approach the US presidential election in Nov 2024, there will be a rise in uncertainty surrounding fiscal policy.

The US government borrowed high-interest debt in 2022–2023 to finance fiscal expansion while the Fed sold its bond holdings at lower prices; domestic investors made up the majority of the buyers of the higher-interest government bonds.

Exhibit 4: The US Monetary Policy vs. Fiscal Policy.

	2021	2022	2023 up to Nov	From 2022 to Nov 2023
Net change in the Fed balance sheet (US$tr)	+US$1.39	-US$0.21	-US$0.76	-US$0.97
Net change in the US Treasury public debt (US$tr)	+US$1.87	+US$1.80	+US$2.46	+US$4.26
Net change in foreign holders holding of US treasury (US$tr)	+US$0.67	-US$0.60	+US$0.47 (up to Sep)	-US$0.13 (up to Sep 2023)
Net change in foreign official holding of US treasury (US$tr)	-US$0.07	-US$0.45	+US$0.02 (up to Sep)	-US$0.43 (up to Sep)
Net change in Fed Funds rate	No change	+425bp	+100bp	+525bp

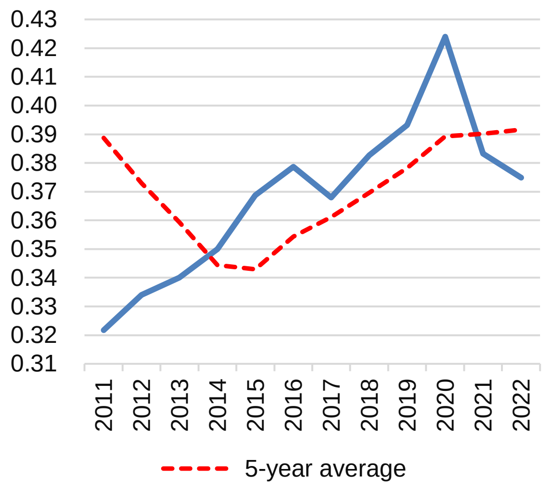
Source(s): US Treasury, Federal Reserve, ABCI Securities

We anticipate a possible Sino-US conflict escalation ahead of the US presidential election in Nov 2024 will be the primary source of economic shocks in China. Also, the economic shock that will potentially follow if the US fails to achieve a soft landing by 2024 is something that cannot be disregarded. Domestically, the Chinese government and relevant authorities have taken proactive measures to address the crisis stemming from the property market and local government debts in 2023. As we look ahead to 2024, the risk levels are expected to remain stable and not escalate further. However, it will require some time for these risks to diminish to a more reasonable level.

4. China's local government debts

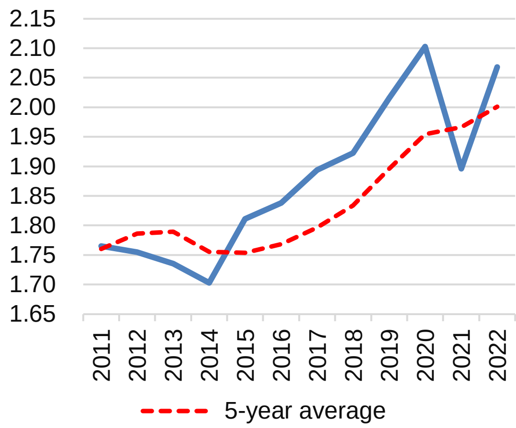
A debt crisis typically begins when there is a persistent imbalance between income and expenses, resulting in mounting debts taken on to cover the shortfall in income. In China, the ratio of local government budget expenditure to local government budget revenue has shown an upward trend. On average, it increased from 1.75x during the 12th Five-Year Plan (FYP) to 1.95x during the 13th FYP, and further to 1.98x in the first two years of the 14th FYP. Although there are mounting concerns regarding the local government debt level due to the rise in budget expenditure-to-revenue ratio, it is crucial not to overstate the problem. From our perspective, we firmly believe that the debt issue remains manageable, particularly considering the central government's implementation of robust financial discipline. In 2022, the central government's budget expenditure-to-revenue ratio stood at 0.48x. By 10M23, it had increased slightly to 0.55x. This indicates the potential for allocating surplus financial resources to alleviate the financial strain faced by local governments. The financial challenges encountered by certain local governments have garnered attention in 2023. In 2024, we anticipate the enforcement of more rigorous financial discipline to mitigate the financial risks in these troubled areas.

Exhibit 5: Central government budget expenditures / budget revenue



Source(s): NBSC, ABCI Securities

Exhibit 6: Local government budget expenditure / budget revenue

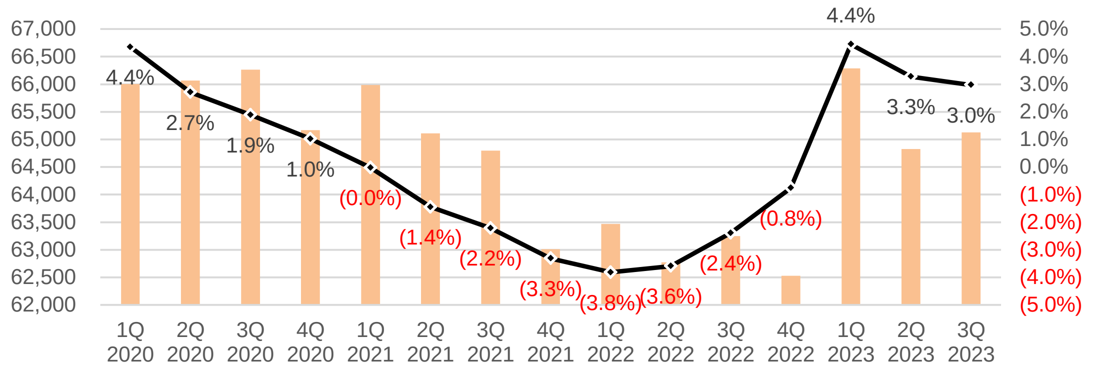


Source(s): NBSC, ABCI Securities

5. China Property Market – Supply-Side Reform

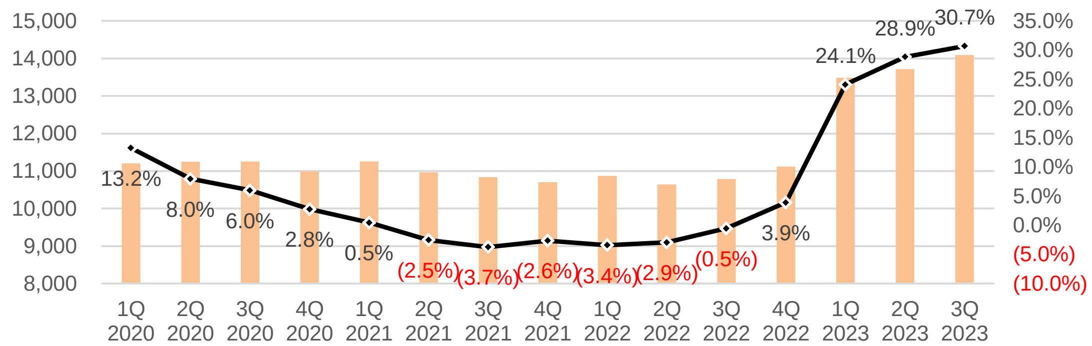
Over the coming years, the Chinese real estate market will focus on supply-side reform spearheaded by the government. In 2023, the property market started to undergo supply-side reform. More public housing will be available in the coming years as a result of the construction of public affordable housing projects and the revitalization of urban villages. Furthermore, urban infrastructure facilities will be upgraded to accommodate normal and emergency needs in order to deal with the occurrence of unexpected natural disasters. In the long run, we believe housing expenses of the low-to-middle-income families will decrease, allowing them to spend more on other consumer goods and services. Put simply, the success of supply-side reform in the property market is critical to enhancing long-term domestic demand growth. In the short to medium term, these three types of property-related projects will present new business opportunities for property developers to diversify their businesses from private housing development to public housing and urban infrastructure development. Given that supply-side reform is primarily implemented in megacities (populations exceeding 10mn) and super large cities (populations between 5mn and 10 mn), local governments, with their strong financial standing, should be financially capable of carrying out the infrastructure and real estate projects. According to PBOC quarterly statistics, big banks significantly expanded the amount of credit available for affordable housing projects in 2023.

Exhibit 7: Affordable housing development loan balance（RMB100mn）vs. Change (YoY)



Source(s): PBOC, ABCI Securities

Exhibit 8: Affordable housing development loan by large commercial banks （RMB100mn）vs. Change (YoY)



Source(s): PBOC, ABCI Securities

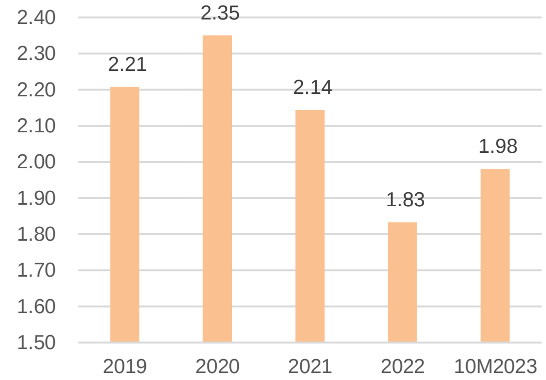
Private property market risk – catalyst for industry consolidation. The crisis in the real estate market is two-fold. First, there is the possible systemic risk brought on by financially troubled real estate developers and the risk associated with home prices. Second, there is the risk of presold new homes not being completed. As of end-Sep 2023, the total balance of property development loans, as reported by PBOC, stood at RMB 13.2tr, reflecting a 4% YoY increase. This amount is equivalent to 5.6% of the total RMB loans in financial institutions. As the loan balance at the end-Sep 2023 encompassed both private and public housing development projects, the amount for property development loans in the private housing sector should be lower. This suggests that the default risk associated with troubled property developers is controllable. According to PBOC, outstanding balance of personal housing loans at end-Sep 2023 was RMB 38.4tr, down 1.2% YoY, equivalent to 16.4% of total RMB loans. With the high percentage of housing loans, stable house prices are required to limit the risk associated with housing collateral.

One of the primary concerns in presold new homes is the risk of incomplete construction, where property developers may misappropriate the sales proceeds. From 2019 to Oct 2023, the residential GFA sold-to-completion ratio was 2.1x on average. Almost half of the residential housing sold in the last five years has not been completed. Looking forward, the government would need to stabilize home price expectation to instill confidence in prospective homebuyers.

Exhibit 9: Residential buildings GFA sold and completion

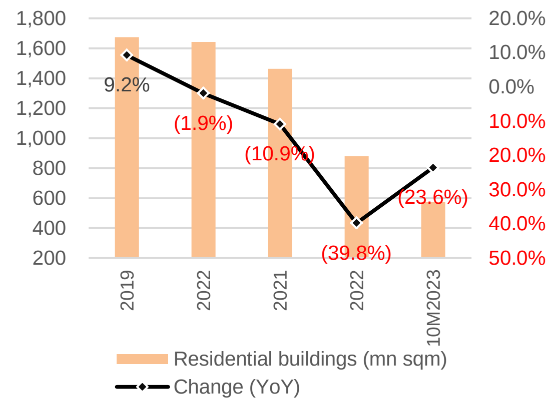
Source(s): NBSC, ABCI Securities

Exhibit 10: Residential GFA sold / GFA completed (x)



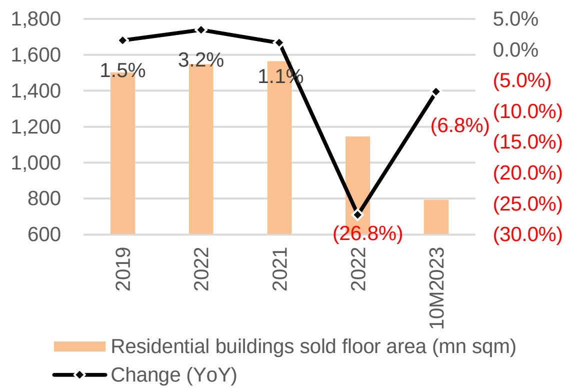
Source(s): NBSC, ABCI Securities

Exhibit 11: Residential Buildings New Construction Starts (mn sqm)



Source(s): NBSC, ABCI Securities

Exhibit 12: Residential Buildings GFA sold (mn sqm)



Source(s): NBSC, ABCI Securities

The property development sector is quickly consolidating. Total contracted sales value of the top five property developers in 10M23 was equal to 16% of the national property sales value during the same period. These developers are Poly Developments (600048 CH), China State Construction Engineering (601668 CH), China Vanke (2202 HK), China Resources Land (1109 HK), and China Merchants Shekou (001979 CH). The ratio was 14% in 2022. While nationwide property sales fell ~5% YoY in 10M23, the top five property developers saw a ~6% YoY increase in sales growth.

Growth in sales proceeds is a differentiator. The growth of sales proceeds indicates repayment capability, land replenishment capability, and marketability of property projects. The decline in nationwide property sales in 2022 and 10M23 means most property developers become less capable of repaying debt and replenishing land. Meanwhile, developers who have managed to sustain sales growth continue to fortify their competitive advantages.

Exhibit 13: Contracted property sales of the top five property developers

In RMB bn	1-10/2023	Change (YoY)	2022	Change (YoY)
China State Construction (601668 CH)	371	18.4%	402	-4.9%
Poly Developments (600048 CH)	368	1.4%	457	-14.5%
China Vanke (2202 HK)	312	-9.9%	417	-33.6%
China Resources Land (1109 HK)	262	14.1%	301	4.6%
China Merchants Shekou (001979 CH)	247	9.2%	293	-10.5%
Top 5 total	**1,560**	**5.5%**	**1,870**	**-12.5%**
National total property sales*	9,716	-4.9%	13,331	-26.7%
Market share of top 5	**16.1%**		**14.0%**	

* From NBSC, figures include sales of residential, office and commercial properties

Source(s): NBSC, Companies, ABCI Securities

Exhibit 14: China State Construction (601668 CH) Contracted Sales Value (RMB mn)

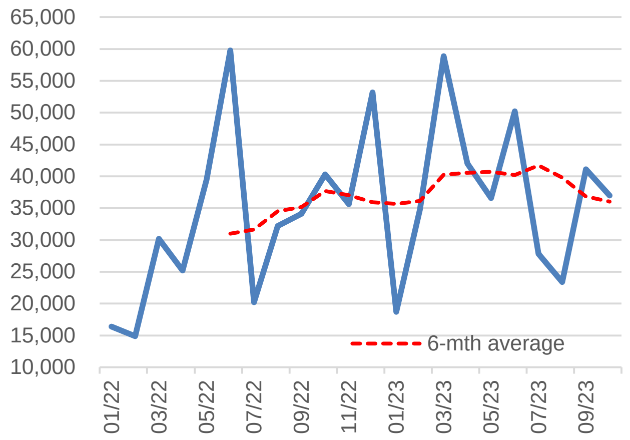


Exhibit 15: Poly Developments (600048 CH) Contracted Sales Value (RMB mn)

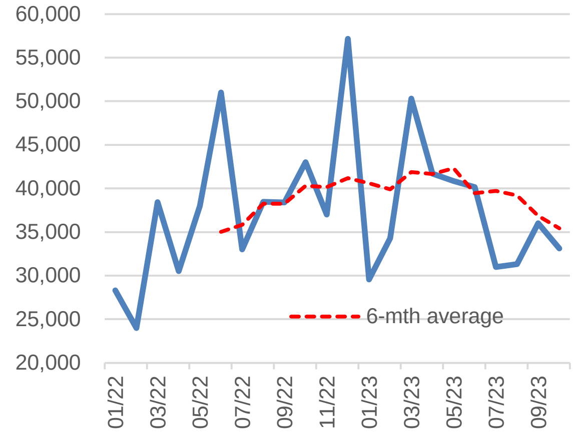


Exhibit 16: China Vanke (2022 HK) Contracted Sales Value (RMB mn)

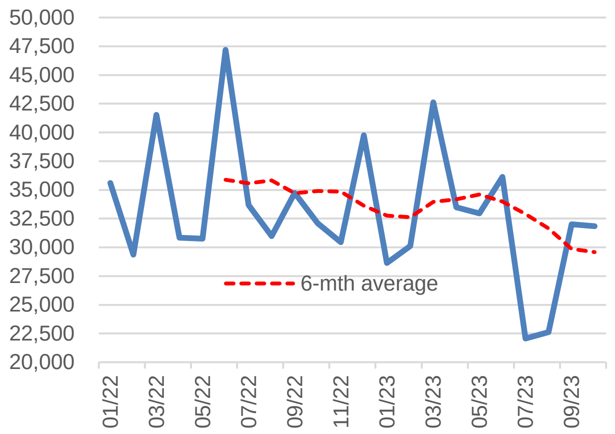


Exhibit 17: China Resources Land (1109 HK) Contracted Sales Value (RMB mn)

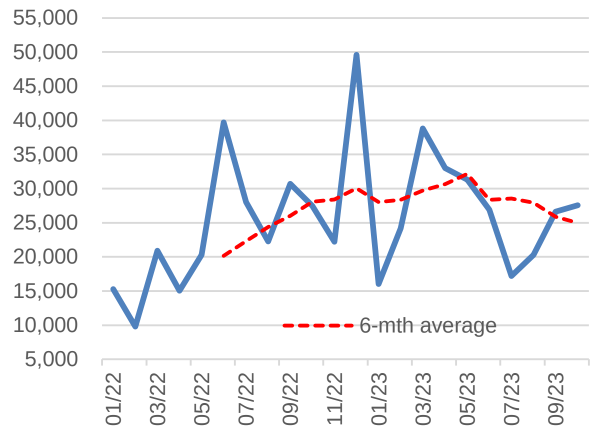


Exhibit 18: China Merchants Shekou (001979 CH) Contracted Sales Value (RMB mn)

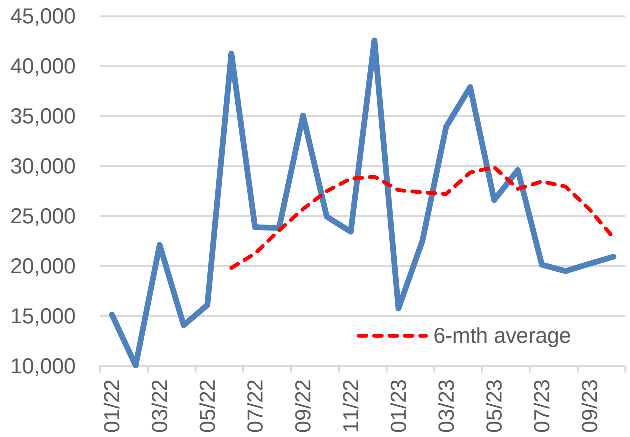
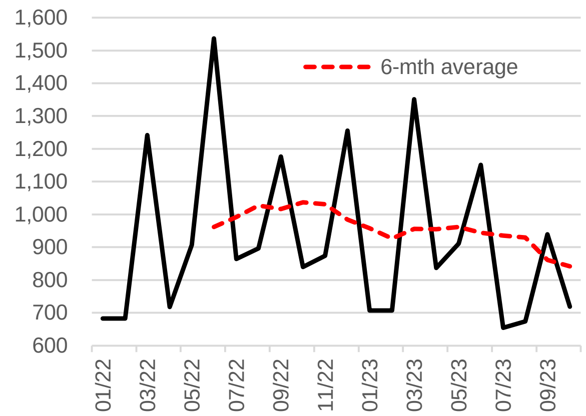


Exhibit 19: China nationwide Monthly new home sales (RMB bn)



Source(s): NBSC, companies' monthly announcements (unaudited figures), ABCI Securities

6. Government-supported industries: Technology finance, Green finance, Inclusive finance, Pension finance, and Digital finance.

Both the public and private sectors are expected to allocate more financial resources in five key areas: technology finance, green finance, inclusive finance, pension finance, and digital finance. This increase in investment is a crucial part of China's long-term national strategy to modernize its economy. In the coming years, we anticipate a heightened focus on these areas in the Chinese market.

Technology finance. We anticipate an increase in resource allocation from the government and financial markets towards the technology sector in China. Enterprises holding the esteemed tech company status, jointly verified by the Ministry of Science and Technology, the Ministry of Finance, and the State Tax Administration, will have an advantageous position to secure fiscal support from the government and credit support from financial institutions. When evaluating tech companies, investors can assess their recognition status by multiple government agencies. This enables a more informed screening process among the plethora of so-called tech companies in the market. As of end-Sep 2023, the government bodies have recognized 218.3K small-to-medium-sized tech companies, with about 47% of them successfully obtaining loans from financial institutions. Tech companies often face the challenge of securing credit from discerning banks, resulting in a significant unmet demand for credit facilities. At end-Sep, the total amount of loans to these tech companies was RMB 2.4tr, up 22.6% YoY, or an average of RMB 24mn per enterprise. Financial institutions offer small loans to numerous SME tech companies as a means to manage and diversify credit risks. This practice presents substantial business opportunities for these institutions. If we assume an average loan size of RMB 24mn, a 1-ppt increase in the number of companies obtaining loans would result in a corresponding increase in loan demand of RMB 52bn. Additionally, tech companies may opt to replace a portion of their loans with equity.

Green finance. The objective of reducing carbon emissions has become a prevailing long-term theme in the financial market. The emergence of the green economy has spurred rapid advancements in solar and wind power, energy storage solutions, and electric vehicles. Moreover, the energy-saving and environmental conservation industries are further propelled by the rising demands for ESG compliance. Green finance assumes a pivotal role in expediting the advancement of eco-friendly products and upgrading production facilities to meet ESG standards. According to PBOC, total balance of green loans increased at CAGR 36% from RMB 12tr at end-2020 to RMB 22tr at end-2022. Loan balance further increased 37% YoY to RMB 28.6tr at end-Sep 2023. With robust backing from financial institutions, we anticipate the green industry to establish itself as a resilient sector, capable of withstanding economic fluctuations while experiencing rapid growth.

Inclusive finance. Inclusive finance serves as both a stabilizer and a catalyst for economic development. It encompasses various forms of financial support, such as inclusive small and micro loans, loans for farmers' production and operations, entrepreneurial guaranteed loans, student loans, and loans for individuals who have been lifted from poverty. Out of these loans, 72% were SME loans and 23% were farmers' loans. The balance of inclusive finance increased at CAGR 22% from RMB 21.5tr at end- 2020 to RMB 32.1tr at end-2022. The balance further increased 26% YoY to RMB 39.5tr at end-Sep 2023.

Pension Finance. Pension finance rests on three fundamental pillars: 1) Ensuring basic pension insurance coverage; 2) Facilitating the re-employment of exceptional employees to bolster their pension incomes; 3) Fostering the development of commercial pension financial products or services. By end-2022, the Ministry of Human Resources and Social Security reported that the nationwide participation in basic pension insurance reached 1,053.07mn people. Additionally, the basic pension insurance fund accumulated a balance of RMB 6,985.1bn. At end-2022, a total of 128,000 enterprises had established enterprise annuities with 30.1mn participating employees. At end-2022, the investment and operation scale of enterprise annuity was RMB 2.87tr.

The three pillars in pension finance play different roles. Pension insurance and enterprise annuities are fundamental components of pension finance, constituting the first pillar and provides a floor to pensioners' income; meanwhile, raising the retirement age can serve as a means to augment the income of senior workers. Commercial pension offerings encompass a range of financial products and services. These include pension savings, financial management, insurance, and other related services. Customers can benefit from comprehensive pension financial planning, fund management, risk protection, and more. It allows pensioners to generate additional income in the future so as to reduce reliance on incomes from basic pension. After all, consumption demand of pensioners will be a growth driver of economy in the long run.

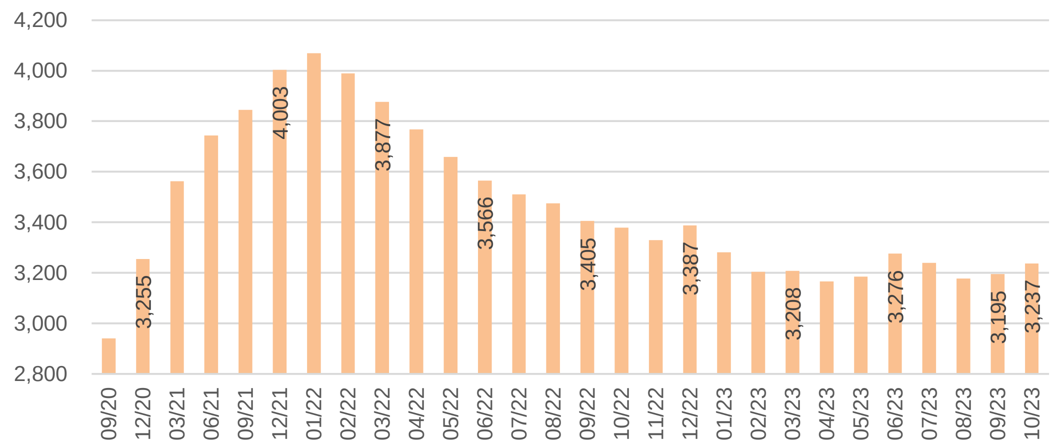
Digital Finance. "Finance+Technology+Data" refers to the input for the development of digital finance. The financial services industry is embracing digitization as a means to enhance its offerings. This trend includes expanding the scope of financial services, diversifying income sources, improving cost efficiency, and enhancing risk management capabilities. The differentiation and subsequent business performance of financial institutions are expected to rely heavily on their technological capabilities. In 2020, 2021 and 2022, the three largest SOE commercial banks spent ~RMB 64.2bn, RMB 70.1bn and RMB 72.7bn on fintech/IT. In 2022, the total spending in fintech/IT of the three largest SOE commercial banks was equivalent to ~3.1% of their total operating incomes. Large banks can effectively manage the financial burden of integrating fintech/IT inputs. Their steadfast financial investment in fintech will ultimately bolster their competitive advantage, setting them apart from rivals in product development, cost efficiency, and risk management.

7. Cross-border liquidity inflow and outflow

The interest rate disparities between the US and China have led to the outflow of liquidity from the onshore RMB bond market in 2022-23. Moving ahead, we anticipate a downward trend in the interest rate cycle in the US around mid-2024. This will result in a narrowing US-China interest rate gap and subsequently reduce the opportunity cost for offshore investors holding onshore RMB-denominated assets. We expect a net inflow of offshore liquidity into onshore bond and equity markets in 2024 when the US interest rate begins the downward cycle.

Since end-2021, the yield on the US two-year treasury had surged by 395bp, reaching 4.68% by end-Nov 2023. In contrast, China's two-year government bond yield had experienced a modest increase of 5bp, reaching 2.41% by the end-Nov 2023. The widening yield gap raised the opportunity costs for offshore investors holding RMB-denominated assets. According to China Clearing and Shanghai Clearing, since end-2021, outstanding balance of onshore bonds held by external institutions reduced by RMB 766bn to RMB 3.24tr at end-Oct 2023. Given that the US interest rate is predicted to peak and the US-China interest rate disparity to narrow in 2024, we see that the liquidity outflow is stabilizing in 2H23. Offshore investors net bought RMB 56.6bn of A-shares in 11M23, compared to RMB 90.0bn in 2022 and RMB 432.2bn in 2021. Considering the inflow of foreign liquidity into China's A-share market, offshore investors are cautiously optimistic about the Chinese stock market.

Exhibit 20: Balance of China onshore bonds held by external institutions (RMB bn)



Note: The balance represents the total amount of bonds deposited in China Clearing and Shanghai Clearing
Source(s): China Clearing, Shanghai Clearing, ABCI Securities

Chinese investors from the mainland are steadily accumulating local stocks, gaining significant pricing power in the Hong Kong stock market. From the start of the Southbound Connect Scheme, mainland investors are estimated to have net bought ~HK$ 2.88tr worth of Hong Kong stocks. In 11M 23, these investors had net bought HK$ 310.9bn of Hong Kong stocks while Hang Seng Index declined ~ 14% during the same period. The mainland investors are actively seeking bargains in the Hong Kong stock market. Based on their buying momentum and the current stock market environment, it appears that most of them are long-term investors. According to recent statistics, mainland investors have a substantial stake in Hong Kong-listed shares of prominent companies such as China Telecom (728 HK), China Shenhua (1088 HK), ICBC (1398 HK), and SMIC (981 HK).

Exhibit 21: Top 15 stocks held by mainland investors via the Southbound Connect Scheme

Ticker	Stock	Market value HK$bn (note 1)	% of shares held at 30/11/2023 (note 2)	% of shares held at 31/12/2022 (note 2)
700 HK Equity	Tencent	280.7	9.51%	9.31%
941 HK Equity	China Mobile	138.8	10.28%	8.77%
5 HK Equity	HSBC	106.5	9.21%	9.34%
883 HK Equity	CNOOC	106.3	17.46%	17.26%
939 HK Equity	CCB	89.0	8.28%	9.26%
1398 HK Equity	ICBC	83.6	26.38%	24.11%
3690 HK Equity	Meituan	69.5	12.80%	9.49%
1810 HK Equity	Xiaomi	47.3	12.70%	12.79%
981 HK Equity	SMIC	36.5	21.71%	17.69%
1088 HK Equity	China Shenhua	32.1	38.11%	31.63%
1024 HK Equity	Kuaishou	29.6	12.35%	10.30%
728 HK Equity	China Telecom	24.1	48.46%	37.13%
2269 HK Equity	Wuxi Biologics	23.8	18.17%	16.25%
9868 HK Equity	Xpeng	20.9	17.95%	8.23%
388 HK Equity	HK Exchanges	20.5	6.26%	7.39%

Note 1: Market value = Number of shares held by mainland investors at end-Nov 2023 x market share price

Note 2: This represents the percentage of HK-listed shares held by mainland investors via the Connect Scheme.

Source(s): HKEx, ABCI Securities

8. NEV market: Highly differentiated performance

Exhibit 22: Performance matrix of NEV auto makers

	Pure NEV auto makers	**NEV and ICE auto makers**
Profitable in 9M2023:		
NEV sales volume growth over 27% in 1-10/2023	BYD (1211 HK) Li Auto (2015 HK)	Geely (175 HK) Great Wall Motor (2333 HK) Guangzhou Automobile (2238 HK) Changan Automobile (000625 CH)
NEV sales volume growth below 27% in 1-10/2023		Dongfeng Group (489 HK) SAIC (600104 CH) Jianghui Automobile (600418 CH)
Loss making in 9M2023:		
NEV sales volume growth over 27% in 1-10/2023	NIO (9866 HK) BAIC New Energy (600733 CH)	
NEV sales volume growthbelow 27% in 1-10/2023	Leap Motor (9863 HK) XPeng (9868 HK)	Seres (601127 CH)

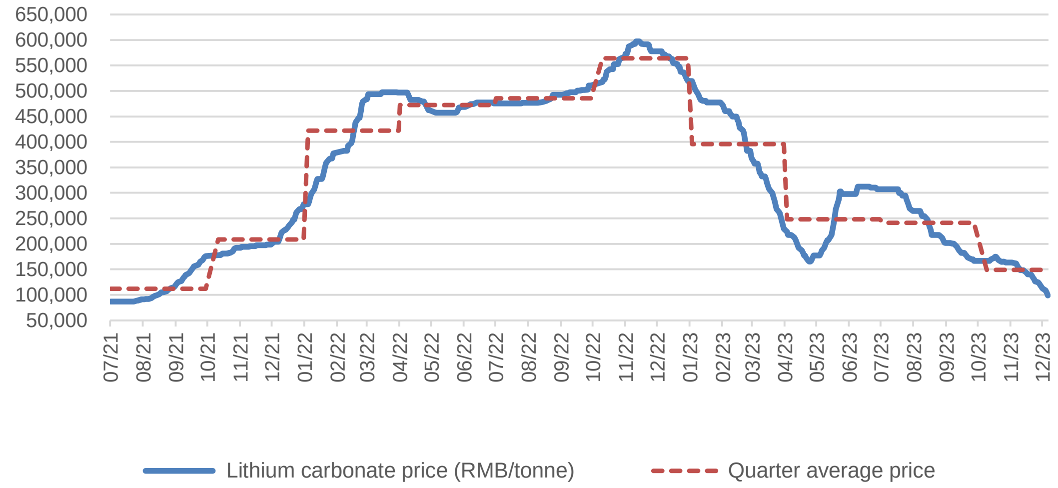
Note: NEV refers to new energy vehicles; ICE auto refers to internal combustion engine vehicles
Remarks: NEV output grew 26.7%YoY in first ten months 2023, according to NBSC
Source(s): ABCI Securities

NEV is categorized under consumer durables. In 10M23, The output of NEVs experienced a remarkable growth rate of 26.7% YoY, surpassing the overall auto output growth of 4.9% YoY. NEV market is one of high-growth business segments in the auto industry. Manufacturers of NEV are promoting their products based on various factors such as pricing, battery power, interior design, entertainment features, safety, and autonomous driving technology, among others.

Investors are actively seeking out the outperformers in the NEV segment. In our view, the sales volume trend of NEV makers serves as a valuable reflection of the overall competitiveness of their products. Additionally, profitability is a crucial indicator of financial performance, revealing whether the business model can drive internal organic growth and enhance shareholder value. The automotive industry is known for its capital-intensive nature. Ultimately, profitable automakers gain an advantage through their ability to swiftly develop products and maintain their competitive edge using internal resources.

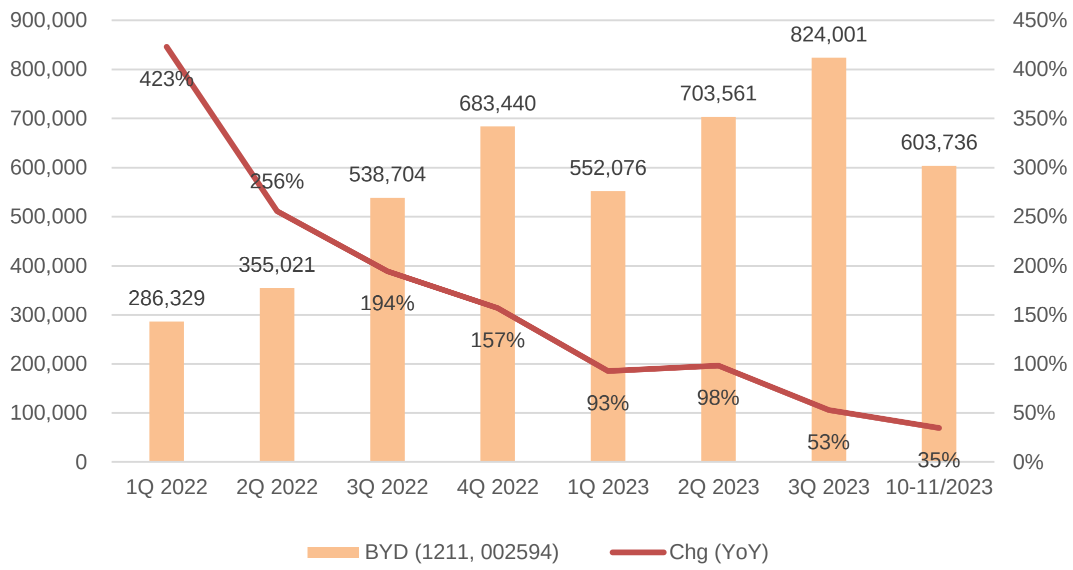
As we look ahead to 2024, we anticipate heightened rivalry between NEV and ICE automakers due to the projected decline in battery costs. The average price of lithium carbonate fell from RMB 523K/tonne in 4Q22 to RMB 321K/tonne in 1H23, followed by RMB 242K/tonne in 3Q23 and RMB 149K/tonne in Oct-Nov 2023. The spot price in late Nov 2023 approached RMB 100K/tonne. Despite the rapid growth of China's NEV output, the substantial decrease in the cost of battery suggests a higher growth in supply than demand. The significant reduction in battery costs empowers NEV manufacturers to competitively price their vehicles and gain market share from ICE manufacturers. The business landscape is expected to be unfavourable for ICE automakers in 2024 as a price war is likely to escalate further.

Exhibit 23: China Lithium carbonate spot price (RMB/tonne)



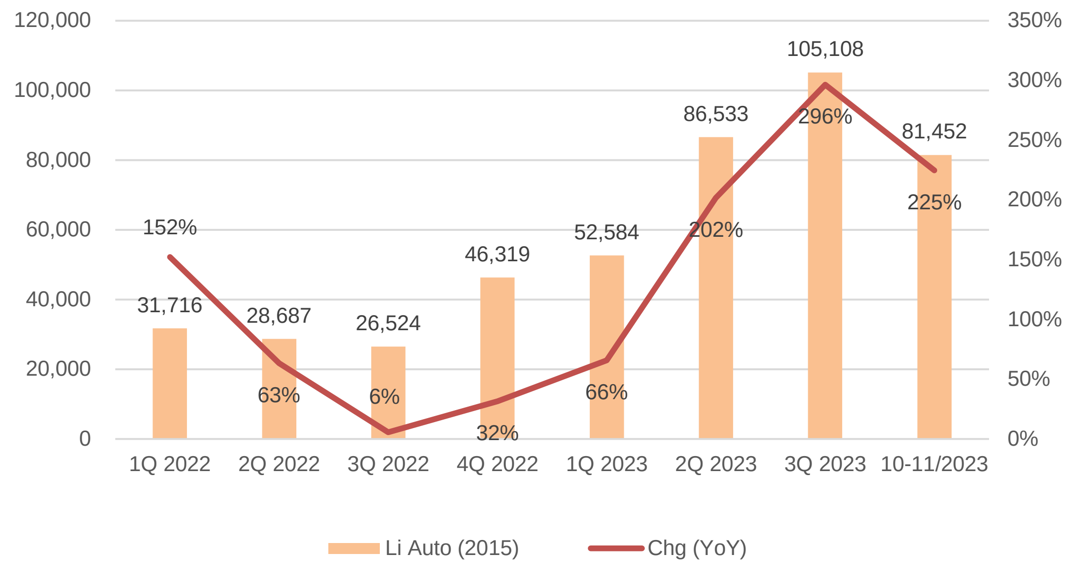
Red line as quarterly average
(s): Bloomberg, ABCI Securities

Exhibit 24: BYD (1211 HK, 002594 CH) NEV sales volume



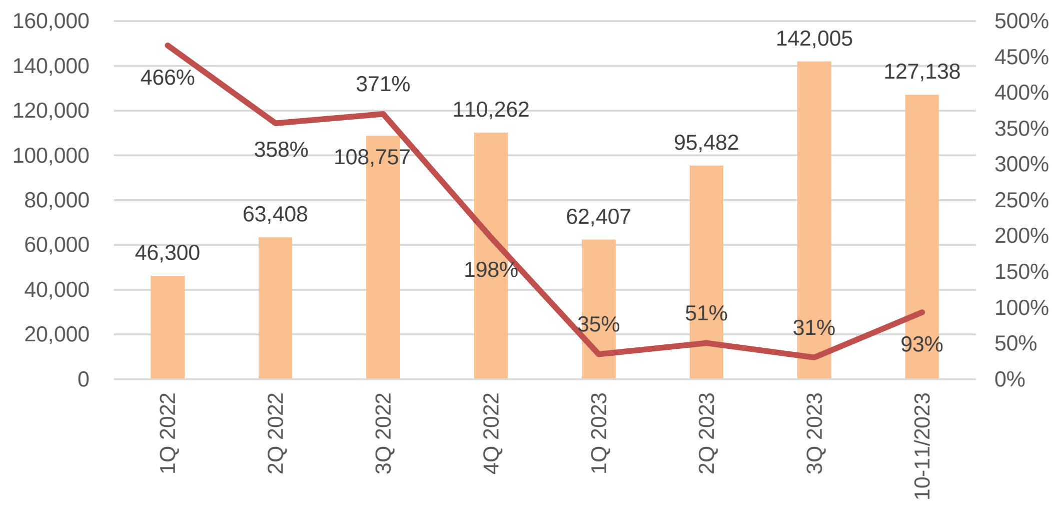
Note: Quarterly figure is sum of monthly figures (unaudited)
Source(s): Company announcements, ABCI Securities

Exhibit 25: Li Auto (LI US, 2015 HK) NEV delivery volume



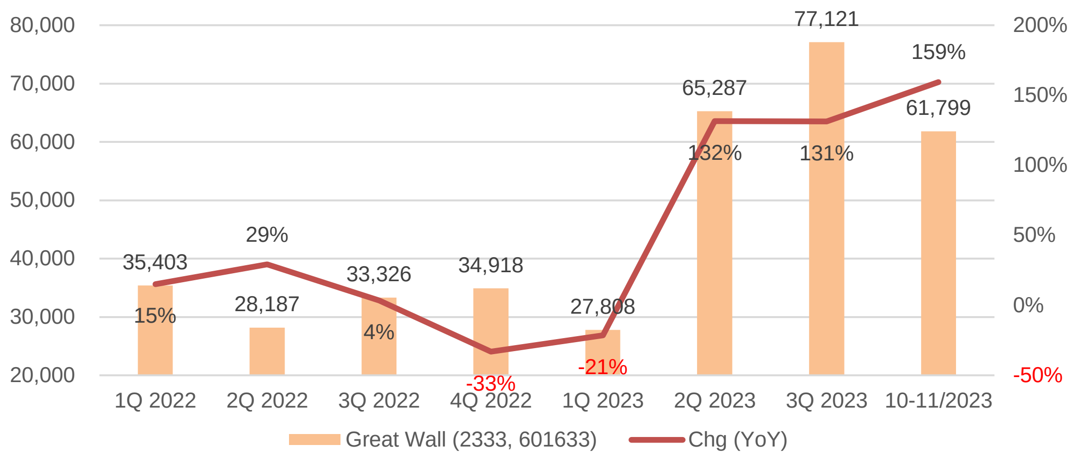
Note: Quarterly figure is sum of monthly figures (unaudited)
Source(s): Company announcements, ABCI Securities

Exhibit 26: Geely (175 HK) NEV sales volume



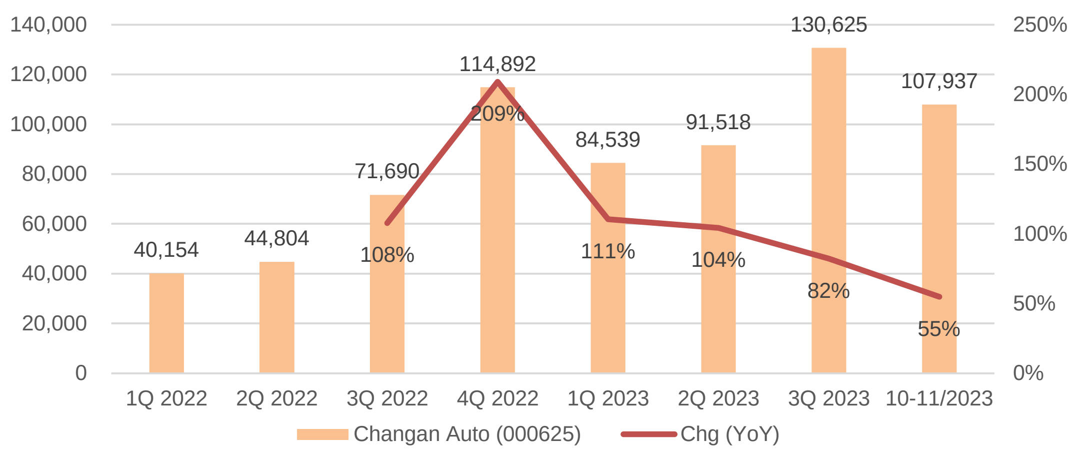
Note: Quarterly figure is sum of monthly figures (unaudited)
Source(s): Company announcements, ABCI Securities

Exhibit 27: Great Wall Motor (2333 HK) NEV sales volume



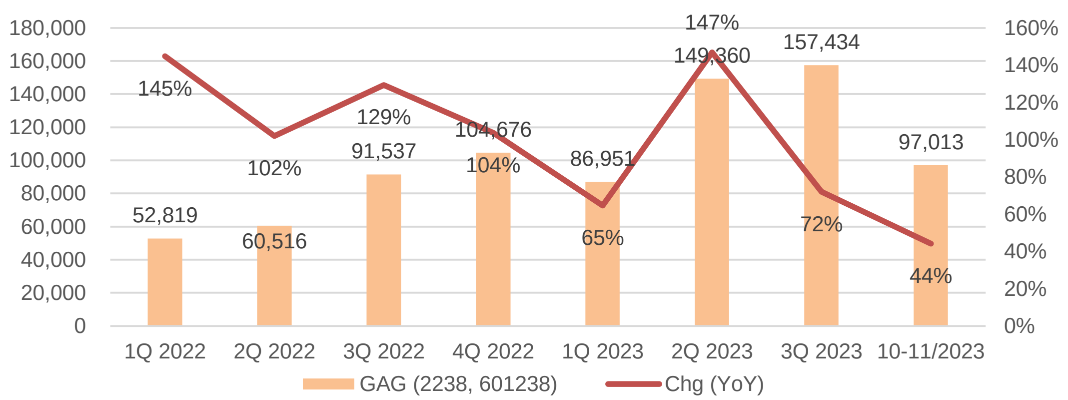
Note: Quarterly figure is sum of monthly figures (unaudited)
Source(s): Company announcements, ABCI Securities

Exhibit 28: Changan Automobile (000625 CH) NEV sales volume



Note: Quarterly figure is sum of monthly figures (unaudited)
Source(s): Company announcements, ABCI Securities

Exhibit 29: Guangzhou Automobile (2238 HK) NEV sales volume



Note: Quarterly figure is sum of monthly figures (unaudited)
Source(s): Company announcements, ABCI Securities

9. Hang Seng Index (HSI)

- 2024 valuation range: 8.0-11.0x P/E, representing 17200-23600
- Low profit growth expectations limit valuation upside
- Various macro and micro economic factors capping revenue growth of heavyweight sectors in the index
- Consumption-related stocks are sensitive to housing price cycle and wealth effect

Over the last five years, the HSI's fwd. P/E stood at 11.38x, with high/low at 17.12x/8.29x. In view of the current valuation at 8.3x fwd. P/E, we believe most of negative factors have been priced in. In our view, low profit growth momentum expected for 2023 and 2024 is the key factor exerting downward pressure on the index valuation. With the majority of large-cap or heavyweight stocks in the index having already disclosed their 9M23 results, the earnings shock for FY23 is expected to decrease. Currently, the market expects index earnings to increase ~6% for 2023 and ~ 9% for 2024.

We believe that there is a potential downside risk to the projected earnings growth in 2024. The global economy is anticipated to further decelerate compared to 2023. Given this macroeconomic backdrop, it will be challenging for large-cap companies to achieve substantial profit growth (excluding non-core profit items).

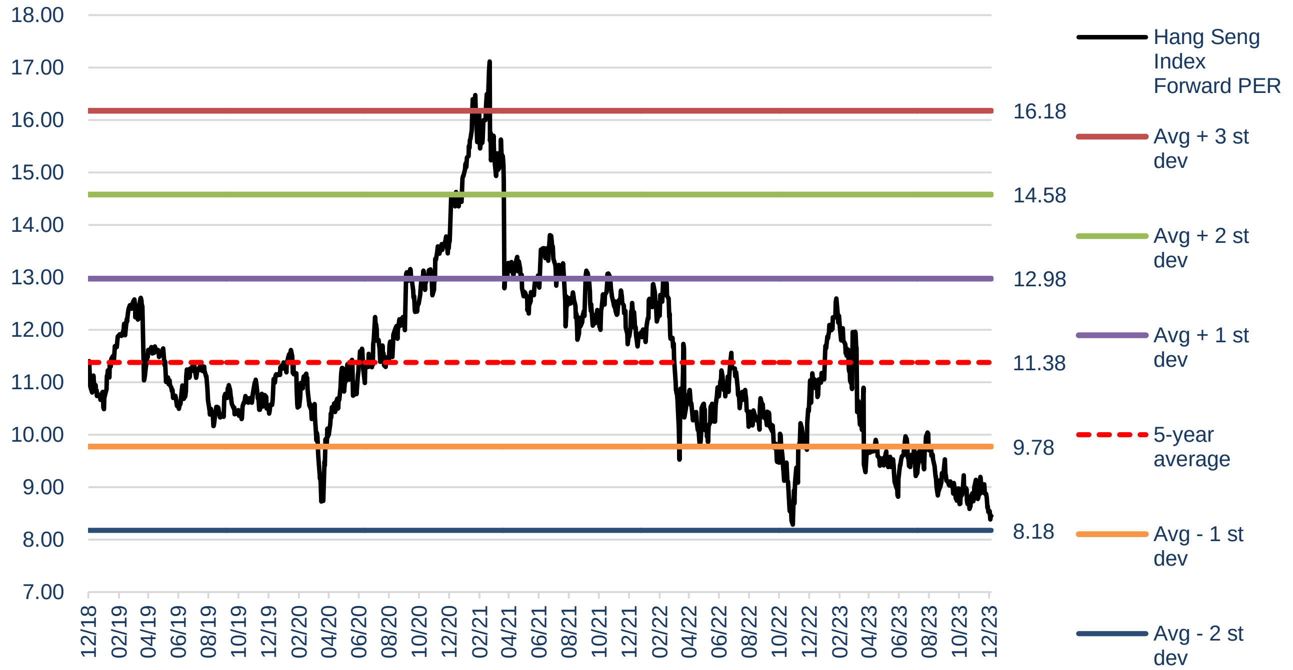
In HSI, financial sector and e-commerce/internet sector account for ~ 33% and 28% of total weighting of the index respectively. Our industry analyst expects operating income growth of China banks will be adversely affected by the contraction in net interest margin and slow growth in net fee and commission incomes. Also, we believe that the period of rapid revenue growth for major e-commerce and internet platform operators, who primarily offer online retail sales services, has ended. This projection is based on the stabilizing trend seen in the online retail sales penetration rates, which stood at ~24.5%, 27.2%, and 26.7% in 2021, 2022, and 10M23. The moderating revenue growth momentum of the two largest heavyweight sectors in the index will cap the earnings growth of the index in 2024.

Concerns regarding the property sector in China and Hong Kong are expected to persist throughout 2024, creating a lingering sense of uncertainty. Although performance of the property stocks have a significant influence on market sentiment, their impact on the index is relatively minor as the sector's weighting accounts for less than 6%. Besides, we believe investors will closely track the housing prices in China and Hong Kong; the wealth effect, be it positive or negative, will affect consumption incentives in 2024. As of Oct 2023, the residential property price index in Hong Kong had reached a new record low since Apr 2017, according to HKSAR Government. The average new home price index of the 70 cities in China has been declining YoY for 19 consecutive months since Apr 2022, according to NBSC. We anticipate that investors will exercise caution and potentially demand a higher risk premium (which results in lower valuation) for stocks within the consumer goods and services sector's supply chain.

We anticipate that value stocks or yield stocks will take precedence over growth stocks in dominating the large-cap stocks within the Hong Kong stock market. Given this scenario, investors who prioritize value and yield stocks are likely to increase their positions, while those who focus on growth stocks may consider reducing their holdings.

Considering the historical valuation range, consensus earnings growth projections, and potential downside risks to current market expectations, we anticipate that the P/E valuation range for the HSI in 2024E will be between 8.0-11.0x (with a midpoint of 9.5x). Considering the anticipated downside risk in the current earnings forecast for 2024, we have positioned the floor of the P/E range below its five-year historical low. The HSI is expected to trade within the range of 17200 to 23600 (rounded to the nearest hundredth).

Exhibit 30: Hang Seng Index Fwd. P/E



5-year average forward PER: 11.38x; Standard deviation (st. dev): 1.60x
Standard deviation/Average = 14.1%
Source(s): Bloomberg consensus estimates, ABCI Securities

Exhibit 31: Market valuation of HSI

	2019	2020	2021	2022	2023F	2024F	2025F
EPS (HK$)	2,417	2,156	2,076	1,862	1,968	2,150	2,343
Change	0.5%	-10.8%	-3.7%	-10.3%	5.7%	9.2%	9.0%
P/E (Note *)	-	-	-	8.8	8.3	7.6	7.0
NBV (HK$)	22,345	23,705	20,801	17,908	17,563	18,989	20,700
Change	10.1%	6.1%	-12.2%	-13.9%	-1.9%	8.1%	9.0%
P/B (Note *)	-	-	-	0.9	0.9	0.9	0.8
DPS (HK$)	992	634	594	666	689	759	776
Change	-1.1%	-36.1%	-6.3%	12.2%	3.5%	10.2%	2.3%
Yield (Note *)	-	-	-	4.1%	4.2%	4.6%	4.8%
EPS/NBV	10.8%	9.1%	10.0%	10.4%	11.2%	11.3%	11.3%
DPS/EPS	41%	29%	29%	36%	35%	35%	33%

Note *: Based on Hang Seng Index at 16327.86 on 2023/12/06
Source(s): Bloomberg consensus estimates, ABCI Securities

Exhibit 32: Expected valuation range of the HSI

	2023F	2024F	2025F
P/E band			
High	11.5	11.0	10.5
Low	8.2	8.0	8.0
Mid-point	9.9	9.5	9.3
Close	8.3	9.0	9.5
P/B band			
High	1.29	1.25	1.19
Low	0.92	0.91	0.91
Mid-point	1.11	1.08	1.05
Close	0.93	1.02	1.08
Yield band			
High	4.3%	4.4%	4.1%
Low	3.0%	3.2%	3.2%
Mid-point	3.6%	3.8%	3.6%
Close	4.2%	3.9%	3.5%

Source(s): ABCI Securities estimates

Hong Kong IPO Market

Analyst: Steve Chow

In 11M23, Hong Kong IPO market has raised US$4.7bn vs. US$13.4bn in 2022

Various macro headwinds, such as a weakened economic backdrop and global geopolitical risks, have impacted Hong Kong's IPO market, affecting the near-term market outlook.

In 11M23 (up to Nov 23, 2023), the Hong Kong IPO market has raised US$ 4.7bn vs. US$ 13.4bn in 2022. In 11M23, a total of 53 IPOs were issued, with an average issue size of US$ 89mn each.

The IPO volume in 11M23 was distributed across various industries. Industrial and Healthcare sectors each accounted for 22%, followed by Consumer staple (19%), Consumer discretionary (15%), Technology (7%), and Others (15%). Notably, there were fewer significant IPOs during this period, as evidenced by the relatively small average deal size of US$ 89mn in 11M23 compared to USD 165mn in 2022.

The Hong Kong Stock Exchange has recently implemented a new listing regime designed specifically for "specialist" technology companies. These include next-generation information technology, advanced hardware and software, advanced materials, new energy and environment protection, and new food and agriculture technologies. Although the new regime has not yet made a significant impact on the IPO market as a whole, its potential remains to be seen.

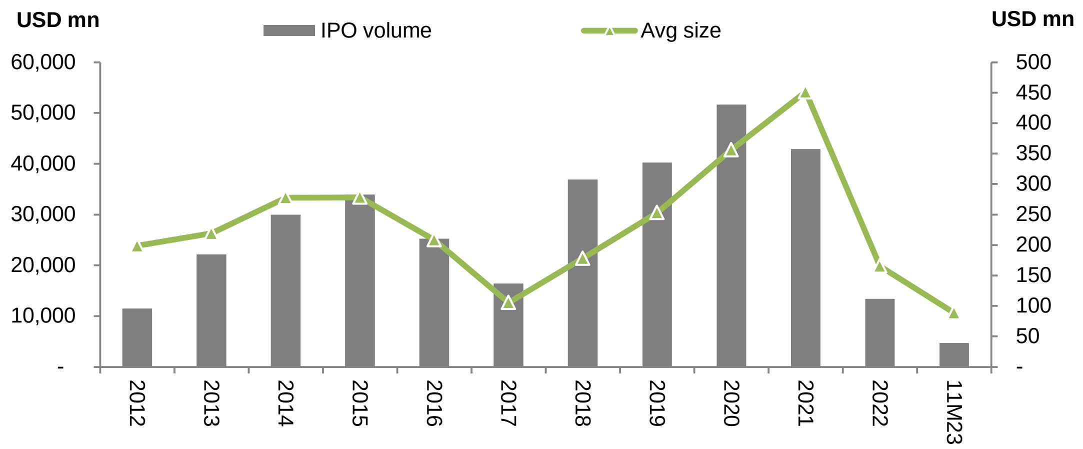
We believe that Hong Kong's IPO market has faced challenges due to weakened economic environment, volatility in the HK/China equity market, and global geopolitical risks, which we believe will impede short-term prospects.

Exhibit 1: 11M23 HK IPO Overview

Industry*	Volume (US$ mn)	Avg deal size (US$ mn)
Industrial	1,033	10
Healthcare	1,023	8
Consumer staple	915	5
Consumer Discretionary	689	8
Technology	325	6
Others	718	16

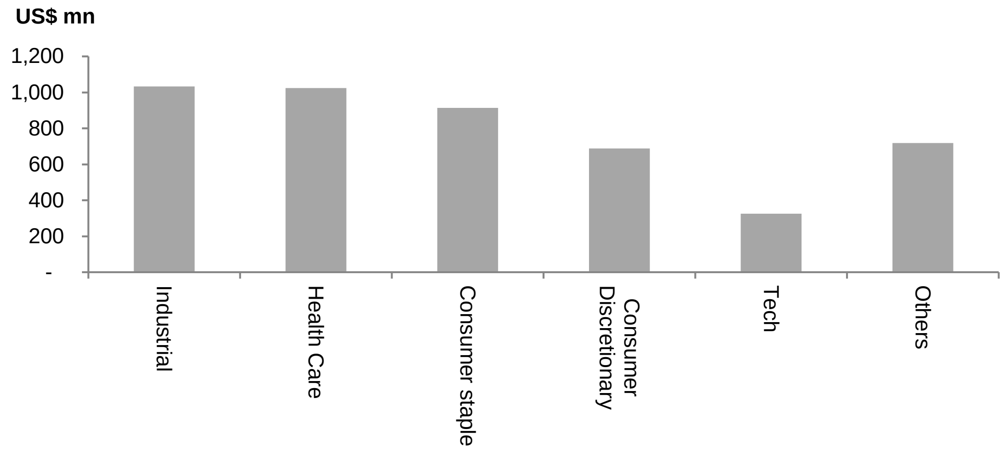
*Based on Bloomberg's classification
Source(s): Bloomberg, ABCI Securities

Exhibit 2: HK IPO volume and average deal size



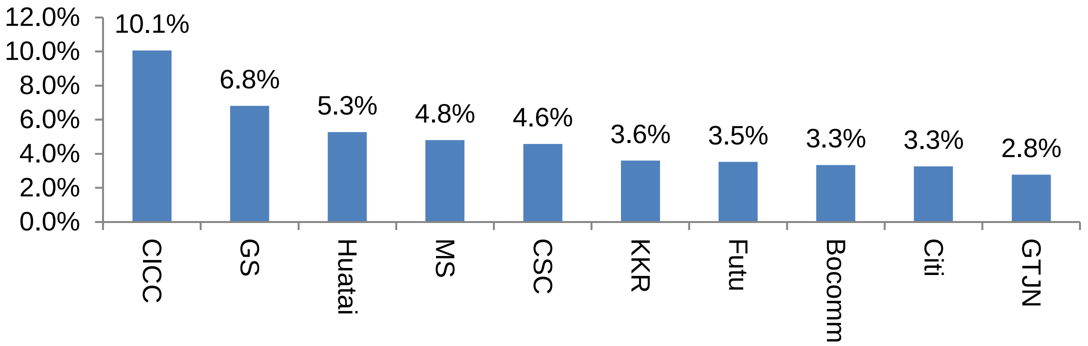
Source(s): Bloomberg, ABCI Securities

Exhibit 3: HK IPO volume by industry (11M23)



Source(s): Bloomberg, ABCI Securities

Exhibit 4 : Market share of HK IPO underwriters by volume (11M23)



Source(s): Bloomberg, ABCI Securities

Sector Outlook

Analysts

OVERWEIGHT
China Banks Sector –Topline recovery as focus
Johannes Au

Key Data		Sector Performance	Absolute (%)	Relative (%)
H-shr		**H-shr (relative to MXCN)**		
Avg. 24E P/E (x)	3.40	1-mth	2.8	(3.7)
Avg. 24E P/B(x)	0.35	3-mth	7.1	7.2
Avg. 24E div yield (%)	9.24	6-mth	(10.5)	(8.4)
A-shr		**A-shr (relative to CSI300)**		
Avg. 24E P/E (x)	4.78	1-mth	0.3	1.2
Avg. 24E P/B(x)	0.48	3-mth	2.6	7.8
Avg. 24E div yield (%)	6.54	6-mth	(1.4)	3.7
Source(s): Bloomberg, ABCI Securities estimates		Source(s): Bloomberg, ABCI Securities		

- System NIM is still under pressure though less than before
- Net fee income growth dependent on macro recovery
- Asset quality concern lessens; turnaround in topline growth becomes the focus
- Reiterate **OVERWEIGHT** sector rating in both A&H markets; prefer big banks for improving earnings outlook and promising dividend yield

System NIM pressure to reduce. Directed by policy, banks have adjusted their interest rates of residential mortgage balance since late Sep 2023. According to official announcement by PBOC, repricing of residential mortgage balances were completed in early Nov 2023; specifically, interest rates of over RMB 22tr of residential mortgage were lowered by 73bps on average, benefiting over 50mn cases with a total cut of RMB 160bn-170bn in mortgage interest per annum. Upon completion of the adjustment, we believe the largest overhang on NIM has now been removed. NIM will suffer the most in 4Q23 in terms of QoQ decline. Considering loan repricing from previous LPR cut in Jun / Aug 2023 and the marginal reduction in average deposit rates triggered by pricing and structural improvement, we expect system NIM pressure to ease in 1Q24, with a reduced NIM decline QoQ. According to the PBOC data, average lending rate of new loans in Sep 2023 dropped 5bps QoQ to 4.14% from Jun 2023. Nevertheless, if macro growth fails to recover further, the possibility of more rate cuts could dampen NIM outlook. 1Y and 5Y LPR were slashed from 3.65% and 4.30% in Dec 2022 to 3.45% and 4.20% in Nov 2023, according to National Interbank Funding Center. Our base case assumes 1Y and 5Y LPR will lower to 3.25% and 4.00% by end-2024. According to the NAFR data, system NIM narrowed QoQ by 1bps to 1.73% in 3Q23, or down 21bps YoY. By category, NIM in big banks shrank more due to greater social responsibility; their average NIM narrowed by 26bps YoY in 3Q23, compared to the 14bps-20bps YoY decline for JSBs/city commercial banks/rural commercial banks. Robust balance sheet growth and component optimization will remain as the core defensive factors against NIM pressure. All in all, we expect system NIM to lower by 10bps-15bps YoY for FY24E.

Net fee income takes time to rebound. As shown by 3Q23 results, most banks reported a negative net fee income growth for 9M23 on weak capital market and soft retail consumption in past quarters. We believe a revival of consumption-related fee growth will be highly dependent on the pace of economic recovery. Meanwhile, gradual reduction in average deposit rate prompts us to expect mild improvement in wealth management-related fee income starting from 4Q23. Assuming a steady improvement in macro outlook, we expect positive net fee income growth to be seen in some banks in 2H24. Meanwhile, with better NIM outlook, quality banks could resume slow positive topline growth in 2H24.

Asset quality outlook less of a concern. Thanks to the government's prioritization in high-quality financial development and centralized risk management, investors' concern over asset quality risk has reduced in 2023. Most banks reported a stable NPL ratio QoQ in 3Q23. Asset quality risk from the real estate sector continues to lessen, as reflected by QoQ reduction in NPL ratio in 3Q23 for the sector in some banks. Overall we project a stable FY24 system NPL ratio in our base case scenario. Nonetheless, as asset quality is highly dependent on macro recovery in China, a downturn will shift the spotlight back to the banks' risk profiles. As of Sep 2023, system NPL ratio was down 1bps QoQ to 1.61%. System provisioning ratio was flat QoQ at 3.35% and system provision coverage ratio was up 176bps QoQ to 207.89% in 2Q23. According to the NAFR statistics, system net profit rose 9.0% YoY in 9M23. To note, sustaining a reasonable level of banks' NIM and profitability have now become a policy priority as it is seen as crucial for the long-term economic growth.

Long-term Outlook

Policy risk and macro outlook will be affecting the China banks sector. Big banks are taking up more social responsibility to support the country. On the policy front, centralized regulating and disciplined business environment is essential to strengthen industry fundamentals in the long run, but policy changes may accentuate short-term share price volatility.

Short-term Outlook

A turnaround in topline growth, which is hinged on China's macro outlook, will be the focus. Economic growth in coming quarters will be a decisive factor in sector valuation. Clear evidence of improving fundamentals would be needed to win over value investors.

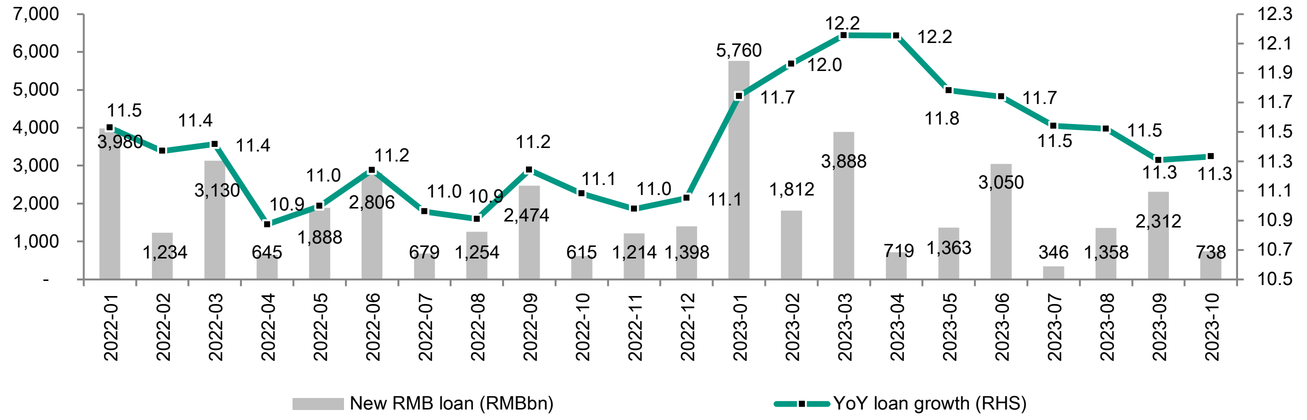
Stock Recommendations

We reiterate our **OVERWEIGHT** rating for the China banks sector in both A/H share markets as because it is excessively undervalued and fails to account for a topline recovery scenario, in our view. Sector re-rating will depend on China's economic pace and fundamental improvement. We prefer leading big banks for their business diversification and promising dividend yield.

Risk Factors

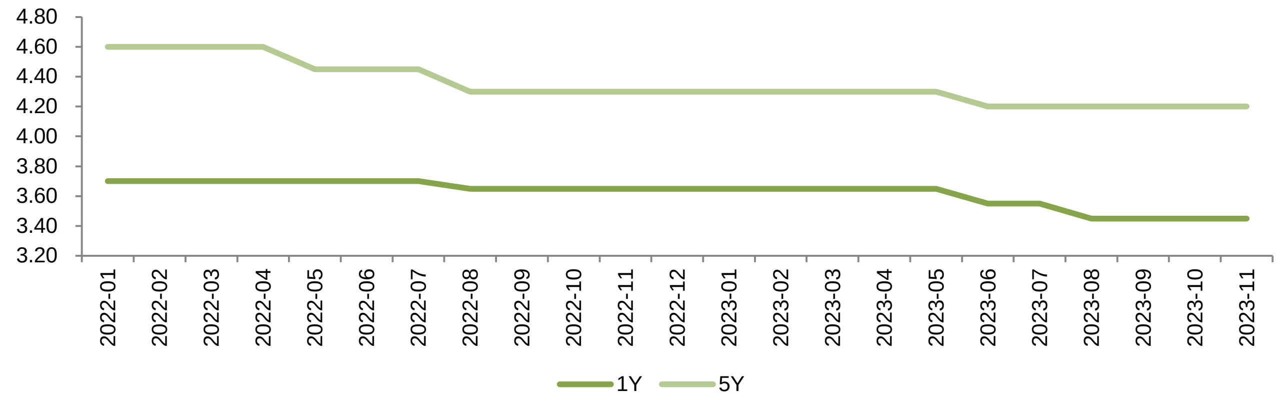
1) Macro uncertainties strongly affect fundamentals; 2) Sharp deterioration in asset quality in specific sectors; 3) NIM pressure will accentuate with further rate cuts, 4) Slower-than-expected recovery in net fee income.

Exhibit 1: Monthly RMB new loans (RMB bn) and FIs RMB total loan balance YoY (%)



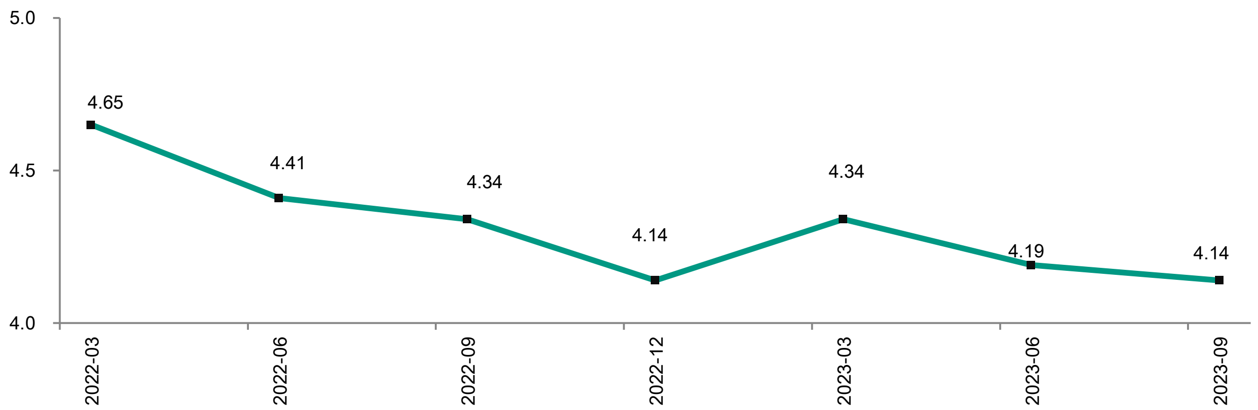
Source(s): PBOC, ABCI Securities

Exhibit 2: China LPR (%)



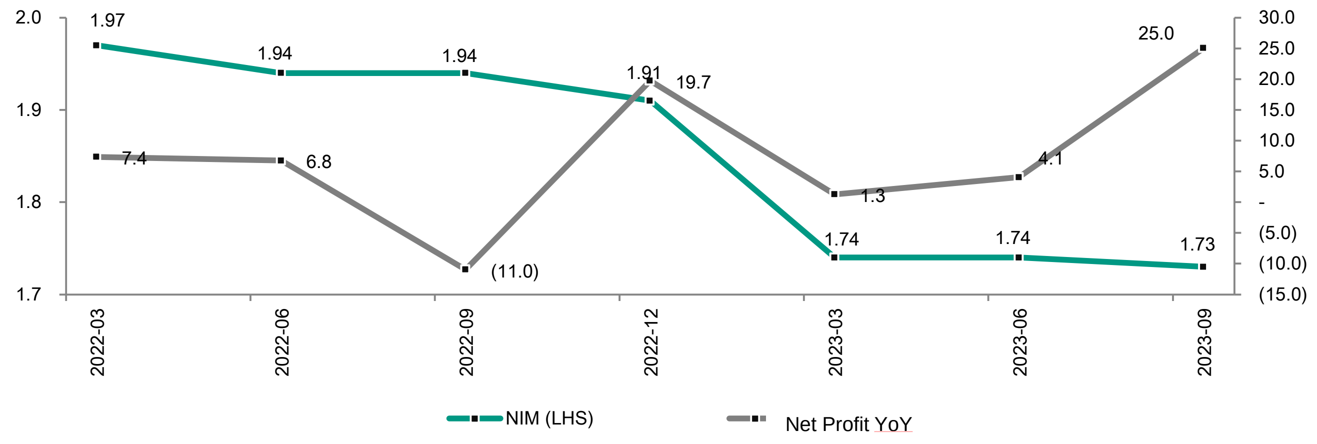
Source(s): National Interbank Funding Center, ABCI Securities

Exhibit 3: System monthly average lending rate (%)



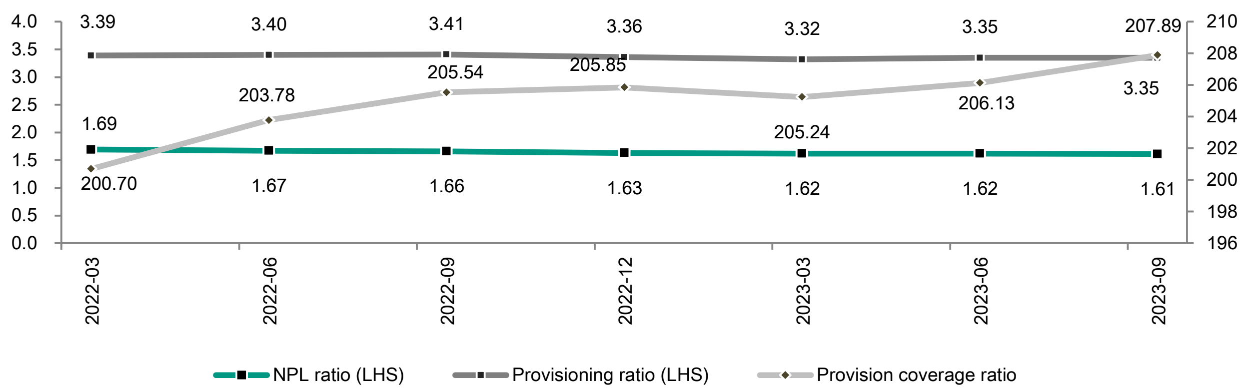
Source(s): PBOC, ABCI Securities

Exhibit 4: System NIM vs. system quarterly net profit YoY (%)



Source(s): NAFR, ABCI Securities

Exhibit 5: System asset quality indicators (%)



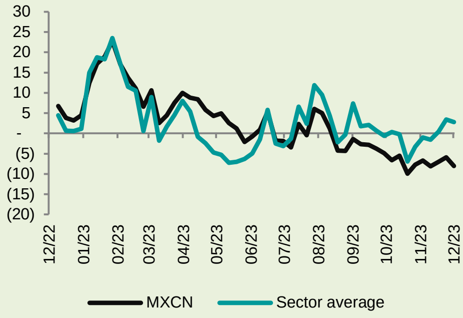
Source(s): NAFR, ABCI Securities

OVERWEIGHT
China Internet Sector – Favor subsegment leaders
Steve Chow

Key Data		Sector Performance (relative to MXCN)	Absolute (%)	Relative (%)
Avg. 24E P/E (x)	13.0	1-mth	(5.6)	(4.2)
Avg. 24E P/B(x)	2.5	3-mth	(17.2)	(8.1)
Avg. 24E div yield (%)	0.7	6-mth	(10.7)	(2.9)
Source(s):Bloomberg, ABCI Securities estimates		Source(s):Bloomberg, ABCI Securities		

- Moderating e-commerce growth in recent months due to soft consumer sentiment
- Live-streaming e-commerce platforms are gaining traction
- Consolidation trend in food and grocery e-commerce platforms

1-year sector performance



Source(s):Bloomberg, ABCI Securities

Moderating e-commerce growth. According to NBS, online sales of physical goods grew 8.9% YoY in 9M23. In particular, the 8.9% industry growth rate in 9M23 was lower than the 10.8% growth in 1H23, indicating a slowdown in recent months due to soft macro environment and less favorable base in 2H23 vs. 1H23. On a positive note, online shopping penetration has been trending up in recent years, indicating a structural consumption shift from offline to online. In terms of product categories, online sales of food products, groceries, and apparel rose 10.4%, 8.5%, and 9.6% respectively in 9M23.

Customers are turning price-sensitive. Major e-commerce platforms are increasing their sales and marketing effort by increasing user incentives and price subsidies. In our view, online shoppers have turned price-sensitive in past years due to the pandemic and soft economic environment, prompting e-commerce platforms to prioritize price competitiveness.

Live streaming e-commerce is gaining traction. In 9M23, live-streaming e-commerce sales rose 60.6% YoY and accounted for 18.3% of total online sales, according to the Ministry of Commerce. We attribute its rising popularity to 1) the products offered are generally low-priced; 2) more interactive features than the traditional search-based e-commerce format. Short-video platforms such as Douyin and Kuaishou are major players in this emerging segment. Meanwhile, Alibaba (9988 HK/ BABA US): has been actively developing live-streaming business to defend its market position.

Consolidation in food and grocery e-commerce: The food and grocery e-commerce space is undergoing consolidation, with Missfresh (MF US) and Dingdong Maicai (DDL US) scaling down their businesses in recent quarters. In addition, community group purchase platforms have seen tightened regulatory control over user subsidies due to potential impact to traditional grocery store/wet market. On the macro front, community group purchase platforms benefited immensely in the pandemic period due to significant surge in demand for food and grocery e-commerce; however, as consumer demand for food and grocery e-commerce has calmed in the post-pandemic era, community group purchase platforms are rationalizing their expansion plans with less aggressive targets.

Short-term Outlook

Overall growth of China's e-commerce sector will be slowing in the short term due to soft macro environment. In addition, increased price sensitivity among consumers and stiff competition are likely to remain in the near term. On a positive note, there are still areas of growth, such as live-streaming e-commerce.

Stock Recommendations

Pinduoduo (PDD US): Pinduoduo has been achieving strong revenue growth in recent quarters, implying ongoing market share gains against peers. In our view, this can be attributed to 1) solid position in the industry as a "value-for-money" platform amid consumers tighten their purse strings during economic downturn; 2) enhanced monetization capabilities driven by operational improvement; 3) optimized product portfolio enabled by deepened cooperation with brands and continuous investments in agriculture and other areas; 4) increased contribution of emerging businesses, including Duoduo Grocery and Temu. We believe Pinduoduo commands a mid-20s market share in China's e-commerce market as of Dec 2023, challenging incumbents such as Alibaba (9988 HK, BABA/US).

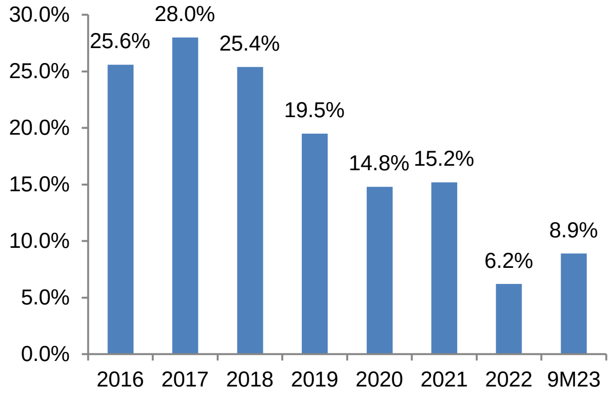
Kuaishou (1024 HK): The company has successfully leveraged its user traffic into live-streaming e-commerce in recent years. It's now one of the three major live-streaming platforms in China (Alibaba, Douyin, and Kuaishou) with an estimated market share in mid-single digit in e-commerce market. We estimate that the share of revenue related to e-commerce activities (online advertising spending, service charges, etc. by e-commerce merchants) are broadly in the 30s range

Alibaba (9988 HK/ BABA US): Alibaba is still the largest e-commerce platform in China with an estimated market share in the mid-40s despite lackluster consumption. Its recent decisions not to proceed with the full spin-off of Cloud Intelligence Group and to suspend the IPO of Freshippo have raised concerns over near-term shareholders' return. After recent share price corrections, the counter is currently trading at an undemanding valuation. While near-term volatility might still persist, current valuation implies rooms of recovery potential in the medium term, in our view

Risk Factors

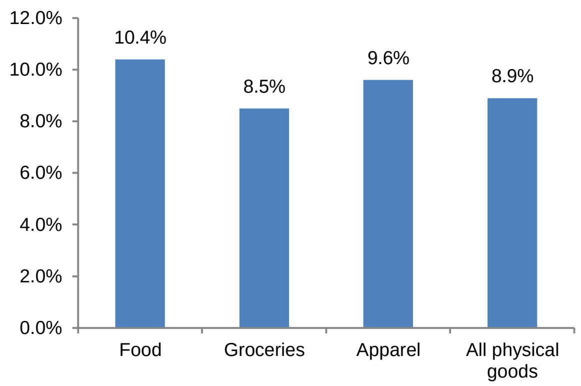
1) Regulatory risk such as anti-trust investigations; 2) Slowdown in e-commerce and internet finance; 3) Non-GAAP financials.

Exhibit 1: Online sales of physical goods



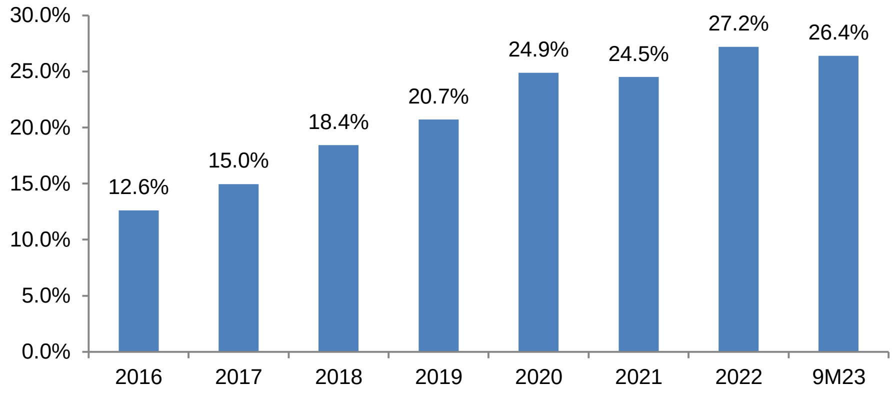
Source(s): NBS, ABCI Securities

Exhibit 2: Online sales of physical goods by category (9M23)



Source(s): NBS, ABCI Securities

Exhibit 3: Online shopping penetration rate



Source(s): NBS, ABCI Securities

Exhibit 5: Valuation of sector top picks (Data as of Dec 4, 2023)

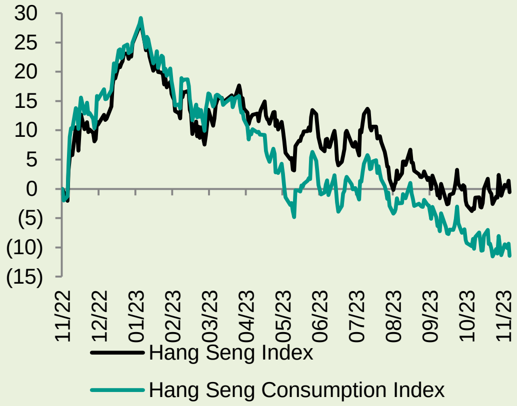
Company	Ticker	Rating	TP	Upside (%)	FY23E P/S (x)	FY24E P/S (x)	FY23E P/E (x)	FY24E P/E (x)	FY23E Yield (%)	FY24E Yield (%)
Alibaba	9988 HK	BUY	HK$110	53.6	1.4	1.3	8.4	7.7	1.8	2.0
Kuaishou	1024 HK	BUY	HK$85	48.6	2.0	1.7	27.5	18.2	NA	NA
Pinduoduo	PDD US	BUY	US$180	24.1	6.5	4.9	26.0	21.5	NA	NA

Source(s): Bloomberg, ABCI Securities estimates

OVERWEIGHT
China Consumer Sector– Macroeconomic challenges to pressure sector
Paul Pan

Key Data		**Sector Performance (relative to HSI)**	**Absolute (%)**	**Relative (%)**
Avg. 23E P/E (x)	20.5	1-mth	(2.4)	(4.6)
Avg. 23E P/B(x)	2.8	3-mth	(8.2)	(6.6)
Avg. 23E div yield (%)	3.0	6-mth	(13.7)	(4.0)
Source(s):Bloomberg, , ABCI Securities estimates		Source(s):Bloomberg, ABCI Securities		

1-year sector performance (%)



Source(s):Bloomberg, ABCI Securities

- Consumer market recovery to remain challenging
- Low inflation shows a slow demand recovery
- We expect market competition to intensify in the short term
- Performance of sector players to diverge; embracing new economic reality would help capture growth opportunities
- Yum China (YUMC US/9987 HK) is our sector top pick due to the relatively better performance of the catering industry and company's commitment in expanding its market presence

Slow consumer market recovery. Growth in national retail sales has been uneven since the start of 2023 and reached 7.6 % YoY in Oct. YTD growth of national online retail sales has also dialed down in recent months, reaching 11.2% YoY in Oct. Growth in subsegments varied- retail sales growth in catering industry remained relatively high and reached 17.1% YoY in Oct; in contrast, other product categories saw volatile growth or decline. E.g., retail sales of “Building and Decoration Materials” fell 4.8% YoY in Oct. The uneven performance can be attributed to lingering impact of the pandemic in early 2023, low-base effect from 2022 that distorted figures for periods in 2023, prolonged challenges in certain economic sectors, and increasing value consciousness of consumers, which was reflected in the national average disposable income per capita and spending growth. An erratic growth pattern was seen in the disposable income per capita in the first three quarters of 2023 on less-than-sanguine macro conditions; meanwhile, national average spending per capita expanded at a high pace 2Q23 and 3Q23. In 3Q23, national average disposable income per capita grew 5.9% YoY, while average spending per capita rose 10.9% YoY. The lower growth in average disposable income per capita dampened overall consumption, while the higher growth in average spending per capita showed the rising burden of living costs. We expect the consumer market to remain challenging and retail sales growth would be volatile in the short term. However, overall demand growth for consumer items and, eventually, the consumer market's recovery would pick up if macroeconomic conditions improve and prospects for income growth becomes more promising.

Low inflationary pressure signals pace of demand recovery remained slow. Inflationary pressure has been trending down in recent months. CPI was down 0.2% YoY and 0.1% MoM in Oct 2023 while 10M23 CPI was up by a mere 0.4% YoY. In addition, inflation for major products was likewise minimal in 2023. The weekly average wholesale price of pork increased marginally in Aug 2023 and has been falling ever since, hitting about RMB 25/kg in the second week of Nov 2023. The wholesale prices of other major meat products also saw a similar pattern. We believe the modest inflationary pressure reflects slow demand recovery. Consumers become more value-conscious when the likelihood of income growth decreases, which further lowers the rate of inflation.

Market competition to intensify in the short term. We believe sluggish recovery in consumer market and consumers' increasing value consciousness have accentuated competition in 2023. In the meantime, existing sector players are fighting to maintain or gain market shares while emerging players strive to grow their presence. To stimulate consumer demand, retailers will offer discounts and promotions to customers, which in turn will erode profitability. For example, in the e-commerce space, Taobao's yearly "Double 12" shopping festival was canceled in favor of the "year-end good price" shopping event, which promises steeper discounts than the former. We expect the competition would continue to intensify as long as the consumer market remains lackluster.

Sector development continues to be uneven. Challenging operating environment and intensified competition would result in uneven development within the sector. Retail sales growth of different products will continue to vary. We expect the fundamentals and valuations of sector players to further diverge and fluctuate.

Long-term Outlook

As macroeconomic risk keeps spreading to industries, uncertain income growth outlook and lower economic growth are impacting consumption behavior. While growth opportunities are still abundant, consumers are turning conservative. We expect, in the long term, sector players need to remain flexible to changes and be prepared for heightened competition from local and global peers.

Short-term Outlook

As consumer market recovery has been slower than expected, operating environment would remain challenging. We believe competition would further intensify since consumers are turning value-conscious and new market entrants continue to emerge to cater to new consumer demands. Sector players who are able to adapt to the shift in market dynamics would capture more growth opportunities.

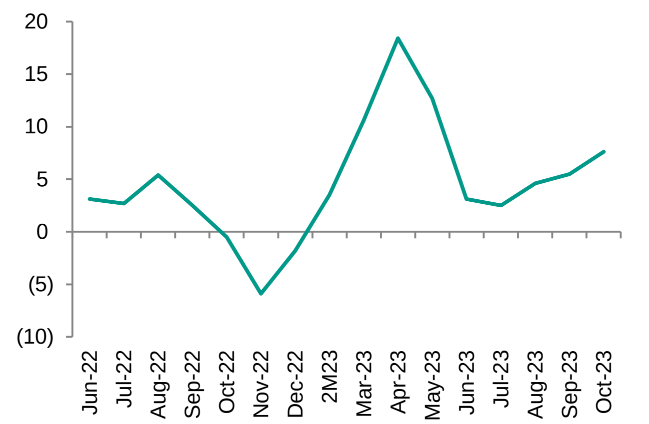
Stock Recommendations

Our sector rating is **OVERWEIGHT.** Sector players are likely to experience uneven performance in the short term due to macro weakness while intensified competition would be a challenge for players to maintain consistent growth and margins. However, we still believe the sector's long-term growth potential is ample and some sector leaders so far have demonstrated high resilience. Our sector top pick is **Yum China (YUMC US/ 9987 HK)**, as we believe the catering industry would continue to outperform and the Group maintains its commitment to expand its market presence with a target to increase its store count to 20k by 2026.

Risk Factors

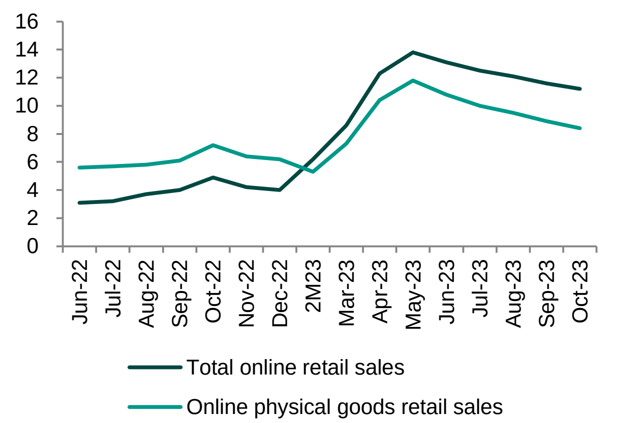
1) Macroeconomic risk; 2) Fluctuating raw material costs; 3) Regulatory/policy risk; 4) Product quality/safety risk; 5) Risk of changing consumer tastes.

Exhibit 1: National retail sales (YoY %)



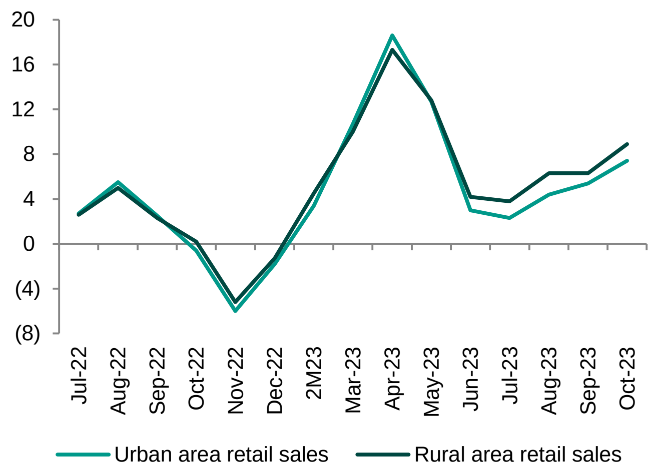
Source(s): NBS, ABCI Securities

Exhibit 2: Online retails sales (YTD YoY %)



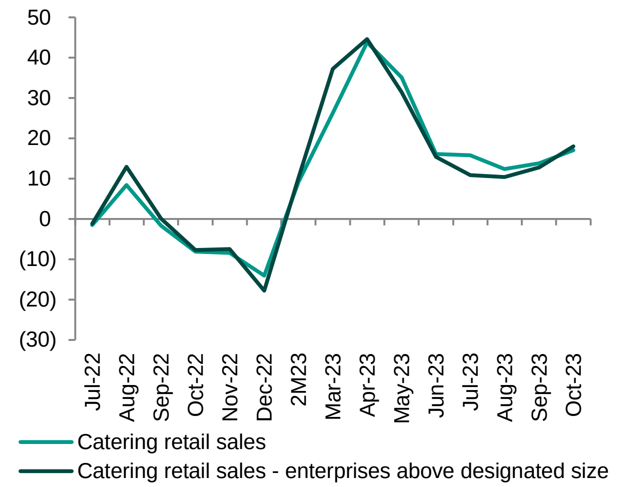
Source(s): NBS, ABCI Securities

Exhibit 3: Retail sales by region (YoY %)



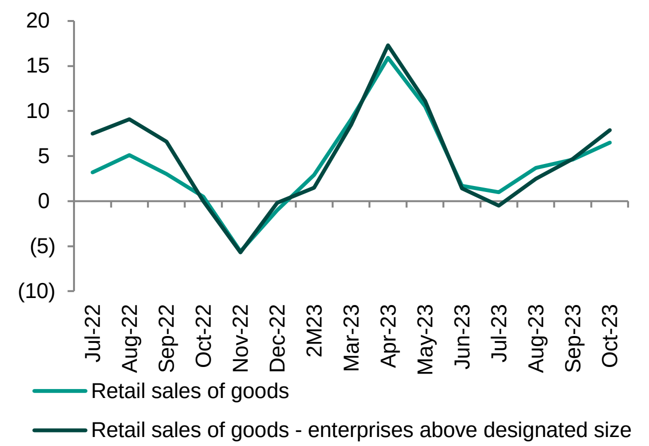
Source(s): NBS, ABCI Securities

Exhibit 4: Catering retail sales (YoY %)



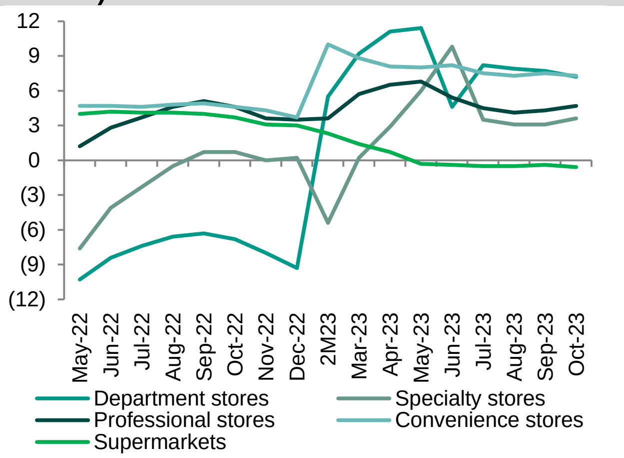
Source(s): NBS, ABCI Securities

Exhibit 5: Retail sales of goods (YoY %)



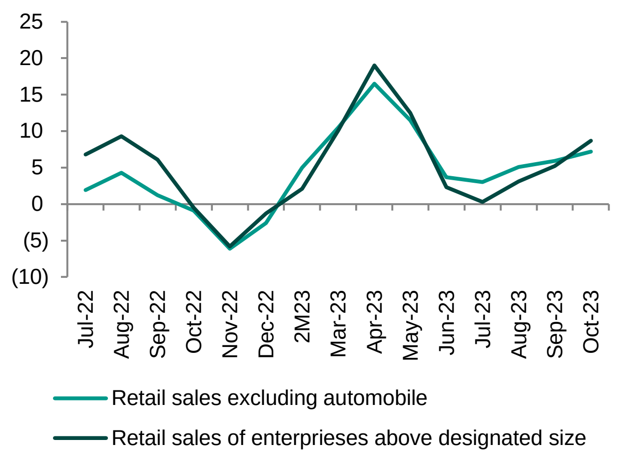
Source(s): NBS, ABCI Securities

Exhibit 6: Retail sales by store format (YTD YoY %)



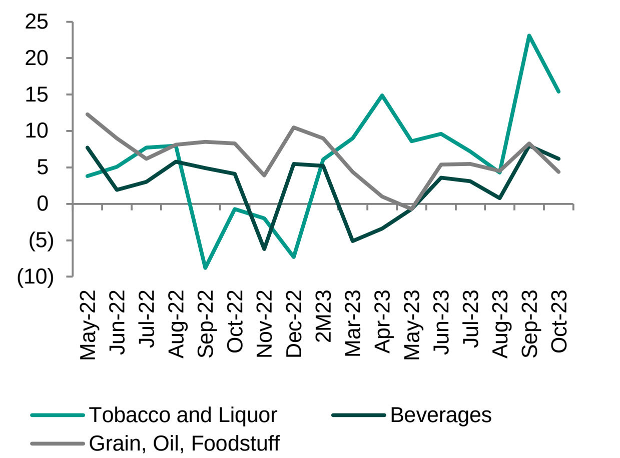
Source(s): NBS, ABCI Securities

Exhibit 7: National retail sales excluding automobile and of enterprises above designated size (YoY %)



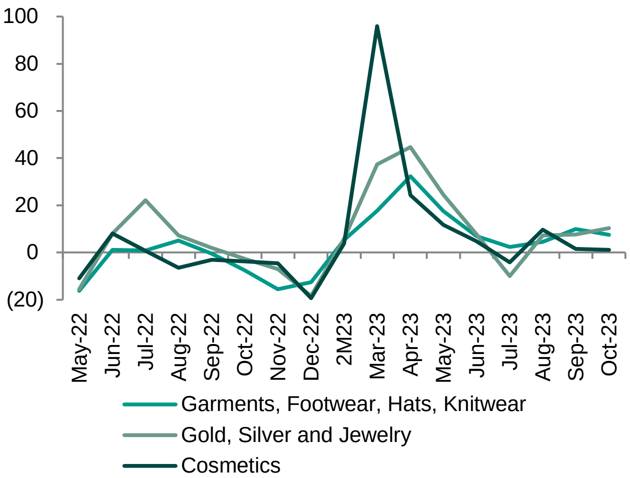
Source(s): NBS, ABCI Securities

Exhibit 8: Retail sales of selected goods (YoY %)



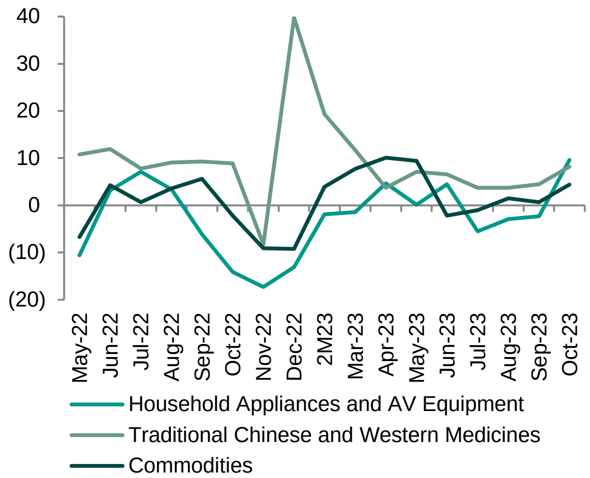
Source(s): NBS, ABCI Securities

Exhibit 9: Retail sales of selected goods (YoY %)



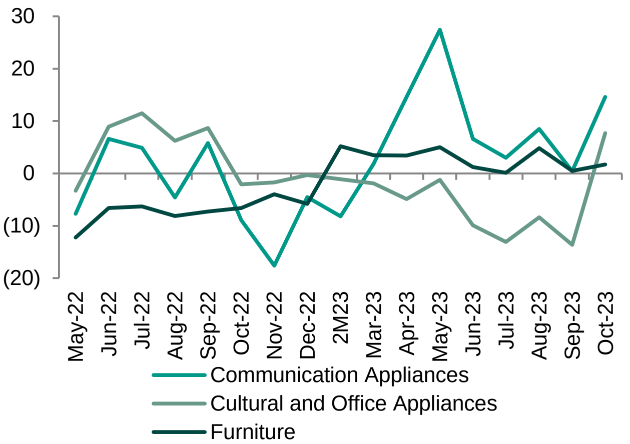
Source(s): NBS, ABCI Securities

Exhibit 10: Retail sales of selected goods (YoY %)



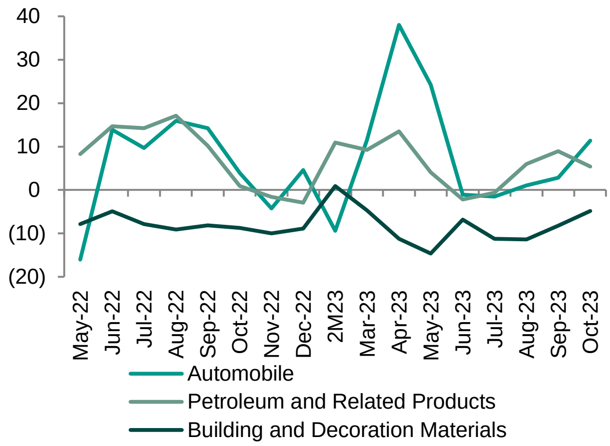
Source(s): NBS, ABCI Securities

Exhibit 11: Retail sales of selected goods (YoY %)



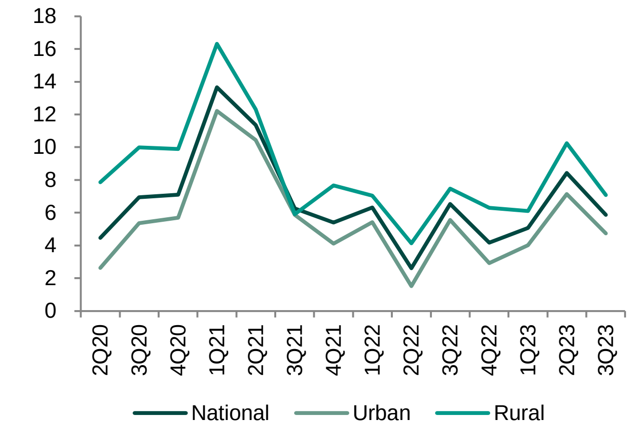
Source(s): NBS, ABCI Securities

Exhibit 12: Retail sales of selected goods (YoY %)



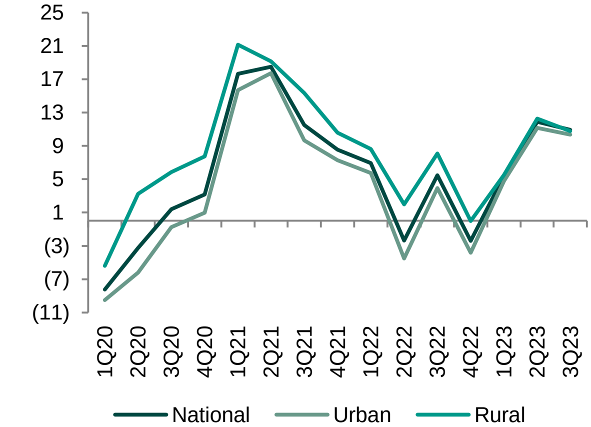
Source(s): NBS, ABCI Securities

Exhibit 13: Per capita disposable income (YoY %)



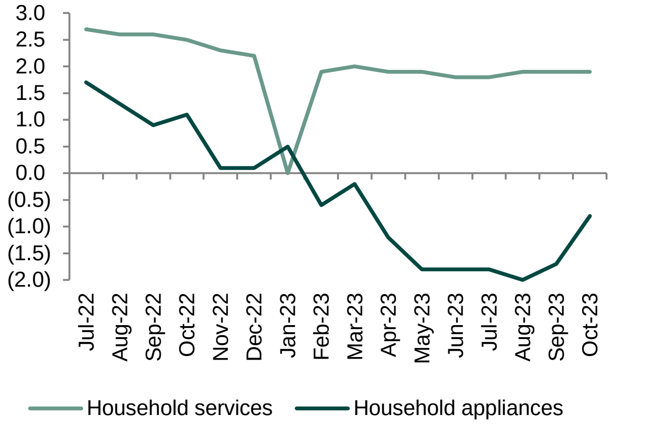
Source(s): NBS, ABCI Securities

Exhibit 14: Per capita spending (YoY %)



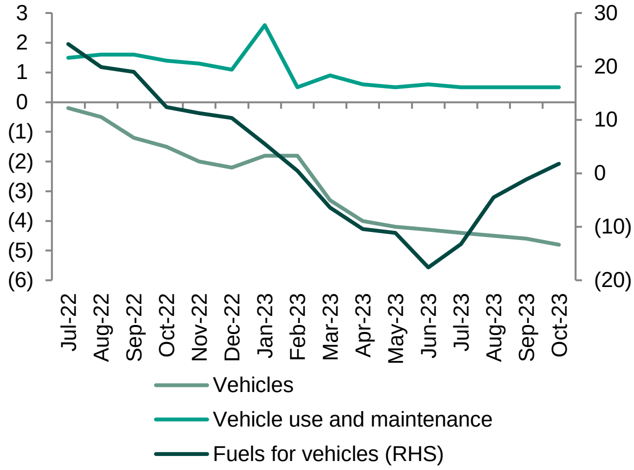
Source(s): NBS, ABCI Securities

Exhibit 15: CPI of articles & services for daily use (YoY %)



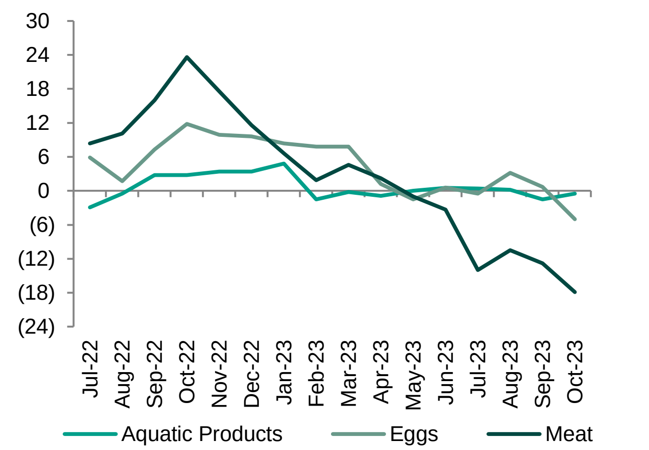
Source(s): NBS, ABCI Securities

Exhibit 16: CPI of selected items from transportation and communications (YoY %)



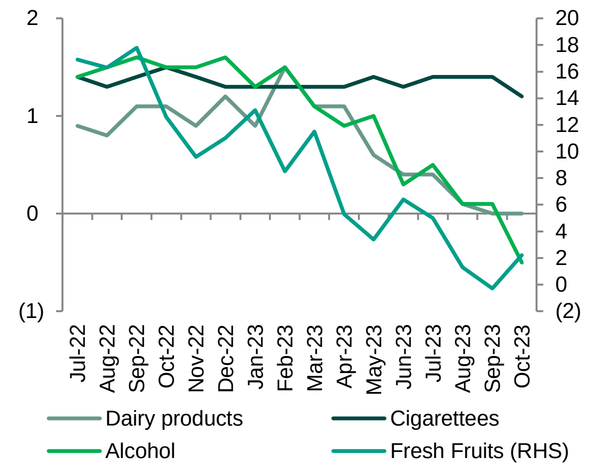
Source(s): NBS, ABCI Securities

Exhibit 17: CPI of selected food products (YoY %)



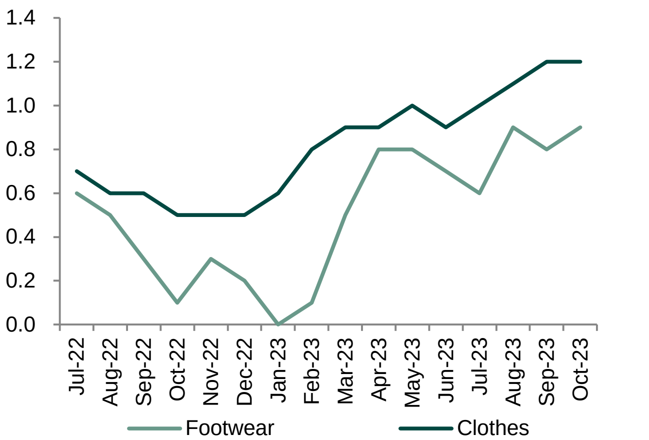
Source(s): NBS, ABCI Securities

Exhibit 18: CPI of selected food products (YoY %)



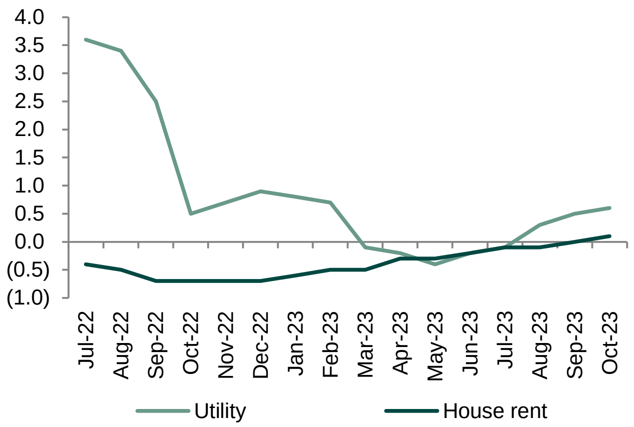
Source(s): NBS, ABCI Securities

Exhibit 19: CPI of clothing (YoY %)



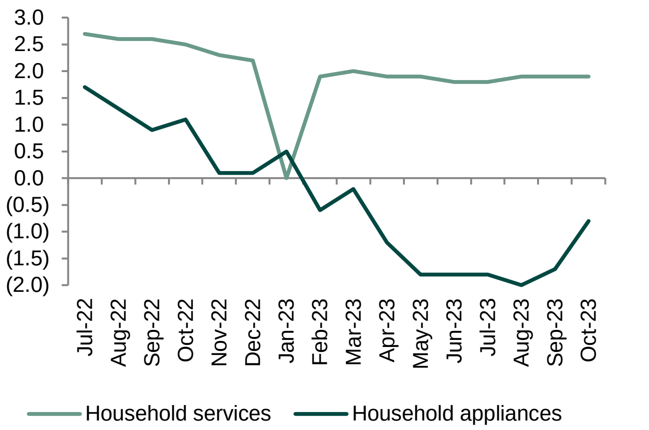
Source(s): NBS, ABCI Securities

Exhibit 20: CPI of housing (YoY %)



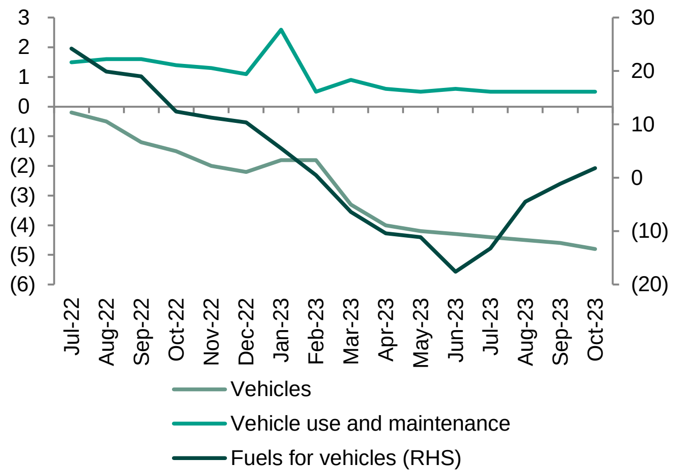
Source(s): NBS, ABCI Securities

Exhibit 21: CPI of articles & services for daily use (YoY %)



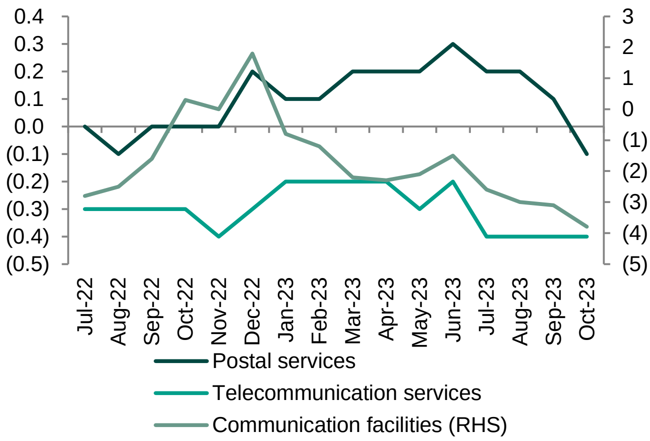
Source(s): NBS, ABCI Securities

Exhibit 22: CPI of selected items from transportation and communications (YoY %)



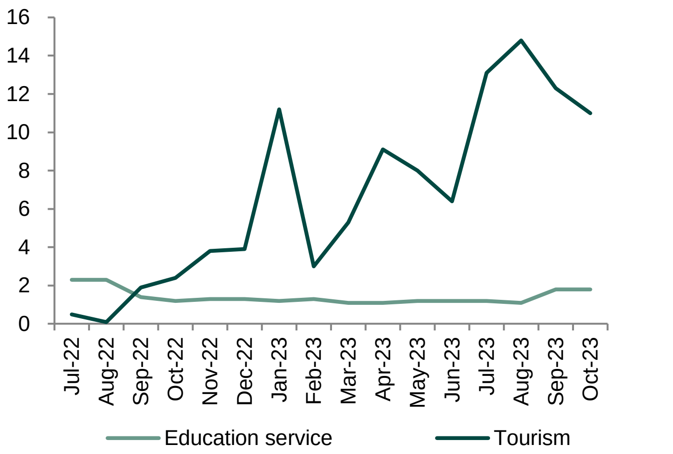
Source(s): NBS, ABCI Securities

Exhibit 23: CPI of selected items from transportation and communications (YoY %)



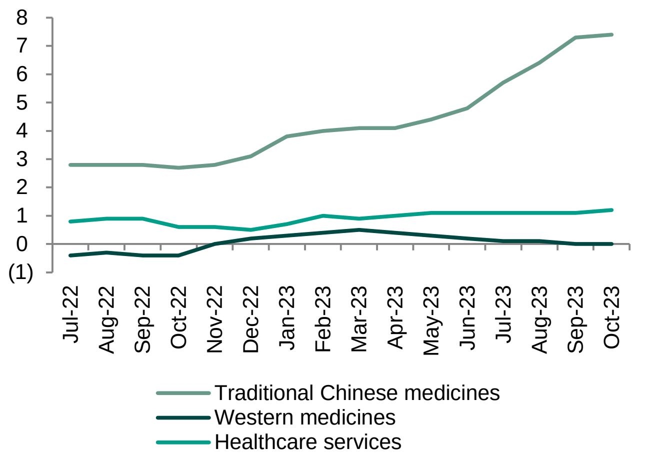
Source(s): NBS, ABCI Securities

Exhibit 24: CPI of education, culture and recreation (YoY %)



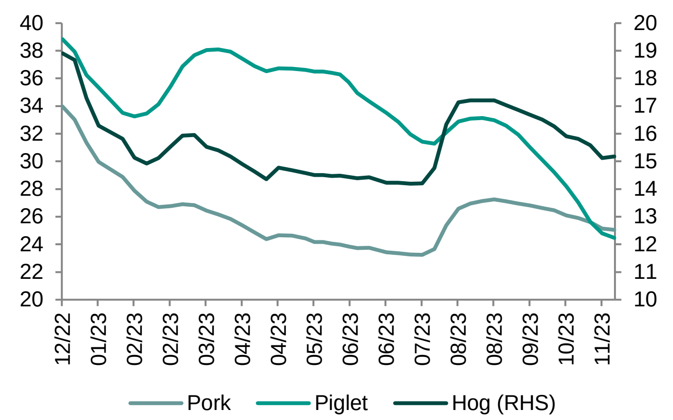
Source(s): NBS, ABCI Securities

Exhibit 25: CPI of medical services and healthcare (YoY %)



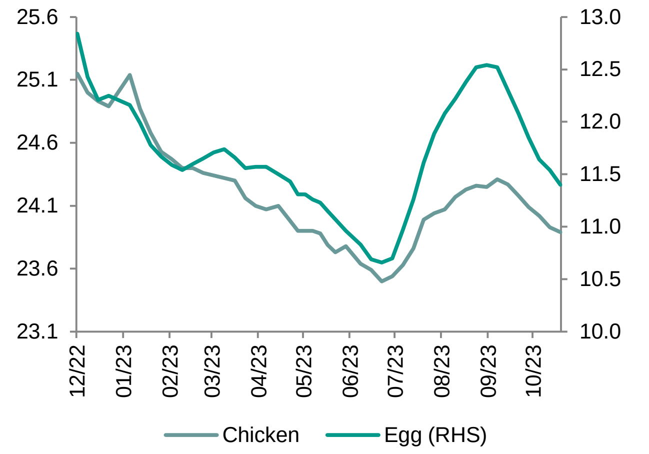
Source(s): NBS, ABCI Securities

Exhibit 26: Weekly average wholesale price of pork, piglet, and hog (RMB/kg)



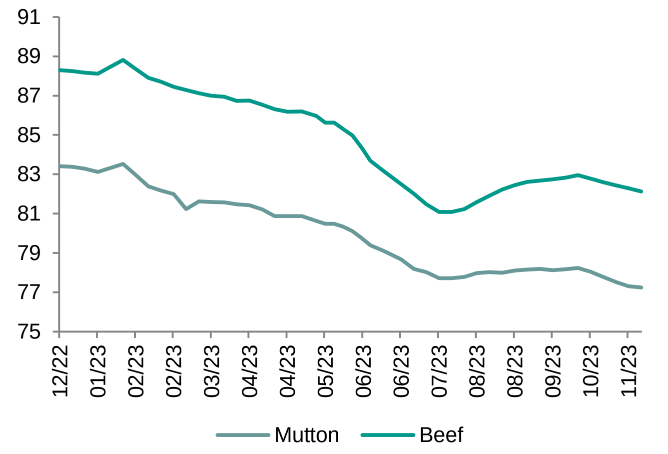
Source(s): MOA, ABCI Securities

Exhibit 27: Weekly average wholesale price of egg and chicken (RMB/kg)



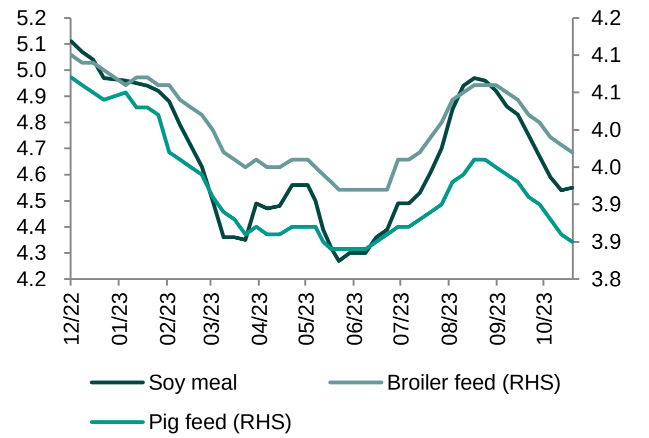
Source(s): MOA, ABCI Securities

Exhibit 28: Price of beef and mutton (RMB/kg)



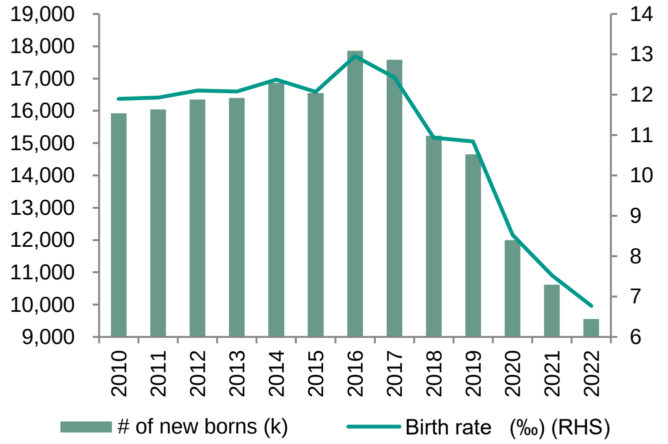
Source(s): MOA, ABCI Securities

Exhibit 29: Price of soy mean, pig feed, and broiler feed (RMB/kg)



Source(s): MOA, ABCI Securities

Exhibit 30: Birth rate and number of newborns



Source(s): NBS, ABCI Securities

Valuation of sector top picks (Data as of Nov 24, 2023)

Company	Ticker	Rating	TP	Upside (%)	FY23E P/E(x)	FY24E P/E (x)	FY23E P/B (x)	FY24E P/B (x)	FY23E Yield (%)	FY24E Yield (%)
Yum China	YUMC US	BUY	US$ 62.6	40.0	22.70	19.41	2.79	2.39	1.16	1.16
	9987 HK	BUY	HK$ 489.2	41.1	22.54	19.27	2.77	2.37	1.17	1.17

Source(s): Bloomberg, ABCI Securities estimates

Disclosures

Analyst Certification
The analysts, CHAN Sung Yan, AU Yu Hang, Johannes, CHOW Sau Shing, PAN Hongxing, YAO Shaohua, being the persons primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. We and/or our associates have no financial interests (except "Disclosures of Interests" below) in relation to the listed company(ies) covered in this report, and we and/or our associates do not serve as officer(s) of the listed company (ies) covered in this report.

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Definition of equity rating

Rating	Definition
Buy	Stock return rate≥ Market return rate (9%)
Hold	- Market return rate (-9%) ≤ Stock return rate < Market return rate (+9%)
Sell	Stock return < - Market return (-9%)

Notes: Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months
Market return rate: average market return rate since 2006 (HSI total return index 2006-22 averaged at 8.4%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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