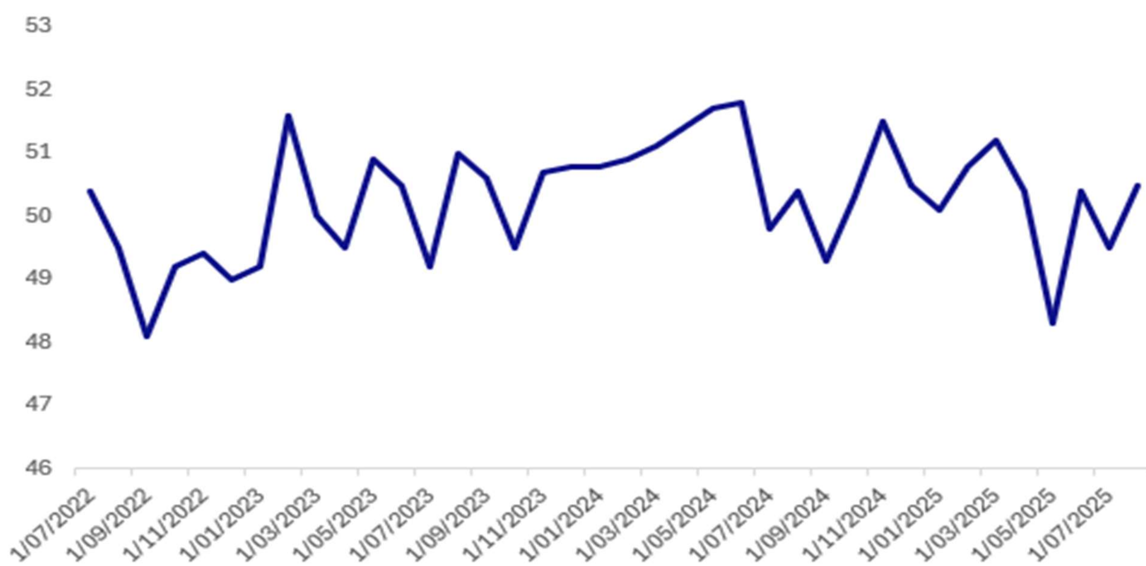
The Macro, Valuation, Sentiment and Technical Lens

Macro: The key late week was Loan Prime Rates, which as we expected was no change and Industrial Profits which jumped in August, reversing months of declines, signalling that the national campaigns to remove overcapacity and excessive competition are paying off. For the week ahead the Official PMIs (manufacturing and non) for September are released which are forecast to remain in a similar trend with manufacturing in modest contraction and services in modest expansion. The RatingDog PMIs are out also and are of more interest with expectations that services will remain strongly in expansion and manufacturing only just in expansion.

Fig 1: RatingDog China PMI Manufacturing



Source: Bloomberg Finance LP / MNI

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Valuations: A lot of focus has been on the onshore equity rally. The P/Es now are elevated, even when compared to the post COVID period. At 17.6x for the CSI 300, forecasts are for a year end close at 16x and 2026 a further decline.

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	2021 Y 12/31/2021	2022 Y 12/30/2022	2023 Y 12/29/2023	2024 Y 12/31/2024	Current 09/28/2025	2025 Y Est 12/31/2025	2026 Y Est 12/31/2026
Valuation Metrics							
Price/Earnings	16.52	13.98	12.67	15.77	17.69	16.05	14.16
Price/Earnings before ...	14.47	12.27	11.37	13.64	15.42	15.66	14.14
Price/Earnings before ...	15.08	12.72	11.63	14.46	16.36		
Price/Book Value	2.18	1.73	1.45	1.62	1.83	1.71	1.55
EV/Sales	2.58	2.05	1.88	2.28	2.57		
EV/EBIT	20.31	17.25	17.28	20.43	22.16		
EV/EBITDA	20.27	15.58	14.83	16.15	18.03	16.77	15.07
Dividend Yield	1.64	2.43	2.79	2.71	2.42	2.46	2.71
Fundamentals							
Gross Margin	18.82	17.66	18.60	18.81	19.38	20.19	21.07
Operating Margin	12.71	11.90	10.90	11.14	11.59	12.52	13.16
Profit Margin	10.02	9.63	9.06	8.95	9.33	9.71	10.28
Return on Assets	1.57	1.54	1.44	1.31	1.29	1.60	1.81
Return on Equity	12.82	12.22	11.06	10.13	10.20	10.74	10.98

Source: Bloomberg Finance LP / MNI

Sentiment: The strength of the equity market has seen people rushing to open equity accounts. Signs of life in the Shanghai real estate market are encouraging but will need to see a more sustained recovery in multiple key cities. Margin trade account openings have grown, though in context the size of China's stock market also has nearly doubled in the past decade. The amount of leveraged purchases as a proportion of total market capitalization was 2.2% as month end, slightly above the 10-year average but far below 2015's peak of 4.6% (as reported by BBG).

Technicals: All major equity bourses remain elevated, above major moving averages. The bond market has for best part of this year seen the 10-Yr trading in a +18bps range, with no signs of a break out. Last week the 10-Yr traded above the 1.90% mark briefly, only to move lower within days.