

China 2025 Macro outlook:

Stimulus to offset weak demand and trade war

China/Economics/Markets

Group Research

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Executive Summary

Strong stimulus measures, from rate cuts to public outlays, have been the hallmark of China's policy stance since September. This ought to help the economy maintain 5.0% growth in 2024 and 2025. China's economy will continue facing risks though, from property market to strained local government finance, from persistently weak aggregate demand to a very likely escalation of trade and tech war. Wide ranging support measures to offset these headwinds will remain the need of the hour.

Uneven growth

1. **Exports could** remain a bright spot amid resilient global demand. An exacerbation of trade/tech war is likely, but China is better positioned to withstand the protectionist climate compared to the past.
2. **Consumption** will wobble due to negative wealth effects from falling asset and job markets. Consumption upgrading subsidies, tax reliefs and increases in unemployment insurance ought to aid consumption sentiment.
3. **Fixed asset investment** will be driven by the public sector. Green energy, EVs, advanced manufacturing, and tech hardware will lead the march.

Key risks

1. **The property market** remains the prime risk. Coordinated measures are being deployed at inventory destocking and price stabilization.
2. **Local government finances** pose another risk. The central government is well-positioned to assume additional responsibility. Defusing the hidden debt of local governments will also speed up the unsold home buyback programs.
3. Persistently weak **aggregate demand** calls for further monetary easing. We see room for a 10bps 1Y LPR cut next month, and another 50bps cut in 2025.
4. **Tariffs and market/tech access** will become more restrictive under Trump 2.0. We expect wide ranging macroeconomic and structural policies to support exporters and reduce foreign dependency.

China 2025 Macro Outlook

Ongoing uneven growth

The Chinese economy would likely expand by 5.0% in 2025

Strong stimulus measures, from rate cuts to public outlays, have been the hallmark of China's policy stance since September. This ought to help the economy maintain 5.0% growth in 2024 and 2025. After the CNY2.5trn worth of monetary easing and CNY4.07trn fiscal stimulus in 4Q24, **we expect the respective support policies will be raised to CNY3trn and CNY10.5trn next year. That said, China's economy will continue facing uneven growth.** Exports should remain a bright spot amid resilient global demand. But consumption will wobble due to negative wealth effects from falling asset markets. The public sector will continue to drive fixed asset investment.

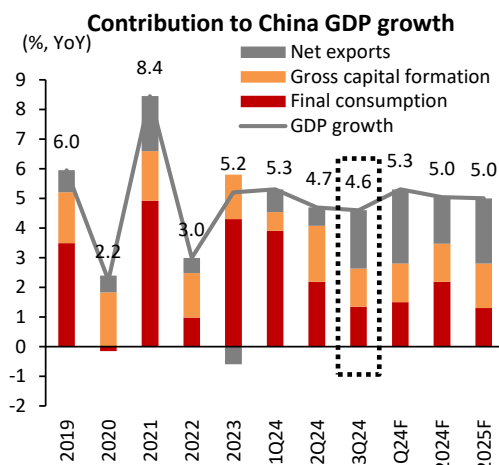
4Q24	Amount and impact
Monetary easing	
50bps RRR cut	CNY1trn
New swap facilities	CNY0.5trn
Upcoming 50bps RRR cut	CNY1trn
Total amount	CNY2.5trn
Fiscal stimulus	
Unused Special local government bonds	CNY2.3trn
Injection into developers' "White-List"	CNY1.77trn
Total Fiscal stimulus and impact	CNY4.07trn or 0.5%ppt of GDP growth
2025	Amount and impact
Monetary easing	
100bps RRR cut	CNY2trn
New swap facilities	CNY1trn
Total amount	CNY3trn
Fiscal stimulus	
Ultra-long special government bonds	CNY2trn
Special local government bonds	CNY4.5trn
Injection into developers' "White-List"	CNY4trn
Total Fiscal stimulus and impact	CNY10.5trn or 0.9%ppt of GDP growth

1. External trade – Dealing with a likely worsening of trade/tech war

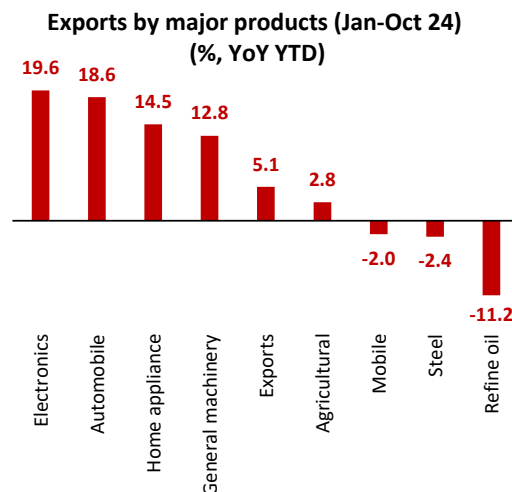
1.1. External demand overview

Exports will remain a pillar of growth in 2025. Its contribution to GDP growth reached 2.0 percentage points in 3Q24, the highest on record except for the base effect-distorted 1Q21. **Resilient global growth will drive China's export growth in 2025.** Per IMF, global real GDP is expected to rise by 3.2% in both 2024 and 2025, while Asean-5 is slated to rise by 4.5% in both years. Likewise, China's **import growth will likely grow at 5.0% in 2025 amid stabilizing domestic demand.**

Mechanical and electrical products will continue supporting overall outbound shipments. Machineries alone accounted for 60% of China's exports in Jan-Oct 2024. AI data centers and servers, as well as AI-enabled PCs and smartphones are spurring related demand. Home appliance exports also remain resilient, thanks to steady real estate markets in developed markets. Automobile exports will provide further support.



Source: CEIC, DBS



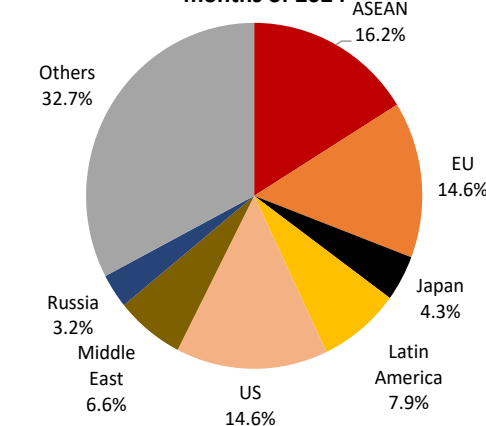
Source: CEIC, DBS

1.2. Impact from tariff

Notwithstanding there are several risks facing Chinese exporters. The paramount one is the elevated trade tension. The new US Administration and the EU will likely keep up with the tariffs against China. **The actual impact may prove even less severe.** First, will take time for the US to execute the additional tariff by phase. Also, **the new US administration is likely to raise tariff on other countries, which could dilute the specific effect on China.** Additionally, **China is better positioned to withstand the protectionist climate compared to the past.** Burgeoning demand from emerging markets may help cushion the potential loss of trade income from the US. The loss of trade income from the US may be partly offset by the stimulus.

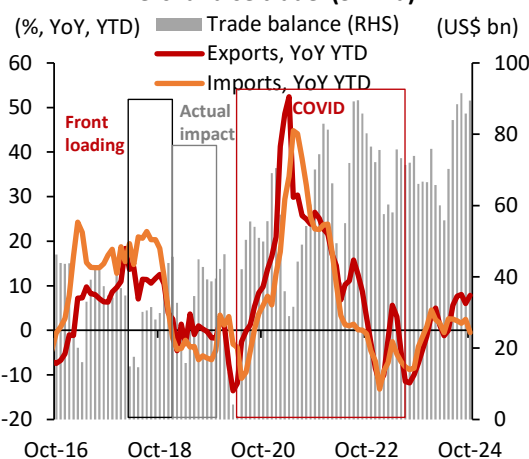
The actual impact may prove even less severe

China exports breakdown by region in first 10 months of 2024



Source: CEIC, DBS

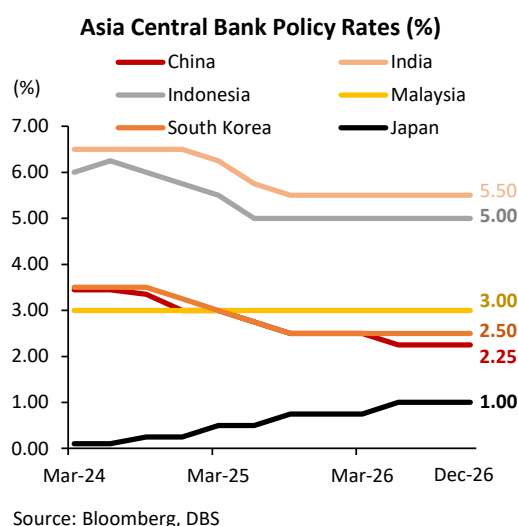
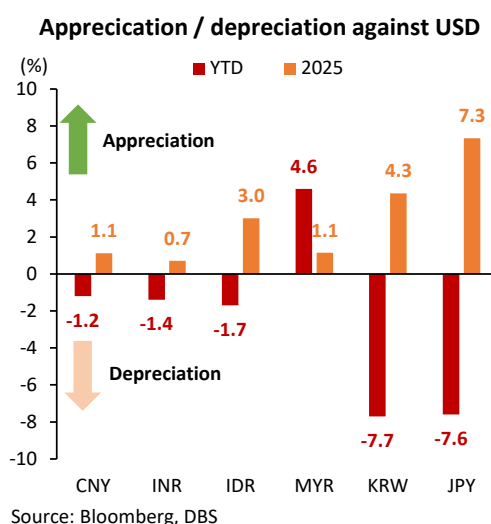
Merchandise trade (3mma)



Source: CEIC, DBS

In particular, China has seen significant growth in exports to ASEAN, which accounted for 16.2% of its total shipments in Jan-Oct this year. Other key growth markets include the Middle East (6.6%), Latin America (7.9%), and Russia (3.2%). Furthermore, **Chinese exporters may find opportunities to reroute goods destined for the US through these alternative trading partners such as Mexico.** Meanwhile, the full effects of the proposed tariffs are unlikely to materialize before late 2025 or early 2026, as American importers may frontload purchases to avoid impending tariff hikes.

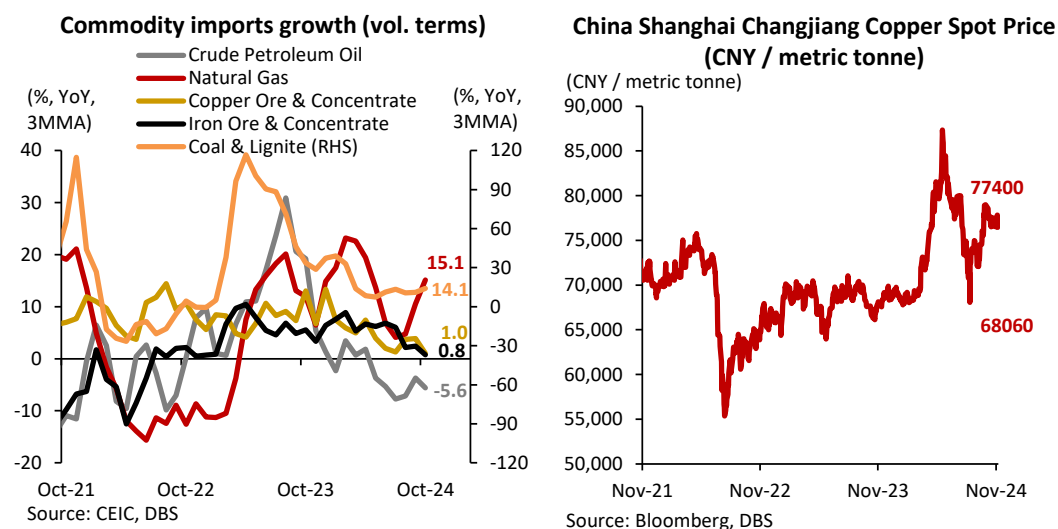
1.3. Impact from currency



Another headwind for Chinese exporters is competitive currency depreciation among major exporting countries. As China moves up along the global supply chains, its exports increasingly compete with Japan and Korea. The weak JPY and KRW, depreciated by 7.6% and 7.7% year-to-date respectively, may dampen the price competitiveness of Chinese goods. Currencies of other growing manufacturing bases like India and Indonesia IDR also depreciated 1.4% and 1.7%, compared to just 1.2% for the Chinese yuan.

Nevertheless, the strength of CNY against other Asia currencies will likely narrow entering 2025. China has already begun rate cuts, with another 50bps of 1-year LPR cuts towards end-2025 expected. In contrast, the Bank of Japan is unlikely to derail from its rate hike cycle, adding appreciation pressure on the JPY. The magnitude of Bank of Korea's rate cut is also expected to be milder than that of the PBOC. According to our estimates, CNY will likely appreciate by 1.1% against USD in 2025. This is much milder than the respective appreciation of IDR, KRW, and JPY.

1.4. Imports overview



Import will recover on stabilizing domestic demand

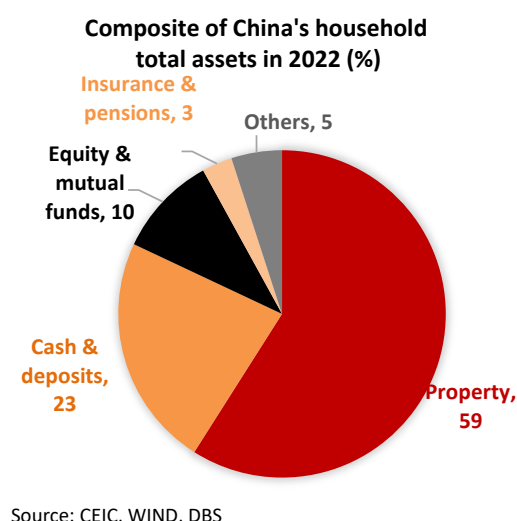
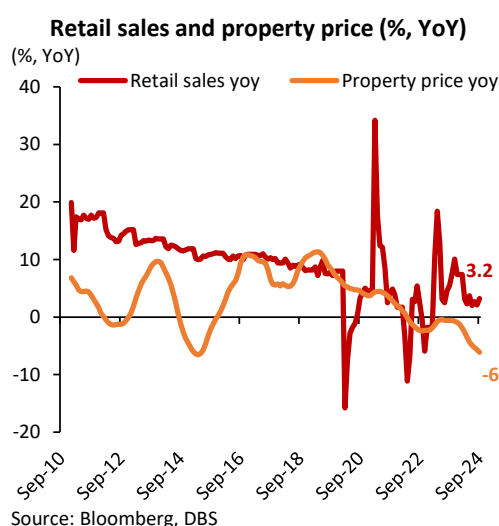
Meanwhile, imports will likely recover next year. Weakness has been driven by plunging domestic commodity demand amid the property downturn. However, **forceful stimulus should fuel infrastructure investment and aid construction of unfinished homes**. There are already signs of improving commodity demand. On a 3-month moving average basis, oil and natural gas imports volumes have been rebounding since June. **Copper, a key commodity for real estate and infrastructure construction**, its onshore spot price also rebounded 12.7% to CNY76,690/metric tonne as of yesterday, from its mid-August trough of CNY68,060. These point to strengthening commodity import demand.

2. Consumption – Hanging negative wealth effect

2.1. Negative wealth effect

Private consumption is expected to remain lackluster in 2025. The foremost concern is the heightening negative wealth effect from the property market. Our estimate shows a 10% property price will drag overall retail sales growth down by 1.3 percentage points. Residential properties of 70 major cities average selling prices have contracted 9% since the peak and may fall by another 5% in 2025 before stabilizing in 2026. A total of 14% decline in property prices will drag the retail sales growth by around 2% points.

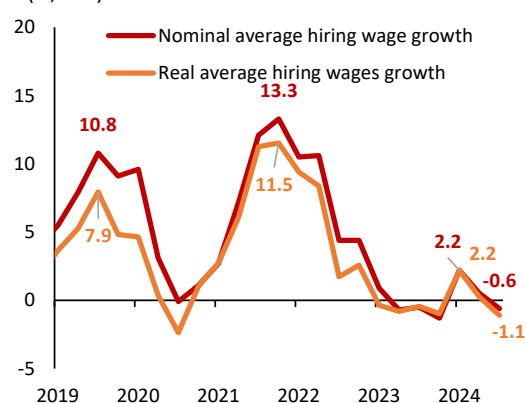
A 10% property price will drag overall retail sales growth down by 1.3 percentage points



Meanwhile, any rebound in equity market will likely have muted impact on consumption given it comprises just 10% of Chinese household assets in 2022, versus 59% for properties. The share of equities could trend even lower into 2024. This is best evidenced by the marginal improvement in National Days Golden Week holiday in the first week of October, despite a 19.9% rally of CSI300 Index in just a week time since the announcement of stimulus policy on 24th September. The total domestic tourist spending was just 8% above the 2019 level, while per capita spending was still 2.1% below its 2019 level. It was somewhat close to the performance of the other long holidays this year.

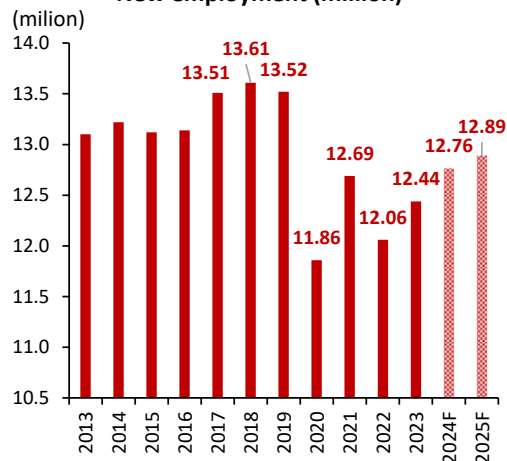
2.2. Weakening labour market

Average hiring wages growth in 38 major cities
(%, YoY)



Source: Zhaopin Ltd., DBS
Note: Figures represent nominal

New employment (million)

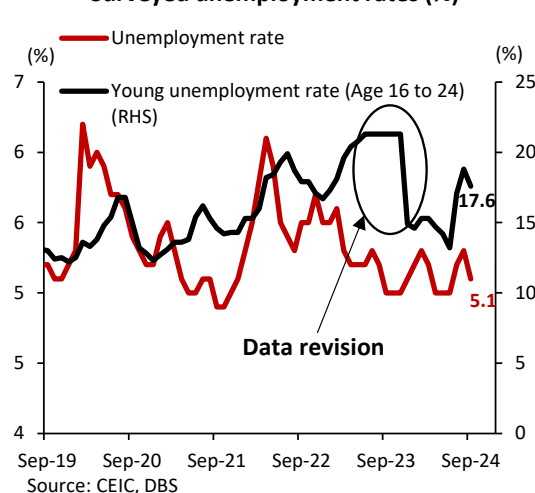


Source: CEIC, Government Work Report, DBS

Job creation is another source of concern. New employment is projected to grow by 2.6% this year to 12.76mn in 2024 and 1.0% to 12.89mn in 2025. Yet, it will remain 5.3% below the 2018 peak. Employment income could be dour next year. **Already, the average hiring wage across 38 major cities saw its first YoY contraction of 0.6% in 3Q24 since COVID, and fell 2.5% QoQ to RMB10,058 per month.**

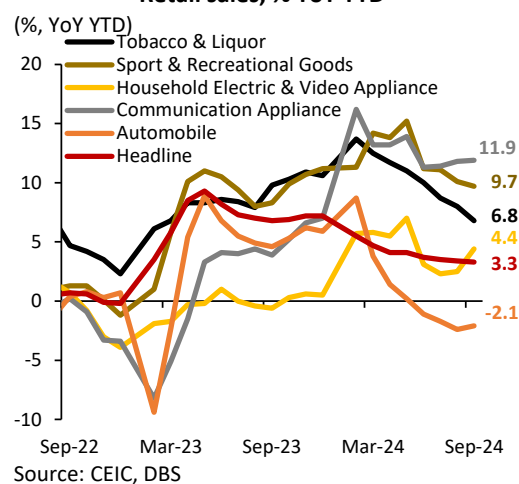
While the headline unemployment rate should hold steady at 5.1% in 2025, **the rising youth jobless rate will constrain spending power, as youth accounts for around 12.6% of China's consumers.** Even after excluding students from the youth labour force, its jobless rate rose towards 17.6% as of September 2024.

Surveyed unemployment rates (%)



Source: CEIC, DBS

Retail sales, % YoY YTD



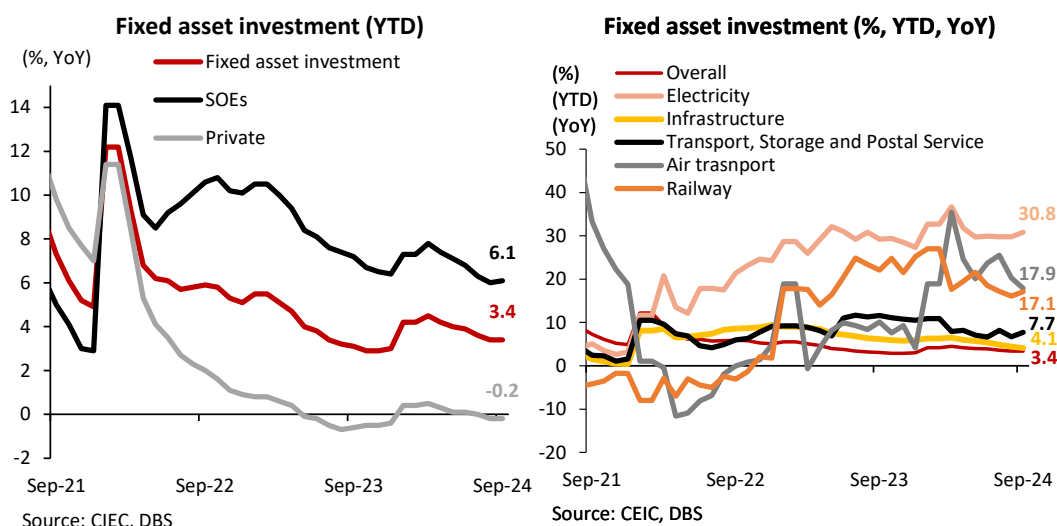
Source: CEIC, DBS

2.3. Consumption boosting measures

Given the uncertain property and labor market outlook, sales of big-ticket items like autos, luxuries, and construction materials will likely be hit hardest. Even leisure spending on areas like sports and entertainment will slow amid consumption downgrading.

Hopefully the CNY300 billion consumption upgrading subsidy, equivalent to 0.6% of retail sales, will cushion the downtrend. In fact, the sales growth of communication appliance grew by double-digit YTD. Household electric and video appliance also rebounds despite property market routs. The upcoming personal tax cuts and increase in unemployment insurance will aid the consumption sentiment down the road. The NDRC will also increase upskilling subsidies to ease the job mismatch amid technology advancement. The better job prospect will also improve the overall spending power.

3. Investment – Public investment driven growth



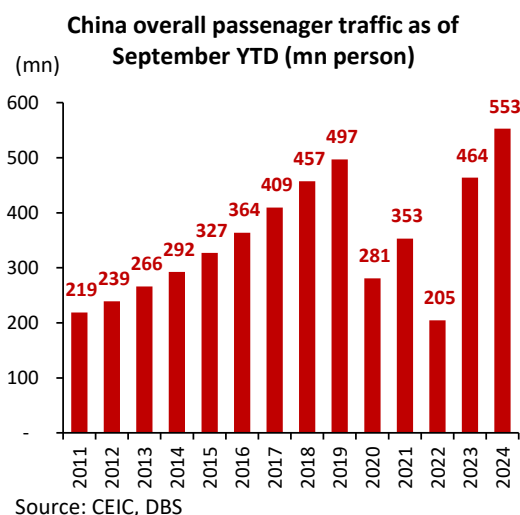
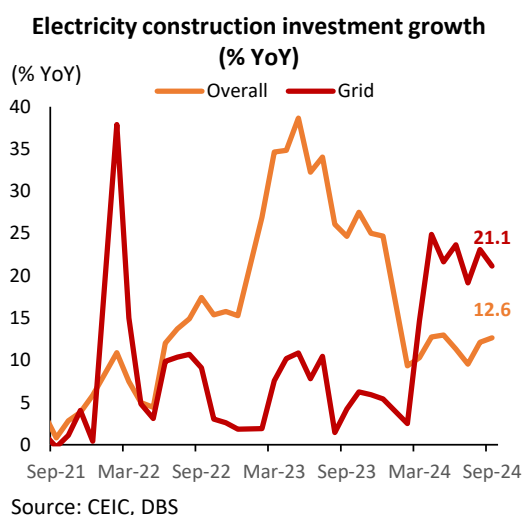
3.1. Infrastructure investment

Fixed asset investment will stabilize entering 2025. However, **divergence between public and private investment will persist**. State-owned enterprise investment has grown 6.1% YoY YTD as of September, while private investment contracted 0.2%.

Infrastructure investment is key to support growth. Electricity investment leads the way to cushion China's reliance on energy imports and the volatility of global energy prices. According to International Energy Agency (IEA), China's domestic crude production was just 29.3% of total supply in 2022. Meanwhile, **decarbonization and digitalization are driving grid upgrades**. Grid capital construction is up 21.1% YoY to CNY398 billion this year. Integrated electric vehicle charging infrastructure also requires investment. **Transportation investment is another growth engine.** Ongoing railway buildout is essential to connect tier 3-4 cities with tier 1-2. **Air transport sees**

Divergence between public and private investment will persist

rising demand from both domestic and international travel. Passenger traffic has already hit a record 553 million in 2024, 11% above the 2019 peak. Cross-border e-commerce also spurs international air cargo demand.

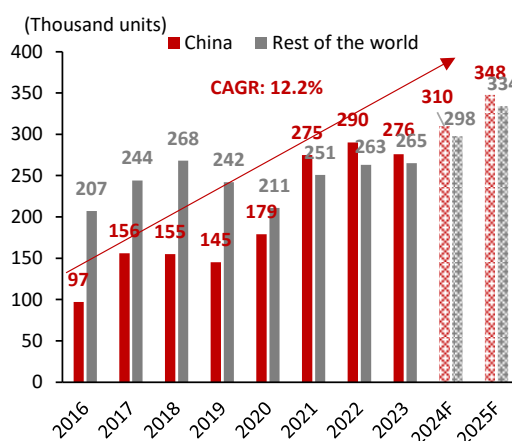


3.2. Equipment upgrading, high-end manufacturing, and tech hardware investment

In view of the weak private investment sentiment, the government has spared no efforts in aiding tech hardware and equipment upgrading. Targets are set to increase manufacturing, agriculture, construction, transportation, education, tourism, and healthcare investment by 25% by 2027 over 2023. In addition to consumer goods upgrade incentives since March, there was a CNY300bn in long-term bonds for further support in July. The PBOC also established a CNY500 billion re-lending facility innovation and technical transformation, with an interest rate of 1.75%.

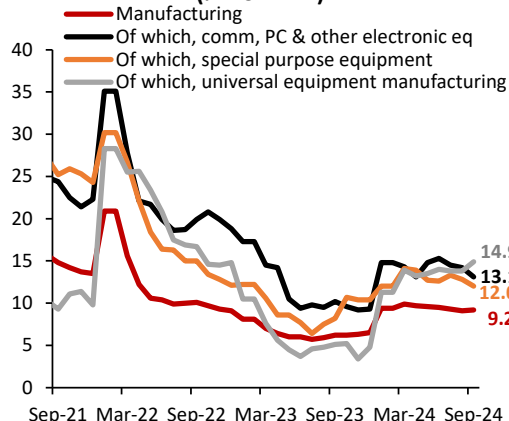
Investment in equipment and tool purchases increased 16.4% YoY YTD in September. Of which, industrial robotics contributed 64.2% to total investment growth this year. The annual robotic installation of China is the highest in the globe in 2023 at 276k units. It is expected to grow to 348k units by 2025. General equipment and special equipment and computer, communication and other electronic equipment manufacturing saw a faster pace than overall manufacturing investment. Sales of household appliances and audio-visual equipment registered a 20.5% YoY increase in September.

Annual installations of industrial robots



Source: International Federation of Robotics, DBS

Manufacturing fixed asset investment growth (% YoY YTD)

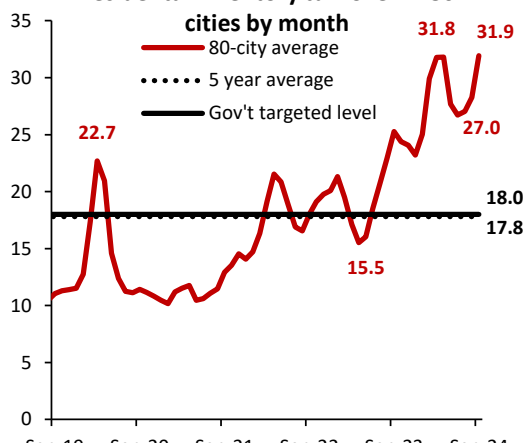


Source: CEIC, DBS

Key risks call for fiscal stimulus and monetary easing

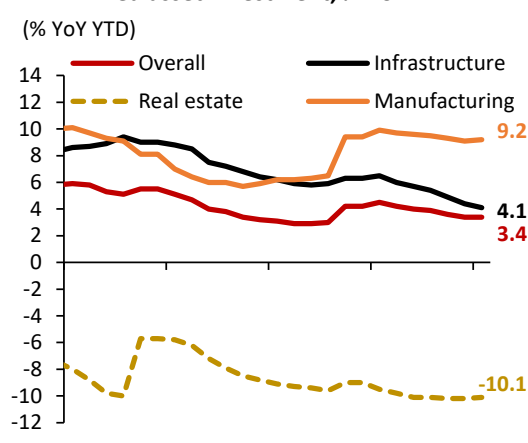
1. Property market – Forceful measures

Residential inventory turnover in 80 cities by month



Source: CRIC, DBS

Fixed asset investment, % YoY YTD



Source: CEIC, DBS

1.1. Demand-side stimulus

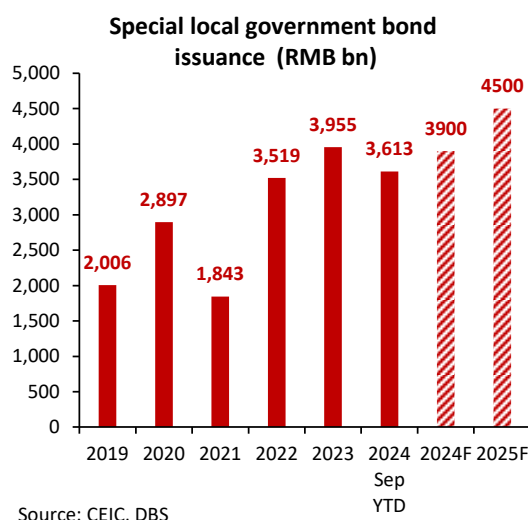
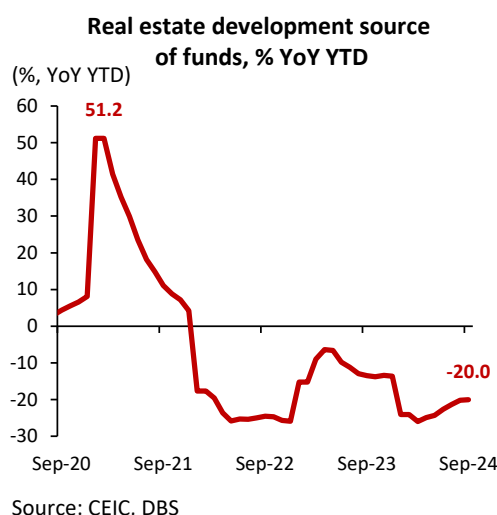
The bogging property market remains as the prime risk. Real estate investment fell 10.1% YoY YTD as of September, with residential floor space starts down 22.4%. Developers are prioritizing finishing unfinished homes, leaving residential inventory at a record high 31.9 months in September. This adds stress to both property prices and developers' finances.

Since September 24th, government agencies including the NDRC, MOF, and MOHURD have announced forceful measures. The National People's Congress Standing Committee meeting also announced key support measures on 8th November. **On the demand side, a key measure is extending special local government bond proceeds to buying unsold homes and idle land for affordable housing.** We expect another CNY4.5

A key measure is extending special local government bond proceeds to buying unsold homes and idle land

trillion issuance in 2025 after CNY3.9 trillion this year. **Our property team estimates the 14th Five Year Plan's affordable housing program will help absorbing CNY 1.3 trillion worth of unsold homes, or 75% of the excess inventory.** Direct measures also include cash compensation for 1 million units in shantytown projects. Yet, the absorption will take time and there will be additional inventories accumulated from this point of time.

Other affordability relief includes aligning first and second home downpayments at 15%. The PBOC also guided lenders to cut existing mortgage rates 50bps on average by set deadlines. **This mortgage rate cut would save CNY280 monthly on a CNY1 million 30-year mortgage. This is equivalent to 3% of China's average wage. A total annual saving of CNY150bn for 50mn households could boost 0.3% of retail sales, or 0.1% of GDP.** The Ministry of Finance will also speed up the property tax reform such as standardizing the value-added tax rate between residential and non-residential properties. Other easing like PBOC monetary stimulus will also aid equity market recovery, turning liquid asset into homebuyer downpayments.



1.2. Supply-side stimulus

On the supply-side, the government will increase credit support for white-list projects to CNY4 trillion by end-2024, up 79.3% from CNY2.23 trillion year-to-date. We expect another CNY4trn of injection next year, which could help rollover the existing loans and add fresh funding to complete the projects. This will help stabilize developer financing after a 20%+ fall for 3 straight years. The government also ensure the CNY2trn of implicit debts from shanty town renovation projects to be repaid by 2029 according to the original contracts. Major banks are also empowered to release funding to the white-list projects given the liquidity injection into their core tier-1 capital. These coordinated measures aim to destocking property inventory, rebalance

the land demand-supply dynamics, and stabilize property prices, which are crucial for the housing market.

1.3. Execution hurdles

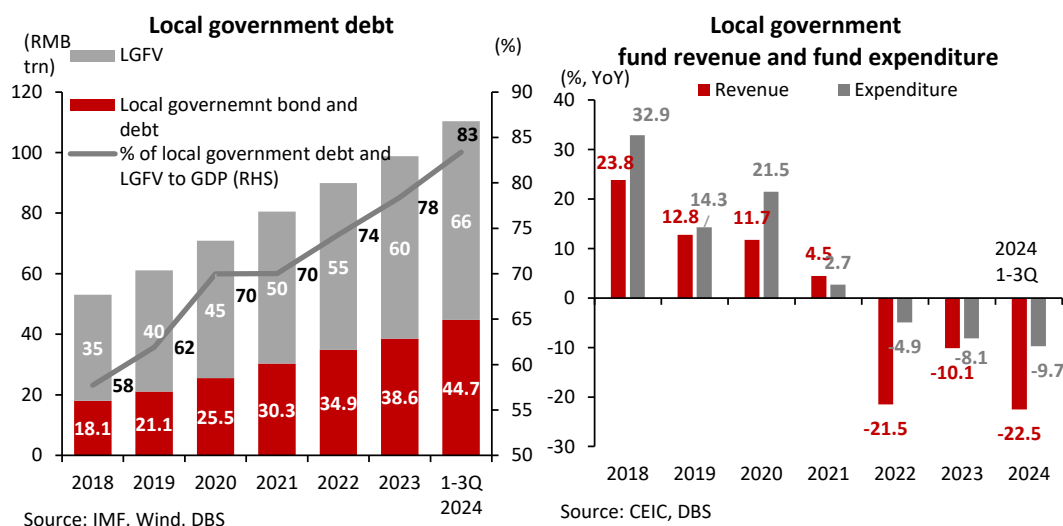
However, execution matters too. For unsold home and idle land buybacks, local governments and SOEs are voluntarily executing the initiative. They are also asking for big discounts given weak demand and risk appetite. For idle land, governments can reclaim land use rights cost-free if idle over 2 years, and they tend to buy from LGFVs instead of developers. **Affordable housing also faces hurdles like mismatch between cities with inventory pressures versus affordable housing demand.** There is also mismatch between affordable housing requirements (~50 sq. meter per unit) and the unsold inventories (>50 sq. meter per unit). For the alignment of downpayment ratios between 1st and 2nd home, the impact is expected to be limited as many cities have already eased first-home definitions.

Major property market policies announced

	Policy	Details
Direct demand-side and supply-side measures	Demand-side: Lower interest rates on existing mortgages and unify minimum down payment ratios	Cut existing mortgage rates to newly issued mortgages levels by 31 st October
		Lower minimum downpayment ratio from 25% to 15% for both 1 st and 2 nd home purchases
		Raise the portion of central bank's funding support in the Rmb300bn affordable housing relending program from 60% to 100%
		Standardizing the value-added tax rate between residential and non-residential properties.
	Demand-side: Local government stimulus and urbanization	Issue special local government bonds to buy idle land and unsold homes for affordable housing
		Implement 1mn sets of shantytown renovation and dilapidated housing renovation
		Allow 4.5mn new citizens and youth to move into public housing by end 2024
	Supply-side: Sources of funding	Increase "whitelist" project credit scale to CNY4tn CNY2trn of implicit debts from shanty town renovation projects maturing in 2029 and thereafter will still be repaid according to the original contracts
Indirect demand-side measures through positive wealth effect from equity market	Benchmark rate cuts and RRR cuts	Inject CNY1trn through cutting RRR by 0.5%, potentially another CNY1trn / 50bps RRR cut in 4Q24
		Cut 7-day reverse repo rate by 20bps to 1.5%
		Cut 1Y MLF rate by 30bps
	Introduce new monetary policy tools	Cut 1Y and 5Y LPR rate by 25bps
		Inject CNY500bn liquidity to securities firms, funds, insurers through new swap facility
		Set up refinancing facility for listed corporations and major shareholder Introduce Outright Reverse Repo Agreement in addition to existing pledged reverse repo

Source: China government, DBS

2. Local government debt – Debt swap programme



2.1. Central government support

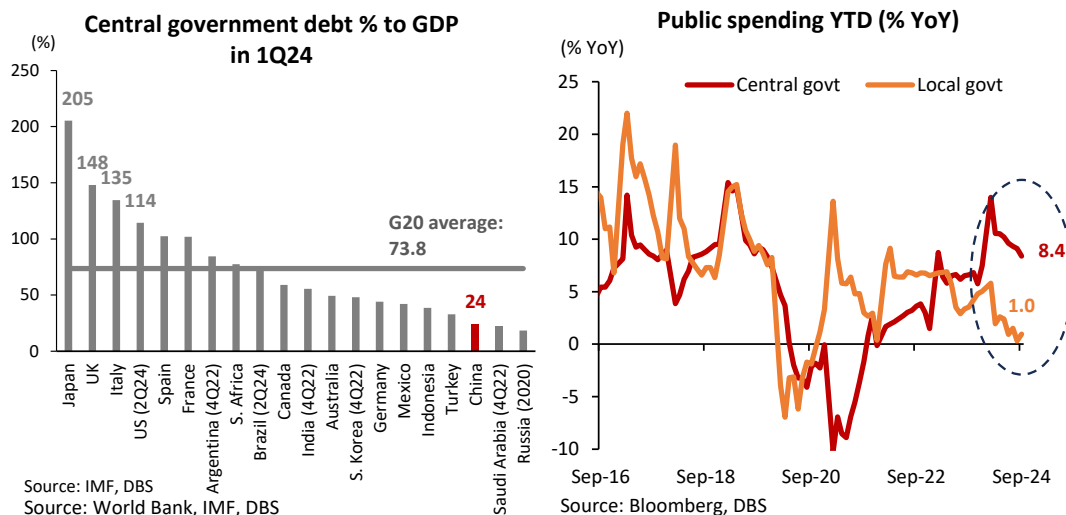
Local government debt poses another key risk. As of 3Q24, total local government debt reached 83% of GDP, including general bonds, special bonds, and local government financing vehicles (LGFVs). Facing declining revenues from taxes and land sales due to economic and property market downturn, local governments have scaled back spending.

The central government is well-positioned to assume additional fiscal responsibility

With public debt levels relatively low at under one-quarter of GDP, the central government is well-positioned to assume additional fiscal responsibility. The growth of central government's public spending outpaces the local government at 8.4% YoY YTD as of September. China also announced CNY6trillion increase in local government debt quota to swap local government hidden debt in the next three years. It will also allocate CNY800bn from the newly increased special local government bond for debt swap each year for five consecutive 5 years, totalling CNY4trn specifically for local government debt swap. The new program brings previously off-balance sheet debt by incorporating them onto official records. Consolidating hidden debt and renegotiating repayment terms reduce servicing costs for local governments.

2.2. Transmission mechanism

With more funds, regional governments can push forward crucial infrastructure projects that support local economies. More importantly, **the fresh liquidity is needed for the unsold home and idle land buybacks program**. Clearing back payments owed to businesses and employees may also ease their cash flow pressures. Easing aggressive tax collection and penalties could improve companies' financial stability by creating a more predictable operating environment. These will **potentially revive the local investment and consumption sentiment**.



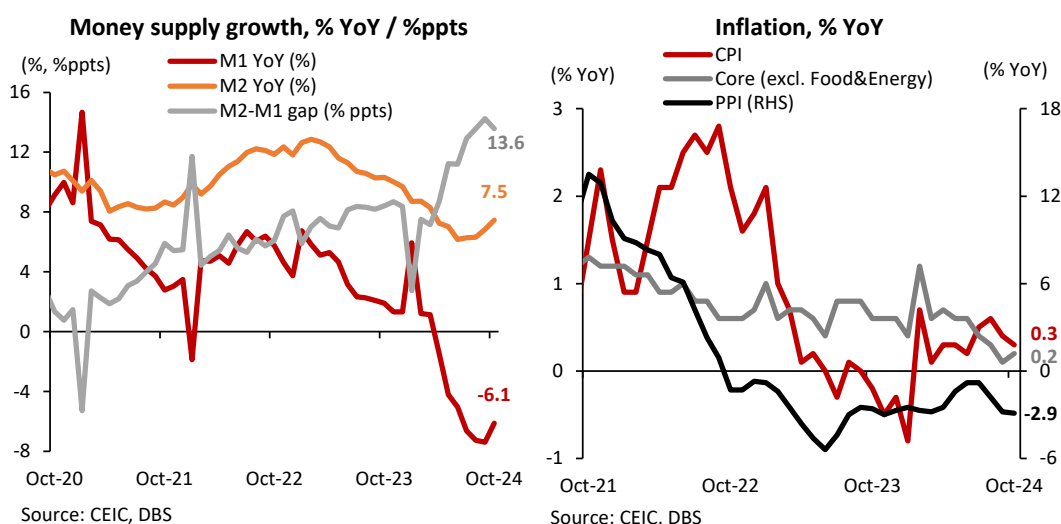
3. Aggregate demand – More rate cuts are needed

3.1. Money demand and supply

Persistently weak aggregate demand calls for further monetary easing

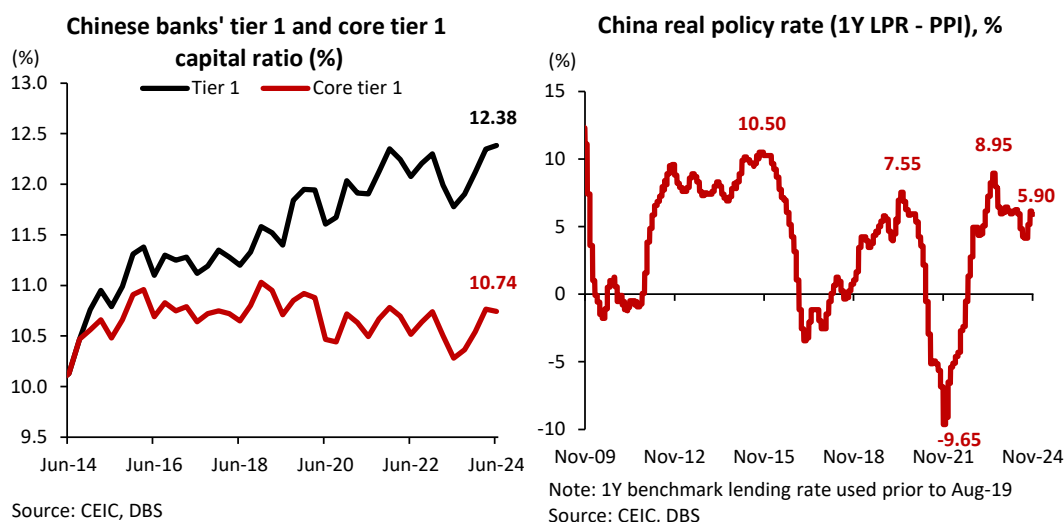
Persistently weak aggregate demand calls for further monetary easing. It is attested by the deep contraction in M1 of 6.1% YoY in October. Meanwhile, M2 growth rebounded from an all-time low of 6.2% in June to 7.5% YoY. The gap between short-term M1 and time deposit M2 growth widened to 13.6 percentage points, hovering at around the highest level since May 2012. It implies households and corporations are unwilling to hold liquid cash for consumption and investment.

For retail loans, short-term borrowing for big-ticket items such as automobiles and luxury goods will likely be subdued. Mid- to long-term household loans growth, most known as mortgages, will remain weak amid falling property prices. On corporate front, **pressure remains on new corporate borrowing amid high real financing costs.** The weak consumption and production demand will keep CPI in check at 1.0% in 2025, with PPI continuing to fall by 0.8%. This will result in an elevated real policy rate.



3.2. Room for rate cuts and capital injection

Therefore, a **speedy rate cut cycle is needed to keep real funding costs in check and revive credit demand**. We see room for a 10bps 1Y LPR cut next month, and another 50bps cuts in 2025. **This requires a stable CNY exchange rate**, which otherwise could inflict capital outflow. The CNY is expected to hover around 7.00-7.12 in the coming 12 months, thanks to the manageable impact from tariffs on growth.



Other key policies have "entered the decision-making stage." These include **special sovereign bonds for core tier-1 capital replenishment at major banks**. The capital injection is crucial, as diminished net interest margins and weak earnings have left banks in need of fresh capital to meet demands from recent rate cuts and expanded mortgage relief (i.e. narrowing the rate gap between existing and new mortgages and easing down-payment requirements for second homes). At a record low of 1.54% in Q2, these compressed margins have intensified pressures on banks' balance sheets. Meanwhile, **a higher core tier-1 capital ratio could spur loan volume as banks will be in an even stronger position to absorb losses**.

Conclusion:

In summary, **China's economy is expected to grow around 5% in 2025 supported by policy stimulus.** Exports will be a key pillar of growth as global demand holds up, though new US tariffs could shave up to 1ppt off GDP growth. Consumption will remain lackluster due to wealth effects from falling property prices and rising unemployment. Infrastructure investment will drive a moderate fixed asset investment recovery, though private investment lags.

Downside risks center on the property market correction. Hopefully, strong stimulus measures on both demand and supply sides, including inventory destocking and developer financing support, can aid market stability. Central government's fiscal expansion will help local government to sail through its indebtedness. Further monetary easing through interest rate cuts is warranted to revive weak credit demand. That said, recovery does not only require forceful stimulus, but also effective executions.

Major forecasts

	2023	2024F	2025F	2026F
GDP growth, yoy%	5.2	5.0	5.0	4.5
CPI inflation, yoy %	0.2	0.6	1.0	1.5
PPI inflation, yoy %	-3.0	-1.5	-0.8	0.0
1Y LPR, % yoy	3.45	3.00	2.50	2.25
2-yr yield, % eop	2.20	1.45	1.30	1.20
10-yr yield, % eop	2.56	2.10	2.00	1.90
CNY per USD, eop	7.10	7.12	7.04	7.12

Source: Bloomberg, DBS

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Sources: Data for all charts and tables are from CEIC, Bloomberg and DBS Group Research (forecasts and transformations)

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