

HOUSE VIEW

Outlook 2025: China

December 2024

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Things to know

1.

The Chinese economic outlook is very dependent on the level of Trump's tariffs.

2.

We expect 4.5-5% economic growth in case of 20% tariff.

3.

Chinese government 10-year bond yield to rebound; see 9.5% upside for equities.

MACROECONOMIC VIEW

As always with China, the importance to the government of achieving a desirable growth rate distinguishes it from other countries. **We think there is a decent probability the government sets a robust 2025 growth target even if there is significant uncertainty around the scope and impact of US tariffs.**

The GDP growth target, together with other key economic goals (e.g. fiscal deficit, government bond quota) will be decided at the Politburo meeting and central economic working conference in December and will be announced to the public in "Two Sessions" next March.

Under our baseline scenario of a 20% tariff, additional Chinese policy measures, helped by a weaker renminbi, could roughly offset the negative impact from US tariffs. But if the US applies an additional 60% tariff, the costs could be too great to offset fully. **We think there is decent probability the government may set a growth target at around 5% or with a range between 4.5%-5% for 2025.**

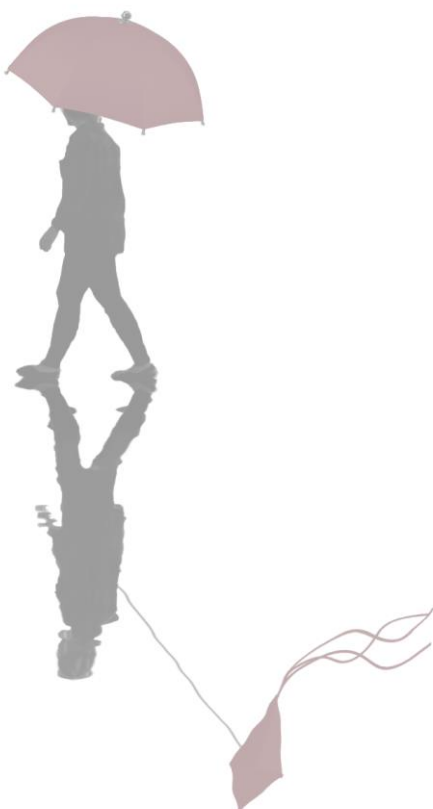
Given the expected imposition of tariffs, we expect to see a lower contribution from net exports and slower private manufacturing investment. This would be roughly offset by stronger fiscal/housing/monetary policy efforts, reflected in faster government consumption and investment, and less drag from the housing sector.

We expect deflation, gauged by the GDP deflator, could continue in the near term, and for inflation to stay low though probably turn slightly positive towards H2 2025.

INVESTMENT IMPLICATIONS

Fixed income: 10-year Chinese government bond yield to rebound to 2.0% by end-2025, as we expect Chinese stimulus to rely on fiscal policy and structural reforms. Nevertheless, should the authorities loosen monetary policy aggressively, it would accentuate fears of a 'Japanification' of its bond market.

Equities: In a base case scenario of 20% additional tariffs from the US but with a robust policy response from the Chinese government, we expect the MSCI China to reach a price target of 71 at end-2025, implying 9.5% upside from the current level. Uncertainties are high, however, depending on Trump's trade policies, which could lead to big swings in Chinese equities' valuations and the earnings outlook.



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