

China Financial Index

30 January 2023

- The SEB China Financial Index for autumn 2022 increased to **55.8** which was a slight improvement from 54.9 in the previous survey conducted in May 2022, but was still down from 60.2 posted one year ago.
- China battled the largest nationwide outbreak of Covid-19 with draconian measures during most of autumn 2022, and corporate business activities and plans have been negatively impacted as revealed by this survey. It should be noted that this survey was closed before the announcement of the end of the zero-Covid strategy in December 2022, so the results do not reflect any potential shift in sentiment following the scrapping of the strategy.

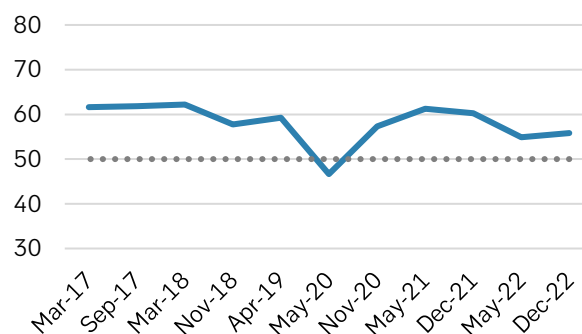
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Based on our survey conducted during 22 November - 6 December 2022, the autumn China Financial Index (CFI) increased to 55.8. This marks a small improvement in this survey (from 54.9 in May 2022), which sets out to measure the views of Northern European corporates doing business in China.

The overall outlook became more optimistic after a significant drop in the index in May 2022. Covid-19 cases surged again in China in autumn 2022 reaching the highest number of daily cases in November since the Shanghai lockdown in the spring, resulting in the implementation of draconian Covid restrictions throughout the autumn which lasted until the first week of December. The 20th party congress in October confirmed a united leadership under President Xi, as we expected, which could be seen as a sign of stability and thus as a positive for business. The reaffirmation of China's open-door policy towards foreign business is another positive message from the party congress.

Historical trend of the CFI



Source: SEB

China has been fighting Covid-19 outbreaks continuously since Shanghai opened-up in May 2022. Local Lockdowns and other restrictions have dampened consumer demand and industrial output and put further pressure on already restrained local and global supply chains. However, compared with spring 2022, there has been an improvement in economic activity. In Q3, GDP grew 3.9% y/y, more than we expected, but this was after a weak Q2 at 0.4% y/y. The full-2022 GDP is expected by SEB to be 3.1%, well below the target of 5.5% set by the Chinese Government.

The Caixin China General Manufacturing PMI for November rose to 49.4 up from 49.2 in the previous month and from 48.1 in September, showing a gradual improvement.

In our autumn survey, the results were mixed compared with the previous survey which saw all indexes drop. The component falling the most in our autumn survey was the Sales outlook, falling from 55.0 to 53.7.

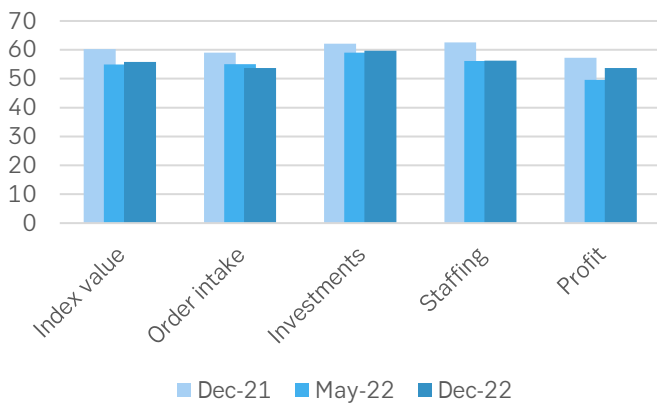
The Profit outlook improved from 49.6 to 53.7. We do not find this surprising as *Order Intake* recorded a large drop in the last survey. Investments increased slightly as such decisions have a long-term nature.

The investment index declined slightly compared with one year ago accompanying the shift from *Modest Investments* to *Unchanged*.

Fifty-eight percent of surveyed companies indicated that their investments would stay unchanged while 42% reported plans for either modest or major investments in the coming six months.

Companies appear to be more cautious about investment and the mood appears to be shifting to a “wait and see” approach. Compared with the spring survey, however, this represents an improvement as the level of uncertainty has decreased somewhat.

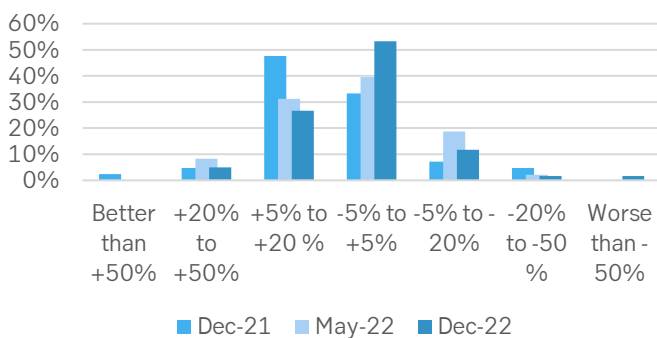
Index values



Source: SEB

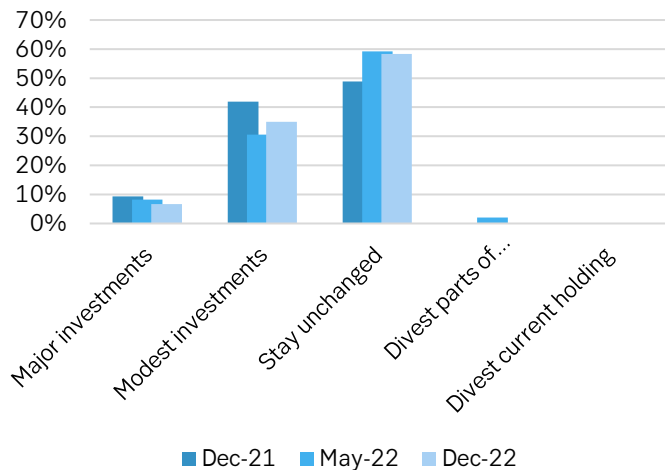
Looking at *Order Intake*, 48% of the surveyed companies reported growth. Compared with the last survey, fewer companies expect sales to decrease in the coming six months. Rather more companies have moved to the -5%/+5% category. We sense a cautious improvement in sentiment here, but we believe uncertainty remains. Fewer companies expect a firm increase in sales compared to the last survey.

Expected order intake over the next six months



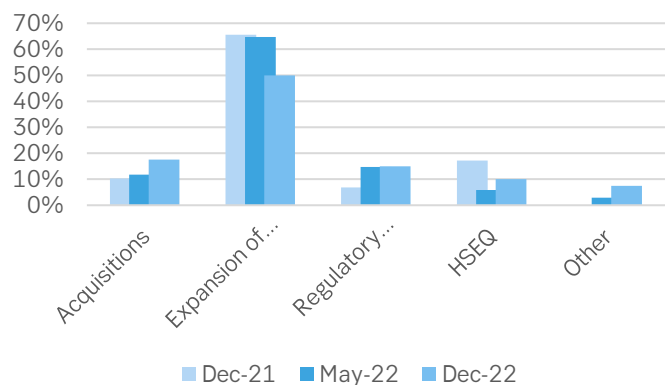
Source: SEB

Investment



Source: SEB

Nature of investments



Source: SEB

A vast majority of companies still eyes an expansion of existing business but has declined significantly versus the spring survey. In total, 50% of the respondents that have investments planned are targeting an expansion of existing business. Investments related

to regulatory-required upgrades remain at the same level as in the spring survey. Whether these investments are related to new industry regulations or to Covid-induced *closed-loop management* driven by contingency planning is unclear. On the staffing side, 10% of respondents now expect staffing to decrease over the coming months instead of increase as was the case in the spring survey.

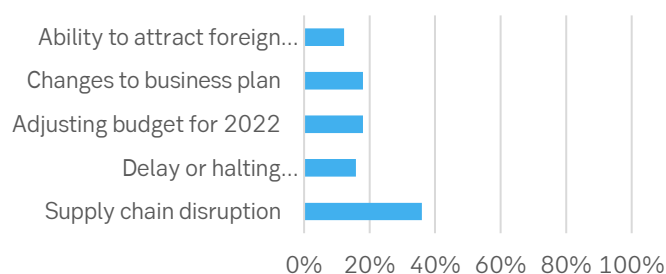
China has had strict Covid restrictions during the past three years with mixed results. As mentioned in our previous surveys, this policy had strong support from the population during the first 2.0-2.5 years when the country was able to “come out of Covid” relatively fast and the economy performed well in 2021. However, general public opinion for the zero-Covid policy shifted towards the negative over the past few months as the economic costs became increasingly visible following the protracted period of restrictions. Among the urban population, growing Covid fatigue was manifested in protests across the country. Also, the Omicron variant has proven to be difficult to contain, leading to a resurgence in Covid cases, and the various attempts to contain the spreads in an unpredictable way have created uncertainty for business.

This negative impact of the zero-Covid strategy has been felt by our survey respondents:

- 36% see the supply chain disruption as the biggest impact.
- 16% are making changes to their business plans, 18% are adjusting their budgets and 18% are delaying or halting investments in China.

Main impact of the resurgence in Covid-19 cases

Multiple option (Three per respondents)



Source: SEB

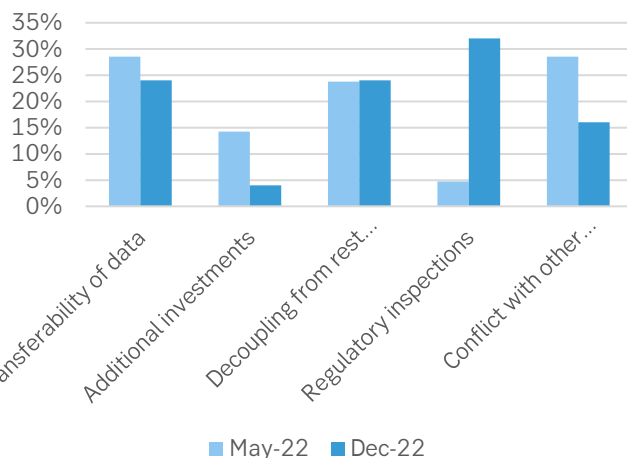
While certain industries have been able to operate under the so-called *closed-loop management*, with staff able to live and operate in the offices, provided that they do not interact with the world outside, this is not a viable long-term solution. On the other hand, the cost of shutting down production for long periods is also economically challenging. Depending upon the type of business, companies have different contingency preparations for future outbreaks. Forty-nine percent have indicated that they would operate under *closed-loop management*, 28% report that they could run their businesses fully remotely, 10% are considering a total stop of operations and 5% were still working on a plan at the time of the survey.

There is a growing concern among respondents about data and cyber security in China. While the resurgence in Covid-19 might have stolen the spotlight in this survey, we believe it is interesting to see that data and cyber security concerns are clearly on the rise

since our previous survey. Concerns about regulatory inspection jumped to 32%, up from 5 % in May 2022.

Main concerns related to data and cyber security

Source:SEB

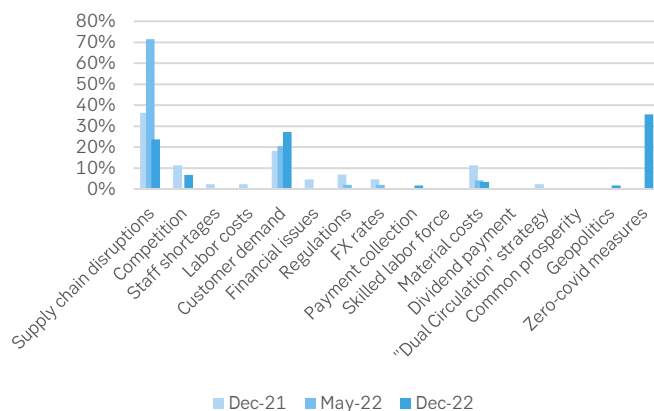


In this survey, we introduced new questions related to geopolitical risk, ESG and financing costs. More than 50% of our survey respondents have not changed their views regarding the impact of geopolitical risk on their operations in China. Thirty-seven percent think that their group level ESG standards have a positive impact on their operations in China. More than 50% of the respondents report unchanged financing costs.

At the time of this survey, zero-Covid measures were the biggest concern for corporates over the next six months.

During the Shanghai lockdown in the spring and the subsequent months with Covid-restrictions, the domestic movement of goods, services and people was significantly impacted. In this survey, supply chain disruptions and customer demand are still high on the list of concerns for the coming six months alongside zero-Covid measures, which at the time of the survey were the main causes of the disruptions. Now that the zero-Covid strategy has been abruptly replaced by a de facto “coexist with Covid” strategy and given the relatively low vaccination rates in China, there is a risk that widespread infections and sick-leave could cause economic disruptions in the coming months.

What is your main concern over the next six months?



Source: SEB

Our conclusions

The trend revealed in the autumn 2022 survey of the China Financial Index is consistent with the trend in the previous survey showing subdued sentiment and is also largely in line with similar surveys conducted by various chambers of commerce, business organisations and diplomatic missions in China. Amid uncertainty, companies are operating cautiously at the moment.

Foreign companies in China remain positive regarding the long-term prospects of the market. Alongside the long-term commitment, there is a growing sense of uncertainty in the areas of data protection and cyber security as new regulations are in the making. This sentiment of uncertainty has been amplified by disruptions in economic activity caused by China's draconian zero-Covid measures during the previous three years which have had visible negative impacts on Investment decisions.

Information about the survey

SEB's China Financial Index was first launched in 2007. In this edition, the index is based on input from CEOs, CFOs or Treasurers at 61 subsidiaries of major Swedish, Finnish, Norwegian, Danish, German, British, Austrian and Swiss companies. Most of the surveyed companies have a global turnover above EUR 500m. The survey is web-based, confidential and was carried out during 22 November-6 December 2022.

China Financial Index – composition

SEB's China Financial Index displayed a value of 55.8 in autumn 2022, indicating a slight increase in optimism in the business environment compared with the survey in May 2022. A value of 50 indicates a neutral view. The index is based on four components with the following rankings in the survey: Order Intake 53.7, Profit Expectations 53.7, Investment Plans 59.7 and Employment Plans 56.2.

Forecasts, real GDP, % y/y (updated December 2022)

	2021	2022	2023
China	8.1	3.1	5.5
India	8.3	6.8	5.7
Indonesia	3.7	5.2	5.1
Malaysia	3.1	7.3	4.0
Philippines	5.8	6.5	5.5
Singapore	7.9	3.8	2.4
South Korea	4.1	2.7	1.8
US	6.1	1.5	0.5
Eurozone	5.5	2.7	0.3
Japan	1.8	1.6	1.5

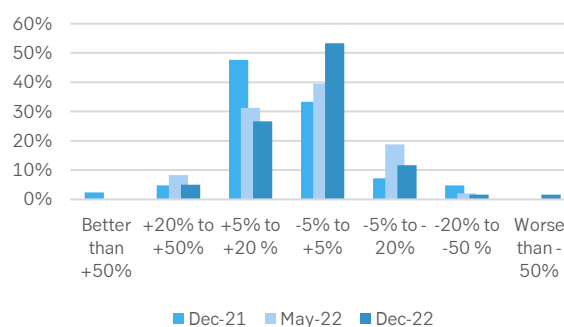
Source: Bloomberg, CEIC, SEB

Please note: The following graphs are all produced by SEB and represent all the questions in the latest China Financial Index as well as historical surveys (if applicable).

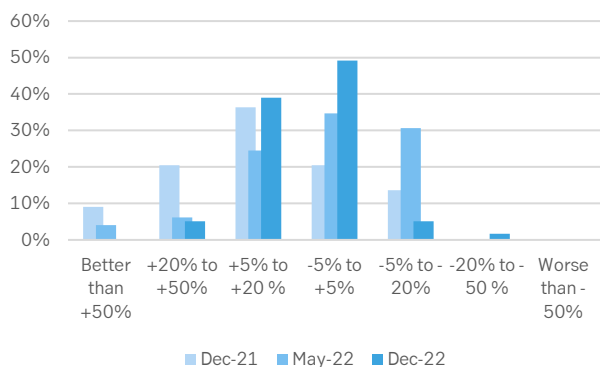
1 – Index values



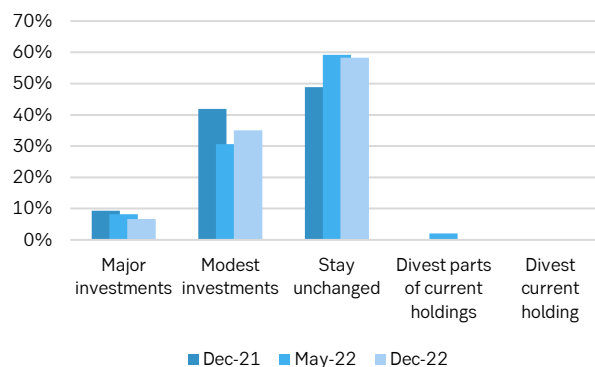
2 – Sales outlook (next six months)



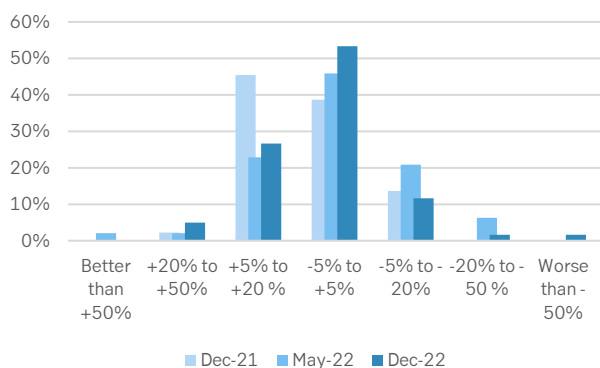
3 – Y/y sales trends (H1/22 vs H1/21)



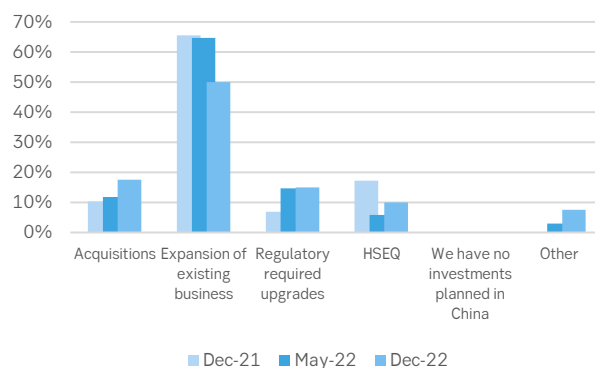
7 – Investment plans



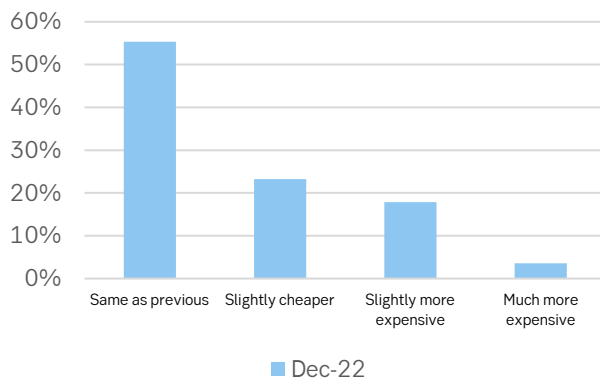
4 – Profit outlook (next six months)



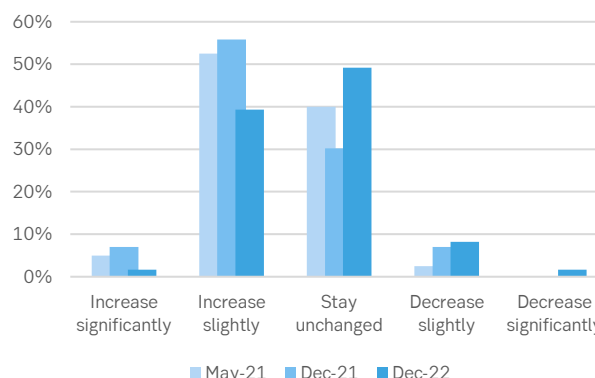
8 – Type of investment



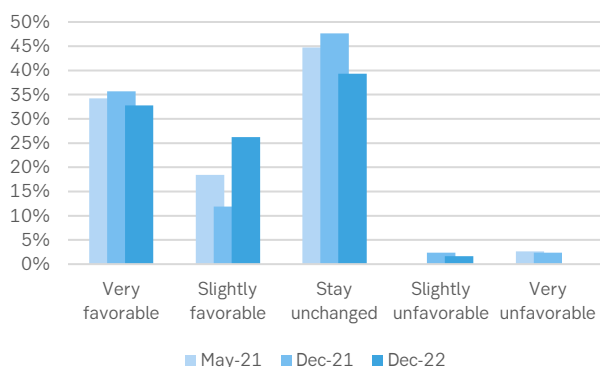
5 – Borrowing cost



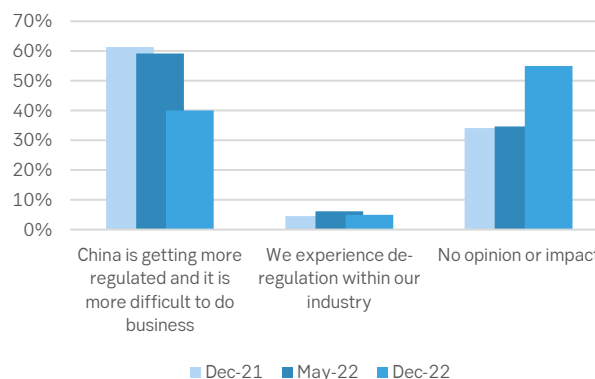
9 – Staffing trends



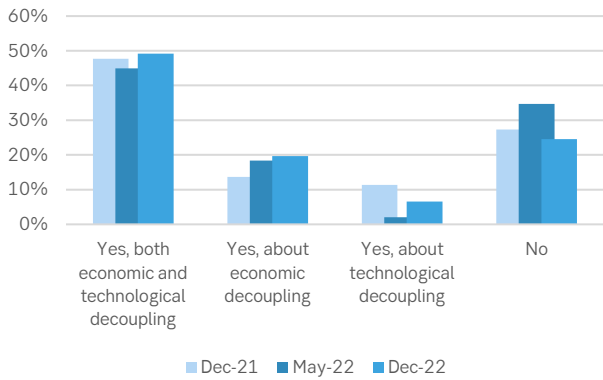
6 – Bank's lending attitude



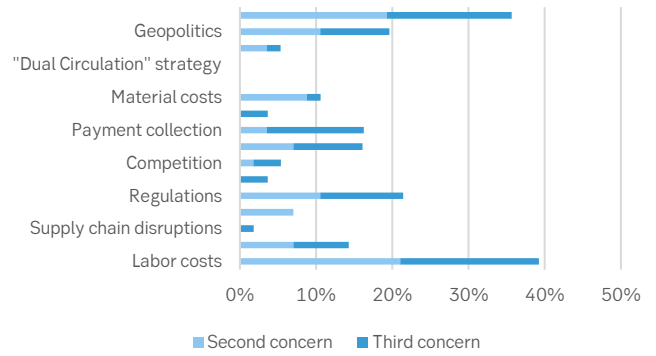
10 – Regulatory trends in China



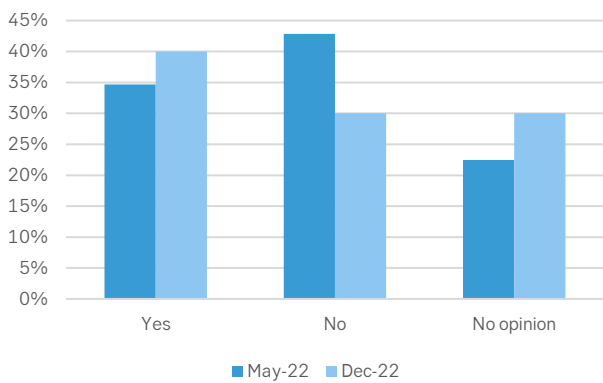
11 – Worried about decoupling?



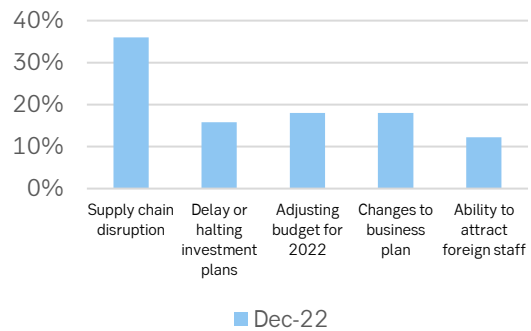
15 – Second Third Concerns



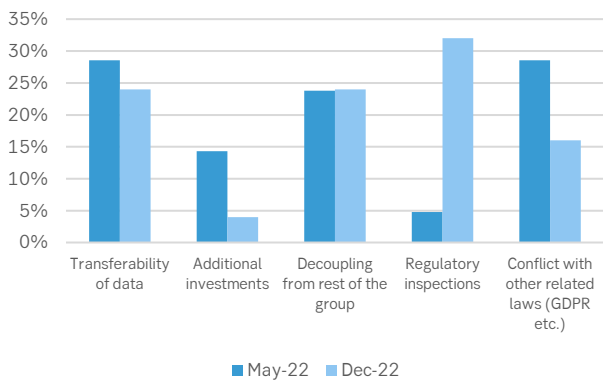
12 – Worried about data/cyber security?



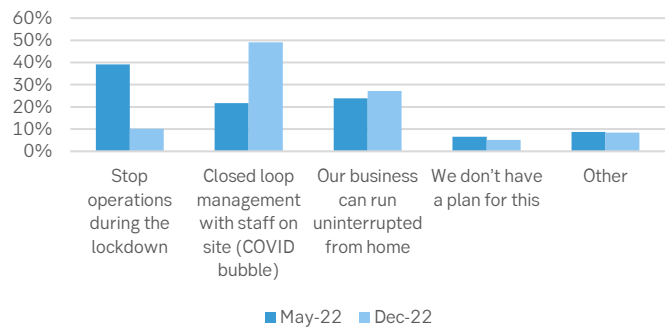
16– Covid-19 Impact



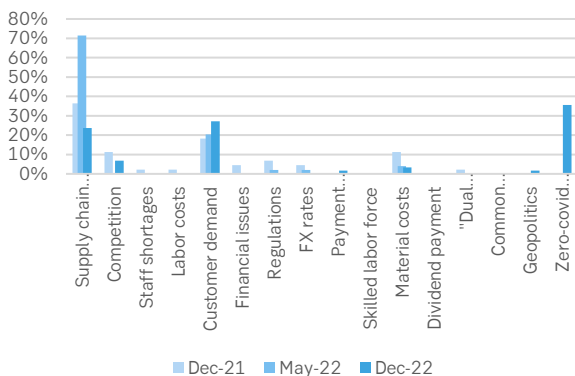
13- Main concern regarding data/cyber security



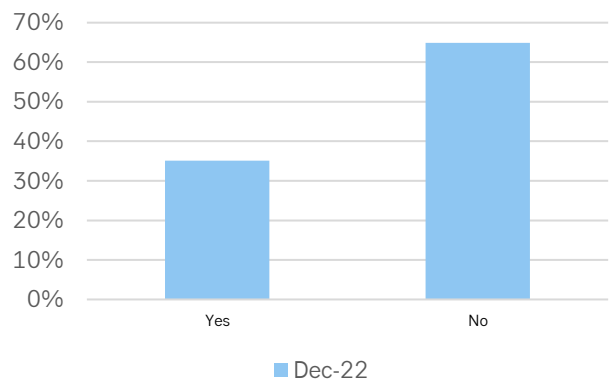
17- Way of operation during a lockdown



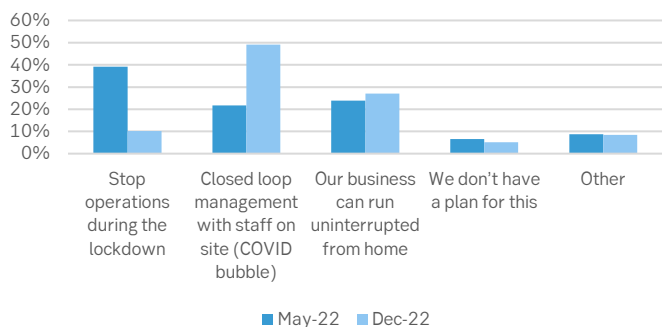
14 – Main concern over the next six months



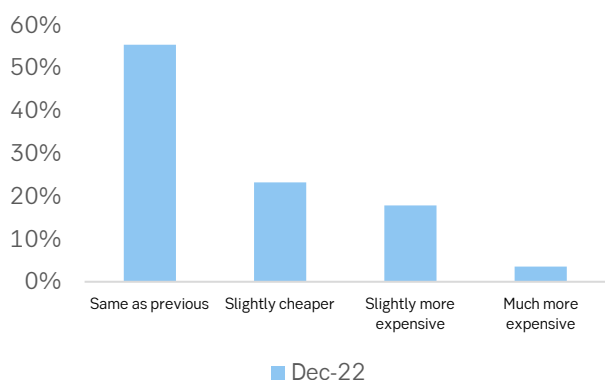
18 – Geopolitical Risk



19 – ESG



20 – Borrowing Cost



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