

China Macro Note for 2014

Ray's Analysis Note by
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Sector Macroeconomics

Summary This short note gives a brief introduction on China macroeconomics and outlook in some industries. Some ideas are borrowed from Goldman China-A share Strategy 2014 Outlook.

Macroeconomics

Following the recent Third Plenary meeting, we view 2014 as an important year to build up confidence in the reform process targeting med-run economic growth. We expect the GDP to be 7.8%, with a stable and healthier industry development supporting by potential reform in regulations.

We expect CSI300(沪市) to reach 2880 by end-2014E, implying 19% upside due to the support on equity market. Overall liquidity should be tighter in 2014 because of the government's intention to slow the leverage build-up. Export may rebound further in 2014, becoming a key driver for GDP US QE tapering in mid-2014 is not expected to be a great impact due to current account surpluses. We expect that hot-money will flow in given a potential RMB appreciation, which will offset the T-bond yield difference.

Consumer staples

We retain a Neutral stance on the Chinese consumer staples industry in 2014. We believe the premiumization will be a key focus for Chinese consumer staple companies as urbanization and income distribution reform will likely to continue to drive disposable income higher, which would drive the consumer expenditure and demand for higher quality products. In terms of policy change, increased government scrutiny of food safety would drive industry reforms in food, infant milk formula, and pork industries. Domestic national premium-positioned players will benefit. While raw material may face a cost inflation.

TMT

For electronic components, growth rates are slowing for the global smartphone and tablet markets, while China should remain one of the strongest markets in the world, driven by LTE and export demand. For Telecom equipment, areas related to wireless and transport network are the focus as the LTE cycle has been delayed into 2014. For Mobile Internet, we expect games to continue its growing in 2014. However, because of increasing competition of publishers, we expect bargaining power to move to platforms from publishers, driving margins down. The risk could be slower-than-expected TD-LTE deployment.