

China's Shifting Economic Landscape

August 2025



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Executive Summary

Robust Export: China's economy remains resilient thanks to strong EM exports, though domestic demand lags.

Tackling Overcapacity: Regulators are addressing industrial overcapacity to restore profitability.

Accelerated AI Chips: U.S. restrictions spur rapid growth of China's domestic AI chipmakers.

Innovative Biotech: China's biotech industry shifts from copycat to global innovator with attractive valuations.



Our Experts Behind the Research

This series of research papers will combine technical and macroeconomic analysis of Chinese markets, with deep insights into China's macro policy and sectoral trends

Alongside expertise in market execution, trend analysis, and tactical investment strategies, with a data-driven approach to investing in China.



Shiyin Li | Portfolio Manager, Picard Angst AG | Macro & Sector Analysis

Shiyin Li is a CFA Charter holder with extensive expertise in China's macroeconomic policy. With a strong background in equity research and asset management across Switzerland and China, Shiyin brings a deep understanding of the country's evolving economic landscape and investment opportunities.

Holding a Master's degree in Banking & Finance from the University of Zurich, Shiyin specializes in identifying key growth drivers and structural trends shaping China's future, offering valuable insights for investors navigating this dynamic market.



Ashley Clarke | Execution & Advisory, Picard Angst MEA | Technical Market Outlook

Ashley Clarke has over a decade of experience in European Equity Derivatives and market execution, with a strong focus on institutional trading and advisory. Prior to joining Picard Angst, Ashley worked at TP ICAP London, specializing in market structure, risk management, and execution strategies for institutional clients.

With expertise in long-term trend cycles, price structure analysis, and tactical entry strategies, Ashley provides a data-driven approach to navigating complex market environments. His insights contribute to identifying key opportunities and risks within China's evolving financial landscape.

Author's: Shiyin Li and Ashley Clarke

Macro Analysis

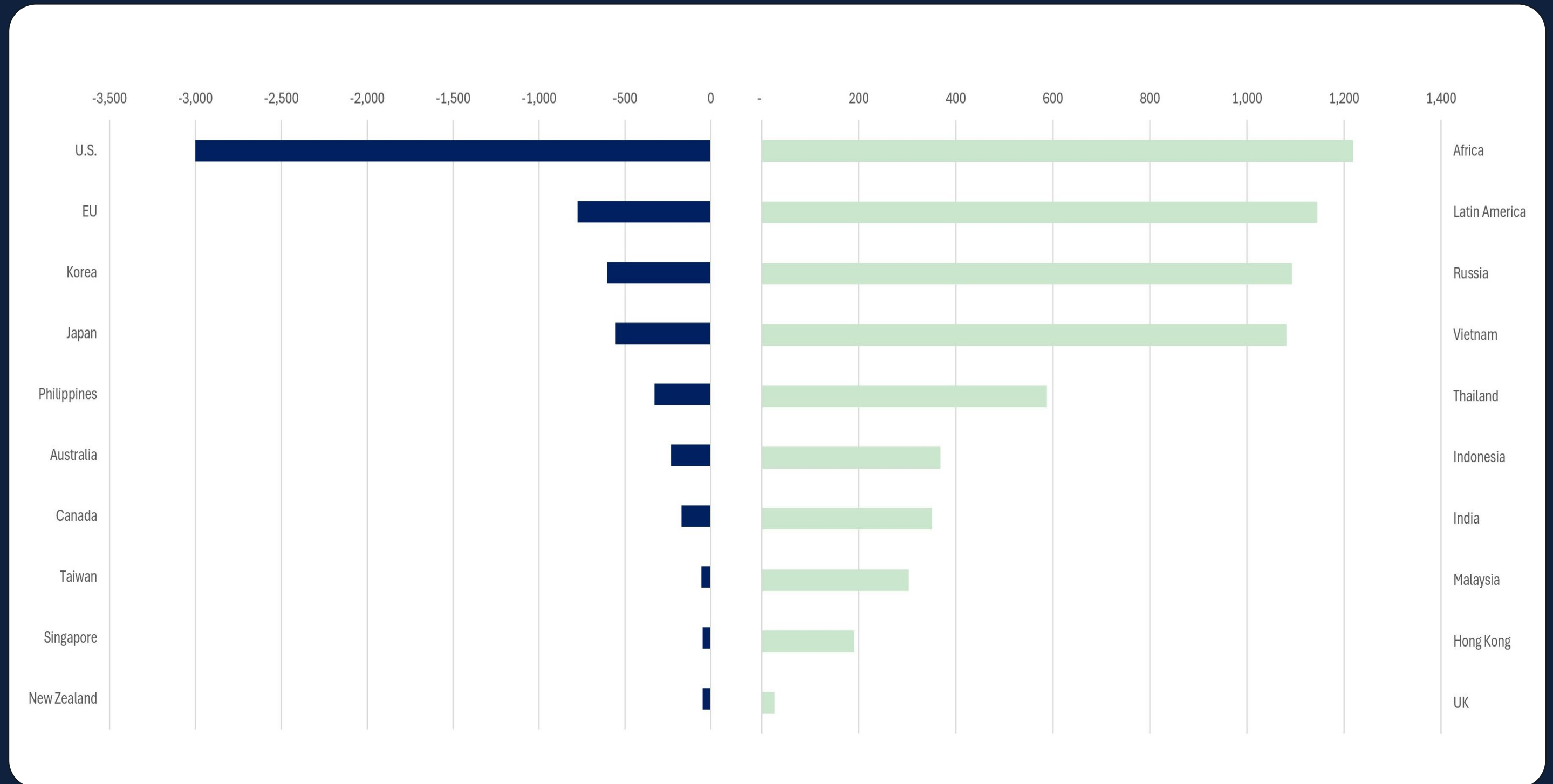


Macroeconomic Landscape

EM Export Strength Supports Resilient Growth

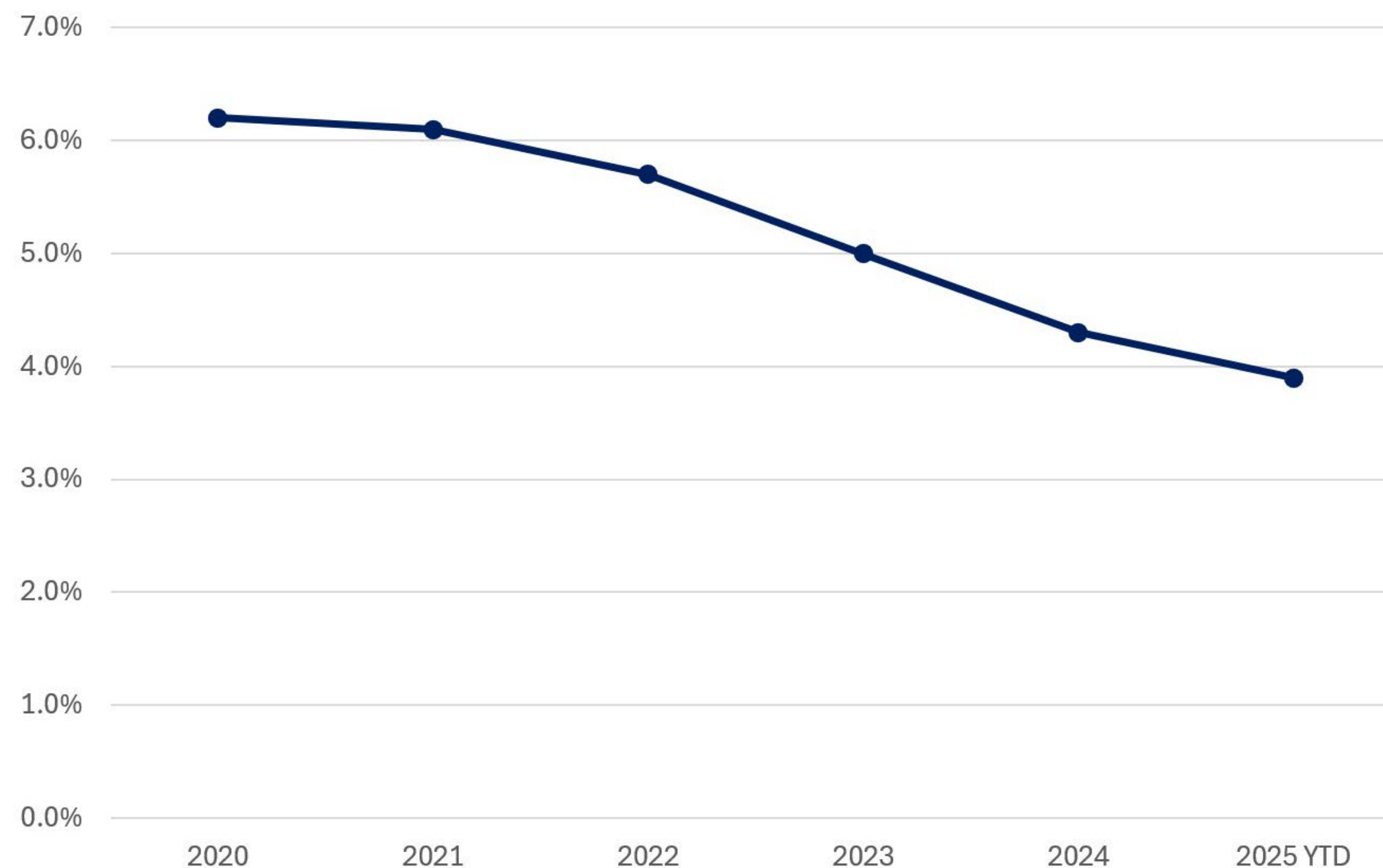
China's GDP growth of 5.2% in the second quarter exceeded expectations, highlighting the economy's resilience despite escalating tariff pressures. Export growth held firm at 7.2% YoY in July, with rising demand from emerging markets offsetting declines in shipments to developed markets, particularly the U.S. However, domestic consumption remained a drag on headline growth with retail sales expanding only 3.7% in July. To stimulate demand, the government introduced interest rate subsidies for consumer loans and childcare allowances to support household spending. Despite ongoing tariff uncertainty in semiconductors and rare earths, the Chinese economy is likely to maintain its resilience.

China's export destinations change from DM to EM
(Jan. 2022 – Jul. 2025, 12m rolling average, in USD Mio.)



Macroeconomic Landscape

Declining profit margin of China's automobile manufacturing industry



Curbing Overcapacity for Sustainable Growth

China's equity market is rallying on government pledges to tackle irrational competition and industrial overcapacity, both of which have hurt profits and aggravated deflationary pressures. Years of generous, non-selective subsidies created an overcrowded market with many uncompetitive firms, which often chased market share by cutting prices to minimal or even negative margins. Combined with sluggish domestic demand, this dynamic has fuelled severe overcapacity and widened the gap between China's GDP growth and equity market performance. With U.S. tariffs further squeezing margins and a new round of price cuts led by BYD, regulators are moving to curb excess production, starting with solar and electric vehicle sectors. Production levels had already started to decline as of July, but investors view this adjustment as necessary to restore profitability and support a healthier market environment.

Sector Analysis

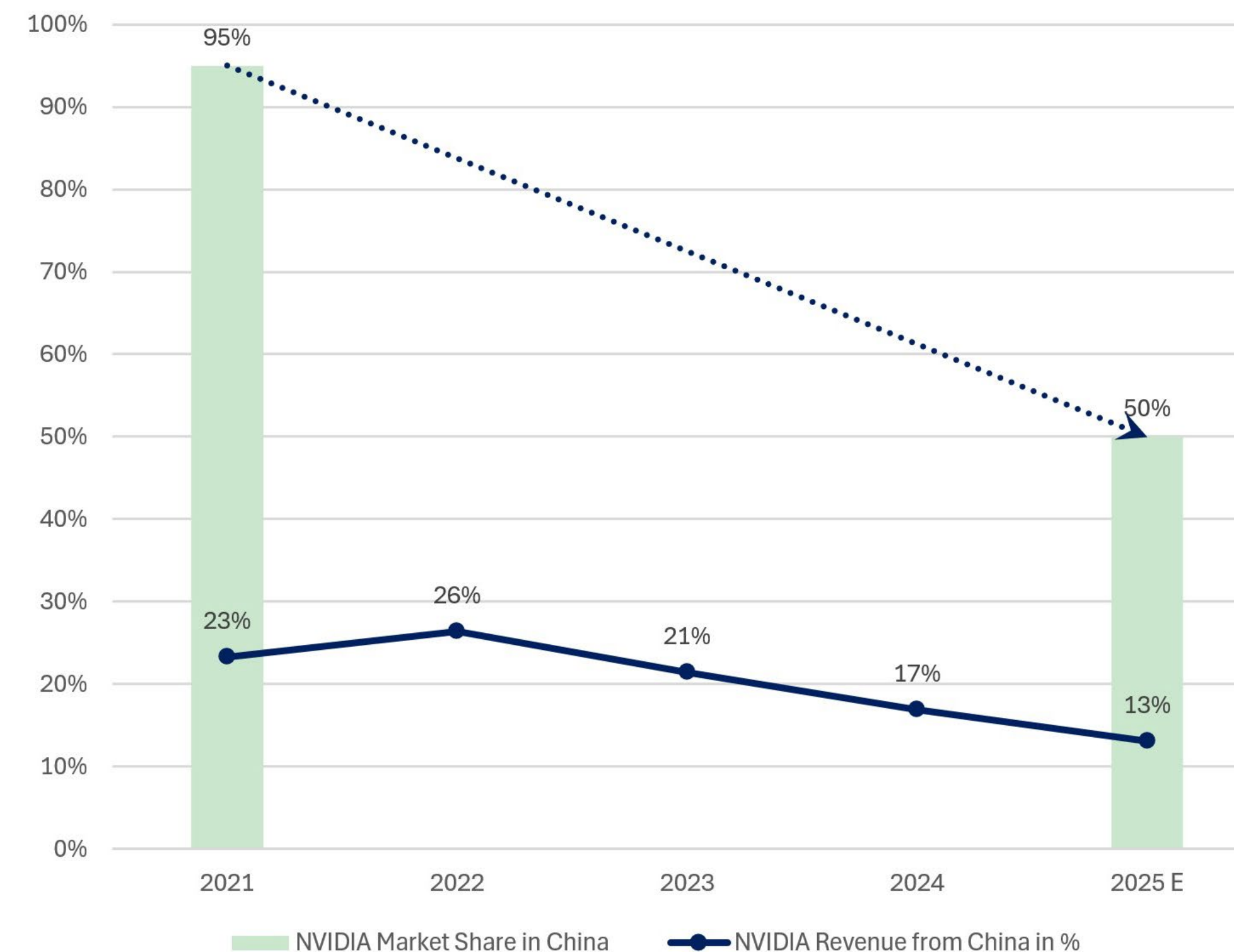


Sector Analysis

China's AI chips: Policy-Accelerated Shift from NVIDIA to Native

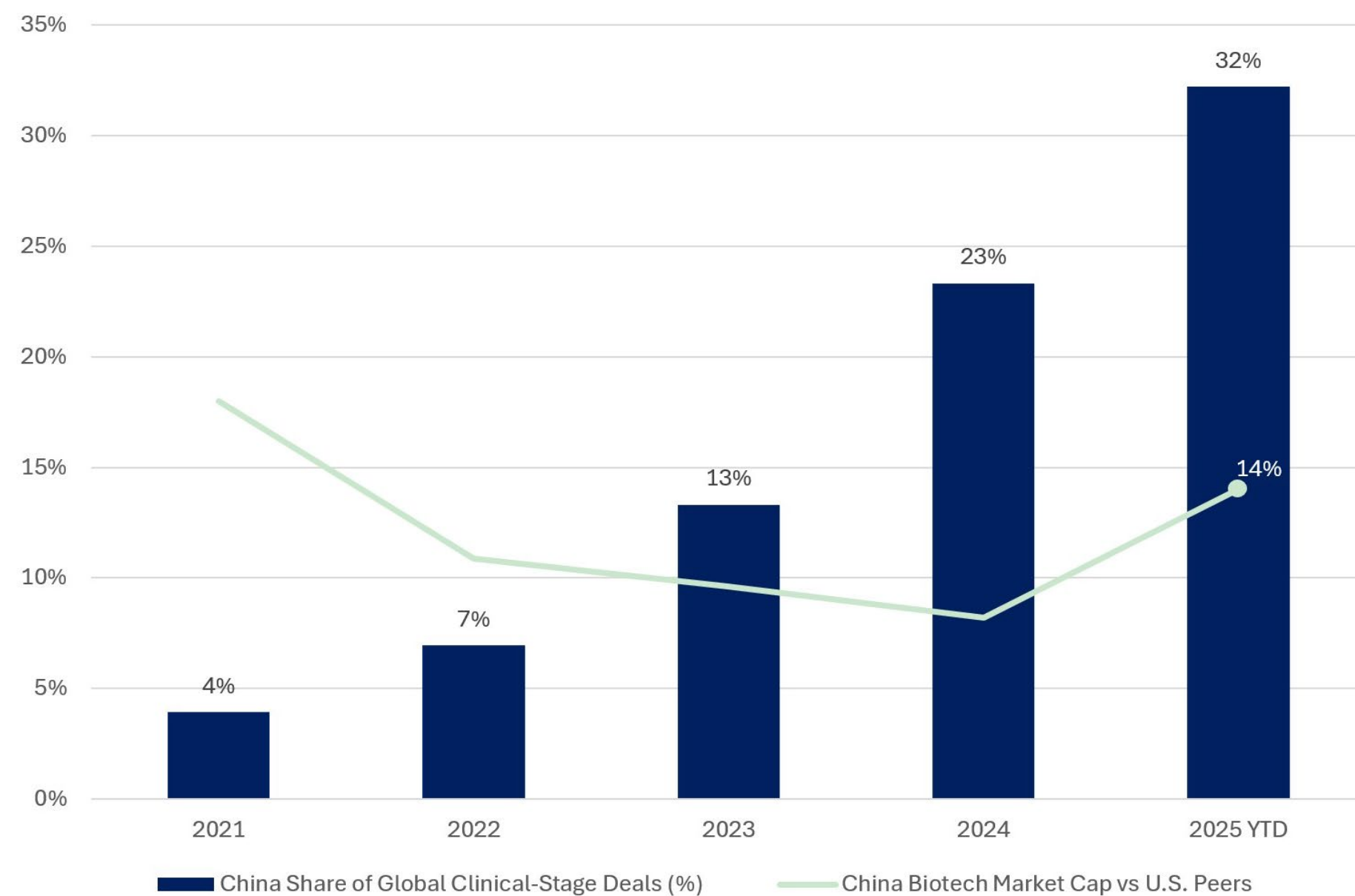
Cambricon, one of China's leading listed AI-chip designers, saw its share price double in August, briefly overtaking Kweichow Moutai to become the most valuable listed company in China by market cap. The rally reflects Beijing's push for major technology firms to prioritize local suppliers following U.S. back-and-forth chip policies and heightened security concerns about NVIDIA chips. While Chinese chipmakers have made rapid progress since U.S. export restrictions began in 2021, they still trail industry leaders, particularly in software ecosystems. NVIDIA may eventually regain some market access, but AI chips are increasingly treated as strategic assets, limiting its reliability as a long-term supplier to Chinese customers. In the near term, existing NVIDIA inventories may provide a buffer for Chinese AI development, but in the long term, progress will depend heavily on China's own chip design, manufacturing, and software stack. We therefore expect accelerated growth among domestic chipmakers in the coming years.

NVIDIA loses dominance in China



Sector Analysis

China contributes one-third of clinical-stage deals but only 14% of U.S. peers' market cap



China Biotech: From Me-Too to Innovator

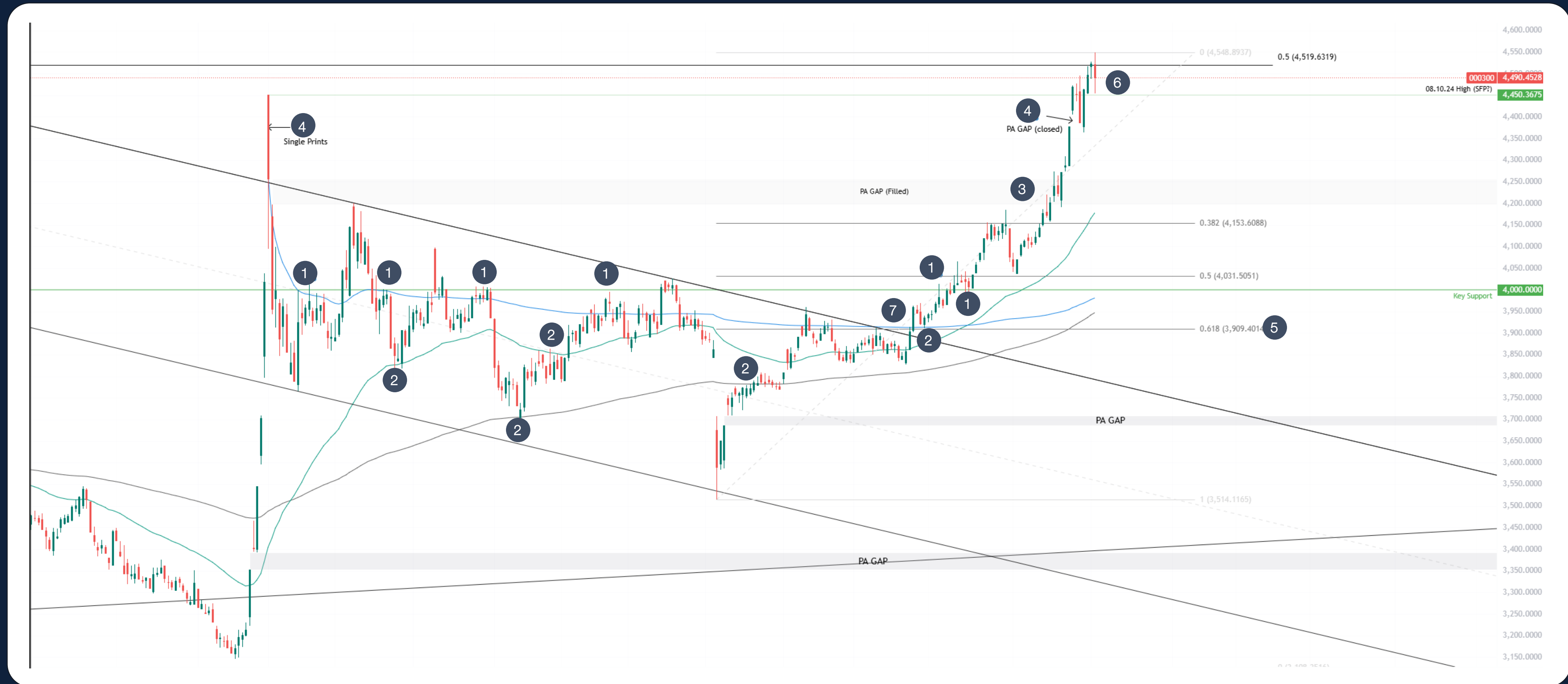
With the Hang Seng Biotech Index up 94% year-to-date, China's biotechnology industry is in a strong upswing, driven mainly by record cross-border licensing deals and renewed interest in Chinese equities. Once known for its "me-too" strategy, China is now a global biotech innovation hub, contributing around 50% of the novel drug candidates entering human studies in 2025. After years of supportive policies alongside strict drug-price controls, Chinese biopharmaceutical companies have learned to innovate both rapidly and cost-effectively. These capabilities align with global trends toward tighter healthcare budgets in the EU and the U.S., as well as an approaching patent cliff. Although Chinese companies account for roughly one-third of global clinical-stage innovative drug candidates, their aggregate market capitalization is only about 14% of that of their U.S. peers. This divergence suggests valuations remain reasonable even as the sector is undergoing a structural shift.

Technical Analysis



Technical Analysis of Chinese Equity Indices

CSI 300 Index – Medium Term Technical Analysis (MTF T.A.)



Sources: CSI 300 Technical Cycle Analysis (Source: TradingView, Bloomberg)

CSI 300 Index - Medium Term Technical Analysis (MTF T.A.)

1. As noted in my previous analysis, the 4000 CNY mark has acted as a firm psychological barrier, with multiple rejections keeping price capped below it for an extended period. As predicted now price action has established acceptance above this level, it has sparked a swift move higher. Holding above the 4000 CNY threshold is key to maintaining the bullish outlook.
2. Both the 50 and 200 EMAs appear to be well respected by price action, consistently acting as dynamic support and resistance during intraday movements. Even though we are trading considerably higher than both, they should be kept in mind as potential supports if price retraces.
3. As expected, price moved decisively into the gap above, completing the fill rapidly. Once the gap was filled, it triggered a sharp reaction, price initially retraced back to the base of the gap before reversing with strength. The low-volume conditions in the trading area above aided this move, allowing price to surge nearly 7% over the following five sessions. This sequence underscores both the magnetic nature of gaps and the impact of thin liquidity zones in accelerating momentum shifts.
4. As anticipated in my previous update, the candle's high number of single prints combined with the exceptionally low volume in this area resulted in the price zone being filled swiftly. However, following a minor retracement to close a price action gap, there remains a risk that price could drop back through this zone just as quickly as it rallied, given the same underlying conditions.
5. See local Fibonacci pull has been applied from the most significant low to the recent high. Given the current bullish market structure, this high may still evolve, but I've included it here as a reference point for potential levels of support in today's trading snapshot (0.382, 0.5 & 0.618)
6. With price rejecting off the 0.5 Fibonacci retracement level (4519 CNY) pulled from the All-time high to the January 2024 low (see HTF CSI 300 T.A.). There is potential for a failed auction, in which price slips back below the October 8th, 2024 high, triggering a swing failure pattern (effectively a bull trap) and opening the door to a sizeable retracement. This is a key level to monitor and where market participants could potentially be looking for short positions or at least adding a hedge for downside protection, particularly given the rapid price rise and weak volume beneath.
7. The bullish breakout above the descending parallel channel has now been fully confirmed, as price not only held above the upper boundary on a closing basis but also attracted clear institutional support. Following the sustained move higher, momentum carried price through the October highs, validating the breakout thesis outlined in my earlier update. This decisive reclaim of prior resistance signals a broader trend reversal is underway and opens the door for continuation toward higher targets.

Technical Analysis of Chinese Equity Indices

CSI 300 Index – Higher Term Technical Analysis (HTF T.A.)



Sources: CSI 300 Technical Cycle Analysis (Source: Trading View, Bloomberg)

CSI 300 Index – Higher Term Technical Analysis (HTF T.A.)

1. In my previous update, I highlighted that since August 2009 the CSI 300 has shown a recurring pattern, with bear cycles (c.1350 days) lasting roughly twice as long as bull cycles (c.750 days). This cyclical rhythm appears to be continuing, with the market still in a bull phase and price advancing approximately +12% since the last update.
2. CSI 300's previous bear market began in the post-COVID period of 2021 and extended until September 2024. Based on the cyclical pattern, the current bull phase could potentially run through to September 2026.
3. Long-term upward trend-line.
4. Price remains within the multi-year flag formation highlighted in the last update, but action is now pressing just below the upper boundary. A breakout followed by acceptance above this level could trigger a strong, momentum-driven move higher, amplified by the prolonged consolidation.
5. The breakout above the upper trendline initially sparked a strong rally, but fading momentum quickly pulled price back within the flag. Over the following six months, repeated failed attempts to reclaim the upper boundary led to a retreat toward the lower trendline. Now, with price once again approaching the upper bound, traders should remain cautious of a repeat scenario, where rejection could result in another corrective move lower.
6. Price was recently rejected at the 0.5 Fibonacci retracement level near 4,519 CNY (measured from the all-time high to the January 2024 low), creating a potential near-term obstacle to further upside momentum. This level now acts as resistance, and without a sustained acceptance above it, the risk of consolidation or a corrective pullback remains elevated. Should price reclaim and hold above this area, the next Fibonacci resistance level to monitor would be the 0.618 retracement from the same pull
7. 3000 CNY Long-term support zone breaking below would look extremely bearish and one could expect considerably lower prices.

Hang Seng China Enterprises Index (HSC EI) - Medium Term Technical Analysis (MTF T.A.)

1. Price action still range bound within upward sloping trend channel.
2. Recent price pullbacks have consistently retraced to the local 0.618 Fibonacci level, reinforcing its relevance as a key area of support. This recurring pattern suggests that market participants are responding to this level, making it a zone worth monitoring in future corrections. Continued respect of the 0.618 retracement may offer valuable entry opportunities and serve as a reference point for risk management in upcoming pullbacks. I have marked the next local Fibonacci pull from the most significant low to the recent high, this high may still evolve, but I've included it here as a reference point for the potential 0.618 level of support in today's trading snapshot.
3. Cyclical local highs (c.140 days) to be aware of with the potential for another forming on 11th December 2025.
4. Price remains within the broader downward-sloping trend channel on the higher time frame. In the previous update, it was trading just above the channel's midpoint, but momentum has since carried price toward the upper boundary. This level now serves as a critical test of resistance. A decisive breakout and sustained acceptance above the upper bound would mark a significant shift in market structure, potentially signaling the end of the prevailing downtrend and opening the door to a larger trend reversal. Conversely, a rejection here could reinforce the integrity of the channel and see price rotate back toward lower levels.
5. Over the past three months, the 50 EMA has been consistently respected, serving as support on multiple occasions. It remains a key 'buy-the-dip' level within the ongoing bullish market structure. However, a break below this level could trigger a sharper move to the downside.

Technical Analysis of Chinese Equity Indices

Hang Seng China Enterprises Index (HSCEI) – Higher Timeframe



Sources: CSI 300 Technical Cycle Analysis (Source: Trading View, Bloomberg)

Hang Seng China Enterprises Index (HSCEI) - Higher Timeframe Analysis (HTF T.A.)

1. Price action range bound between 8500 HKD (0.236 FIB) and 15000 HKD (0.618 FIB) for c. 12.5 years. For a bull case scenario would like to see price gain acceptance back into the trend channel, with price once again targeting the upper boundary of the range.
2. HSCEI set 3 lower highs in 2015, 2018 and 2021 when the most recent bear market began.
3. Strong rejection at 15000 HKD level/ 0.618 Fib from the ATH, key zone of resistance to be aware. A sustained move through this area would likely open the way for a retest of the all-time highs.
4. Break of long-term support (8500) in 2022 coincided with numerous issues in Chinese real-estate and banking sector as well as the broader sell off seen in tech stocks due to resurgence of inflation and therefore, sustained cheap financing.
5. Price has remained range-bound between 5,000 (key support) and 8,500 (lower bound of upper trend channel) for just over 3.5 years. The initial breakout attempt failed to hold, with price retracing back below. Price action is currently trading just above this key level, that previously acted as strong support between March 2009 and October 2021. Sustained acceptance above this area would be technically significant and could pave the way for a meaningful continuation to the upside, potentially back up to the 15000 HKD level.
6. Strong technical support 5000 HKD range (GFH lows of 2008 & recent 2022/2024 lows).
7. Price gaining acceptance back into downward sloping trend channel and now above the middle of the channel as previously noted (MTF T.A.)
8. The next HTF Fibonacci pull has been marked from the significant February 2021 high to the January 2024 low, which marked the start of the recent bullish MTF structure. Historically and as frequently mentioned, the 0.618 level has been well respected on this asset, acting as both support and resistance, so it will be an important area to monitor for a potential rejection/pullback.

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