Trust must be earned

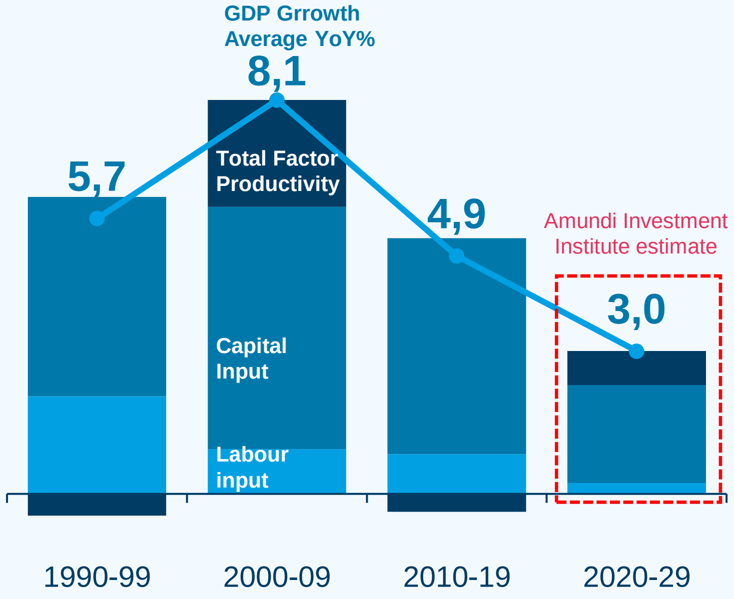
Amundi ASSET MANAGEMENT

China's pivot: steering through turbulence to sustainability

January 2024

AMUNDI INVESMENT INSTITUTE INFOGRAPHIC

2024 – The pivot towards a new growth paradigm

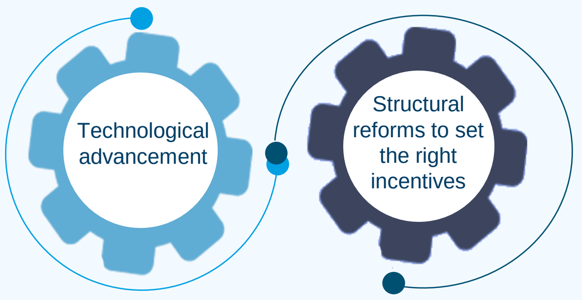


Source: Amundi Investment Institute. Data as of 15 January 2024.

GDP can grow if there is more available capital and/or if there are more available workers and/or productivity increases. Chinese growth is structurally slowing because of:

- Slower productivity gains after initial market liberalisation reform
- The diminishing return of capital, hence ineffective investments
- An ageing population and shrinking labour force

Productivity holds the key



Boosting total-factor productivity (TFP) through catch-up growth can be significant and beneficial, but further reforms and economic liberalisation are prerequisites for such progress.

"Innovation has been prioritised at the national level, aiming to transform China into a technological powerhouse and transition from a low-value-added manufacturing economy to one based on innovation."

VINCENT MORTIER
GROUP CIO

China technological advancement

Artificial intelligence

39.8%

Percentage of publications in Artificial Intelligence Journals worldwide in 2021

Source: Center for Security and Emerging Technology, Artificial Intelligence Index Report 2023, Stanford University.

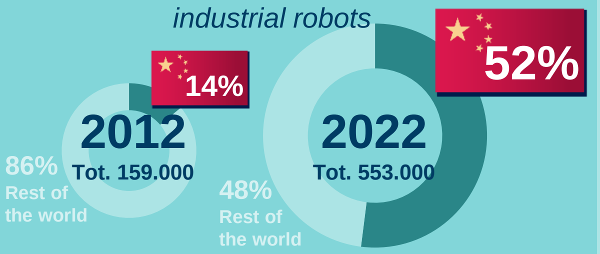
Clean technology

China ranks 1° in all 8 energy and environment technologies in the Critical Technology Tracker

Source: Australian Strategic Policy Institute (ASPI).

Industrial automation & robotics

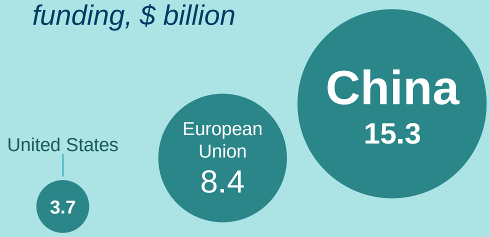
Annual installations of industrial robots



Source: International Federation of Robotics.

Quantum computing

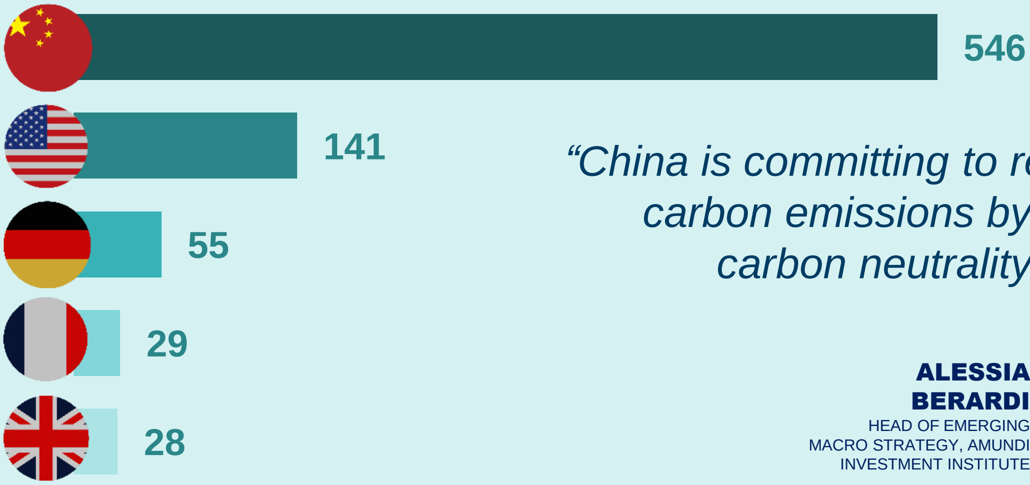
Announced planned governmental funding, $ billion



Source: McKinsey, Quantum Technology Monitor, April 2023.

China leads energy transition investments

Top 5 countries by energy transition investment in 2022 ($ billion)



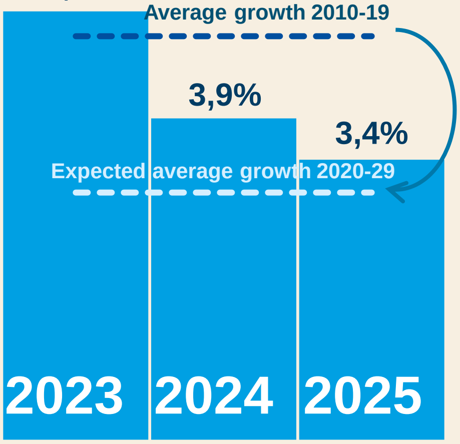
"China is committing to reach peak carbon emissions by 2030 and carbon neutrality by 2060."

ALESSIA BERARDI
HEAD OF EMERGING MACRO STRATEGY, AMUNDI INVESTMENT INSTITUTE

Source: Bloomberg NEF, NEO Net Zero Investment, May 2023.

Some clouds in 2024 China macro outlook

We expect a rapid economic transition towards the lower 3% gear



Source: Amundi Investment Institute. Data is as of 10 January 2024. Forecasts are by Amundi Investment Institute as of 10 January 2024.

Property sector remains a drag in the deleveraging era
The sharp correction in the housing sector is not over yet. Beijing's objective is to engineer a controlled decline for the real estate sector, not to revive the sector.

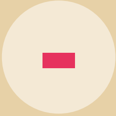
Consumer: a slow burn, not a swift recovery
In the deleveraging process, households are bearing the brunt of the strain. Unless there is a shift in policy to support consumption, the gradual erosion of consumption will persist.

Easing measures: too light for a secular downturn
The deleveraging process is expected to also gradually move to LGFV. The overarching force of debt discipline will overshadow the easing measures, driving growth down further.

Equity views

Balance short-term challenges with long-term opportunities

Valuations are appealing and the longer-term risk-reward appears attractive



Sentiment remains weak amid economic slowdown and geopolitical tensions

Themes to watch

- Focus on companies that can benefit from **weaker CNY**
- Pension reform could **boost internal demand** and redirect savings
- Chinese multinationals **diversifying their supply chains**

Source: Amundi Investment Institute. Data as of 8 January 2024.

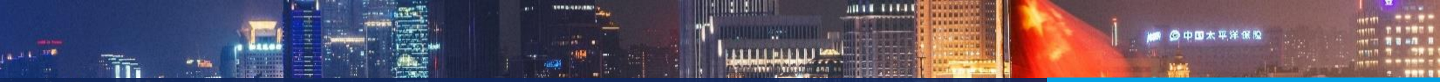
Fixed income views

***NEUTRAL**: Chinese Government Bonds (CGB) offering diversification opportunities for global investors*

***CAUTIOUS**: Chinese Corporate Bonds (particularly in real estate)*

We expect the CGB yield to remain around 2.5-3%

Source: Amundi Investment Institute, Bloomberg. Data as of 8 January 2024.



The future of Renminbi

Short term 2024

The Chinese currency weakened last year reflecting China's economic troubles. In 2024, the Federal Reserve's pivot to cutting rates should limit how much the upside for the USD/CNY will be extended. The market is also short the RMB, which again serves as a positive technical for the currency.

Long term

Over a longer horizon, especially given the recent extension of BRICS, we think the Renminbi will be increasingly used as a settlement currency.

Source: Amundi Investment Institute, Bloomberg. Data as of 8 January 2024. CNY = Chinise Yuan (Renminbi), USD = US Dollar.

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