



Positive view on China continues among corporates

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- The latest China Financial Index stands at 61.9, up from 61.6 in March 2017 and 58.6 a year ago
- Good momentum, but 14% of respondents expect order intake to weaken during the next six months
- Despite a positive outlook, major expansion plans are still on hold in China, while the majority of companies still plan to increase the number of staff
- Customer demand and competition remain key concerns for doing business in China

Niina Äikäs
General Manager
Laura Lavikainen
Business Analyst
SEB Shanghai
+86 21 2052 1888

CONTINUED OPTIMISM

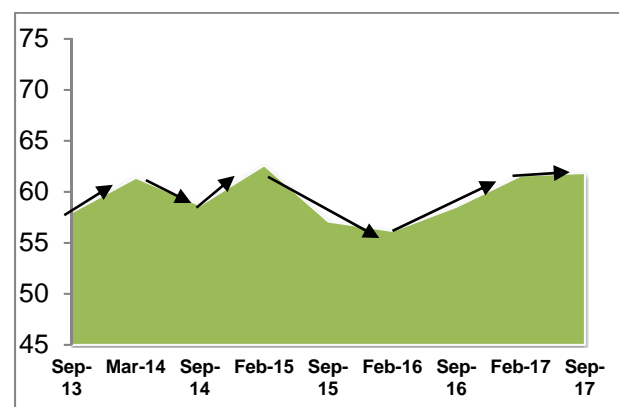
Most of the companies that participated in our survey maintain a positive view on doing business in China; two-thirds expect an increase in profits. The outcome is in line with the recent data released by the National Bureau of Statistics. In August profits of China's industrial companies jumped 24% year-on-year, and in September the growth was 7.7% year-on-year. Despite the positive growth results, the change in expectations is almost flat from the last survey six months ago. Good momentum is expected to hold, but growth is levelling off.

RISING PROFITS – RISING DEMAND?

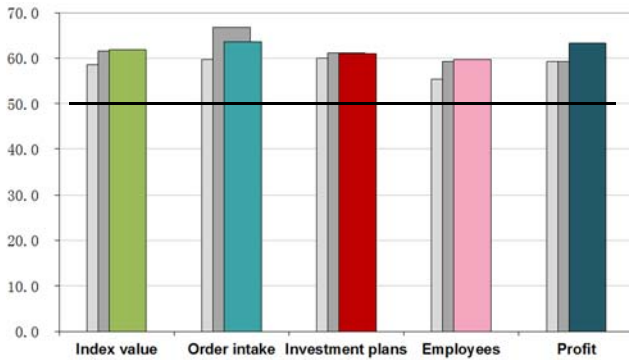
The majority of clients expect to expand their order intake, but the momentum is cooling off, indicating the ongoing trend in China that growth is partly generated from the surge in producer prices rather than exclusively in volumes. This year producer prices for the industrial sector have been peaking. The Producer Price Index (PPI), released by the National Bureau of Statistics, was up 6.9% in September, and this year it has increased by an average of 6.5% year-on-year. Therefore it is relevant to conclude that the PPI has been a factor that has driven the increase in manufacturers' profits. On the other hand, the pressure in rising material costs is of a lesser concern for corporates compared to the last survey in March. This indicates that

companies have been able to pass some costs along to customers.

Historical development for SEB's China Financial Index



The survey shows that the same issues remain challenging in China. The market situation is causing the most worries for our clients: six out of ten firms answered that customer demand or competition is their greatest concern. It also seems that respondents see the "skilled labor force" as a rising concern, with 7% of respondents choosing this as a top concern, (the highest level since March 2014). However, payment collection from customers is less of a concern for firms than before. This is good news, as according to publicly available data the number of bad loans is still rising in China.



China Financial Index, September 2017

Source: SEB in Shanghai. The coloured stacks are the most recent results. Grey stacks show results in March 2017 and September 2016, respectively.

Even though firms report to be blooming in China, it seems that in the long term, the outlook is more cautious and conservative. Only some firms are investing significantly in the country, where GDP is expected to grow 6.7% this year. SEB has projected GDP to maintain the annual growth rate of over 6% in the coming two years. Looking at historical data, the shift from an investing to a maintaining mode started in early 2015. There are certainly many reasons for this. Talking with corporates it seems that higher costs, particularly rising salaries, as well as overcapacity issues, more intense local competition and the recent regulatory environment are making companies more cautious.

Most of the corporates surveyed are manufacturers, representing what is known as ‘the old China’, while less than 10% of respondents are from the service sector. It is not surprising that the few corporates that are part of the service sector are much more confident and growing faster by every measure in China, reflecting the country’s attempt to restructure toward a service-based economy. The tertiary sector made up 51.6% of the country’s GDP in 2016. China is aiming to increase this to 70-80% – in line with the average for advanced countries. Aside from the service industry, firms in the chemical, plastics and paper industries are scoring above the survey’s average, reporting growing confidence and investing more.

Our survey reveals that a growing number of companies are hedging or planning to hedge their cash flows. Consequently, firms have mixed estimates about the trend of RMB/USD in the next six months, while SEB’s RMB/USD forecast for the first quarter of 2018 is 6.7. On the other hand, our clients see EUR to continue strengthening against RMB for the next two quarters.

Looking at currency, three out of five respondents said that the recent strengthened controls in the currency outflows and the expected volatility in RMB against USD and EUR had an impact on how they manage liquidity.

OUR CONCLUSIONS

Corporates report that the overall outlook is good, which is in line with recently upgraded GDP growth forecasts for China. Regardless of all the positive views, firms are still not investing more in China, which indicates a level of caution and uncertainty about the future development of the business climate in the country.

Global GDP growth and SEB’s predictions

Global GDP growth

Year-on-year percentage change

	2016	2017	2018	2019
United States	1.5	2.2	2.4	2.0
Japan	1.0	1.3	0.8	0.7
Germany	1.9	2.1	2.0	1.8
China	6.7	6.8	6.4	6.1
India	7.9	7.1	7.8	7.8
United Kingdom	1.8	1.5	1.0	1.2
Euro zone	1.8	2.1	2.2	2.0
Nordic Countries	2.1	2.5	2.3	2.2
Baltic Countries	2.0	3.5	3.3	3.1
OECD	1.8	2.1	2.1	1.9
World, PPP	3.1	3.8	3.8	3.7

Source: OECD, SEB

*Purchasing power parities

INFORMATION ABOUT THE SURVEY

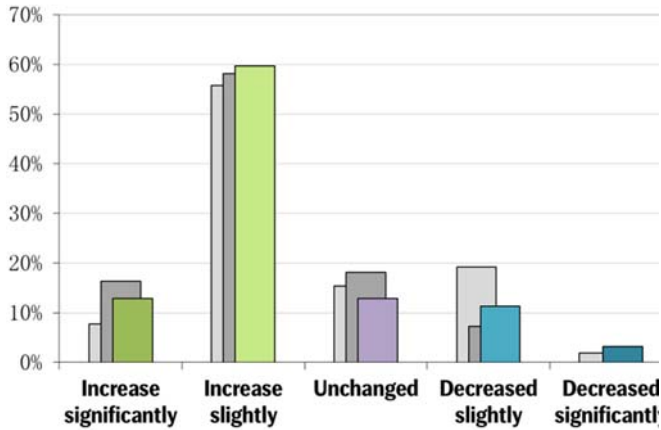
SEB’s China Financial Index was first launched in 2007 and is based on input in this edition from CEOs and CFOs at 61 subsidiaries of major Swedish, Danish, Finnish, Norwegian and German companies. Most of the surveyed companies have a global turnover of more than EUR 500m. The survey is web-based and confidential, and was carried out from 7 September until 27 September 2017.

CHINA FINANCIAL INDEX – COMPOSITION

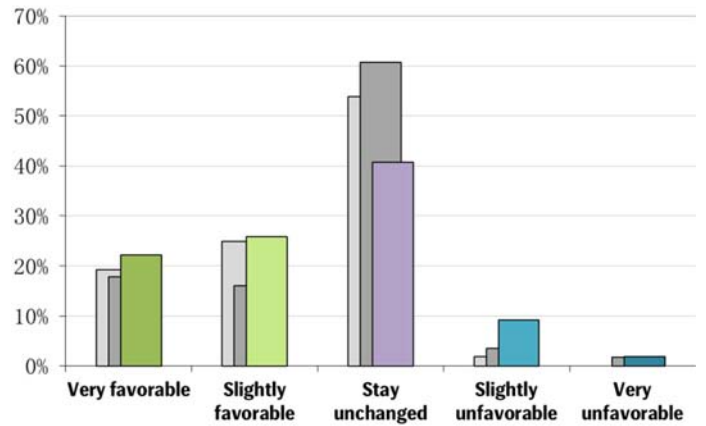
SEB’s China Financial Index in March displayed a value of 61.6, indicating an optimistic increase of the business environment compared to previous surveys in September and one year ago.

A value of 50 indicates a neutral view. The index is based on four components, with the following ranking in this survey: Order Intake – 64, Profit Expectations – 61, Investment Plans – 60, and Employment Plans – 63.

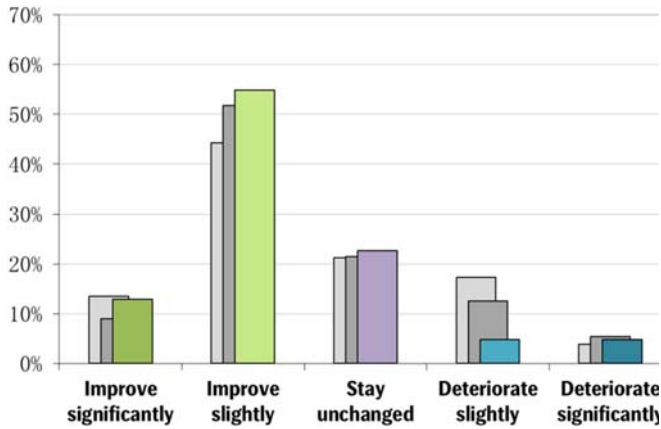
1A. ORDER INTAKE/SALES



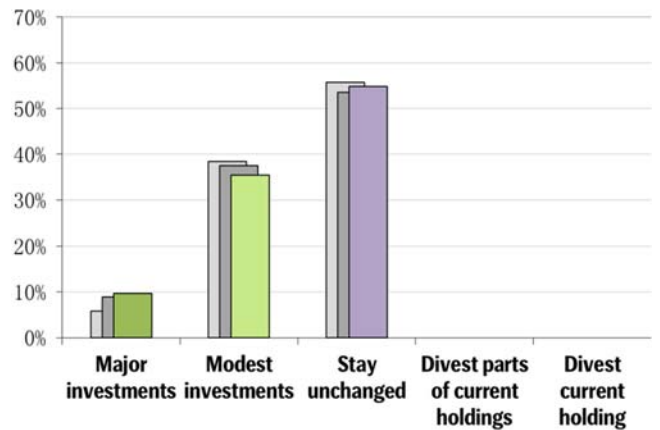
4. LENDING ATTITUDE



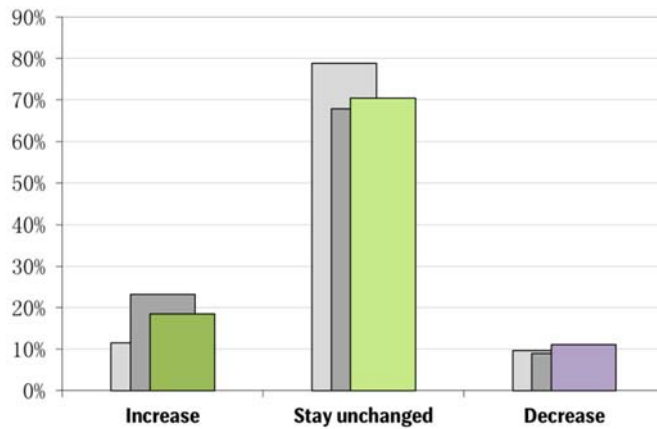
2. PROFIT EXPECTATIONS



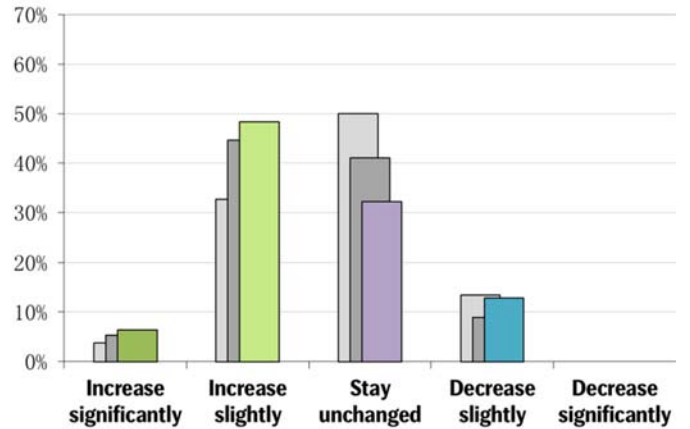
5. INVESTMENT/ACQUISITION PLANS



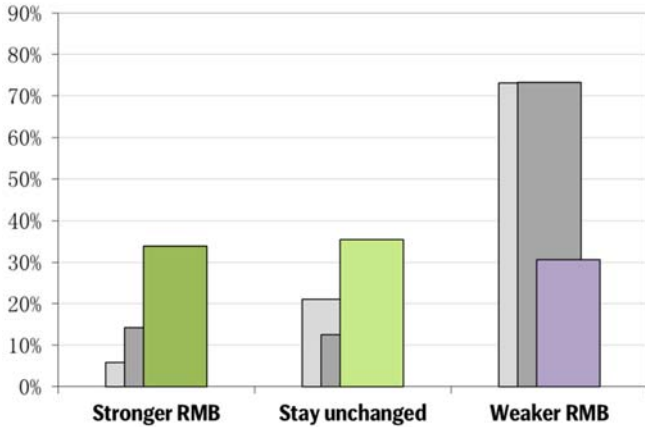
3. FUNDING NEEDS



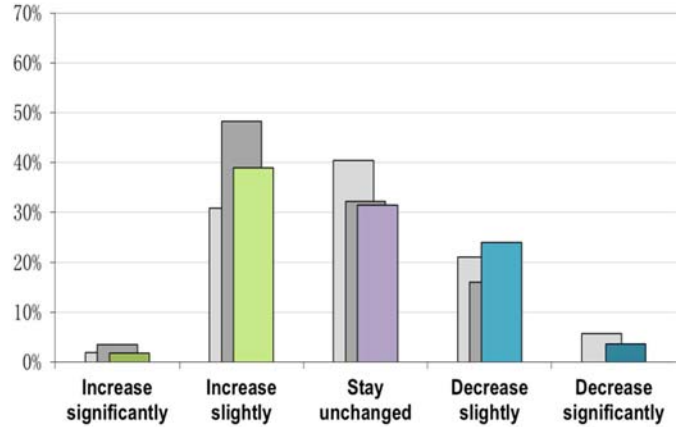
6. NUMBER OF EMPLOYEES



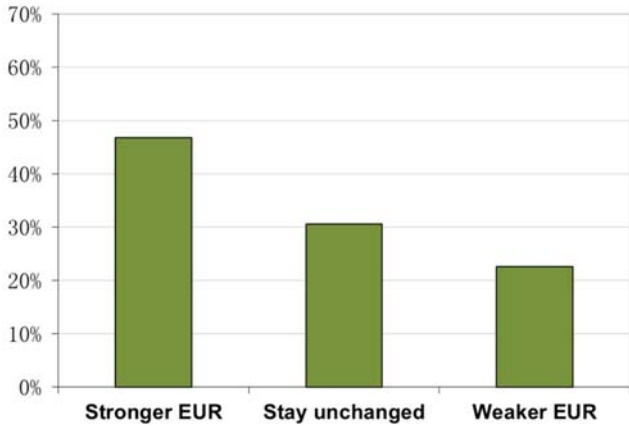
7A. RMB/USD EXPECTATIONS



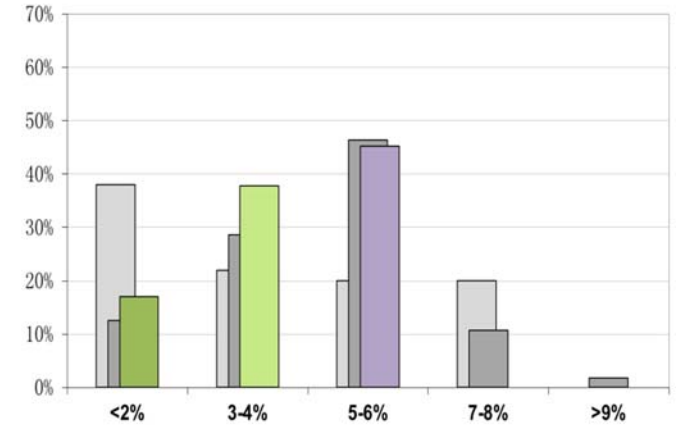
9. INVENTORY EXPECTATIONS



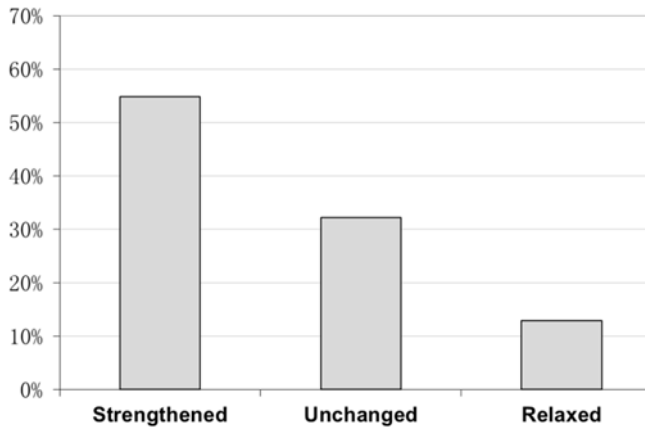
7B. EUR/RMB EXPECTATIONS



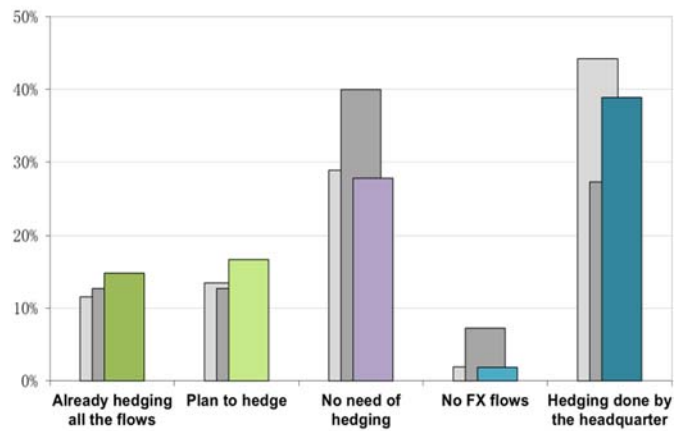
10. AVERAGE SALARY INCREASE



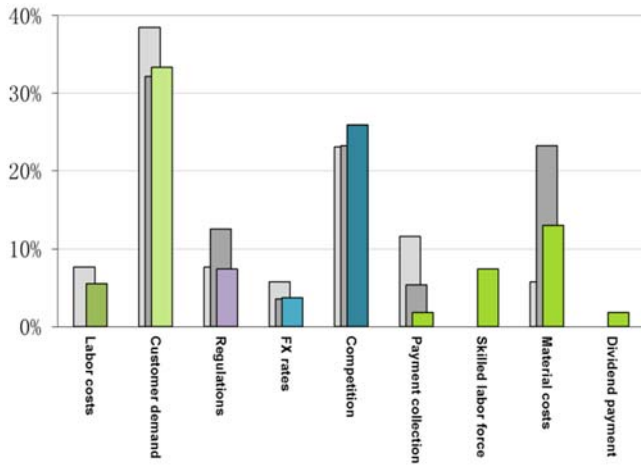
8. IMPACT OF REGULATION



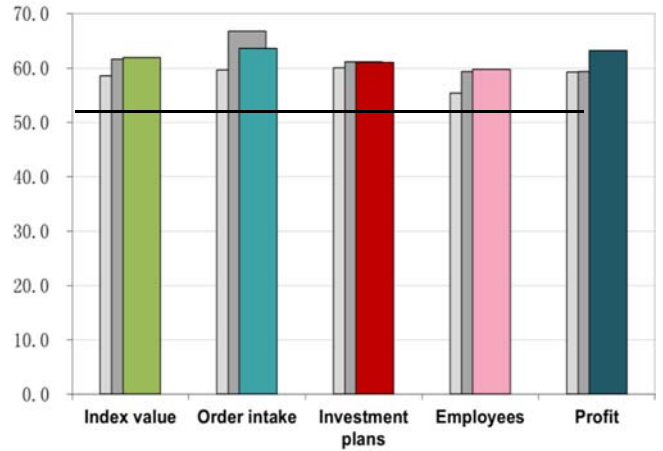
11. HEDGING STRATEGY



12. MAIN CONCERNS



13. MAIN INDEX



*Source: SEB Shanghai. Grey stacks are indicating companies' answers in the last two surveys in March 2017 and September 2016

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