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Investor Presentation | Asia Pacific

Stronger Trade, Weaker Domestic Demand

MORGAN STANLEY ASIA LIMITED

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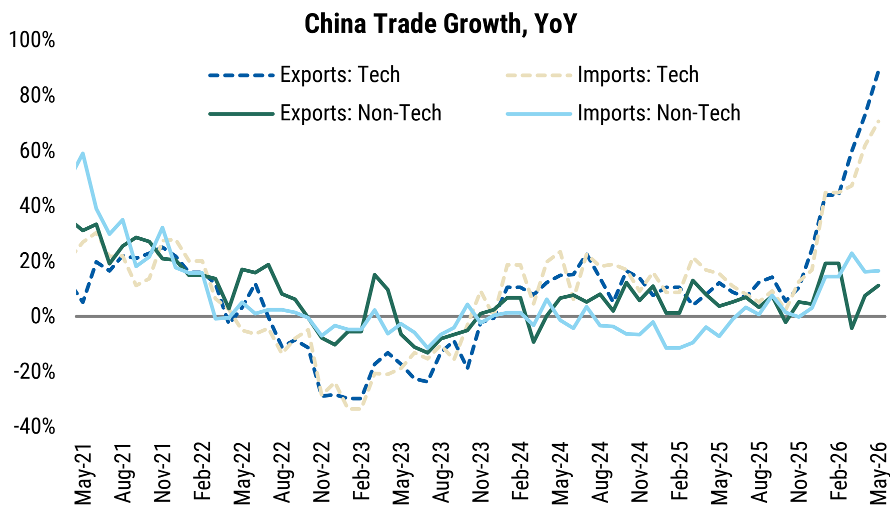
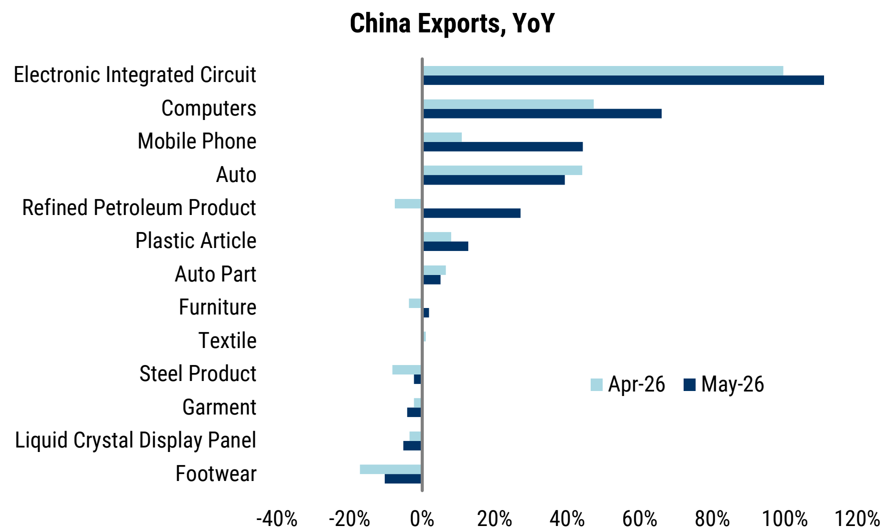
Broadening Export Improvement

Global AI cycle drives China trade growth



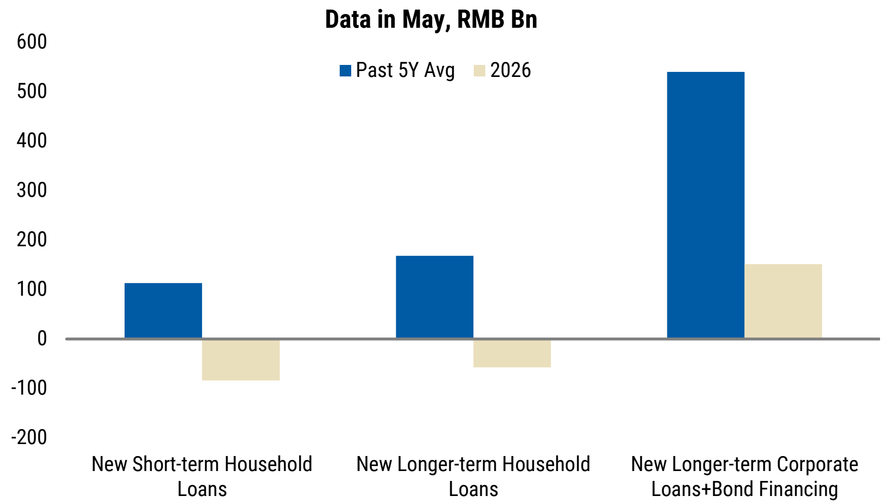
Elsewhere, export breadth is improving



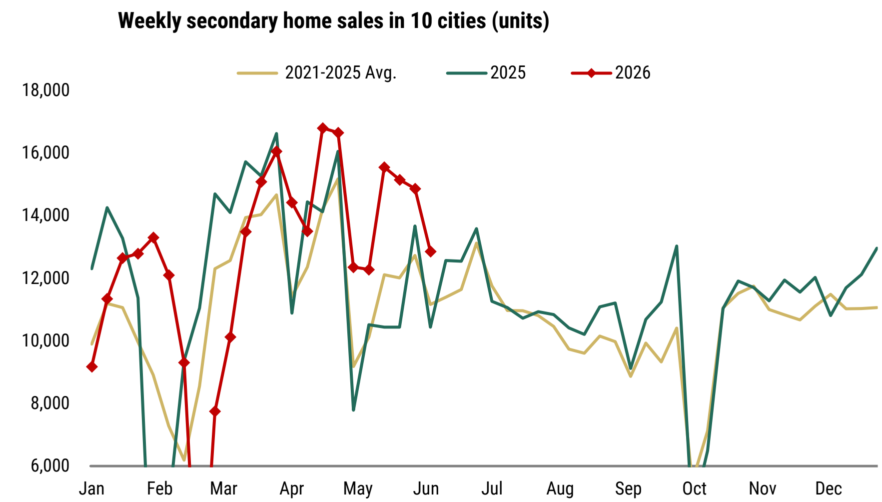
Source: CEIC, Morgan Stanley Research

Yet Private Credit Demand Weakened Further

Broad-based private credit demand weakness



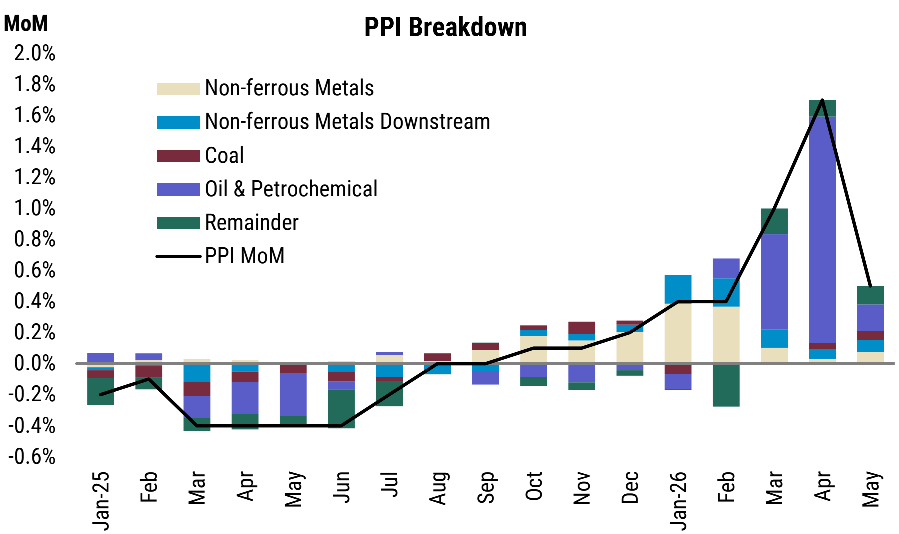
Continued household deleveraging in aggregate suggests the recent housing sales rebound is narrow



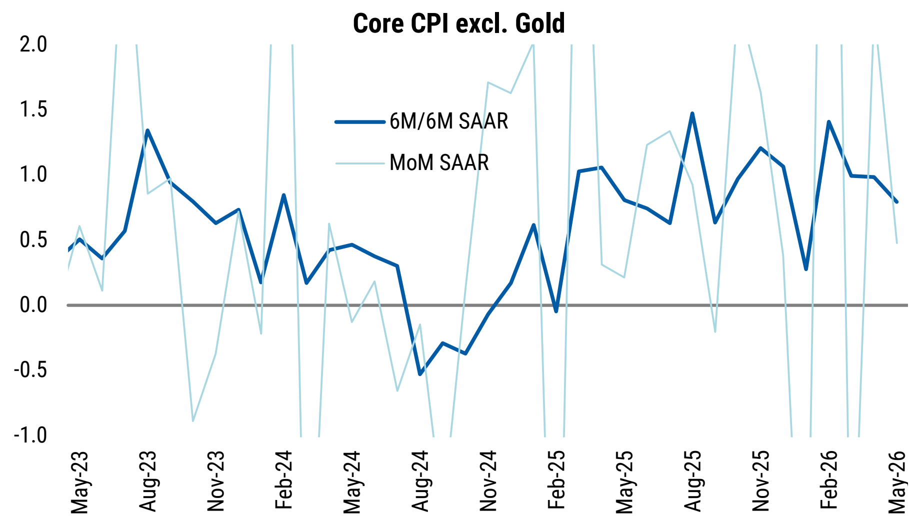
Source: CEIC, Morgan Stanley Research

Sequentially Slower Oil Push, Limited Reflation Elsewhere

PPI MoM slipped on reduced oil price impulse



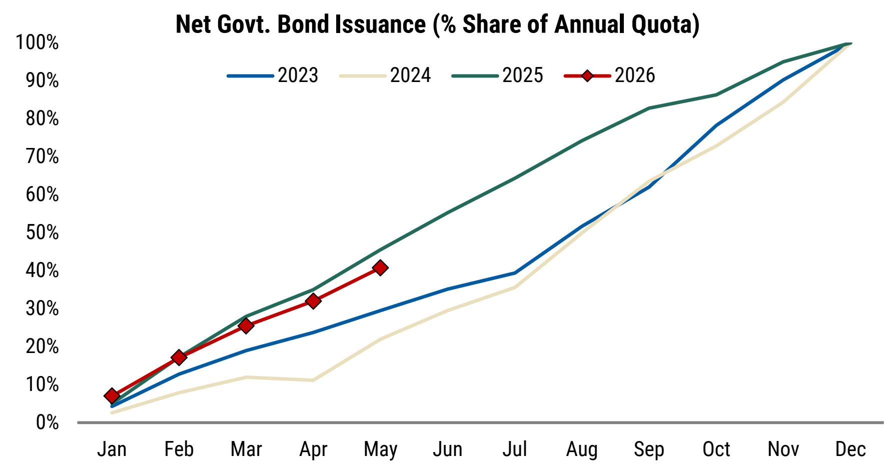
Limited transmission to core CPI



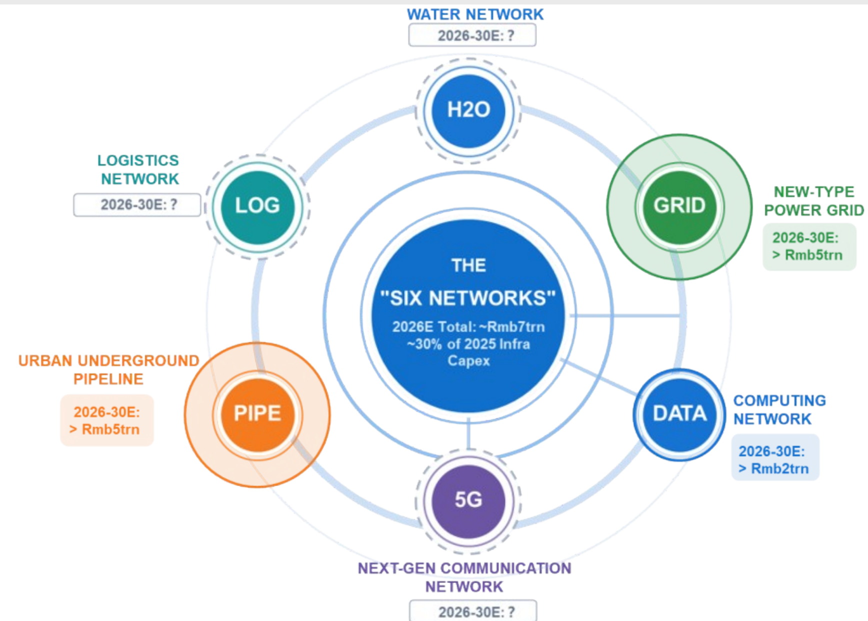
Source: CEIC, Morgan Stanley Research

Budget Rollout May Accelerate from 3Q to Support AI and Energy Transition

Pace of fiscal rollout slowed in Apr-May



Expecting stronger budget execution from 3Q, with Focus on AI and Energy Transition in the "Six Networks"

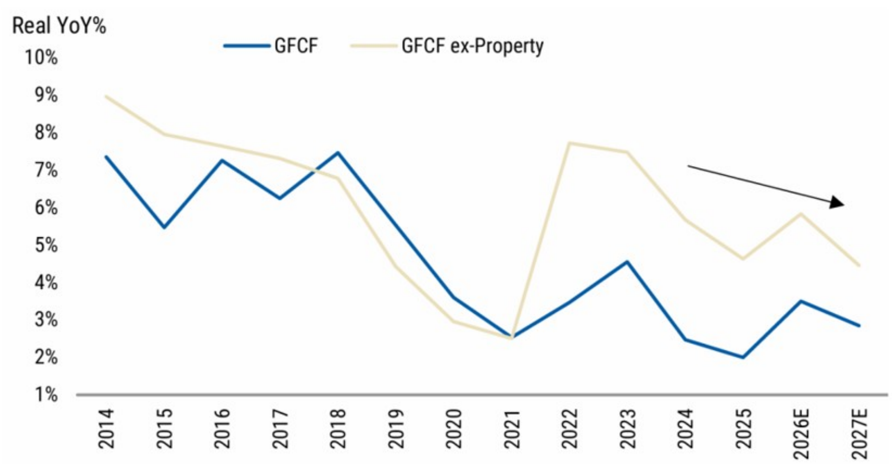


- Only **41%** of annual government bond quota was utilized (**46%** by May-25)
- We thus expect an **accelerated budget rollout**, not additional stimulus, from 3Q
- Policy focus will remain capex-centric, particularly on **AI computing networks, internet data centers and smart grids** under the "Six Networks" initiative

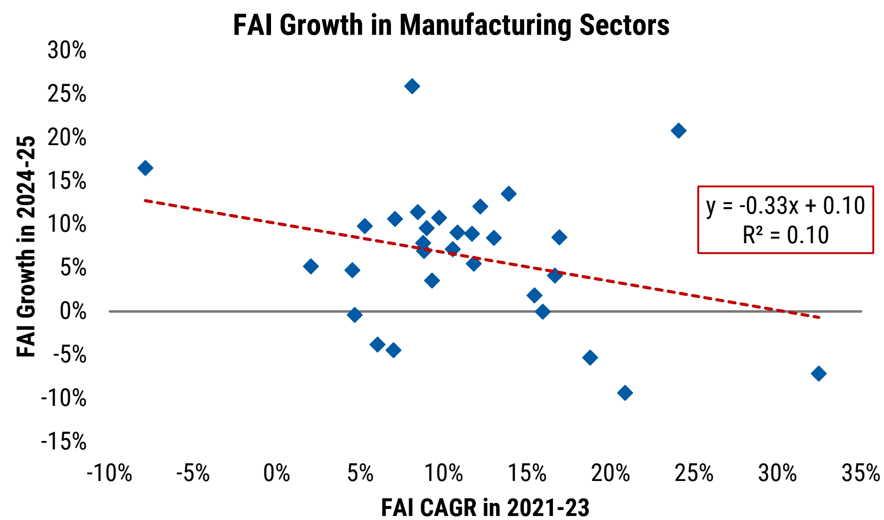
Source: CEIC, Morgan Stanley Research

Smarter Industrial Policy Alone May Not Narrow Supply-Demand Imbalances

Investment ex-property growth slowed from 2021-23's spike, but only at a modest pace



The "baton" of investment has been passed from sectors with overcapacity to those with less oversupply, for now



"National unified market" and anti-involution are in the right direction but challenging to implement:

- Top-down coordination unworkable; market mechanisms for specialization still weak
- Local incentives misaligned
- Tax system biases production

Source: CEIC, Morgan Stanley Research estimates

Reforms Needed for Economic Rebalancing

Five-year plan remains supply-centric

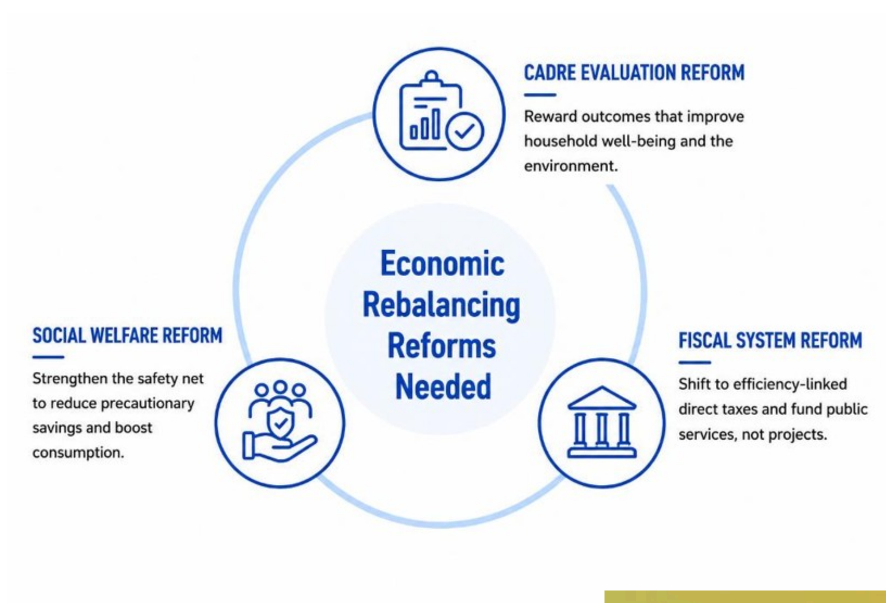
Growth Target
- Not Specified

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)
- CO_2 emissions per unit of GDP (↓17% by 2030 vs. 2025)
- Additional target on non-fossil fuel consumption

Local government incentives should be reoriented towards consumption

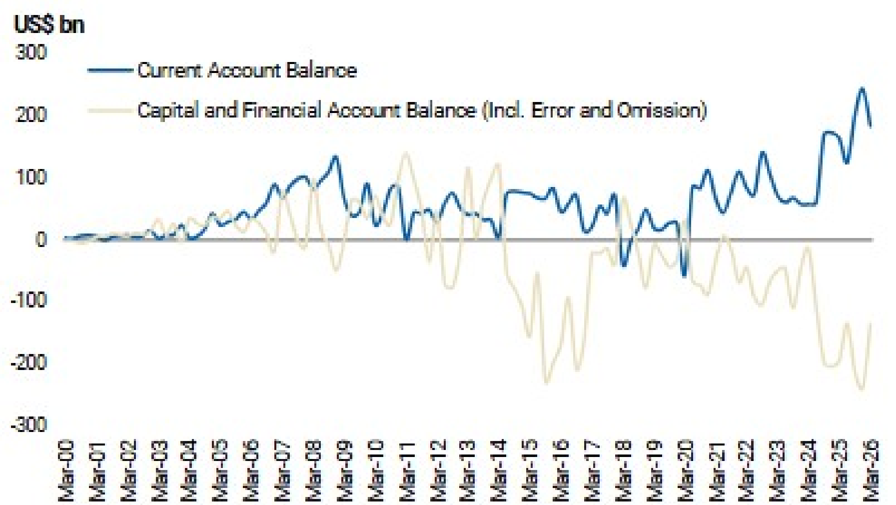


Source: CEIC, Morgan Stanley Research

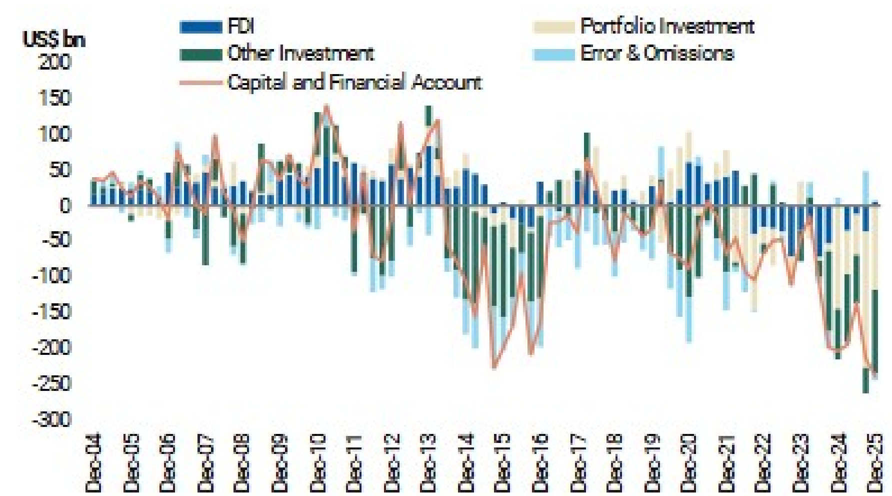
Outbound Investment

Tightening Outbound Investment Controls to Regulate Flows…

China's non-reserve balance of payments: from a unique "twin surplus" to the more common "mirror image"…



…with capital outflows increasingly led by portfolio investment



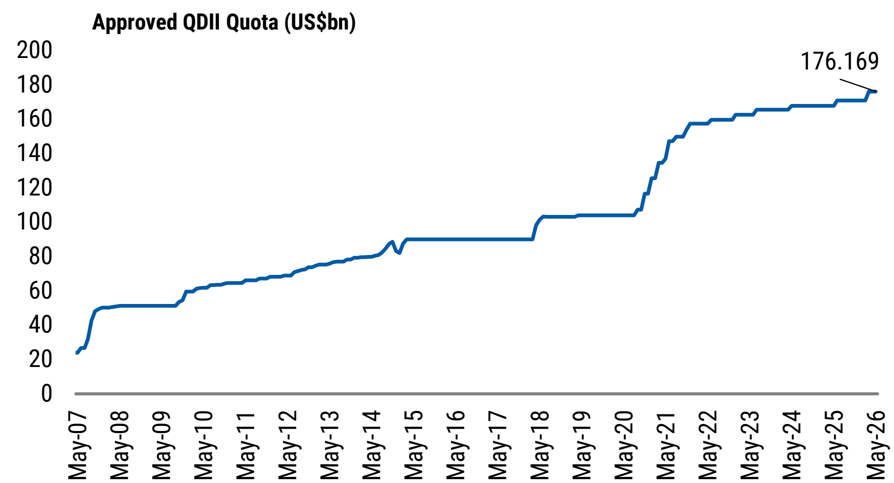
Source: CEIC, Morgan Stanley Research

Outbound Investment

…Not Shut Down Overseas Investment Channels

Mainland residents still have several legal routes to gain offshore securities exposure…

…albeit with various limitations such as insufficient quotas, product eligibility and regional restrictions etc.

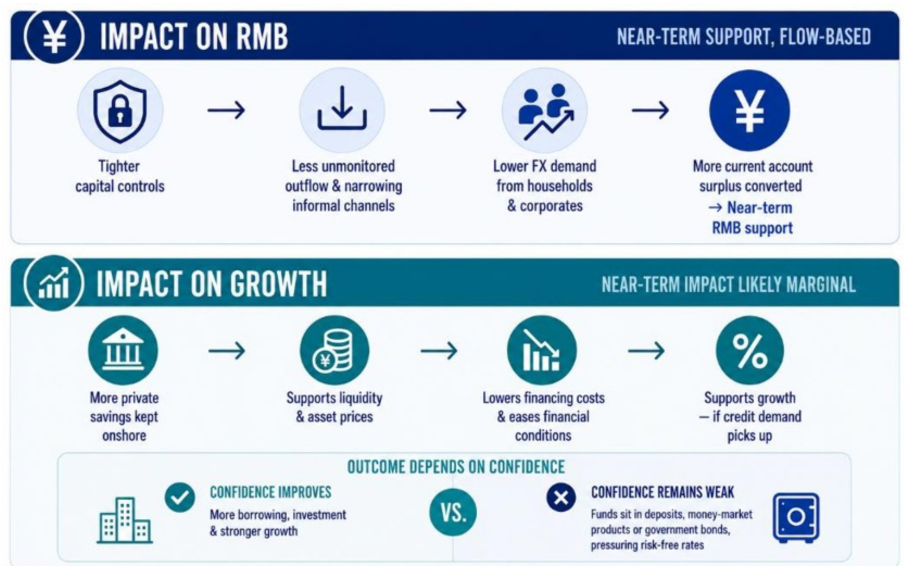


Source: CEIC, Morgan Stanley Research

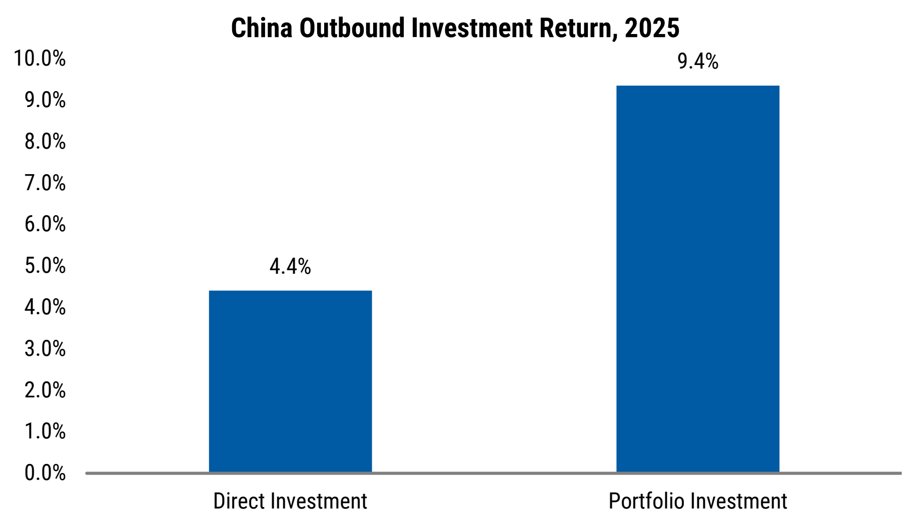
Outbound Investment

Implications: Near-term Support to RMB; Marginal Impact on Growth

Regulatory impact on RMB and growth



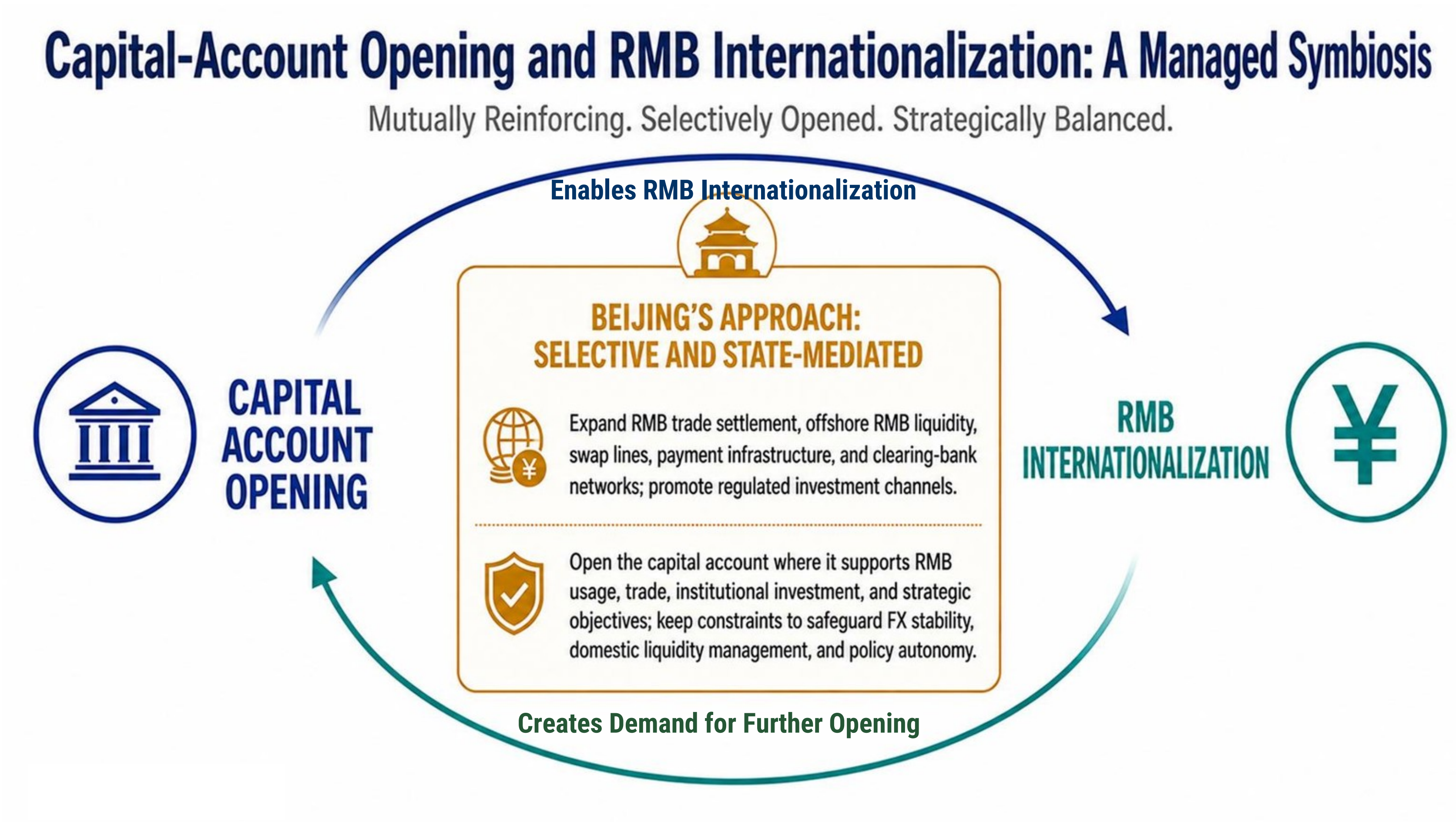
Tighter controls could reduce risk-adjusted return opportunities for domestic portfolio investors



Source: CEIC, Morgan Stanley Research

Outbound Investment

China Will Likely Continue with Its Prevailing Capital Account Opening Approach



Source: CEIC, Morgan Stanley Research

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