Autumn 2020

SEB China Financial Index

CONFIDENCE PUNCHES BACK

16 December 2020

- The latest SEB China Financial Index stands at 57.3, bouncing back from 46.6 in April. This pushes the business outlook back into positive territory, same level with autumn 2018.
- Despite the extraordinary events of 2020, over 60% of respondents report sales having reached pre-virus levels.
- Divestments seem to be off the agenda. However, the large portion of corporates expecting investments to be at unchanged levels is on par with the April survey noting that 59% of the planned investments were expansion of business, thereby demonstrating confidence in the Chinese market.
- Contrary to the world "outside China", around 50% of respondents report sales growth for H2 2020 compared to the same period in 2019 evidencing the strong economic rebound seen in China following the lockdown in February and March
- SEB's China Financial Index is based on input from CEOs, CFOs and Treasurers at 50 subsidiaries of major Swedish, Finnish, Norwegian, German, British and Swiss companies.

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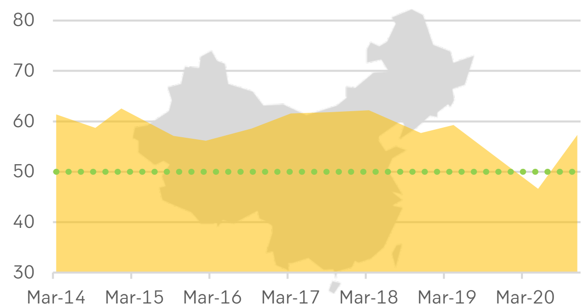
UNCERTAINTIES SHAKEN OFF

In this Autumn 2020 edition of the China Financial Index ("CFI"), the index value comes in at 57.3 following the survey conducted between 23 November and 7 December. This marks a sharp rebound from the survey in April as the index climbs 10.7 index points from 46.6. While the survey in April marked the first time that the business outlook confidence fell below the neutral mark of 50.0, the Index is now well back into positive territory.

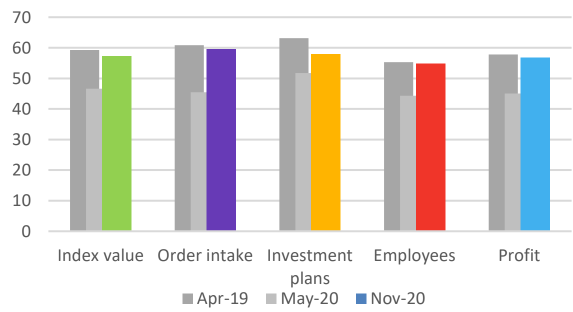
HISTORICAL DEVELOPMENT OF THE CHINA FINANCIAL INDEX



As we approach the end of 2020, developments seem to mostly be going the right way in China. Over 60% of the respondents have seen their sales bounce back to pre-virus levels, highlighting the efforts taken by governments around the world to battle the SARS-CoV-2 outbreak. As more companies have adopted a China-for-China strategy, we see that businesses seem to be protected by the (still) strict border controls to support the domestic economy.

"Although not coming as a total surprise for those on the ground in China, it is very encouraging to see how quickly positive sentiment returned to our client base. For now, the strict lockdown in early 2020 seems to have worked out for the Chinese economy and the foreign companies engaged in the country. This trend has been underlined by surprisingly strong export figures for the country as a whole. Given still existing health risks and further looming geopolitical issues, it needs to be seen whether 2021 will turn out as positive as forecasted but the outlook is promising" says Thilo L. Zimmermann, General Manager of SEB Shanghai branch

LAST THREE INDEX VALUES AND INPUT VARIABLES

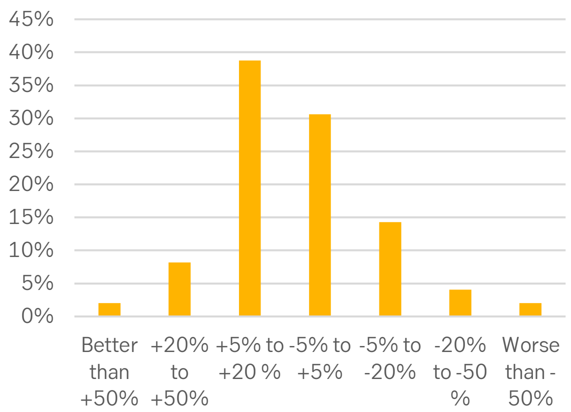


We see clear growth across all the categories that weigh into the final index score of 57.3, which highlights that most uncertainties have been shaken off and that corporates are optimistic about the next six months. Notably, as the Chinese economy has seen a rebound, uncertainties to expected sales/order intake and profit are the biggest climbers when it comes to the index scores. Naturally, given that the environment outside the PRC's borders is still coping with lockdowns and recurring waves of virus infections, we are not surprised that investments or increased staffing do not show as strong a development, as it would be natural for strategic focus to be elsewhere than expansion and staffing in China right now. This also follows dialogues we have had with our clients that have been supporting their groups by paying dividends and sweeping money out of China via their cross-border cash pools during 2020.

HOW ARE THINGS DEVELOPING IN CHINA?

Impressively and steadily would be our two chosen words. While hit the hardest at the beginning of the pandemic, China was quick to shut down the economy in early February and March, successfully curbing the further spread of the SARS-CoV-2 virus in the mainland. This, now, rather short lockdown has allowed business in China to thrive compared to the rest of the world and 63% of our respondents are reporting that sales are back to pre-virus levels. Adding to that, there are almost 50% who report on sales growth y/y when we look at H2 2020 vs H2 2019.

SALES GROWTH IN CHINA, % (H2 2020 VS H2 2019)



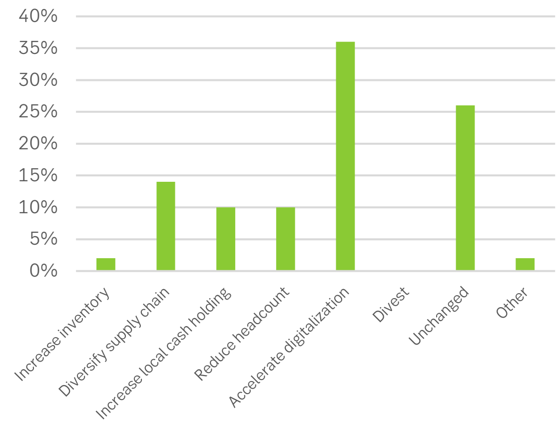
As the answer terminology to this question was changed in this survey, the comparable answers are not included in the graph. However, 67% of respondents in the April survey reported a decrease in sales compared to the same period in 2019. While 50% is a strong number, we believe that the actual number of corporates experiencing growth is higher, given that the middle category includes corporates experiencing either sales growth or decline.

Regardless, the numbers are strong given that China reported an average GDP growth in the first nine months of 2020 of 0.7 % y/y and a YTD nominal GDP growth of 1.4 % y/y.

"NEW WAYS OF WORKING"

Probably the most used combination of words in 2020 is "the new normal" – how the pandemic is driving changes to the way we work, travel, live etc. When asked about the primary change they have implemented to their business strategy, it is no surprise that "Accelerating digitalization" takes the lead. A total of 36% list this as the primary implemented change. Surprisingly, the second most common response is that it's "Unchanged" (26%). After this we see diversification of supply chains, increase of cash holdings and reduction of headcount.

PRIMARY CHANGE IMPLEMENTED TO BUSINESS STRATEGY

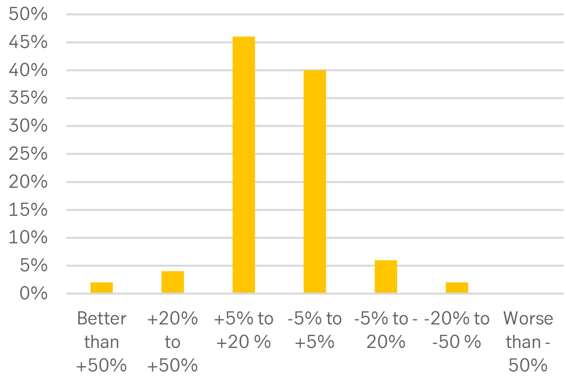


RECOVERY CONTINUES

If we turn back to the survey in April, nearly 80% of respondents expected a return to normal sales levels by the end of the year. The numbers show that we are not fully there yet. At that time there were only 17% who expected sluggish sales to continue into 2021, but there are now 37% who do not expect sales to normalize until sometime in 2021, with the bulk of that being in Q3 or later (27%).

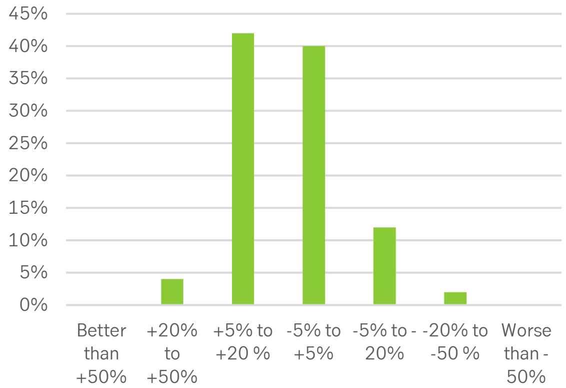
As already pointed out, several companies are now reporting growth year over year, well into 2020, and there are signs that corporates are (some cautiously) optimistic for their sales outlook over the next six months. Some 46% expect sales growth/order intake of +5% to +20% while another 40% lie in the band between +5% and -5%. This is in sharp contrast to April where 73% were expecting flat or negative growth.

EXPECTED CHANGE IN ORDER INTAKE (SALES) OVER THE NEXT SIX MONTHS



Profit expectations seem largely in line with sales expectations. Profit took a strong dip in the index last April, which is unsurprising because many faced problems with supply chains etc. with higher costs related to inventory and freight.

EXPECTED CHANGE IN PROFIT OVER THE NEXT SIX MONTHS

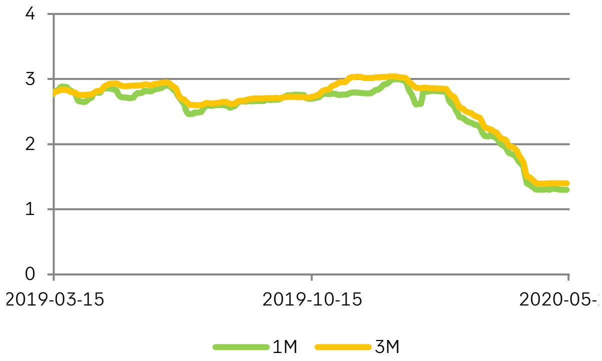


With a forecasted real GDP growth y/y of 8.0%, we expect Northern European corporates to continue to enjoy good business opportunities in China in 2021. However, it is worth mentioning that 32% of respondents in the survey describe the regulatory landscape in China as intensifying and doing business as becoming more difficult.

BORROWING CONDITIONS STILL FAVOURABLE

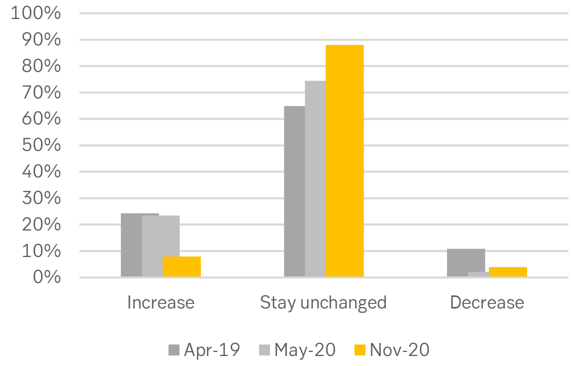
To mitigate the economic impact of the outbreak, the People's Bank of China (PBOC) reduced the reserve requirement ratio (RRR) sending a wave of liquidity into the interbank market earlier this year inducing a sharp fall in borrowing costs as illustrated by the drop in the SHIBOR rates (below) – to greater extent for clients of banks with access to the PBOC's medium-term lending facilities. An interesting response is that our corporates report borrowing attitudes as more favourable in this survey than they did in the last one. At that time, interbank rates were at a three-year low, while they are now back to pre-virus levels.

SHIBOR DEVELOPMENT (2018 – YTD)



The reason behind this is unclear, but one explanation might be that banks applied a more cautious stance at the time as uncertainties still loomed. Another explanation might be the span in our portfolio when it comes to size and consequently attractiveness to other domestic or large institutions in China.

CURRENT LENDING ATTITUDE FROM BANKS

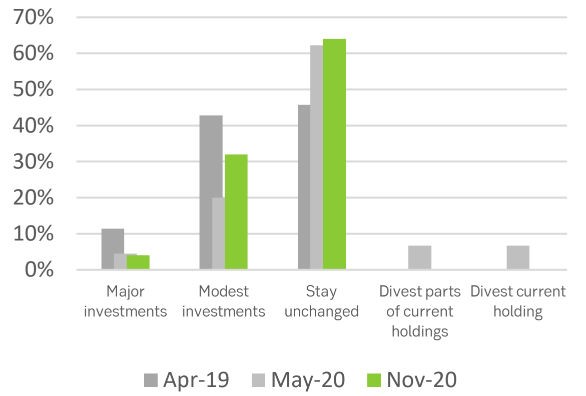


Few respondents say they expect to increase borrowing over the next six months (compared to April, a fall from 23% to 8%).

DIVESTMENTS: JUST SHORT-TERM PANIC?

The survey in April recorded for the first time that there were intentions to divest some or all holdings in China. While a scare, we suggested waiting for our next survey to see whether this would remain an issue. In this survey, there are zero replies to both divestment categories (partial or complete). We have not seen any movements out of the country so far in our client base, so our impression is that the quick economic rebound means that the April result was, indeed, a small scare, but no more than that.

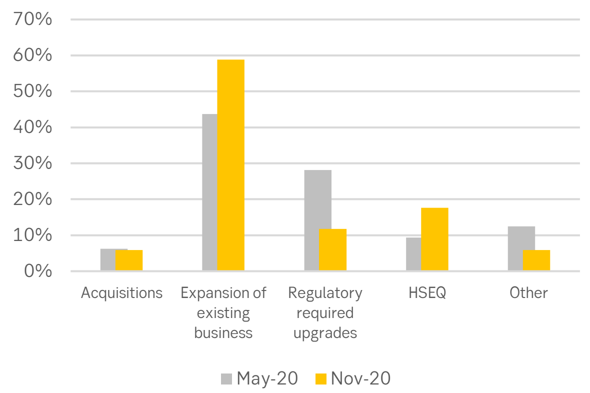
INVESTMENT AND ACQUISITION PLANS IN THE NEXT SIX MONTHS



On the contrary, while unchanged investment plans remain flat, modest investments are showing a positive development (from 20% to 32%) in this survey, tying in the general message of optimism of doing business in China.

This is underpinned by drilling down into the nature of respondents' investments. We have for the sake of the graph removed the category "no planned investments". It shows that close to 60% of the respondents are planning to expand their existing business – which is supportive of the overall view and perception of the business climate in China.

NATURE OF INVESTMENT PLANS IN CHINA

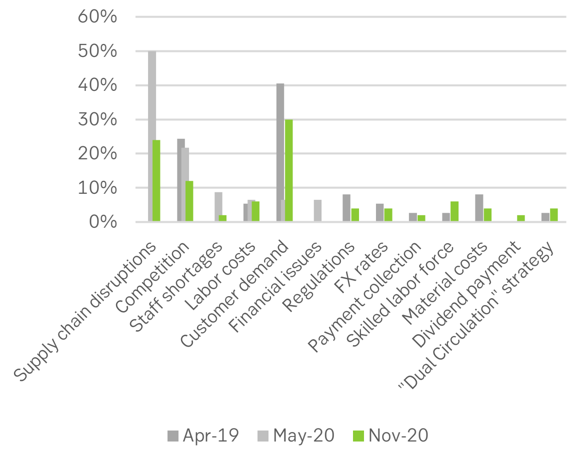


Investment in staff is also expected to increase over the next six months, with 34% of respondents stating that they plan to increase staffing – while 58% respond that they expect staffing levels to remain unchanged.

SO – WHAT'S CONCERNING CORPORATES?

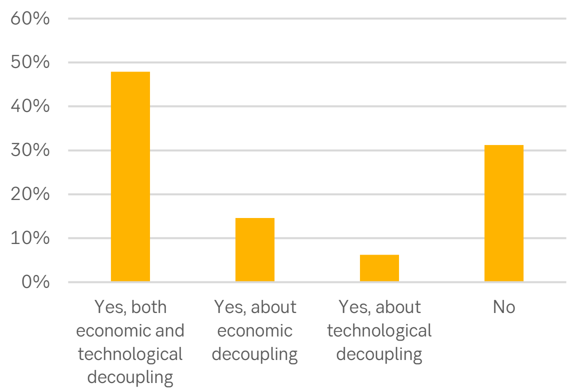
Nearly all clients we talked to in February and March this year had big problems with their supply chains, primarily related to transport internally in China. Supply chain disruptions naturally were the main concern in the April survey. *Supply Chain Disruptions* falls back from 50% of the responses to 24% this time. Customer demand on the other hand shoots up from 7% to 30%. This surprises us because it has not been a common topic with our clients, so trying to explain the reasons behind it would be speculation more than anything else.

PLEASE RANK YOUR MAIN CONCERN (NEXT SIX MONTHS)



Following a long period of escalating tensions in the US-China relationship – and, absent other words, an "interesting" presidential election in the US – we have chosen to introduce a new question this year about "Decoupling". While it became clearer that the trade tensions between the US and China were not a trade surplus or deficit game but more a technology/ ideological game, we see the topic of decoupling being brought forward more often – but are people concerned? We do see a high degree of respondents confirming concerns for decoupling; be it economic or technological decoupling or both Only 31% of respondents reply that they are not concerned.

ARE YOU CONCERNED ABOUT DECOUPLING?



OUR CONCLUSIONS

There is a positive read-through of the results of our Autumn 2020 edition of the CFI. Compared to the survey in April, corporates have regained a positive outlook on the business climate in China, helped by the strong efforts to curb further spreading of the virus and supporting the domestic economy. Performance seems to a large extent to have normalized, which is also in line with individual dialogues we have with our clients. With high GDP forecasts for 2021, we expect Nordic, UK and corporates from German-speaking countries to enjoy continued good performance through 2021.

INFORMATION ABOUT THE SURVEY

SEB's China Financial Index was first launched in 2007 and is based on input, in this edition from CEOs, CFOs or Treasurers at 51 subsidiaries of major Swedish, Finnish, Norwegian, German, British and Swiss companies. Most of the surveyed companies have a global turnover of more than EUR 500m. The survey is web-based and confidential and was carried out from 23 November to 7 December 2020.

China Financial Index – Composition

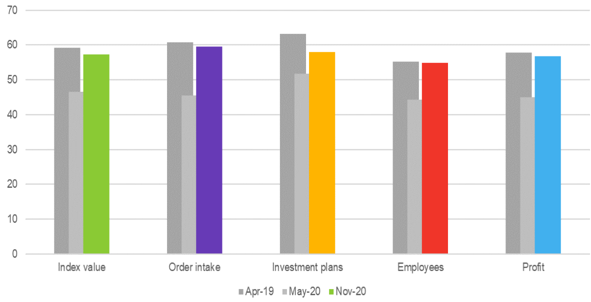
SEB's China Financial Index in Autumn displayed a value of 57.3, indicating a strong rebound in optimism in the business environment compared to previous surveys in April, but still below the level year ago. A value of 50 indicates a neutral view. The index is based on four components with the following ranking in the survey: Order Intake – 59.6, Profit Expectations – 56.8, Investment Plans – 58.0 and Employment Plans – 54.8

Forecasts - Real GDP, % y/y

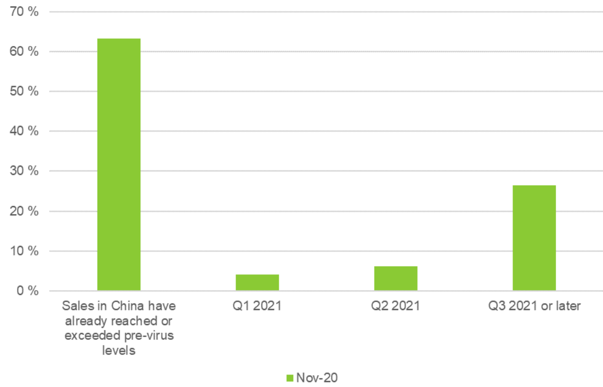
	2020	2021	2022
China	2.0	8.0	5.6
India	-8.0	7.6	10.9
Indonesia	-2.1	4.3	4.7
Malaysia	-6.1	5.7	5.5
Philippines	-9.3	8.2	6.2
Singapore	-5.9	4.6	3.2
South Korea	-1.0	3.0	2.7
US	-5.5	4.0	3.5
Eurozone	-8.8	6.6	3.4
Japan	-5.8	2.4	0.7

Source: SEB, Bloomberg, CEIC

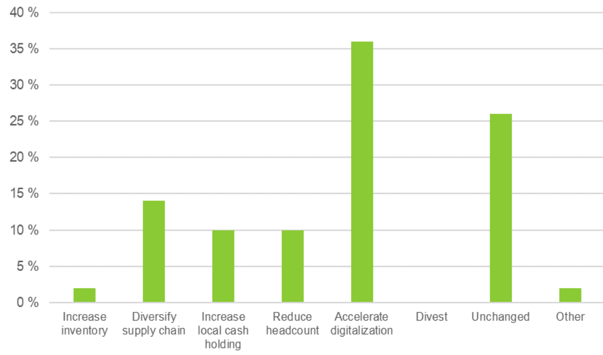
1 – INDEX VALUES



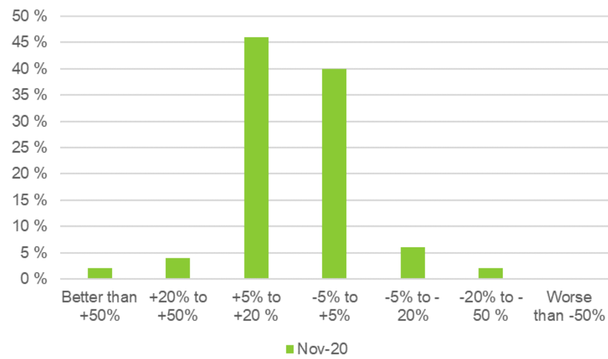
2 – EXPECTATION OF NORMALIZED SALES



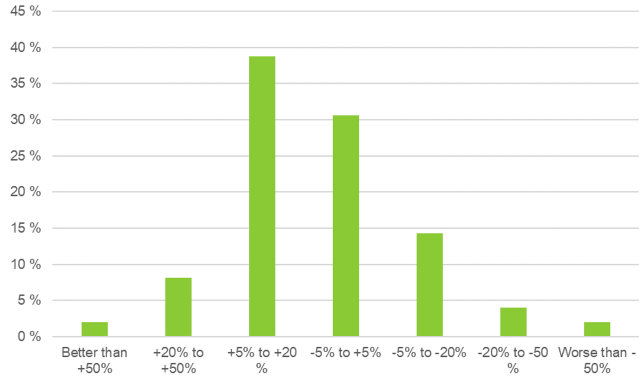
3 – PRIMARY IMPLEMENTED CHANGE



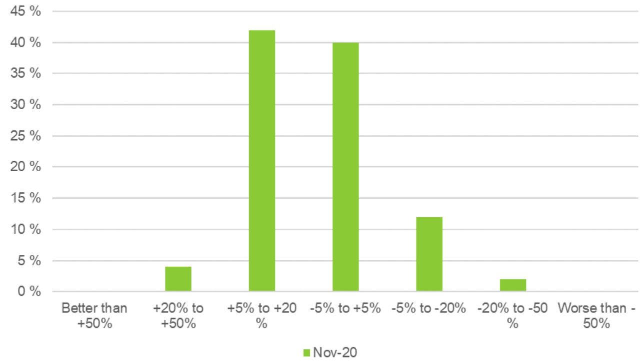
4 – SALES OUTLOOK (NEXT SIX MONTHS)



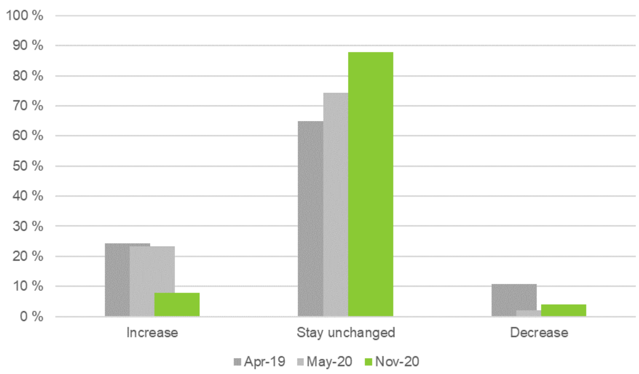
5 – SALES (2H 2020 VS 2H 2019)



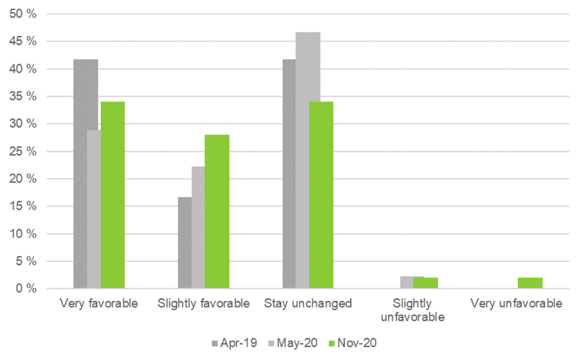
6 – PROFIT OUTLOOK (NEXT SIX MONTHS)



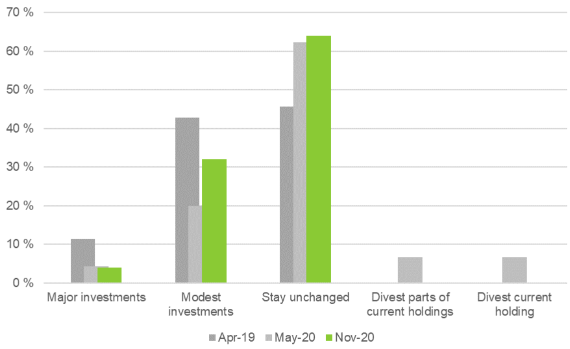
7 – FUNDING NEEDS



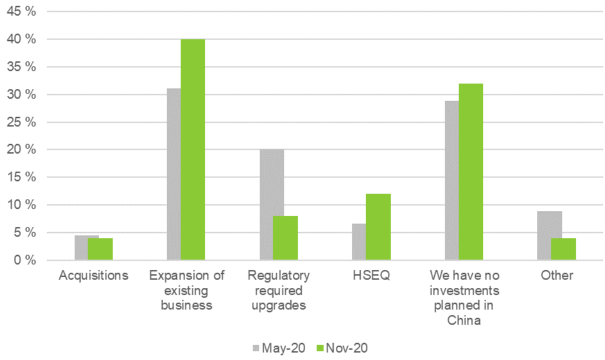
8 – BORROWING CONDITIONS



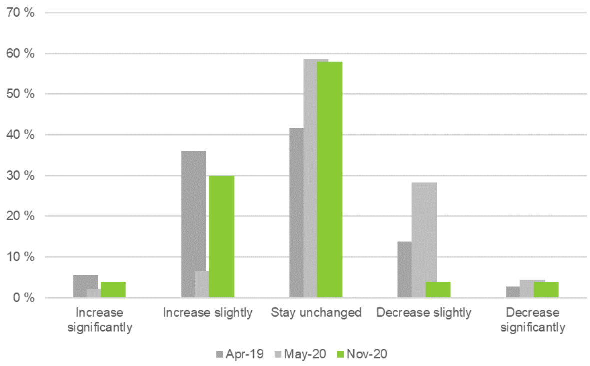
9 – INVESTMENT PLANS



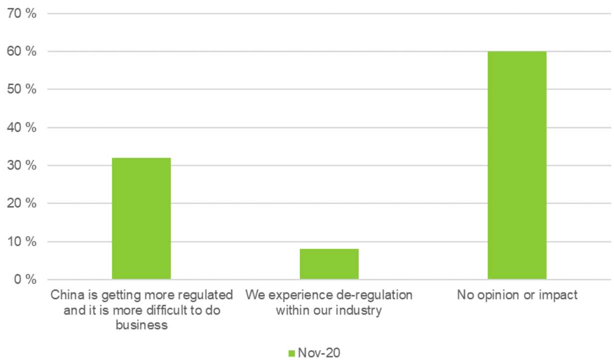
10 – NATURE OF INVESTMENTS



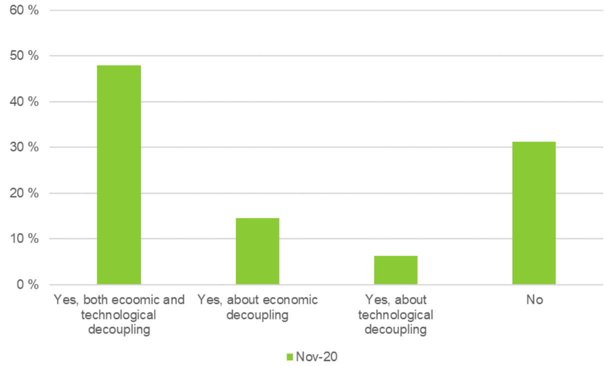
11 – STAFFING



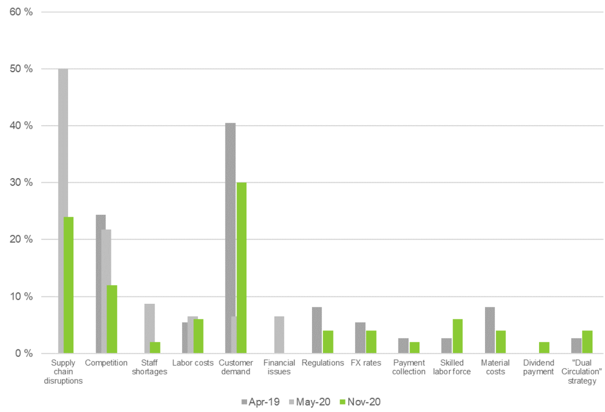
12 – REGULATORY LANDSCAPE



13 – CONCERNS ABOUT DECOUPLING



14 – MAIN CONCERN



**Source: SEB Shanghai. Grey stacks indicate companies' answers in the last two surveys, in April 2020 and April 2019.*

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