



# CHINA MARKET OUTLOOK

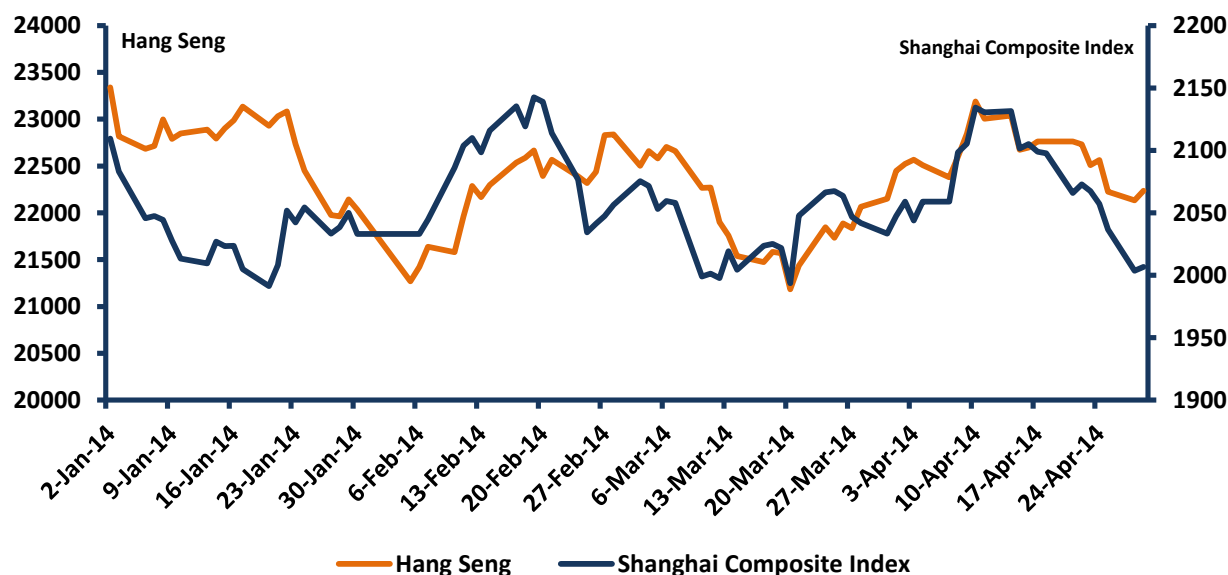
**MIRAE ASSET**  
Building on principles

## CHINA MARKET UPDATE

China market has seen some correction YTD; as the macro indicators of Chinese economy have been weak. Both the Chinese benchmark indices have remained highly volatile this year with a negative return of around 5% since start of the year.

	MSCI China	Hang Seng	Shanghai Composite Index
<b>YTD (Absolute)</b>	-8.04%	-5.03%	-4.24%
<b>1 Year (Absolute)</b>	-4.44%	-2.65%	-6.96%

Source: Bloomberg, 30<sup>th</sup> April, 2014



Source: Bloomberg, 30<sup>th</sup> April, 2014

The weak trend has been due to 3 main factors

1. Economic Indicators show weakness in the Chinese Economy
2. Couple of Corporate Bond Defaults negatively impacted sentiments
3. Fund Flows have been weak

Almost all the sectors are in the negative zone other than the IT sector. IT sector is the only sector which has shown positive returns due to strong results shown by few IT companies.

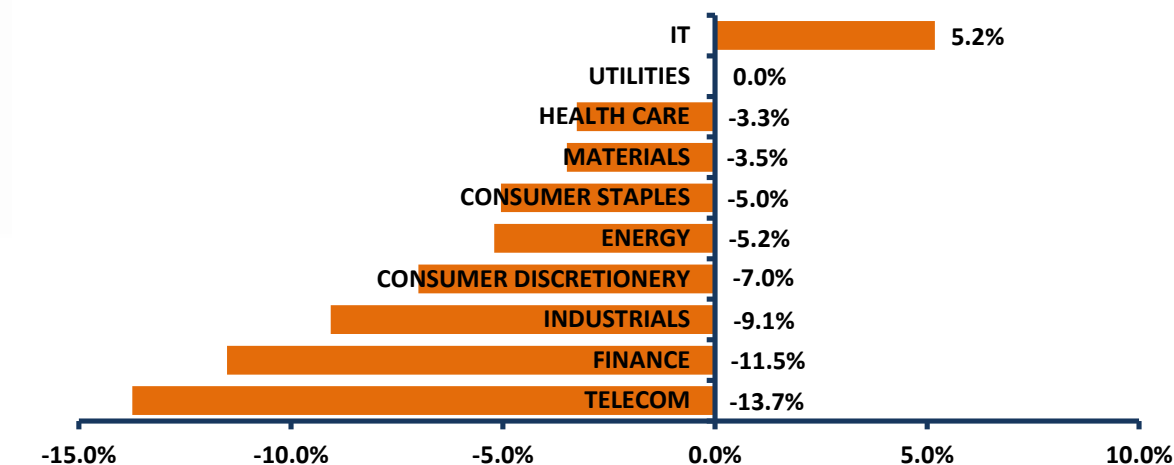
The worst performing sector being the telecom sector and financial sector.



# CHINA MARKET OUTLOOK

**MIRAE ASSET**

Building on principles



Source: Bloomberg, 30<sup>th</sup> April, 2014

## 1. Economic Indicators:

### A. GDP Growth:

Chinese economy grew by 7.4% in the first quarter, compared to the same period last year, according to the National Bureau of Statistics. The rate is the slowest since 2012, but still beat the market consensus of 7.2%.

The government has set an official GDP target of 7.5% for the full year, while economists expect full-year growth to slow to 7.3%. That compares with GDP growth of 7.7% in each of the past two years, 9.3% in 2011 and 10.5% in 2010.

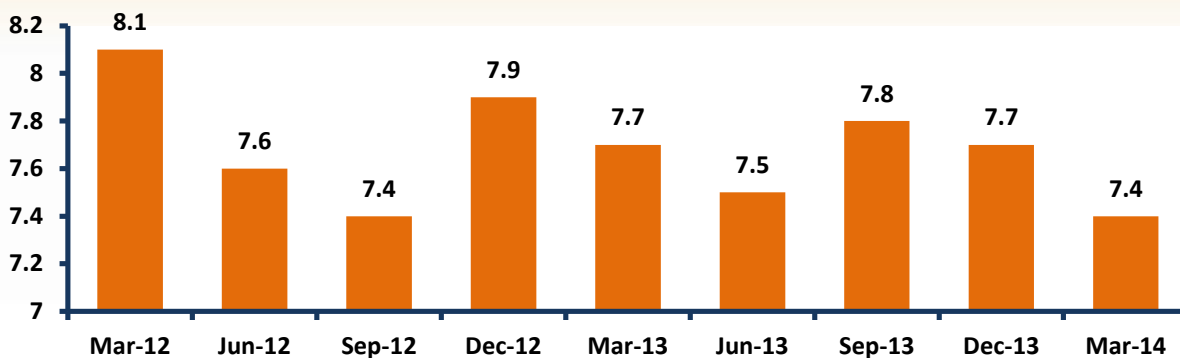


# CHINA MARKET OUTLOOK

**MIRAE ASSET**

Building on principles

## GDP Trend



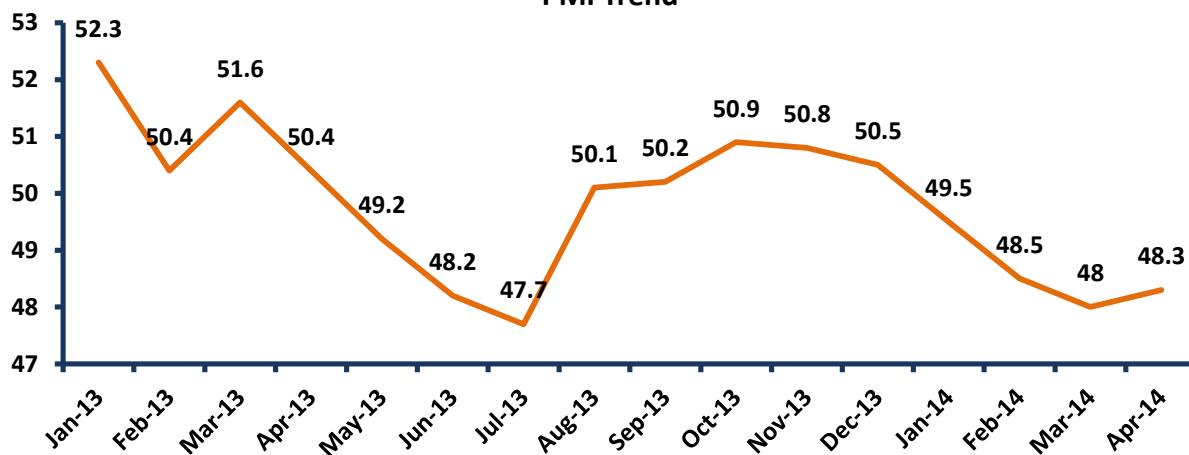
Source: Bloomberg, 28<sup>th</sup> April, 2014

## B. PMI

China's factory activity shrank for the fourth straight month in April, signaling economic weakness into the second quarter, although the pace of decline eased helped by policy steps to arrest the slowdown.

The HSBC/Markit flash Purchasing Managers Index (PMI) has been below 50 since the start of this year.

## PMI Trend



Source: National Bureau of Statistics China

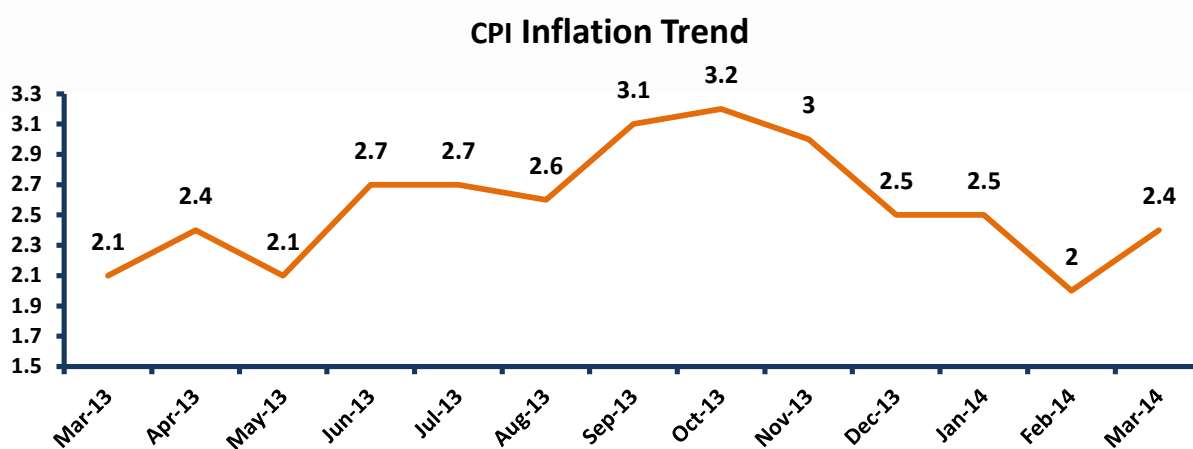


# CHINA MARKET OUTLOOK

**MIRAE ASSET**  
Building on principles

## C. Inflation

China's consumer price index (CPI), a main gauge of inflation, increased by 2.4% year on year in March, up from 2 percent in the previous month. The acceleration in inflation was mainly attributed to faster growth of food prices, which account for nearly one-third of the weighting in the calculation of China's CPI. CPI rose 2.3% in the first quarter from a year earlier, said the NBS.



Source: Bloomberg, 28<sup>th</sup> April, 2014

## D. Trade Surplus:

China's exports slumped 6.6% to \$170.11 billion in March, customs data showed, this raised fresh concerns over the health of the trade sector and strength of the country's economy.

Imports were down 11.3% to \$162.41 billion and total foreign trade volume declined 9% to \$332.52 billion. The trade balance returned to a surplus of \$7.71 billion in March after a deficit of \$22.98 billion the previous month, the administration said.

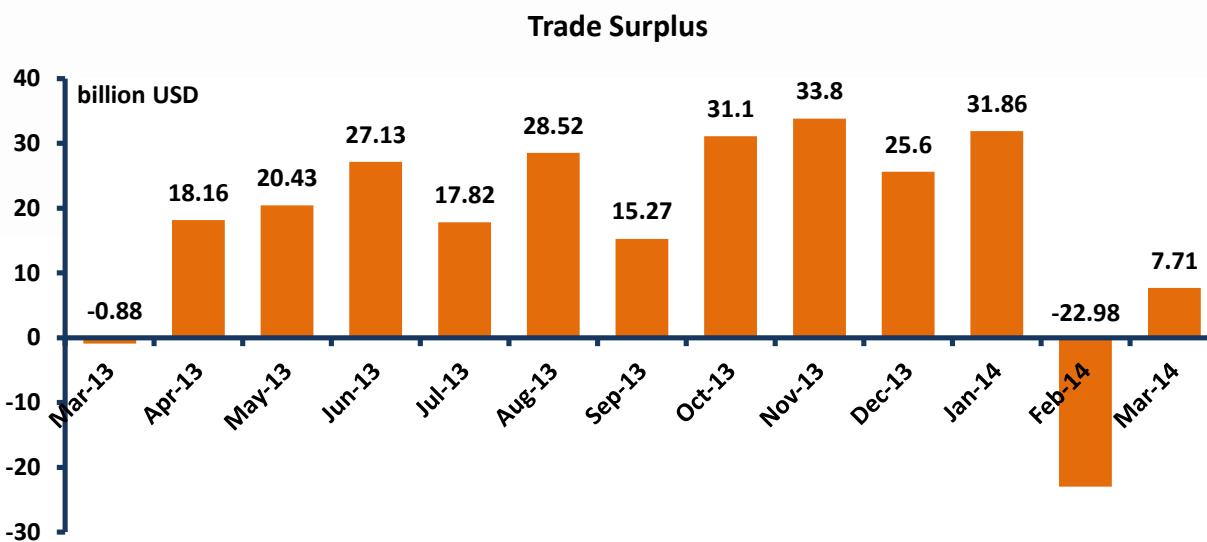
Exports decreased 3.4% year on year while imports went up 1.6% during the period, with the trade surplus standing at \$16.74 billion in the three-month period. China set a trade growth target of 7.5% this year, lower than the 8-percent aim for 2013 and actual expansion of 7.6%.



# CHINA MARKET OUTLOOK

**MIRAE ASSET**

Building on principles



Source: Bloomberg, 28<sup>th</sup> April, 2014

## E. Retail Sales

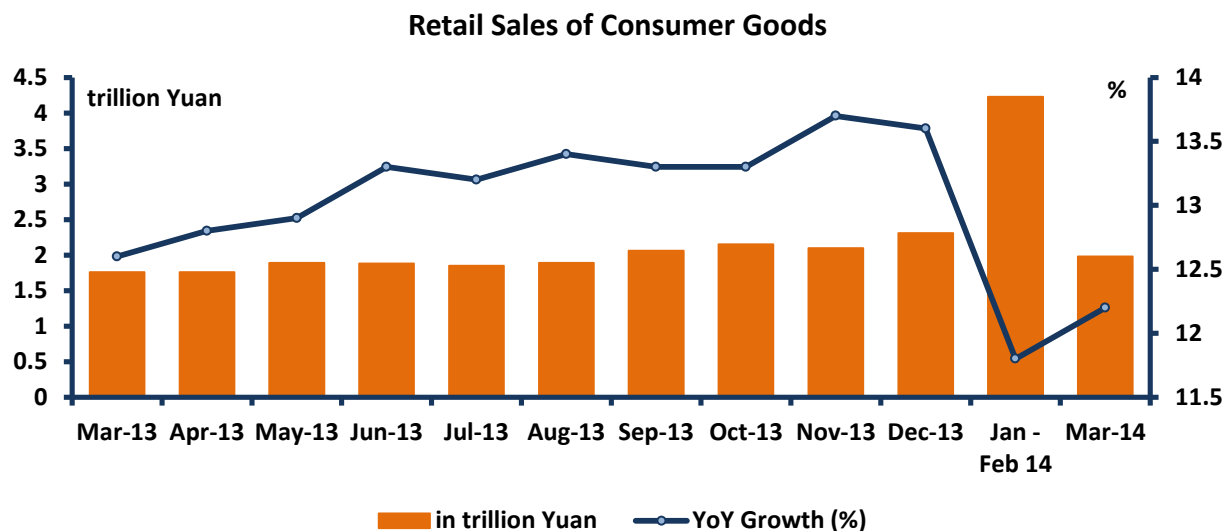
China's retail sales grew 12% year on year to 6.21 trillion yuan (\$1.01 trillion) in the first quarter of 2014, as per the National Bureau of Statistics (NBS). In March, retail sales gained 12.2% from the same period last year to 1.98 trillion yuan and deducting inflation, the actual growth rate was 10.8%, said the NBS.

Retail sales growth in rural areas outpaced that in urban China. Sales in rural areas rose 12.8% in the first quarter from the same period last year. Retail sales in urban areas climbed 11.8% in the same period. Spending on consumption against the country's gross domestic product was 64.9% in the first quarter, up 1.1% from the same period last year.



# CHINA MARKET OUTLOOK

**MIRAE ASSET**  
Building on principles



Source: National Bureau of Statistics China

## Our View

We expect some improvements in second and third quarter in the GDP numbers. We expect this year's GDP numbers to be around 7.25%-7.5% range. The minor change of 0.25% range is not going to bring about huge changes in Chinese market and its economy. Chinese economic conditions are quiet stable; it is not equal to 2008 US financial crisis or Europe's fiscal crisis.

## 2. Chinese Corporate Bond defaults

China established its domestic high-yield bond market two years ago in an effort to open a new financing channel for small and medium-size enterprises. Since then, dozens of companies have sold bonds via private placements to local investors. Such bonds often referred to as junk because of the creditworthiness of the companies that sell them, pay higher yields to reward investors for the greater risk they take on. Chinese companies that have lent money to other companies are facing a potential wave of defaults, with several listed firms already reporting missed loan repayments.



# CHINA MARKET OUTLOOK

**MIRAE ASSET**  
Building on principles

## Our View

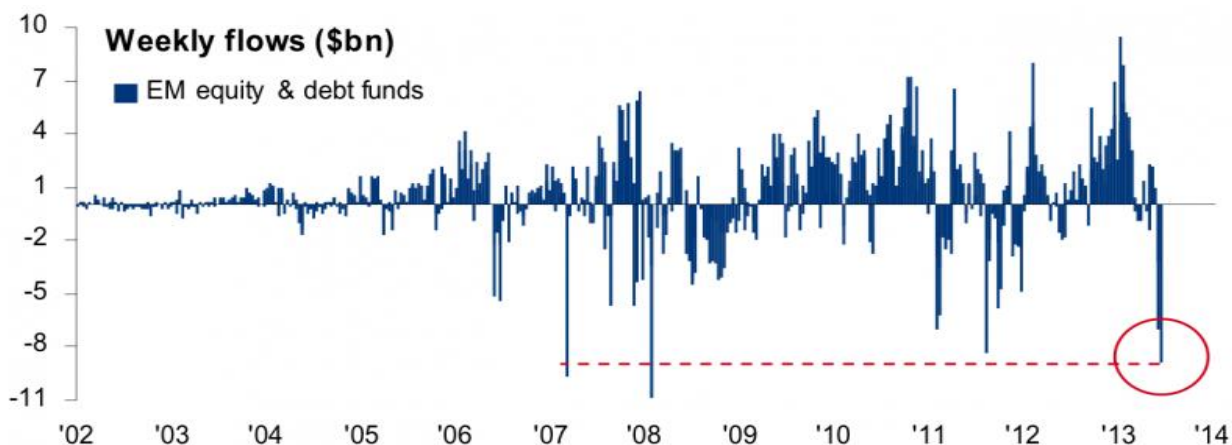
There have been only 2-3 default cases, and the default sizes are quite small. Hence, the direct comparison of these defaults to Chinese economy and its financial market is not very meaningful. The defaults have mainly occurred as the Chinese government or the financial institutions have not aided these corporates as before.

We think the trend is on the right track as this is a much better situation rather than bailing out by the government. Even though we could have some more default cases in coming quarters and could impact sentiments, this may help the Chinese financial market in the long term.

## 3. Fund Flows

Another reason why China market had been weak was because YTD there have been outflows from emerging markets including China into developed markets.

### Third largest ever weekly outflows from EM assets



Source: BofA Merrill Lynch Global Investment Strategy, EPFR Global

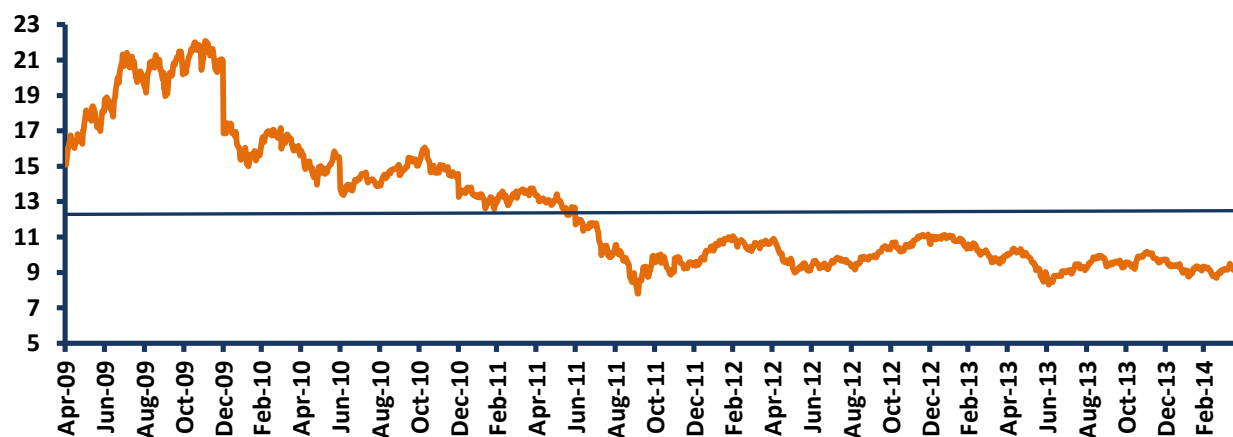
## Our View:

We think the fund flows in the developed markets are more of a defensive strategy for the investors as the emerging markets have turned risky (Russia-Ukraine crisis has negatively impacted emerging market flows). We are quite positive on the economic trend of Emerging Markets and we feel fund flows will be back in coming quarters.



## VALUATIONS

MSCI China Index P/E



Source: Bloomberg, 28<sup>th</sup> April, 2014

China market is very attractive in terms of valuation as both markets like Hong Kong and Shanghai are just at around 9 times PE level (at 20% discount to the 10-year range of 12.2 times forward earnings).

In a regional market valuations are at 12 -13 times (25% discount to P/E valuation and Close to all-time lows). Hence, the China market looks very attractive.

Earnings growth for this year and next year could be around 10% to 12% year-on-year growth range. As of now we believe Earnings growth is normal and valuation is very cheap which makes the markets more attractive.

Various government policies in coming quarters and improvement in macro-economic data will be the main drivers.

**China Equity Markets Outlook looks positive from a Risk-Reward perspective considering the undemanding valuations it is trading at. However Investors should enter with 3-5 years' time horizon**





# CHINA MARKET OUTLOOK

**MIRAE ASSET**

Building on principles

## INVESTMENT STRATEGY:

- China market has been weak over the last 3-4 years due to issues with the Investment Cycle sectors like Energy, Material, Industrials and big Banks. These industries could not generate growth and they had structural problems like overcapacities. We are underweight on these sectors.
- But since last few years New Chinese industries and economies have had a very meaningful growth, like Consumer Healthcare, IT and Internet. These industries have seen good innovations and are growing much faster than the general GDP growth rate. We think this trend will continue in coming year. We are overweight on these sectors.
- Portfolio composition will be closer to 75-80% Large Caps and remaining in Midcaps.
- **The 3 Key Themes for our portfolio will be**
  - **Looking at companies in High Growth Sectors ('New Industries') – Consumer, Internet, IT, E-Commerce**
  - **Companies benefitting from reforms in Financial & Energy Sectors**
  - **Evaluating China Companies which are gaining market share globally due to advance technologies.**




# CHINA MARKET OUTLOOK

**MIRAE ASSET**

Building on principles


## Product Labeling - Mirae Asset China Advantage Fund


This product is suitable for investors who are seeking\*


- long term capital appreciation Investment predominantly in units of MACSLEF (Mirae Asset China Sector Leader Equity Fund) and/or units of other mutual fund schemes, ETFs, that focus on investing in equities and equity related securities of companies domiciled in or having their area of primary activity in China and Hong Kong.
- High Risk 

\*Investors should consult their financial advisers if they are not clear about the suitability of the product.

Note: Risk is represented as:

 (BLUE) investors understand that their principal will be at low risk

 (YELLOW) investors understand that their principal will be at medium risk

 (BROWN) investors understand that their principal will be at high risk

### Disclaimer:

Certain information contained in this document is compiled from third party sources. Whilst Mirae Asset Global Investments (India) Private Limited has to the best of its endeavor ensured that such information is accurate, complete and up-to-date, and has taken care in accurately reproducing the information, it shall have no responsibility or liability whatsoever for the accuracy of such information or any use or reliance thereof. This document shall not be deemed to constitute any offer to sell the schemes of Mirae Asset Mutual Fund. Mirae Asset Global Investments (India) Pvt. Ltd/ Mirae Asset Trustee Co. Pvt. Ltd./ Mirae Asset Mutual Fund/ its Directors or employees accepts no liability for any loss or damage of any kind resulting out of the unauthorized use of this document. References to particular sectors, securities or companies are for general information only and are not recommendations to buy or sell a security, or may be a part of author's holdings/ portfolios (subject to change without any intimation) of the schemes of Mirae Asset Mutual Fund at any one time.

**Mutual fund investments are subject to market risks, read all scheme related documents carefully**