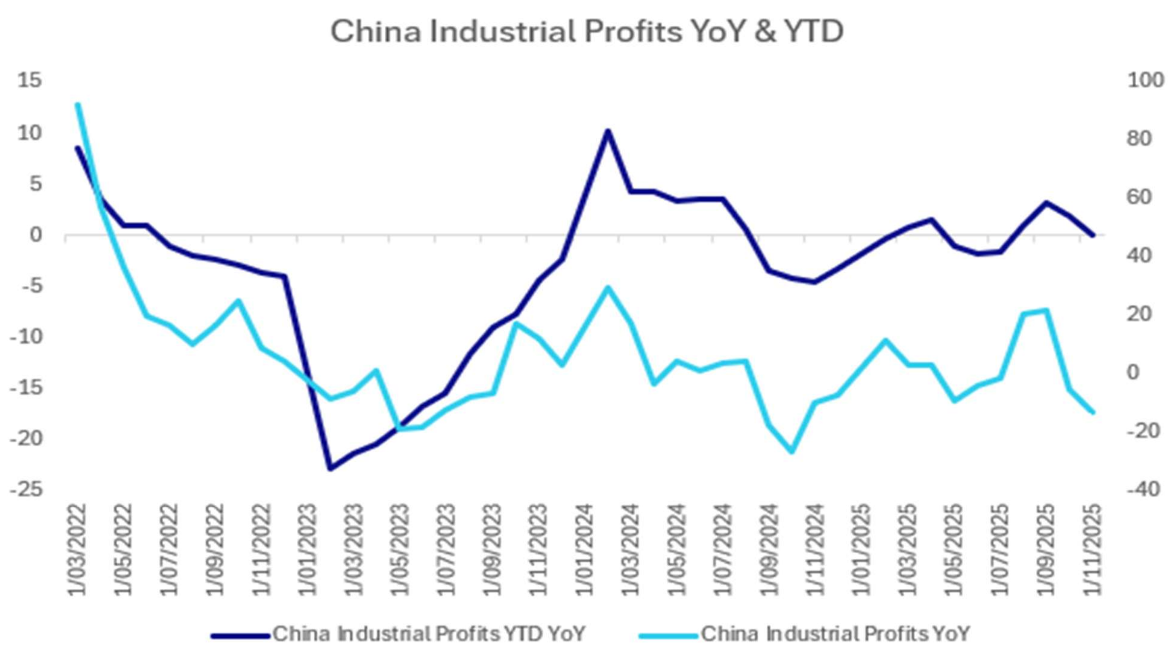
The Macro, Valuation, Sentiment and Technical Lens

Macro: It is a quiet end to January for China data releases with Industrial Profits and Official PMIs the only major releases in the week ahead. A weak Industrial Profit release in November underscored the ongoing challenges for corporates as weaker than expected domestic demand, volatility in exports and the ongoing price wars continue to drag. Price wars known as "price involution" in China refers to a destructive cycle of relentless price-cutting where companies compete mainly by lowering prices rather than improving quality, technology, or efficiency—often to the point where profits disappear for everyone. It is difficult to see any change in momentum expected from the December release as the ongoing, underlying forces behind the decline in profits require policy intervention.

Official PMIs will be released on the 31st and are widely forecast to maintain their marginal expansion. The official PMI manufacturing crept up to 50.1 in December for its first expansion since March. Official PMIs (state owned enterprises) contracted for long periods last year whilst at the same time the RatingDog PMI (private companies) expanded moderately for most of the year suggesting that private companies have recovered quicker.



source: Bloomberg Finance LP / MNI

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Valuations: Last week the Shanghai Comp and Shenzhen Comp delivered gains, as the CSI 300 and Hang Seng fell. The CSI 300 and Hang Seng tend to track global moves more closely than the domestically focused Shanghai and Shenzhen. Year to date the CSI 300 has struggled, down over -1.7% whilst Shenzhen is up almost +5%. Whilst the CSI 300 has moderated, it's price to earnings remains above the full year 2025 and ahead of the 2026. Onshore analysts have been revising their outlook for earnings for many sectors particularly in sectors like industrials, technology, and AI-related companies, which are expected to drive the P/E ratio higher from current forecasts

Fig 2: CSI 300 Price to Earnings

Shanghai Shenzhen CSI 300 Index Compare <Sec> Periodicity Annuals Cur FRC (CNY)

1) Key Stats 2) Fundamentals 3) Custom 4) Shared

11) Highlights 12) Valuation 13) Profitability 14) Leverage & Liquidity 15) Market Data

12 Months Ending	2022 Y 12/30/2022	2023 Y 12/29/2023	2024 Y 12/31/2024	2025 Y 12/31/2025	Current 01/25/2026	2026 Y Est 12/31/2026	2027 Y Est 12/31/2027
Valuation Metrics							
Price/Earnings	13.95	12.80	15.78	17.48	17.79	14.60	12.87
Price/Earnings before …	12.27	11.30	13.64	15.29	15.58	14.56	12.87
Price/Earnings before …	12.72	11.55	14.46	16.12	16.42		
Price/Book Value	1.73	1.45	1.62	1.81	1.84	1.67	1.54
EV/Sales	2.05	1.90	2.28	2.67	2.70		
EV/EBIT	17.25	17.34	20.45	22.55	22.79		
EV/EBITDA	15.65	14.78	16.15	19.70	19.88	17.35	15.87
Dividend Yield	2.43	2.79	2.71	2.36	2.37	2.58	2.89

Bond yields traded in tight ranges with the CGB 10-Yr locked in a 1.82 – 1.84% range for the week and appears unlikely to show much volatility in the week ahead even in the face of issuance.

Spot USD/CNH tracks near 6.9464/6.9533 in early Monday dealings, in line with Friday's close of 6.9494. The pair finished lower for the week as China's Central Bank set the yuan's daily reference rate below 7 for the first time in over two years, with some market observers suggesting that it is a sign that policymakers may allow the currency to appreciate further. USDCNH has consistently traded below the 20-day EMA of 6.9744 since November, following its decline. With all major moving averages for the pair downward sloping at present, it suggests that the bullish momentum could run for some time as markets watch for further policy easing from the PBOC.

Sentiment: Investor sentiment in China at the start of 2026 could be described as cautiously optimistic and highly divergent. Whilst a strong consensus among major financial institutions forecasts a positive year for Chinese equities, this is primarily driven by specific "new economy" sectors, leaving other areas of the market like property and consumer stocks lagging. There is focus on general consumption from policy makers and whilst the policies announced so far appear moderate, there remains high expectation of more to come. Valuations are already high for onshore bourses, but it is sector specific. The optimism appears fuelled by policy focus on AI / Tech and expectations for earning growth.

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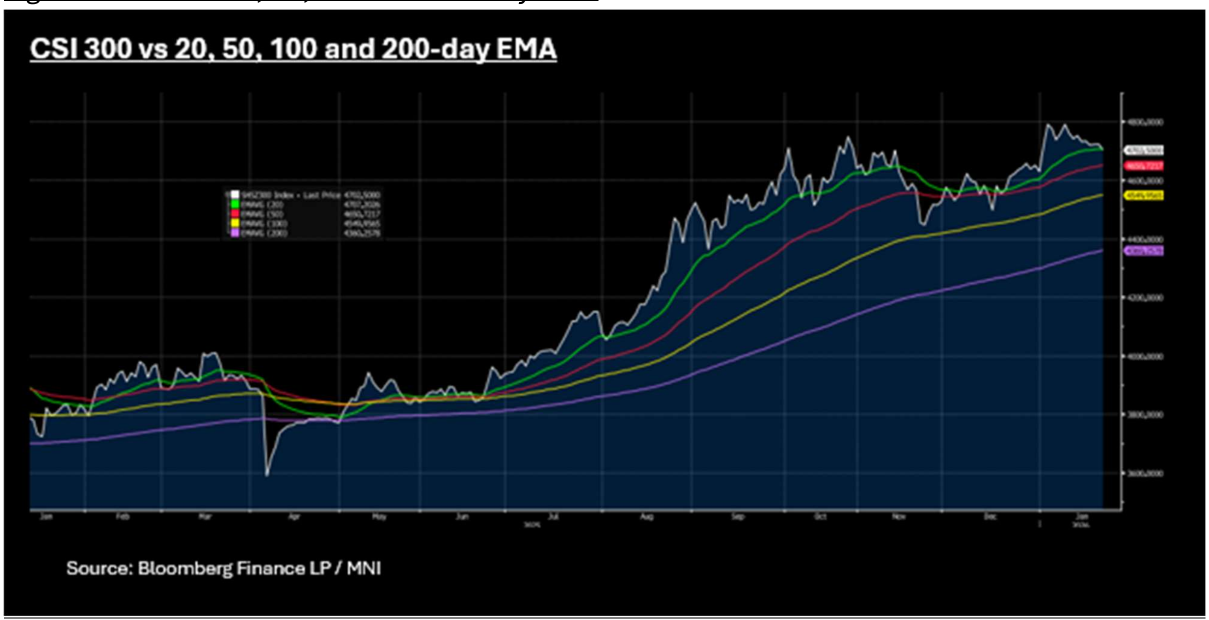
Technicals: The CSI 300 finished lower last week at 4,702 following a weak conclusion and sees the index finished marginally below the 20-day EMA of 4,707. Equity futures suggest a quiet start to the week as markets seem likely to take their lead from global moves.

Fig 3: CSI 300 vs 20, 50, 100 and 200-day EMA



Source: Bloomberg Finance LP / MNI

The OMO last week had an injection of liquidity of CNY229bn yet month to date has withdrawn over CNY600bn of liquidity from the interbank market.

There are no major government bond auction announcements yet for the week ahead.