Investor Presentation | Asia Pacific

Asia Summer School 2026: China Outlook Amid AI And Energy Super-cycle


Asia Macro
Summer
School 2026

CHINA ECONOMIC FACTSHEET

The world's second largest economy and a leading global powerhouse in trade, manufacturing, innovation and green transition.

GLOBAL SHARE & RANKING

GDP	17%	2nd	US$19.4 Trillion
Goods Trade	14%	1st	US$6.6 Trillion
Manufacturing Value Added	28%	1st	US$4.7 Trillion
International Patent Applications (PCT)	27%	1st	73,718
Population	17%	1st	1.42 Billion
Household Final Consumption	12%	2nd	US$7.5 Trillion

CHINA'S INNOVATION ECOSYSTEM

Official and Alternative Methods for Tracking Chinese Growth

Real GDP Growth

Quarterly, released mid-month following the last quarter-end

Private Consumption

- Monthly retail sales and service production
- Quarterly NBS household survey
- CPCA weekly auto sales
- Daily subway passenger traffic
- Weekly domestic flights, hotel occupancy

Public Consumption

- Fiscal spending
- Change in fiscal deposits
- Pace of govt. bond issuance

Investment

- FAI
- Weekly cement/rebar shipments
- Property sector statistics
- Broad credit growth

External Trade

- Monthly goods trade data
- Export orders in mfg. PMI
- Container throughput in major ports
- Global PMI
- Korea's trade data

China's Policy Framework

MONETARY POLICY

Policy Objectives

- Price stability
- Economic growth
- Full employment
- Financial stability
- FX stability

Policy Toolkit

- Reserve requirement
- Open market operations (OMOs)
- Lending facilities (SLF, MLF, PSL)
- Benchmark interest rates (OMOs, MLF, LPR)
- Window guidance

Intermediate Targets

- 7D repo rate
- M2
- TSF

FISCAL POLICY

Policy Toolkit

- Tax and fee cuts
- On-budget spending
- Off-budget spending

Sources of Financing

- On-budget revenue (mainly tax)
- Off-budget funding
  - Local government special bonds (LGSB)
  - Special treasury bonds (STB)
  - Policy bank financing via PSL or bond issuance
  - (Implicitly) LGFV financing
  - Land sales

Tracking Policy Stance

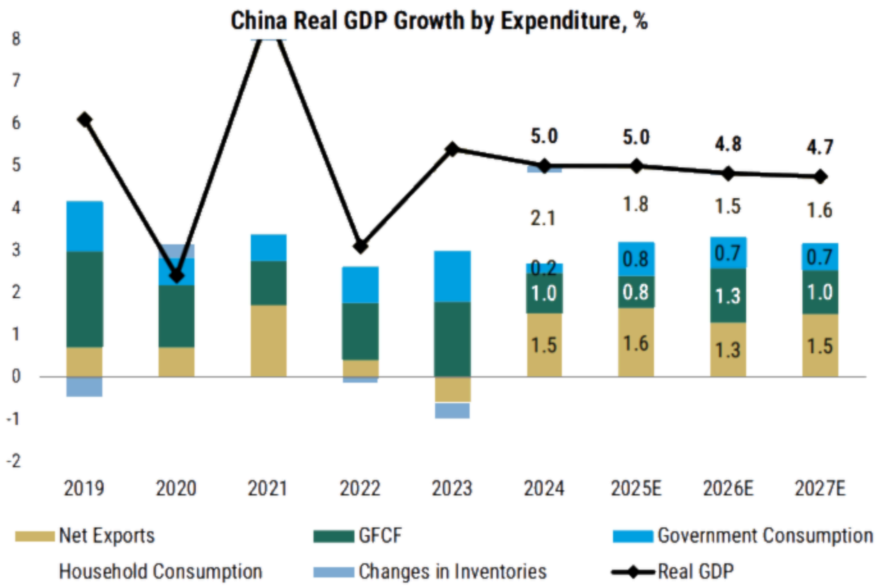
Key Event Calendar for 2026

Key Event Calendar 2026				
Week	1	2	3	4
Jan	PBOC Annual Work Conference [redacted]			
Feb		4Q Monetary Policy Implementation Report		
Mar	Annual NPC meeting			1Q PBOC Monetary Policy Committee
Apr				Politburo Meeting on Economic Work
May		1Q Monetary Policy Implementation Report		
Jun			G7 Summit in France Lujiazui Forum	2Q PBOC Monetary Policy Committee
Jul				Politburo Meeting on Economic Work
Aug		2Q Monetary Policy Implementation Report		
Sep				3Q PBOC Monetary Policy Committee
Oct				
Nov		3Q Monetary Policy Implementation Report	APEC Summit in China	
Dec	Politburo Meeting on Economic Work	Central Economic Work Conference	G20 Summit in the US	4Q PBOC Monetary Policy Committee

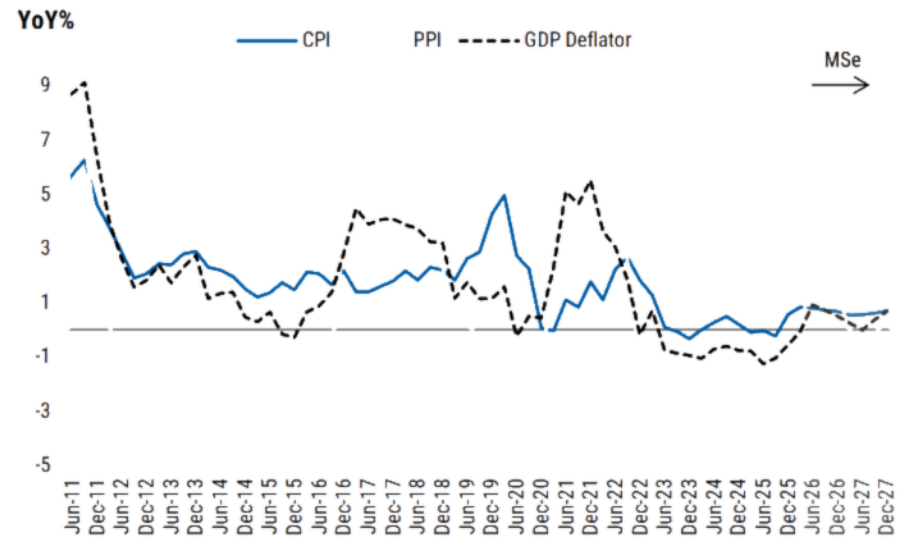
Economic Outlook

A Two-speed Economy, Stable in Aggregate

Exports driving growth amid AI and energy capex super-cycle

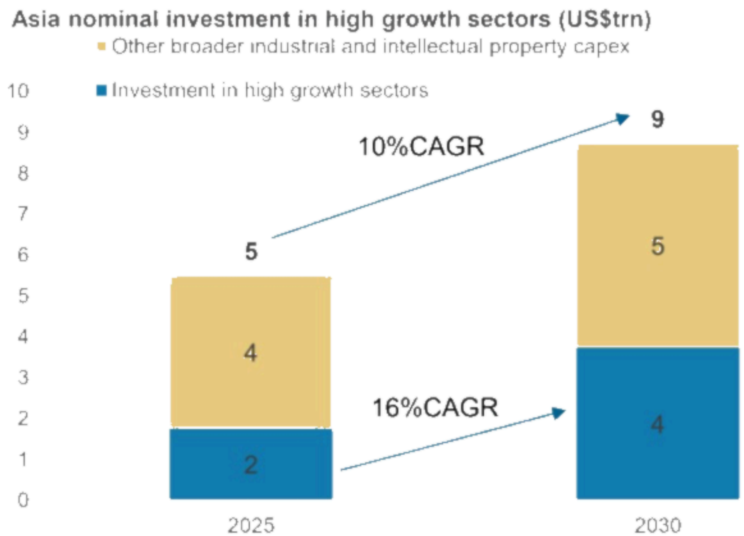


Inflation is rising but reflation is narrow

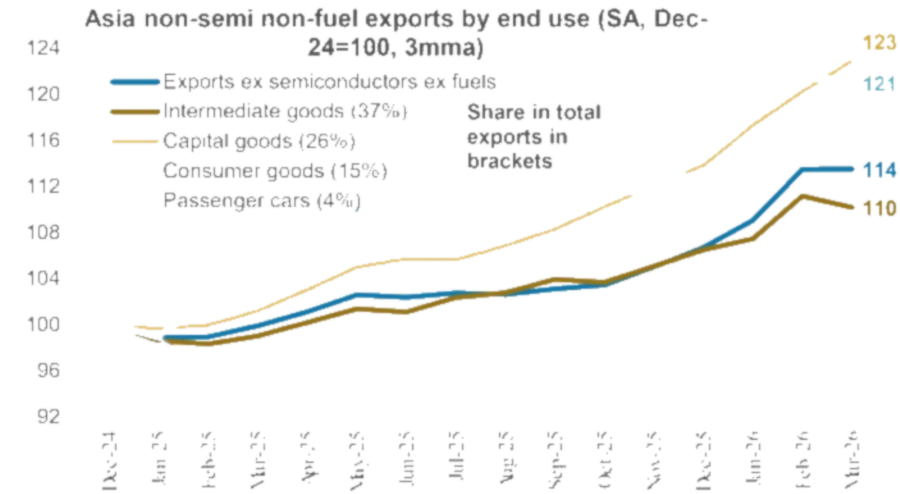


The Rising Asia Industrial Super-cycle…

Asia is likely to enter its strongest industrial cycle since the mid-2000s, not just an AI/tech story

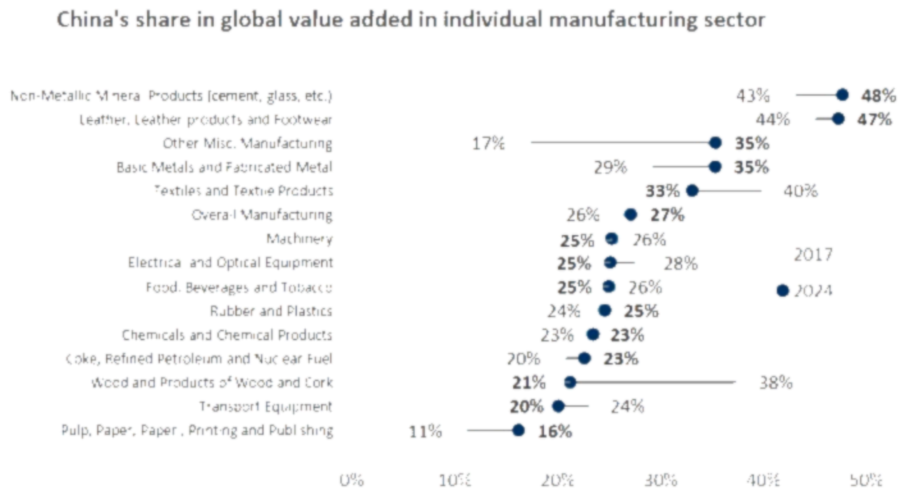


A sharp rise in Asia's non-tech exports since October 2025, which is broad-based across product segments

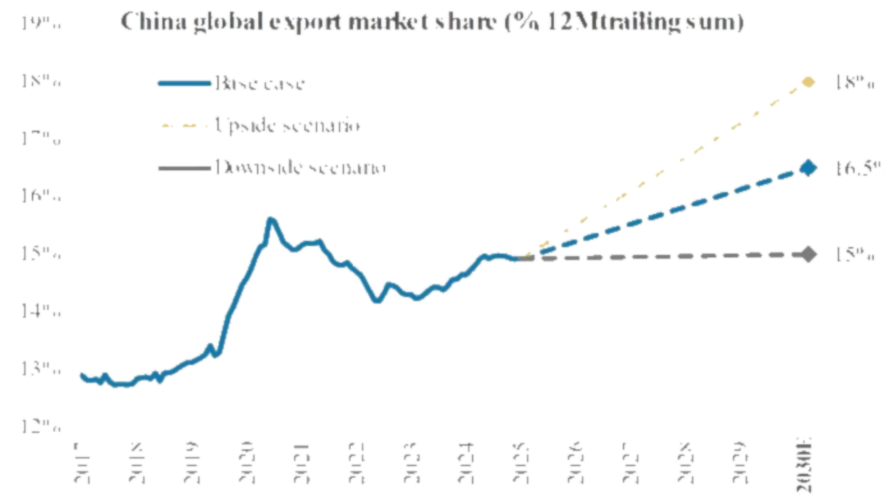


…Is Set to Benefit China's Exports, Anchoring Growth Momentum

China has a dominant share in global value-added across manufacturing sectors

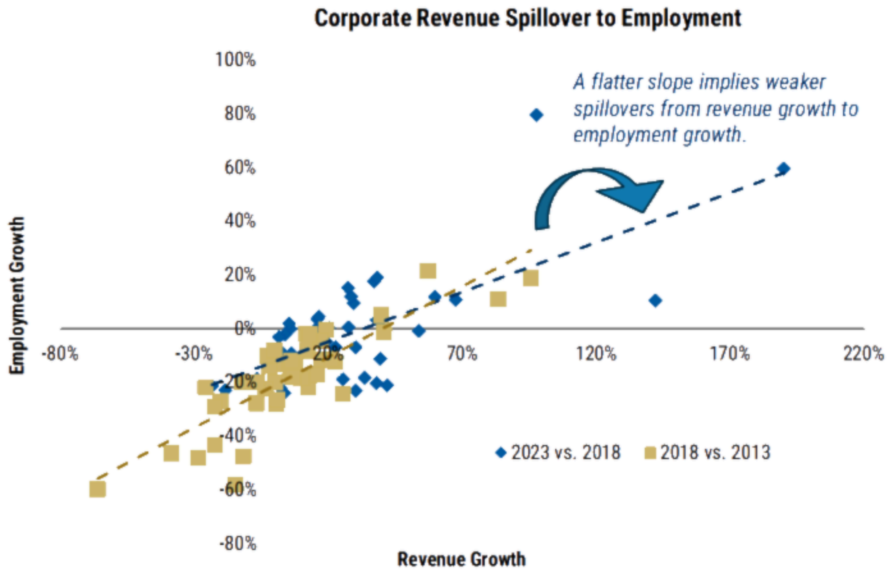


We expect China's global export market share to rise to 16.5% by 2030

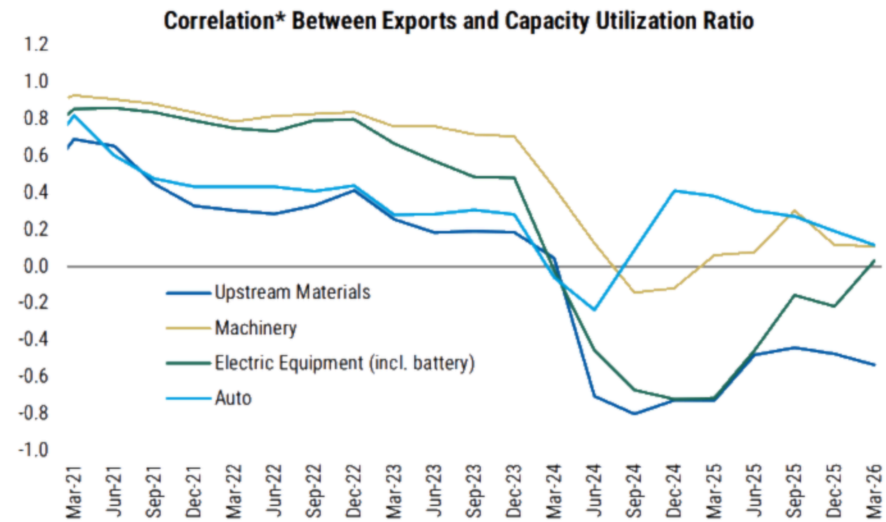


That Said, the Positive Spillover to the Broader Economy Could be Milder This Time

Employment may get less boost as the industrial sector becomes more capital intensive and automated



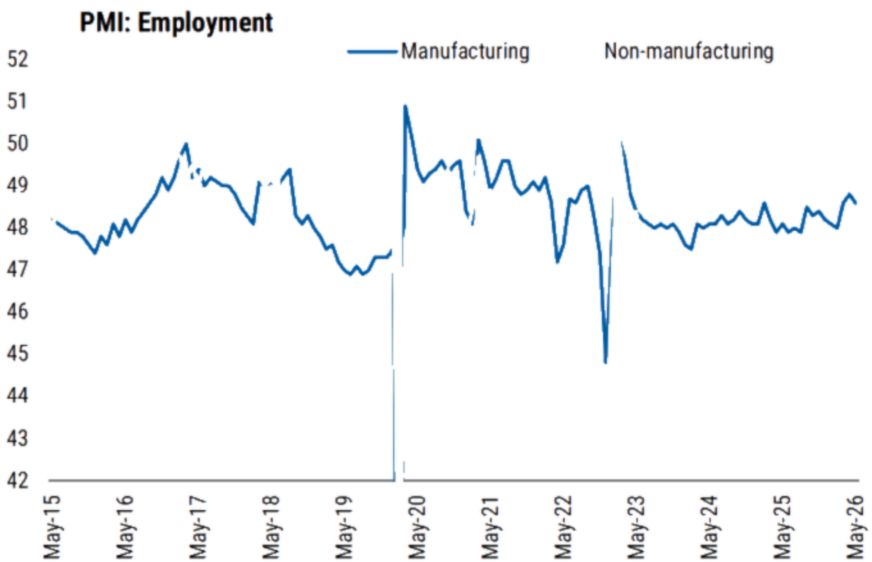
Reduced transmission effect of export strength to capex given pervasive excess capacity



Economic Outlook

Domestic Demand is Still Lagging

Labor market slack is the key binding constraint



AI diffusion may add to the labor market stress

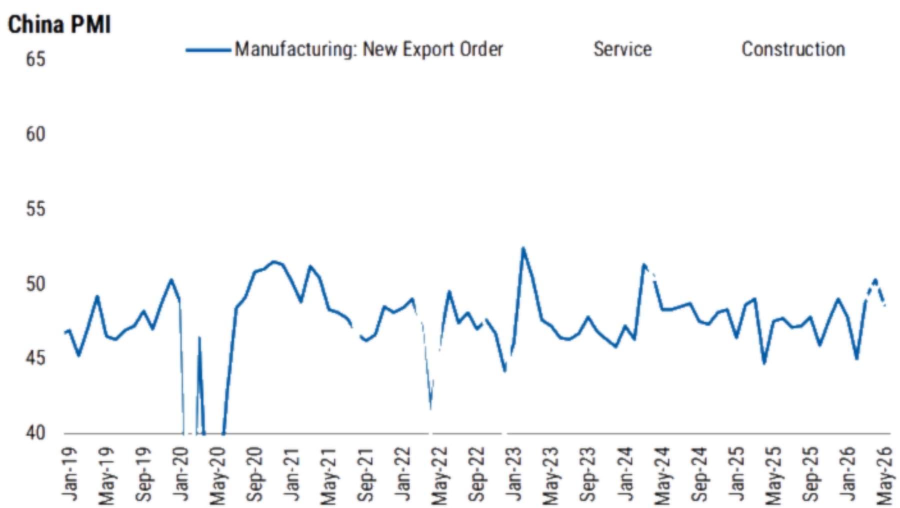
Generative AI — More entrenched youth unemployment

Agentic AI — Erosion of middle-income wage stability

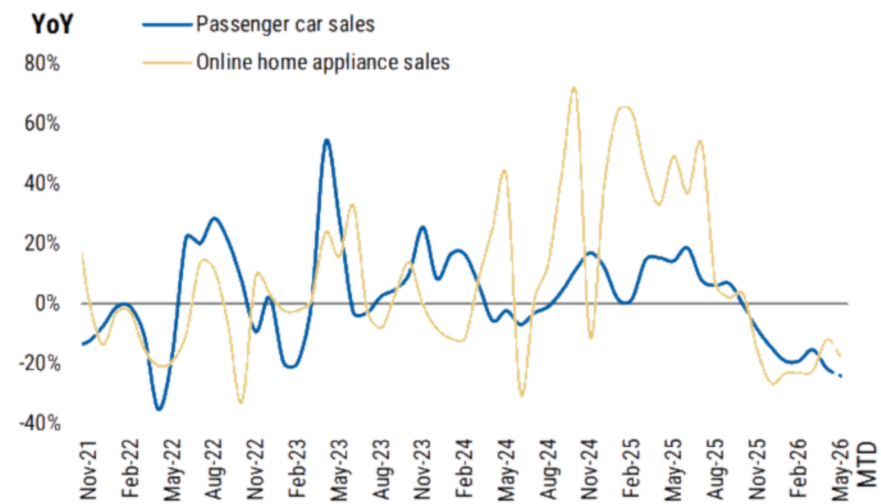
Physical AI — Higher structural displacement risk in the blue-collar service jobs

Broader Q2 Data Continue to Reinforce Our Narrative of a K-shaped Economy

Robust exports vs. subdued construction and services

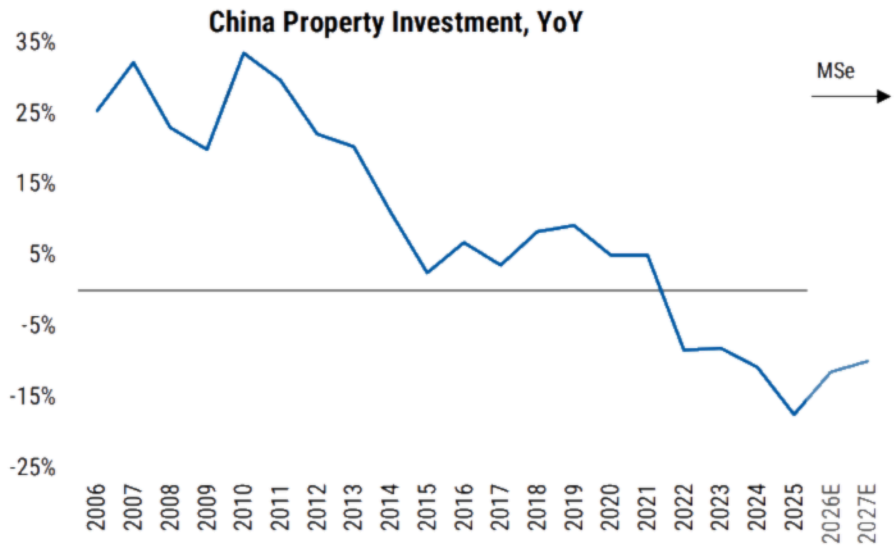


Passenger cars and online home appliance sales remained weak

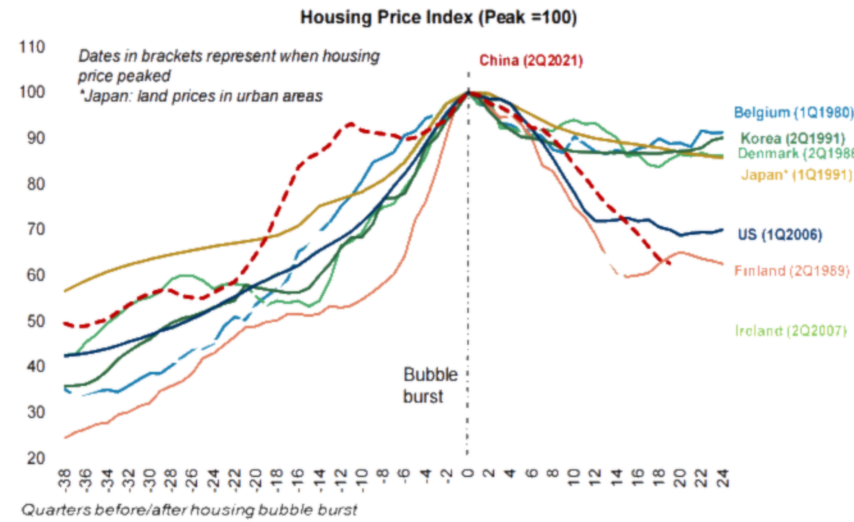


Housing: Ongoing Adjustment

Years of declining new starts have depleted the construction pipeline

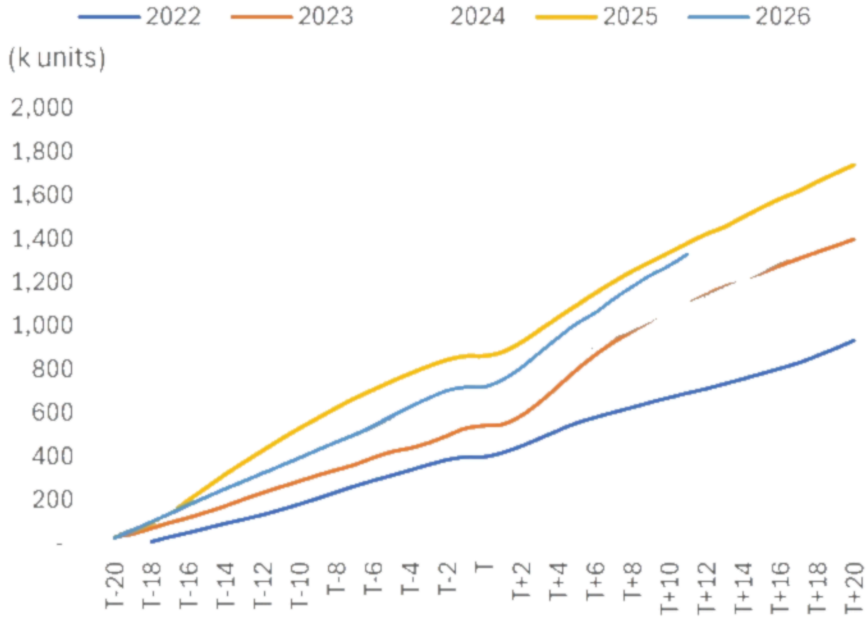


Broad housing prices still face headwinds

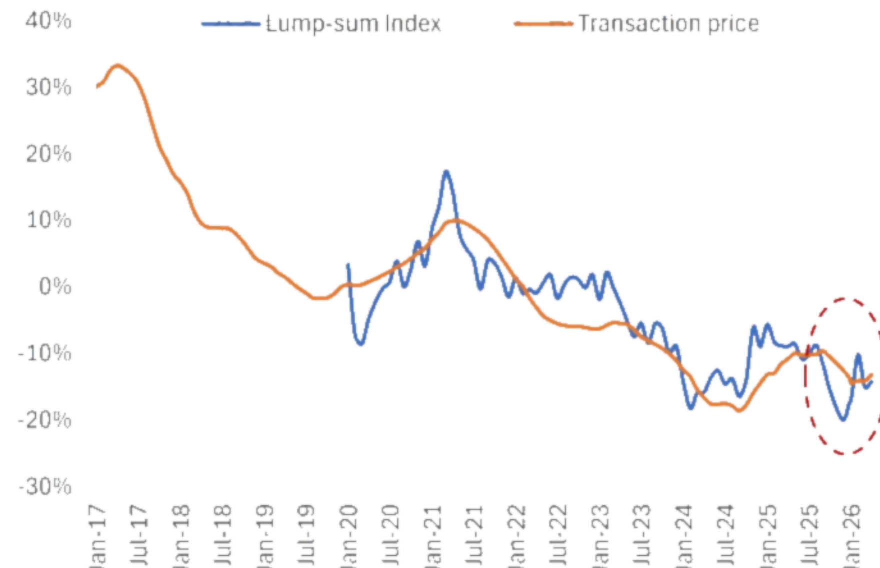


Housing: An Inflection or Another False Start?

Post-LNY rebound in housing sales may partly reflect the release of previously pent-up demand



A shift toward smaller lump-sum housing



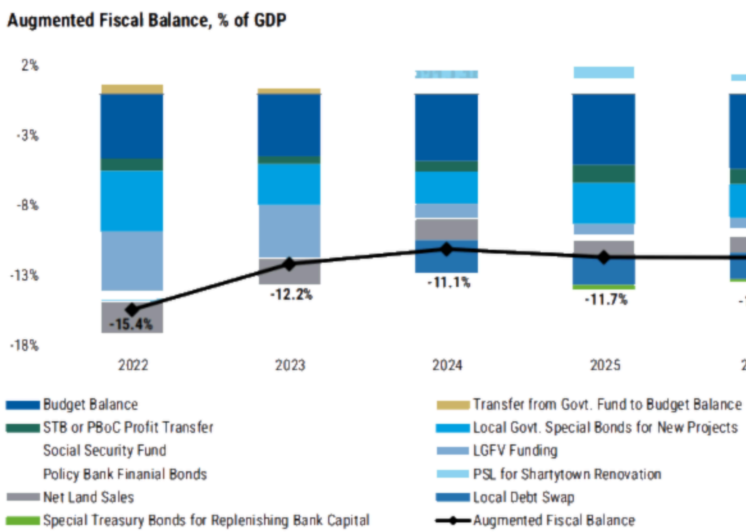
Economic Outlook

Housing: Majority of Indicators Show Limited Improvement

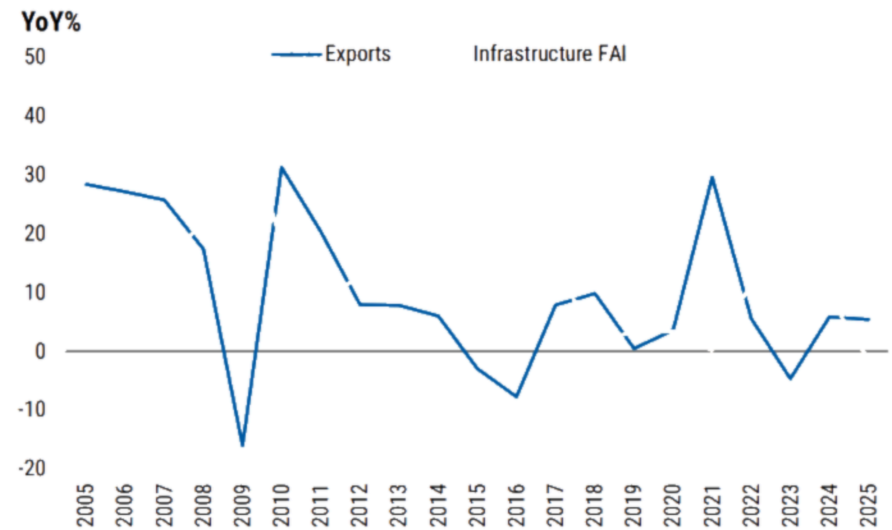
	Indicators	March 2025	April 2026	Change	Note
Resident sentiment (% of respondents in AlphaWise survey)	**Home price outlook of residents**				
	- T1 cities	Net 39% expected decline	Net 46% expected decline	↓	
	- T2 cities	Net 45% expected decline	Net 48% expected decline	↓	
	Home purchase plans				
	- T1 cities	14% respondents	13% respondents	↓	
	- T2 cities	17% respondents	15% respondents	↓	
	Home disposal plan				
	- T1 cities	n/a	35% respondents		
	- T2 cities	n/a	39% respondents		
Housing market health	**Primary inventory level**				
	- T1 cities (4 cities)	~18 months	>23 months	↓	
	- T2 cities (27 cities)	~23 months	>30 months	↓	
	Secondary listing volume				
	- T1 cities (4 cities)	457k units	435k units	↑	BJ / SH / GZ witnessed lower
	- T2 cities (27 cities)	2.95mn units	2.98mn units	↓	63% cities witnessed higher
	Cumulative home prices decline				
	- T1 cities (4 cities)	27%	37%	↑	
	- T2 cities (29 cities)	37%	45%	↑	
	Affordability (price to income ratio)				
	- T1 cities	~15x	~14x	↑	
	- T2 cities	~8x	~7x	↑	
	Rental rate index				
	- T1 cities (4 cities)	82.3	80.5	↓	
	- T2 cities (31 cities)	29.6	28.4	↓	
	Rental yields				
	- T1 cities (4 cities)	1.80%	1.95%	↑	
	- T2 cities (31 cities)	2.42%	2.62%	↑	
	Commercial mortgage rates				
	- T1 cities	3%+	3%+	→	
	- T2 cities	3%+	3%+	→	
	Minimum downpayment ratio				
	- T1 cities	15%	15%	→	
	- T2 cities	15%	15%	→	

Policy on Cruise Control

Augmented fiscal deficit will likely stay flat at 11.7% of GDP this year, with no supplementary budget in 2H



Export resilience reduces urgency for additional countercyclical easing



Geopolitical Tensions May Reinforce a Supply-centric Bias

Five-year plan remains supply-centric

Growth Target

- Not Specified

Consumption

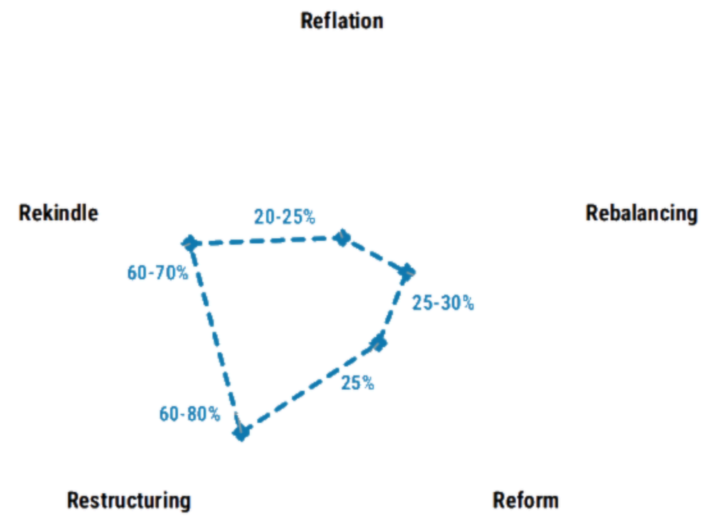
- Commitments to boost consumption/GDP ratio

Tech & Green Transition

Clear numerical targets:

- R&D (5Y CAGR: >7%)
- Labor productivity growth (>GDP growth)
- Digital economy (↑2pp of GDP by 2030)
- CO2 emissions per unit of GDP (↓17% by 2030 vs. 2025)
- Additional target on non-fossil fuel consumption

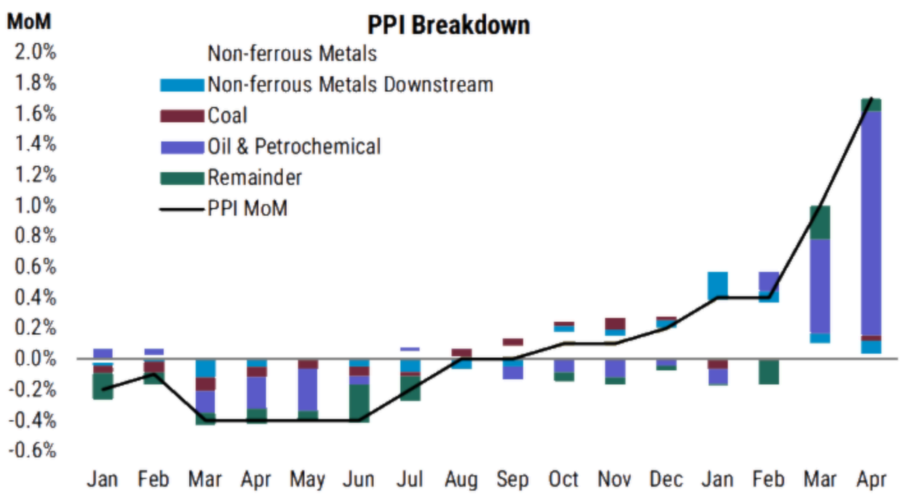
Economic rebalancing at a calibrated pace



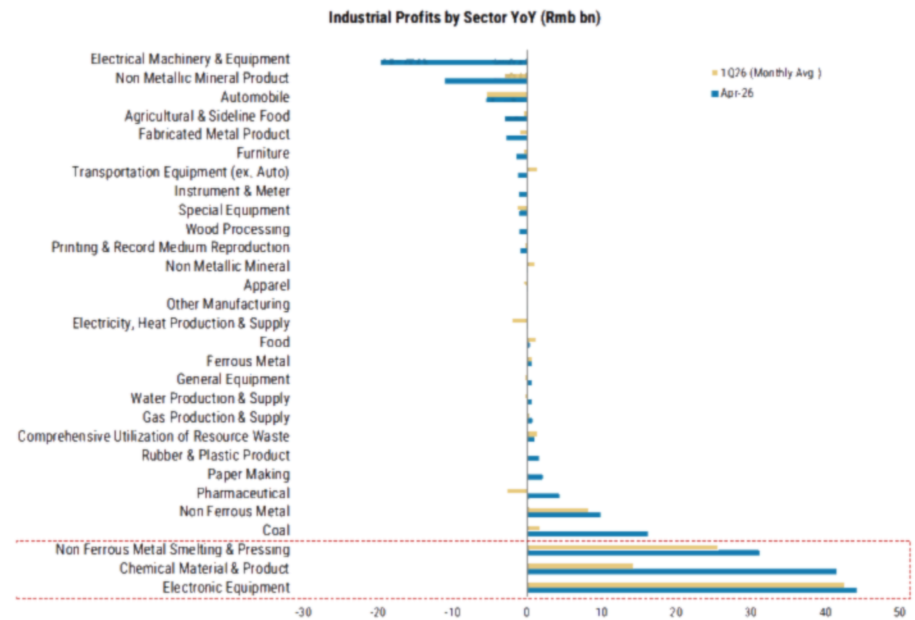
Economic Outlook

Reflation is Narrow

Ongoing surge in PPI is more supply-driven than demand



Industrial profit growth remains narrowly concentrated in sectors related to global AI and green transition demand



For reflation to broaden, we would need to see:

(1) Continued investment slowdown in oversupplied sectors;

(2) Persistent export strength; and

(3) Most critically, a consumption pick-up.

Reforms Are Needed to Alleviate the Overhang from Legacy Issues

STRUCTURAL REFORMS NEEDED

1 RESOLVE HOUSING RELATED BAD DEBT AND REPAIR BALANCE SHEET DAMAGES

Property-related activity still drags nominal GDP by roughly 2pp this year.

2 HIDDEN DEBT AND LOCAL-GOVERNMENT FINANCING REMAIN SLUGGISH.

Debt swaps provide liquidity relief, but do not resolve off-balance-sheet liabilities, leaving fiscal space constrained.

3 LOCAL INCENTIVES AND THE TAX SYSTEM REMAIN BIASED TOWARD PRODUCTION.

A VAT-based system rewards investment and output, not household welfare, reinforcing competition and weak pricing power.

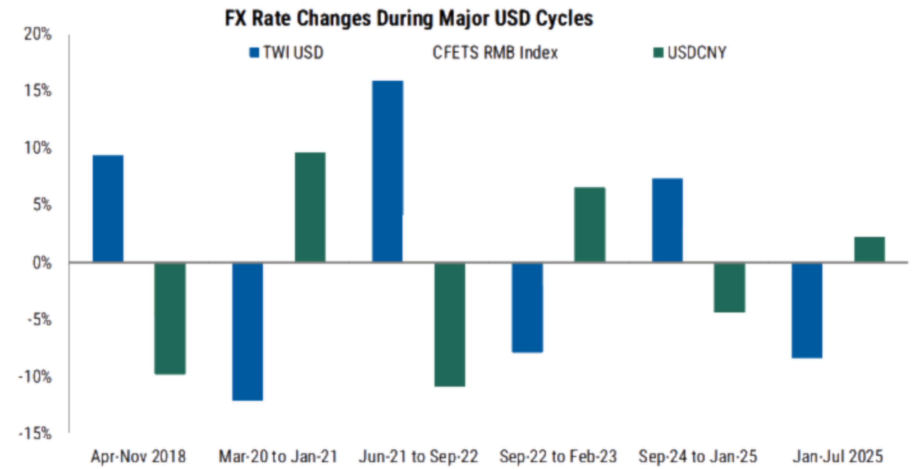
4 INSUFFICIENT SOCIAL WELFARE KEEPS SAVING RATE HIGH.

Household saving rate around 33% of disposable income—roughly double the average of major economies—structurally suppressing consumption.

PBoC Unlikely to Rely on RMB Appreciation to Address Economic Imbalances

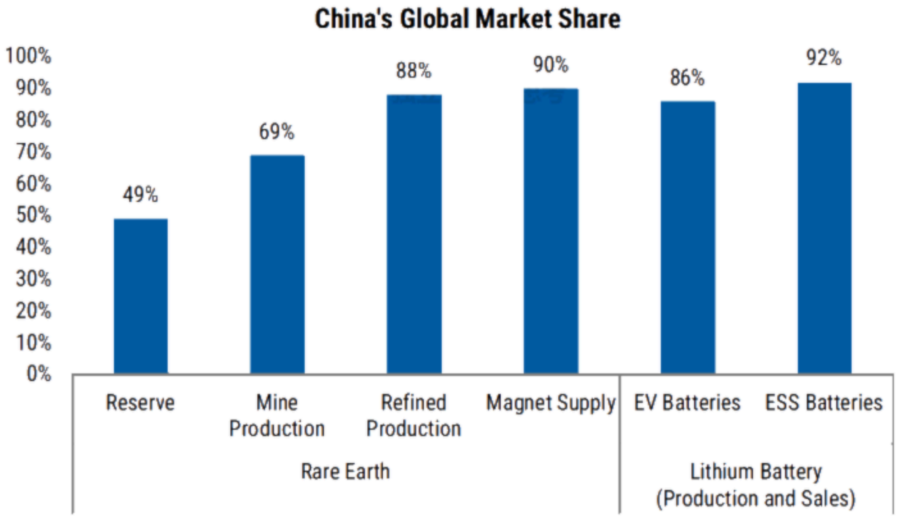
Modest CFETS RMB upside, USDCNY a function of USD moves

How PBoC managed RMB moves in the past



Strategic Stability Underpinned by Chips/Rare Earths Equilibrium

China's global dominance in rare earths and lithium batteries



How durable is China's dominance?

RE Reserve:
No dominance

RE Mine Production:
>3-5 yeas to expand capacity significantly

RE Refined Production
Bottlenecks on tech know-how and pollution

Lithium Battery
China has complete value chain, rapid tech iteration and scale/cost advantages

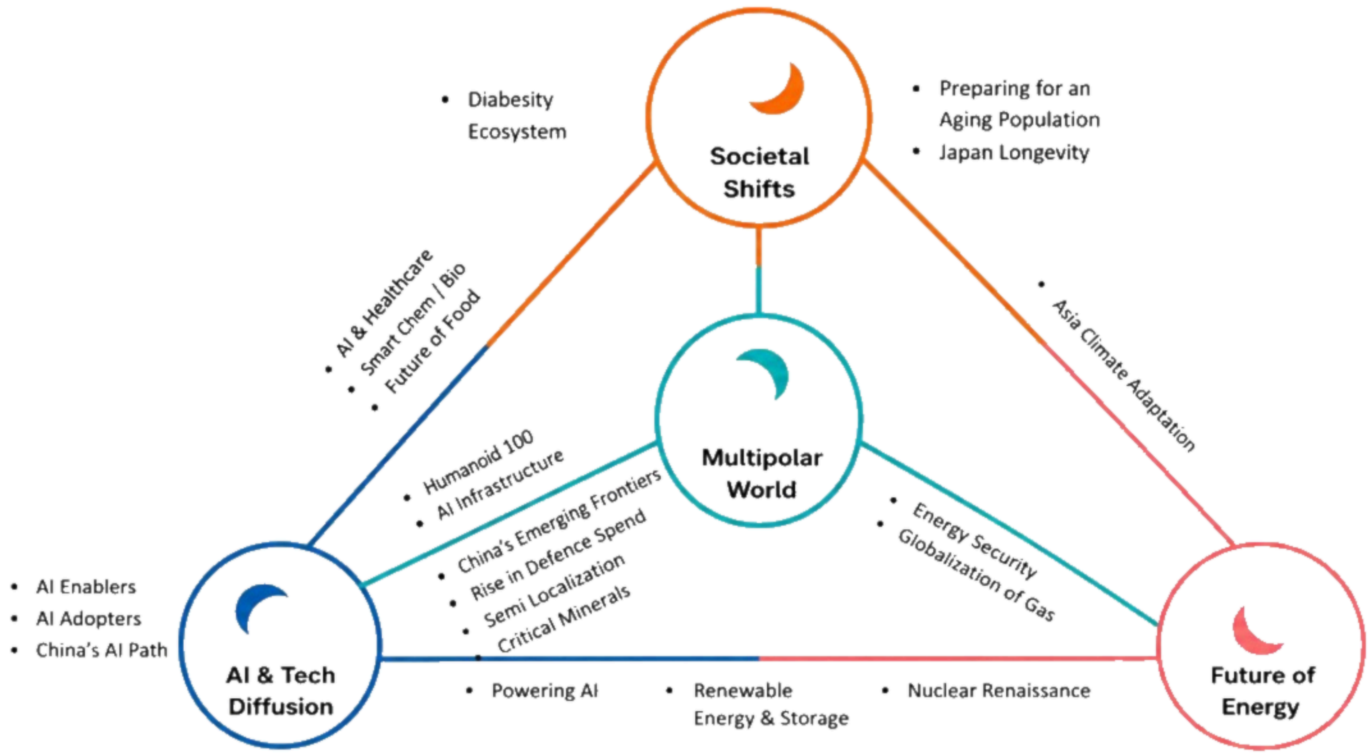
RE Refined Production
Tech complexity

More Difficult to Replicate

Structural Opportunities

Multipolar World	AI & Tech Diffusion	Future of Energy	Societal Shifts
The Rise in Defense Spending	AI Enablers	Powering AI	Diabesity Ecosystem
Semiconductor Localization	AI Adopters	Nuclear Renaissance	AI & Health Care
Critical Minerals	AI Infrastructure	Europe's 'Low Decarb Diet'	Smart Chemo
	Humanoids	Power Grid Growth & Evolution	Preparing for an Aging Pop'n
	China's AI Path	Clean Energy & Storage	Japan Longevity
	China's Emerging Frontiers	Energy Security	Future of Food & Beverages
	Asia AI Adoption Leaders	Globalization of Natural Gas	AI Job Displacement & Re-Skilling
		Asia Climate Adaptation	

Asia's Competitive Reinvention: Core Themes and Thematic Opportunity



Asia's Capital Market and Governance Reforms

- Japan ROE & Productivity Journey
- Korea Reform Renaissance
- China Anti-Involution Initiative
- Singapore Capital Market Reforms
- New India and IndiaStack
- Asia Financial Acceleration

AI Diffusion

China AI 2.0 – Entering a New Phase

AI: A Shift in the Center of Gravity over Past 12 Months

Infra -> Earnings

AI hits P&L

Rising earnings expectations
Expanding margins
Efficiency gains

Compute -> Power

Shifting bottleneck

Storage
Grid flexibility
Real-time deployment

Models -> Physical AI

Embodied AI

Humanoids
Autonomous vehicles
Manufacturing data

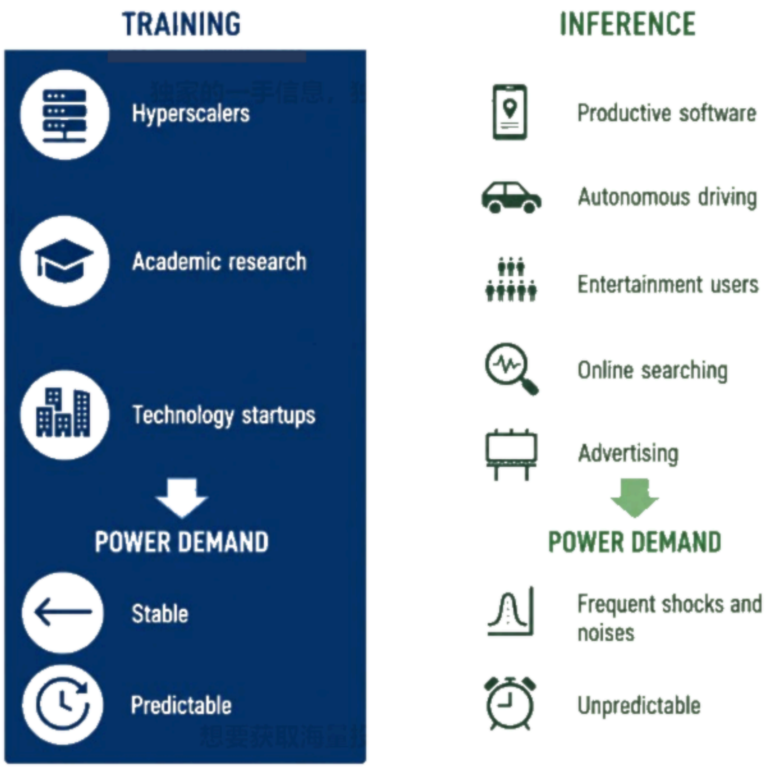
China's Edge

- Speed of deployment
- Cost efficiency
- System integration
- Open-source platforms

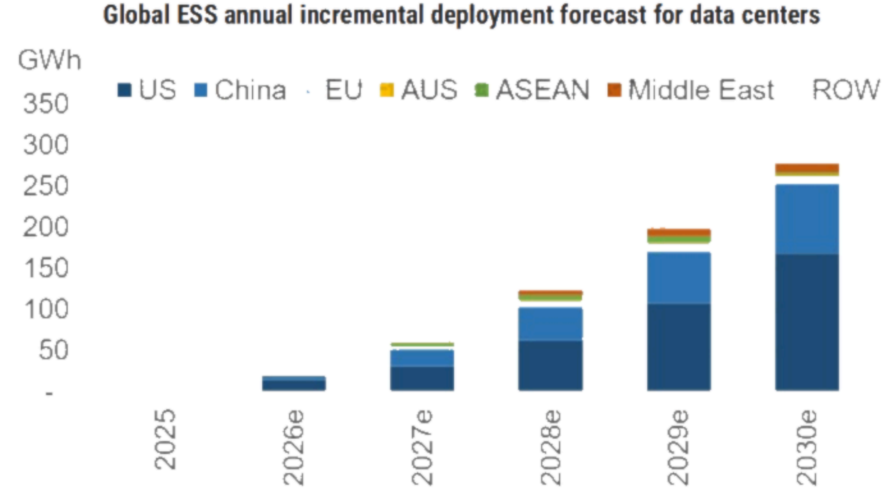
What changed	Commercialization at scale	AI cloud + data center buildout	Rising domestic stack
Still developing	Advanced chips / EDA	2B monetization	Labor disruption risk

Key Developments in Strength #1: Power

Power consumption shifting from training workload to inference...

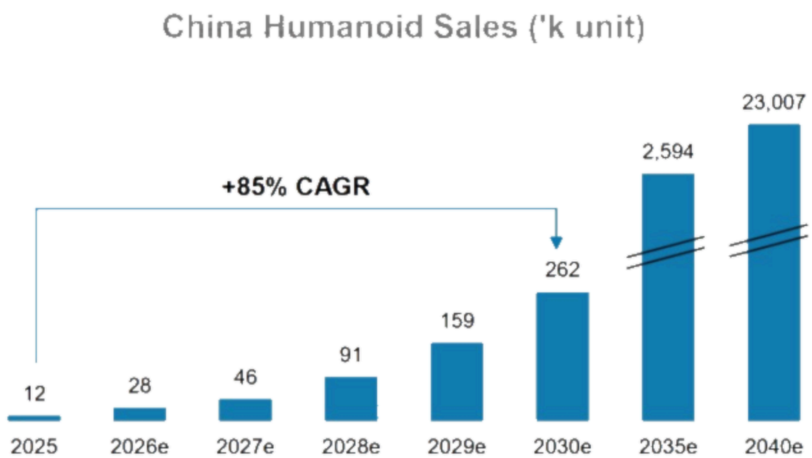


...making opportunities for the energy storage system (ESS)

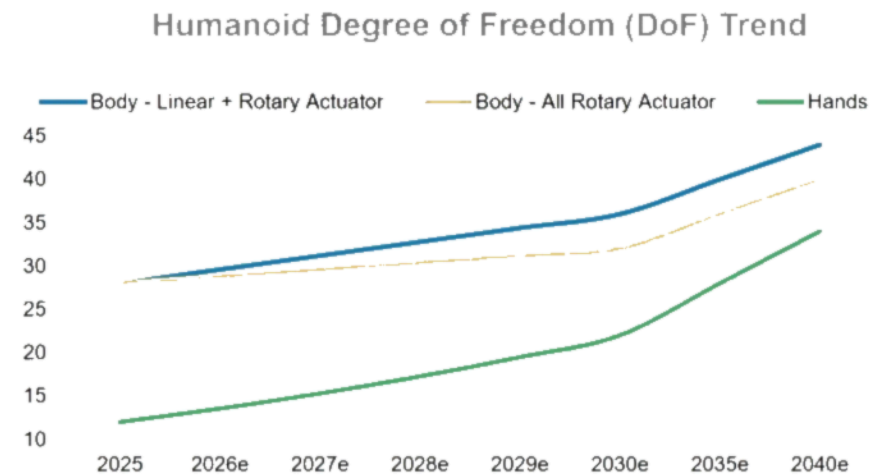


Key Developments in Strength #2: Humanoids

Our China Industrials team has revised its humanoid sales estimate to 28k units for 2026...

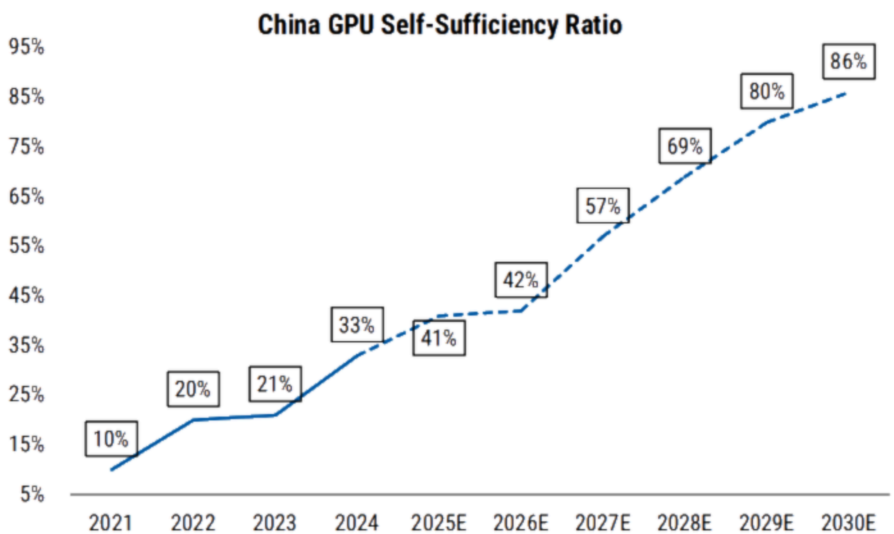


...and expects humanoids to be eventually more capable, accomplished by an increasing degree of freedom

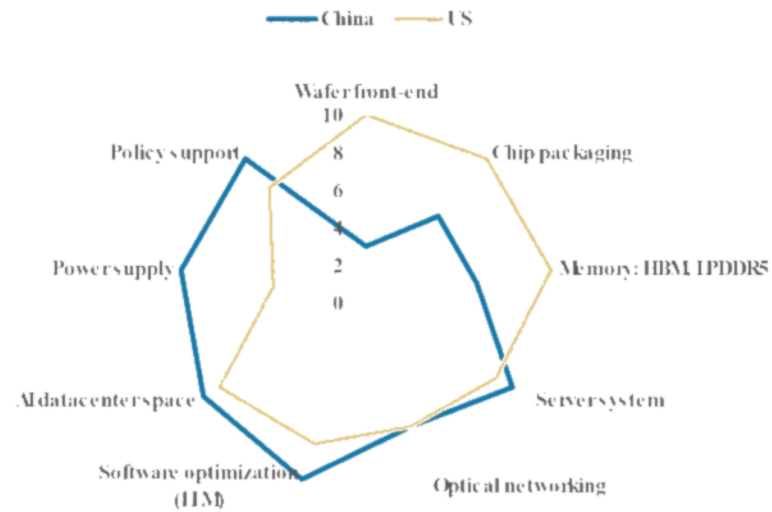


China AI Enabler

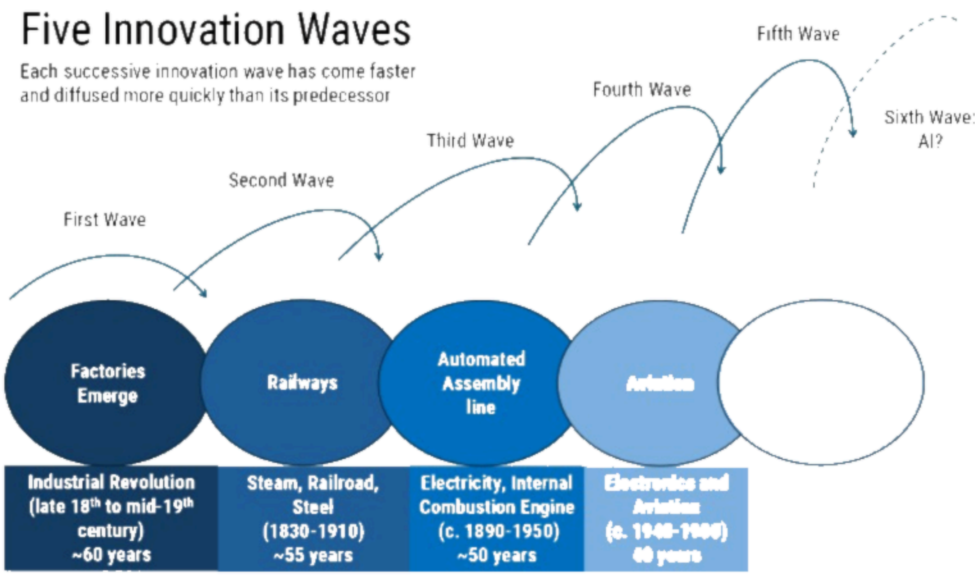
China AI chip self-sufficiency is likely to reach 86% in 2030



Relative strengths of US and China AI industries



AI Impact: Lessons from the Five Innovation Waves



01 Productivity gains are likely

02 Labor Displacement Is Transitional

03 Boom-Bust Cycles Are Probable

04 Inequality Risks Are Elevated

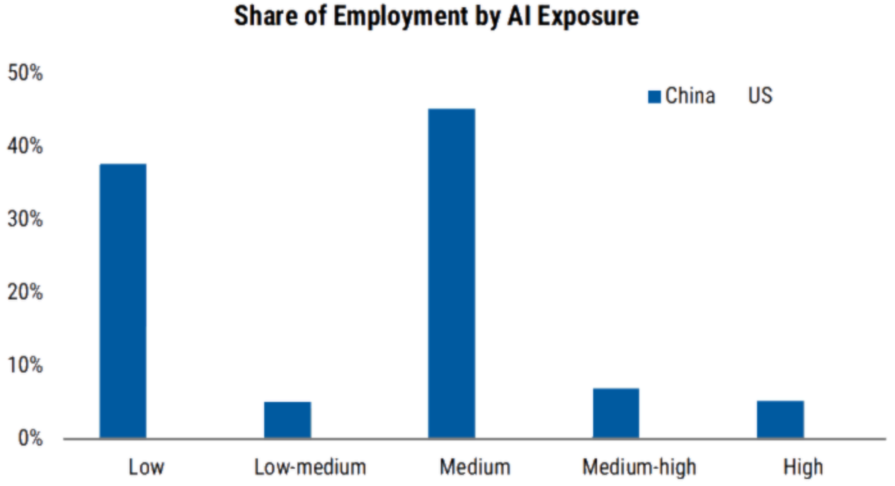
05 Education and Re-skilling Will Be Decisive

06 Policy Matters

AI Diffusion

Positives Could be Offset by Near-term AI-induced Job Disruptions

China's job market is less exposed to AI diffusion than the US...



...but weaker corporate earnings in China mean higher risk of AI-induced labor replacement

Why major technological breakthroughs tend to generate a J-curve in productivity

- Learning frictions
- Process disruption
- Investment in capital, skills and organizational change

What to Expect on Policy Mitigation

1. GUIDING PRINCIPLE	2. POLICY TILT	3. POSSIBLE MITIGATING MEASURES

1. GUIDING PRINCIPLE

Balance technological progress with labor-market stability

2. POLICY TILT

Higher-end, knowledge work

Greater labor flexibility to accelerate AI adoption

Labor-intensive service sectors

More cautious approach to protect employment

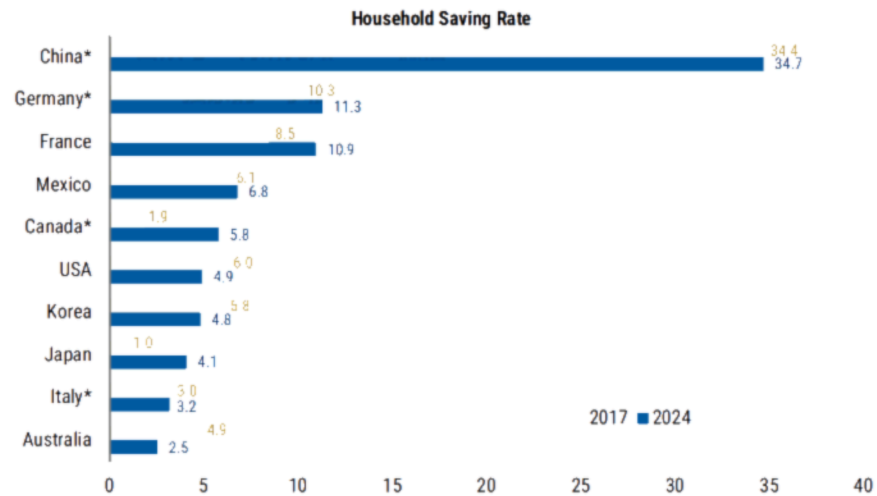
3. POSSIBLE MITIGATING MEASURES

- Upskilling & vocational training support
- New high-tech & service jobs creation
- Stronger social protection (unemployment, healthcare, pension for gig workers)
- More calibrated automation in labor-intensive services

Gradual Rebalancing

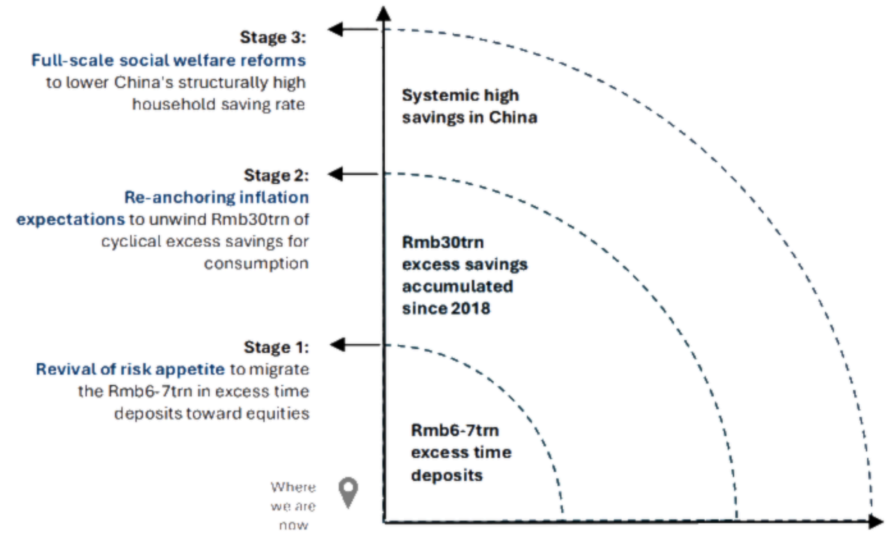
Unlock China's Household Savings…

China's household saving rate remains elevated



*2024 data for China, Germany, Canada and Italy. 2023 data for the others

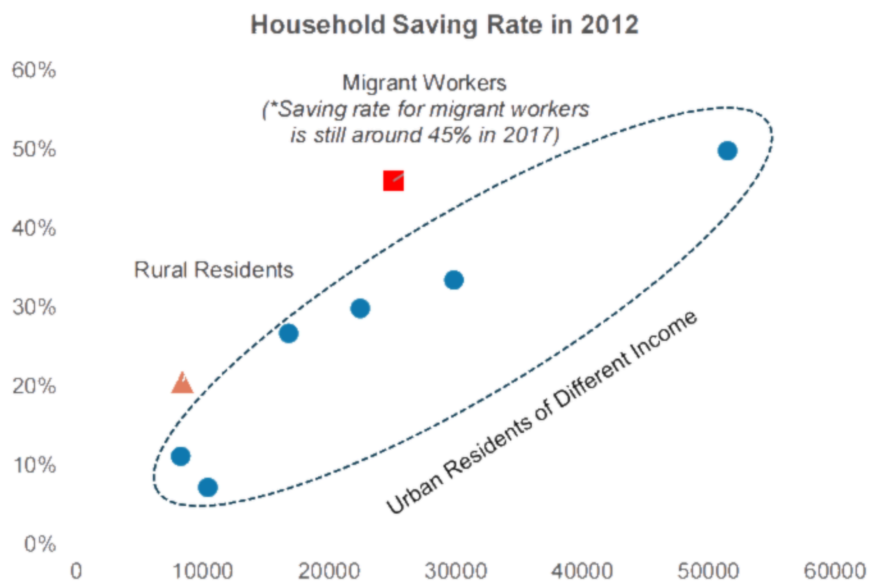
A three-stage roadmap to unwind household savings



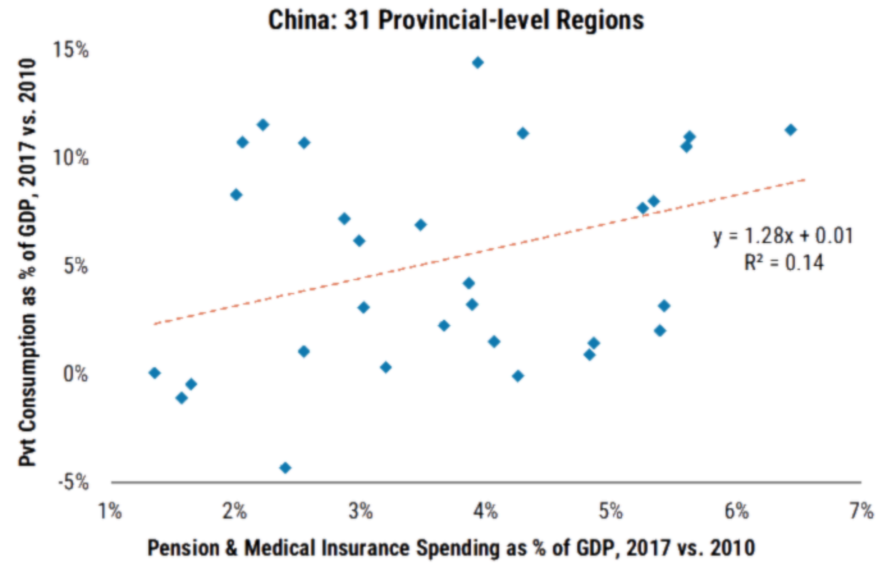
Gradual Rebalancing

…with Social Welfare Reform

Income redistribution toward lower-income households that exhibit a higher marginal propensity to consume



Provincial data show rising social welfare spending associated with higher consumption share in GDP

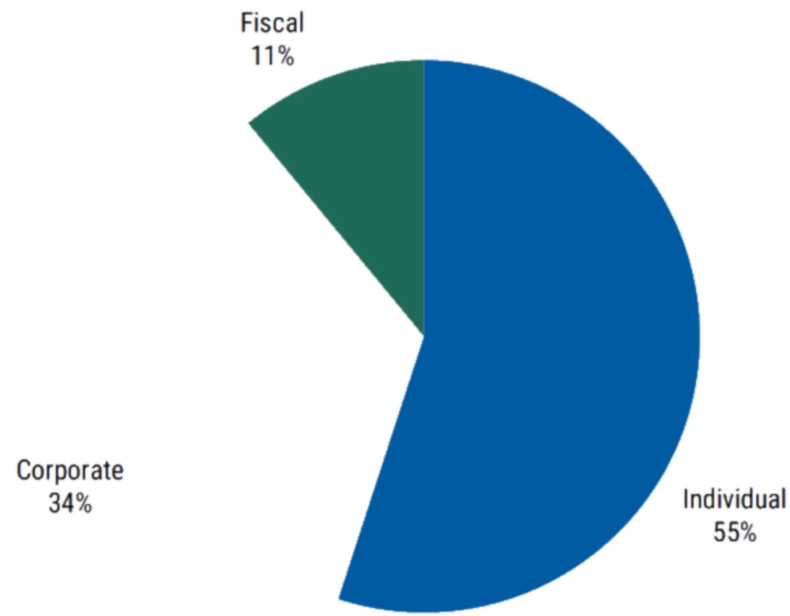


Gradual Rebalancing

Long-term Care Insurance to Enhance Social Security

- **Employees:** 0.3% (of salary), employers/employees: 50/50
- **Retirees:** 0.15% (of pension income).
- **Unemployed:** ~0.15% (of local disposable income) at launch, ~0.3% in five years, partly subsidized by government.

Long-term Care Insurance Contribution Breakdown (% Share)

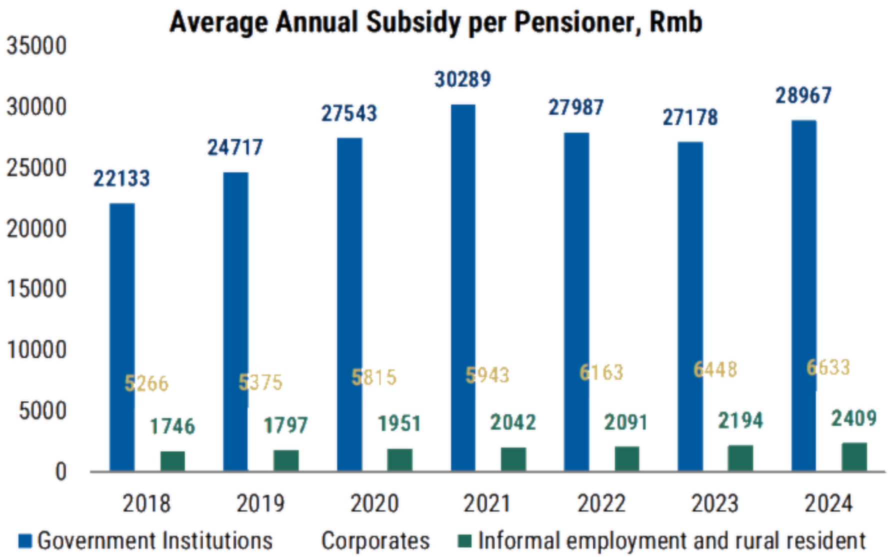


Annual Total Contribution: ~Rmb100bn

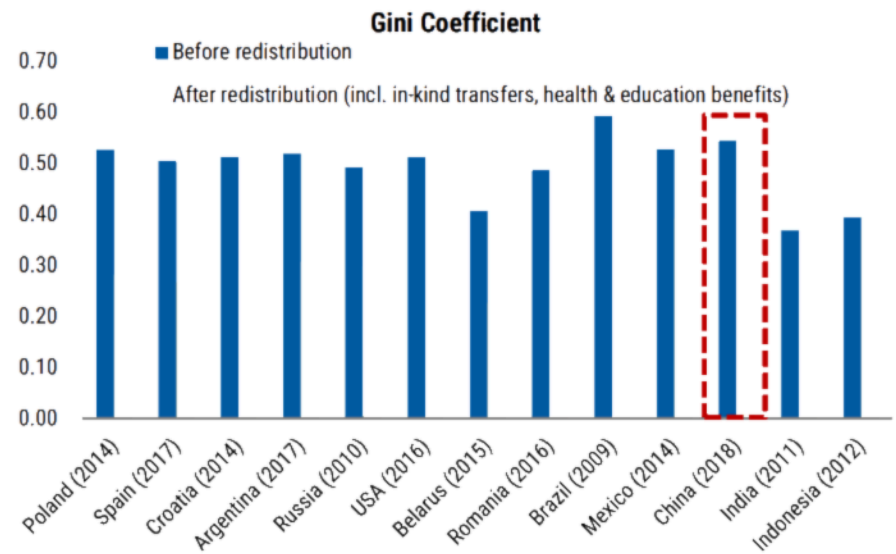
Gradual Rebalancing

Fragmented Social Welfare System

Wide benefit gaps across social groups



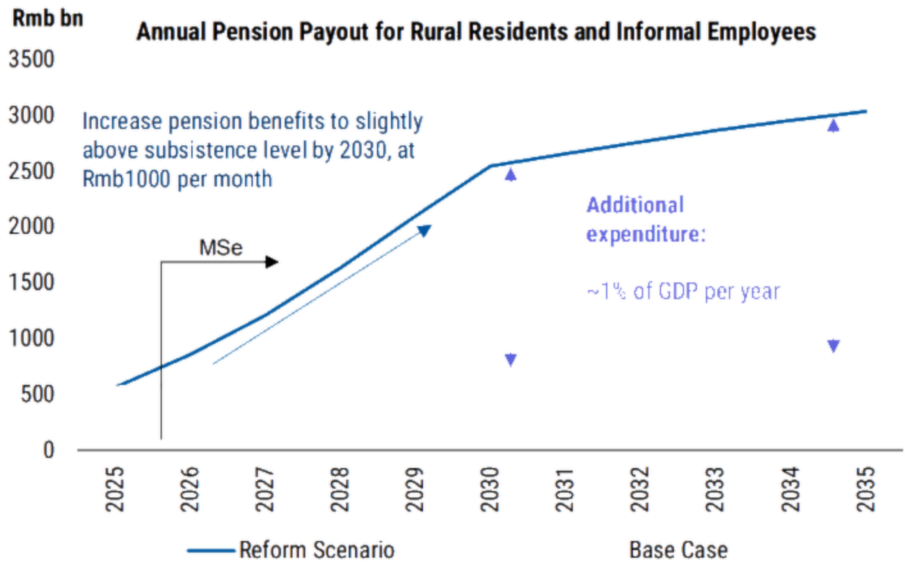
Inequality reduced, yet redistributive power lags peers



Gradual Rebalancing

Is Social Welfare Reform Financially Sustainable?

Reasonably lifting rural pension benefits would incur modest additional fiscal burden...



...but the system would become more underfunded over the long run