

China Financial Index



August 28, 2024

Economy slightly revives, but still challenging

- The SEB China Financial Index ended the first half year of 2024 at **55.3**, bouncing from 53.6 at the end of 2023 but below the 57.8 print a year ago.
- **Customer demand, geopolitics and competition** are ranked as the top three concerns for a third consecutive time. The first one dropped significantly, to 39% from 53% in the previous survey. However, the latter two are drawing more attention compared to the past suggested by an aggregate proportion of 39%, which is at historical high level.
- Long-term optimism among Northern European companies continues to weaken. Among respondents, 41% expect sales to increase in the next six months compared to 43% in the previous survey at the end of 2023, while 17% respondents expect sales to fall, which is a high since 2021.

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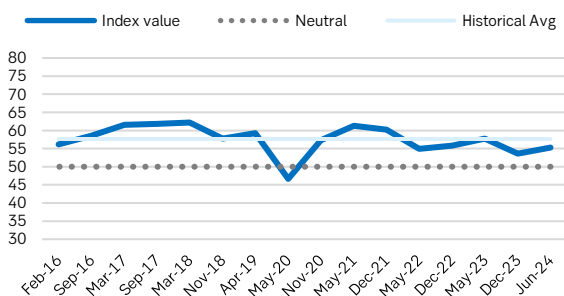
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China Financial Index (CFI) for the first half of 2024 reflects some recovery in the economy

The half-year result is comparable to the level in December 2022 but still lies below the historical average of 57.7. All four components of the index (order intake outlook, investment outlook, staffing outlook, and profit outlook) showed an improvement from the previous survey. However, the outlooks for staffing and order intake remain below their historical averages.

The mild recovery may indicate further upside for the economy in the medium term, supported by central bank open market operations and interest rate cuts

Historical trends in the CFI

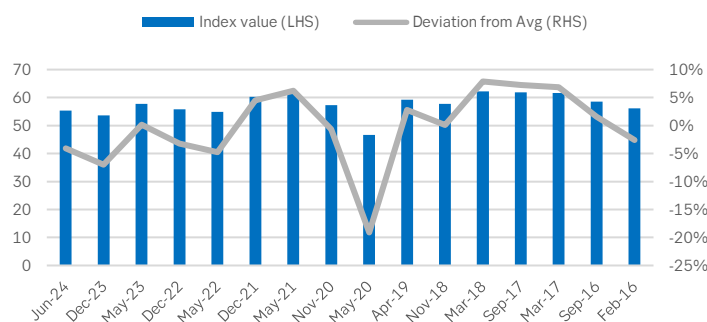


Source: SEB

As before, a positive bias could still be observed, as the index for this period is still higher than 50 (neutral). With this bias presented, a closer examination is given to the deviation of the index from the historical average. The historical average since February 2016 is 57.7 with a standard deviation of 4.03. **For July 2024, the**

current deviation from the historical average is -4.08%, which is close to the previous result.

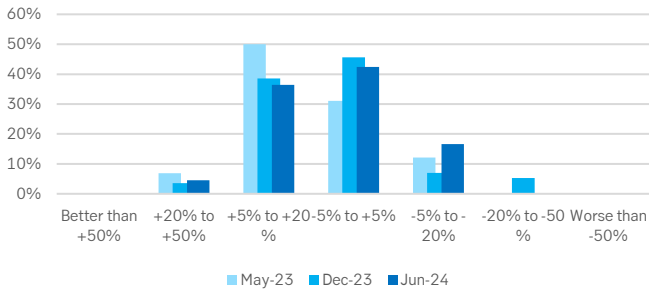
Deviation from the historical average



Source: SEB

Some improvement in the overall performance of the companies is expected. In terms of sales outlook, 42% of respondents expect sales growth to hover around +/- 5%. However, the share of respondents expecting sales to expand by 5-20% declined to 36%, from 39% in the previous survey. Meanwhile, 17% of respondents now expect sales to decline by as much as 20%. None of the respondents expect a sales contraction of 50%. See chart on the next page.

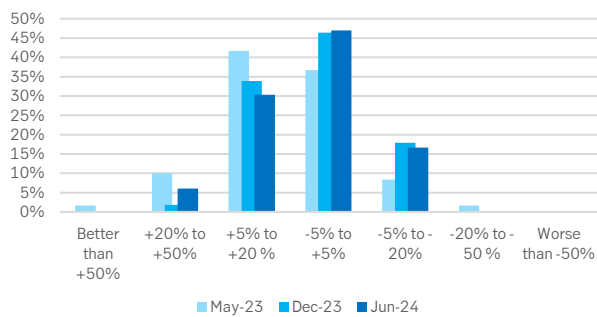
Sales outlook



Source: SEB

On the profit outlook, 47% of respondents expect profit growth to be around +/- 5%. The share of respondents expecting profit growth of 5-20% dropped to 30% (from 34%). However, the share of companies expecting profit growth of more than 20% rose to 6%. On the other hand, the share of respondents that expect a profit contraction of more than 5% declined to 17%. While confidence remains subdued, the survey suggests some improvement in sentiment.

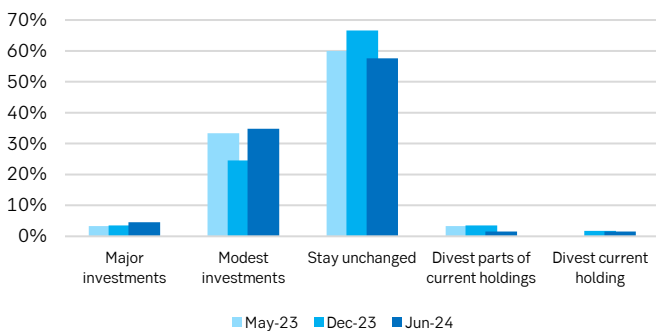
Profit outlook



Source: SEB

Investment notably improved from the previous period. A total of 40% of respondents have plans to either majorly or modestly invest. The share of respondents with plans to divest declined to a total of 4% (from 6%).

Investment plans

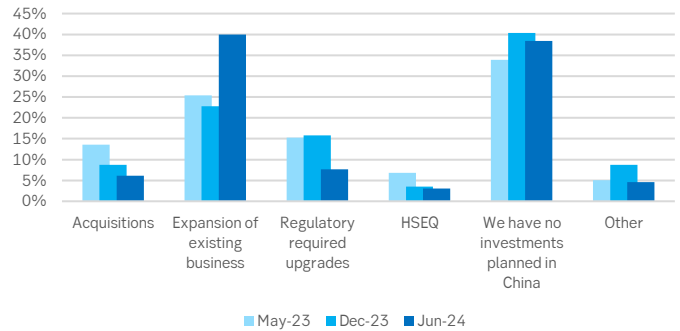


Source: SEB

Focusing on the nature of investments, over 50% of respondents are planning some sort of investment. The share of respondents planning to expand an existing business rose to 40% (from 23%).

The share of respondents that will invest because of regulatory requirements declined to 8% (from 16%). Meanwhile, the share respondents reporting acquisitions declined to 6% (14% a year ago). 38% of respondents indicate no plans to invest in China.

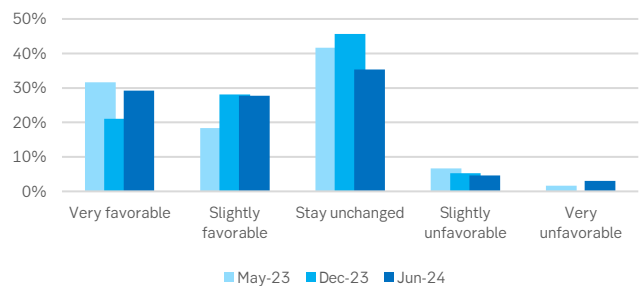
Nature of investments



Source: SEB

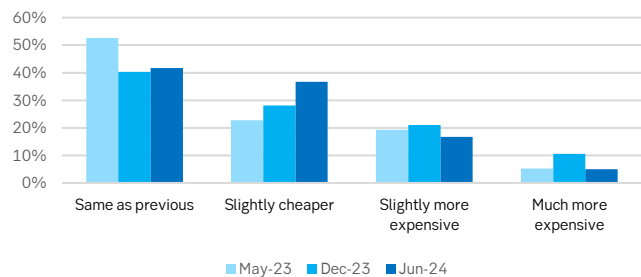
The improvement in investment plans reflects easing financial conditions. Around 57% of respondents view lending conditions as either slightly or very favourable. Only 22% of respondents reported an increase in the cost of funding (from 32%). In contrast, 37% of respondents report a slightly cheaper cost of funding (from 28%). The decrease in corporate lending conditions reflects the continued easing of monetary policy.

Lending attitudes



Source: SEB

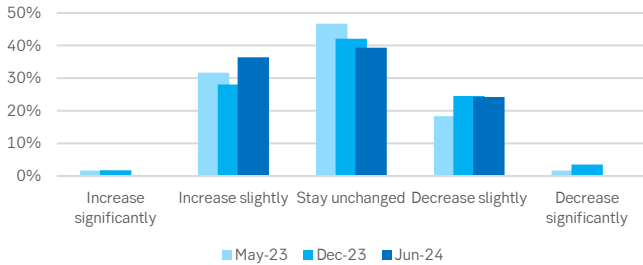
Borrowing costs



Source: SEB

The staffing outlook has improved. The share of respondents expecting to increase headcount has risen to 36% (from 30%). Companies with plans to decrease staffing requirements declined to 24% (from 29%), in line with the gradual improvement in labour market statistics.

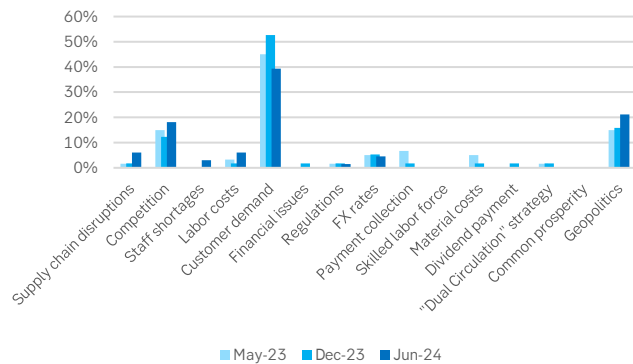
Staffing outlook



Source: SEB

Among the issues plaguing corporates, weak customer demand remains a top concern. While 39% of respondents remain concerned about weak customer demand, the proportion has fallen from 53%. Meanwhile, geopolitics and local competition are still considered major concerns. The share of respondents identifying geopolitics as a concern rose to 21% (from 16%), partly explained by the US election cycle and its possible effect on US-China relations.

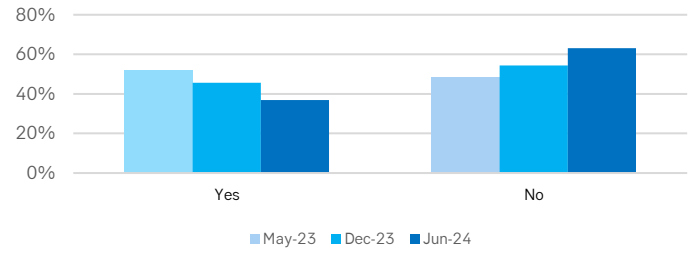
What is your main concern over the next six months?



Source: SEB

Despite the increase in the proportion of respondents naming geopolitics as a business concern, 63% of respondents indicated no change in the company's view on political/geopolitical risk. A further breakdown shows that 74% of respondents expect only a slight impact on doing business in China.

Have you or your company changed your view on the political/geopolitical risk operating in China?

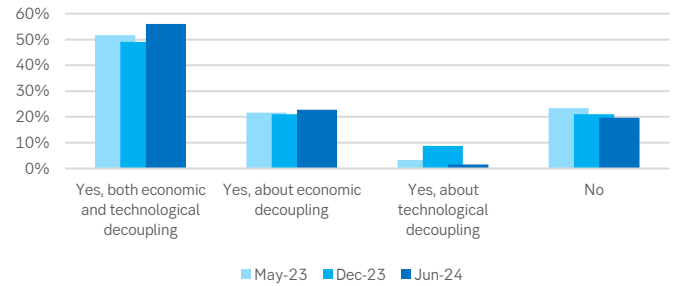


Source: SEB

Fewer respondents indicated tighter local regulations. In contrast, the share of responses indicating some deregulation increased.

Among Northern European companies surveyed, the share of respondents concerned about economic and technological decoupling rose to 56%. Concerns about economic decoupling outstrip concerns about technological decoupling.

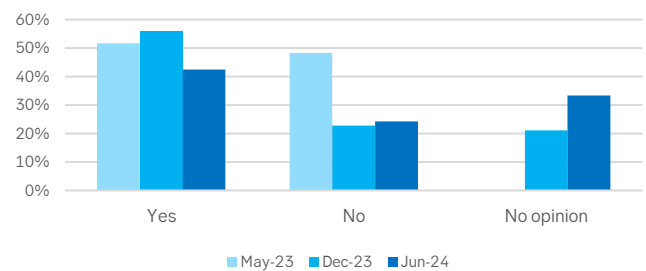
Are you worried about decoupling?



Source: SEB

Interestingly, considerably fewer companies worry about data and cyber security; 42% of respondents were worried this time, down from 56% in the previous survey.

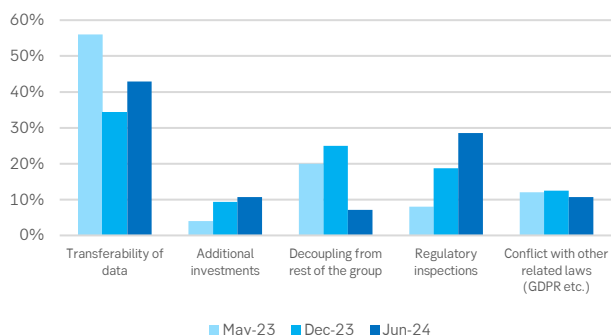
Are you concerned about the state of data and cyber security?



Source: SEB

Out of the 42% respondents who are worried about data and cyber security, the main concerns focus on transferability of data and regulatory inspection, at 43% and 29% respectively. Concerns regarding regulatory inspection rose to 29% (from 19%). In contrast, fear of decoupling from the rest of the group declined substantially to 7% (from 25%).

Main concern regarding data/cyber security?



Source: SEB

Our conclusions

The latest survey shows a pattern of gradual recovery, given a rising index value, but weak long-term optimism expectations. Customer demand, geopolitical risk and competition are still the main concerns for the surveyed Northern European companies in China. More companies have modest investment plans. Meanwhile, the lending environment has improved on the back of a continued easing in monetary policy, which is helpful for the locals. Consequently, the average cost of funding has declined.

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 66 subsidiaries of major Swedish, Finnish, Norwegian, Danish, German, British and Swiss companies. Most of the surveyed companies have a global turnover above EUR 500m. The survey is web-based and confidential and was carried between 8 July and 22 July 2024.

China Financial Index – composition

SEB's China Financial Index displayed a value of 55.3 in the summer of 2024, indicating a slightly enhanced macro environment compared with the survey conducted in December 2023. A value of 50 indicates a neutral view. The index is based on four components with the following ranking in the survey: order intake 55.8, profit expectations 55.2, investment plans 57.9, and employment plans 52.4. Due to a tendency of positivity bias from the respondents, the deviation from the historical average serves as a better indication of business sentiment.

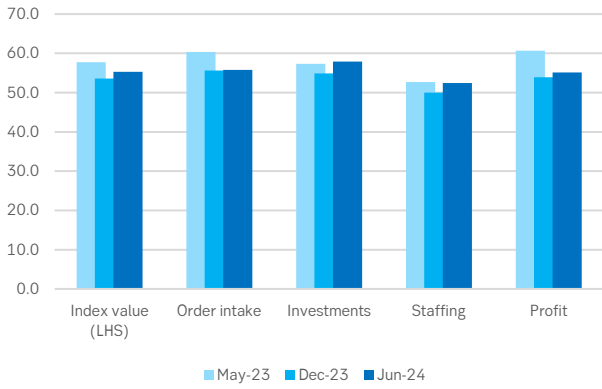
Forecasts: Global GDP growth, %

	2023	2024	2025
China	5.2	5.0	4.4
Japan	1.9	1.0	1.0
United States	2.5	2.5	1.8
Germany	-0.3	0.2	1.2
Sweden	-0.2	0.5	2.8
United Kingdom	0.1	0.2	1.2
Euro area	0.4	0.6	1.7
Nordic economies	0.3	1.1	2.5
Baltics economies	-0.9	1.2	2.9
Emerging markets	4.4	4.1	4.1
OECD	1.7	1.7	1.9
World PPP*	3.2	3.0	3.1

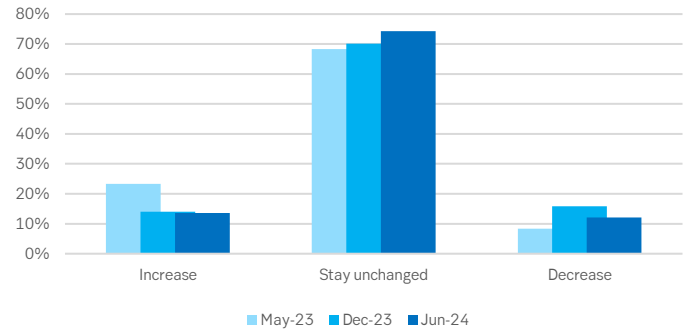
Source: SEB, OECD, IMF *PPP= purchasing power parities

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).

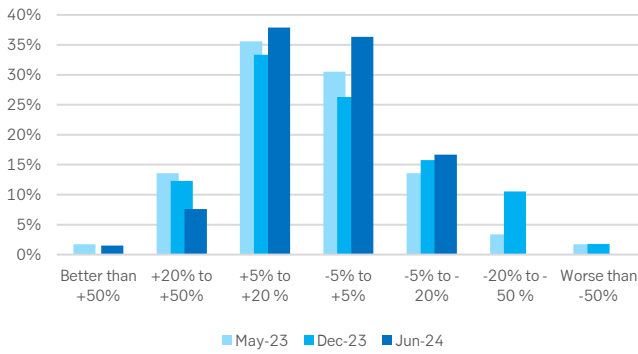
1 – Index values



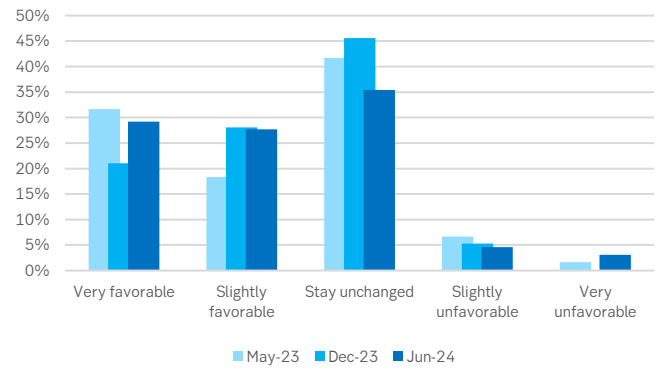
5 – Borrowing outlook (next six months)



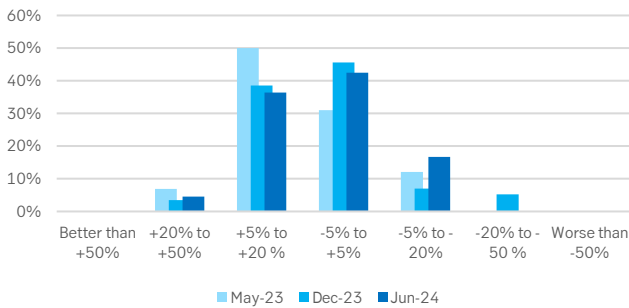
2 – Y/y sales trend (H1/24 vs H1/23)



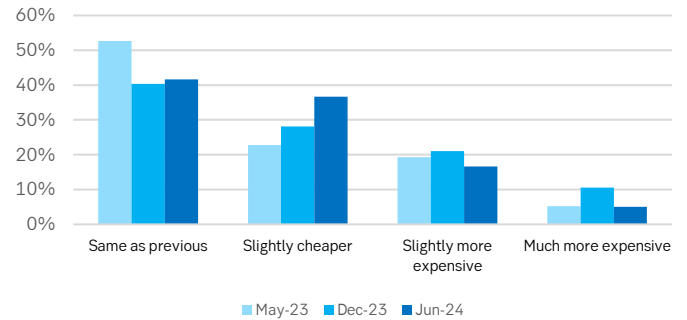
6 – Banks' lending attitude



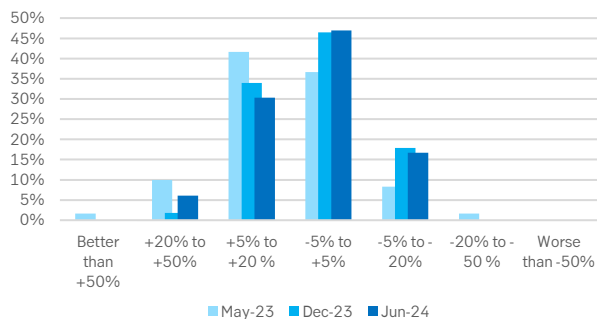
3 – Sales outlook (next six months)



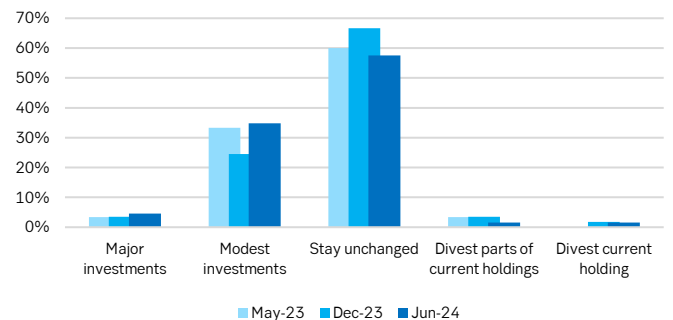
7 – Borrowing cost



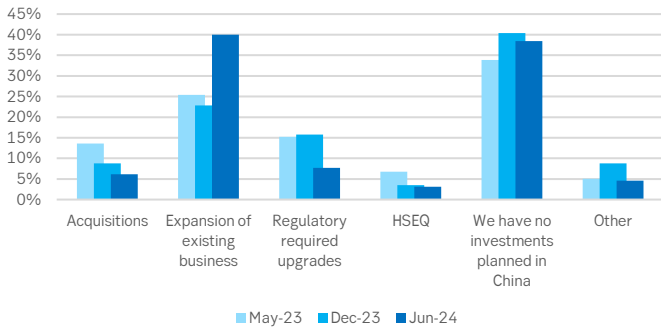
4 – Profit outlook (next six months)



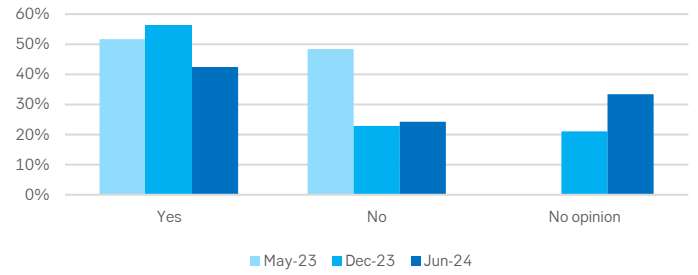
8 – Investment plans



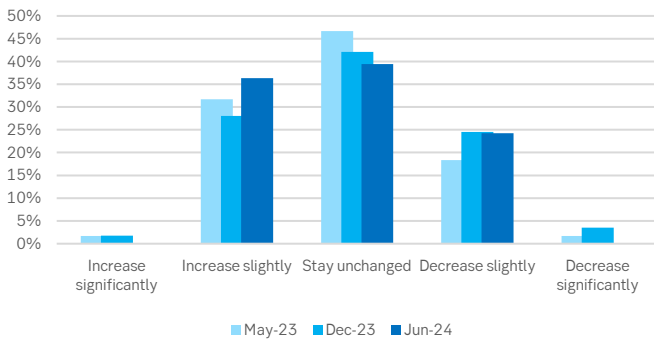
9 – Type of investment



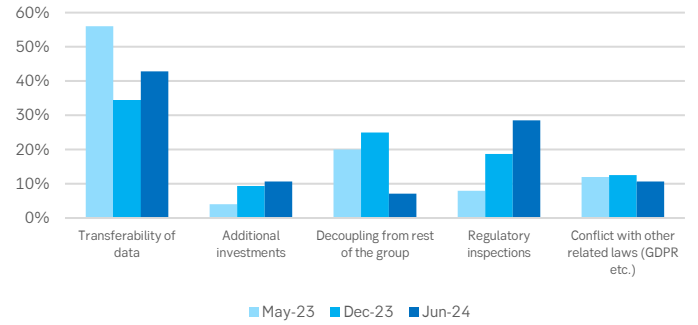
13 – Concerned about data/cyber security?



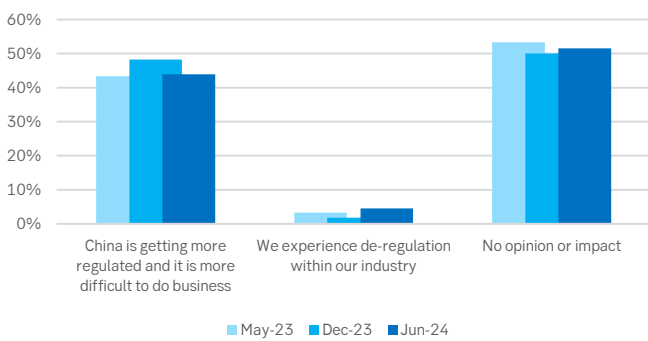
10 – Staffing outlook



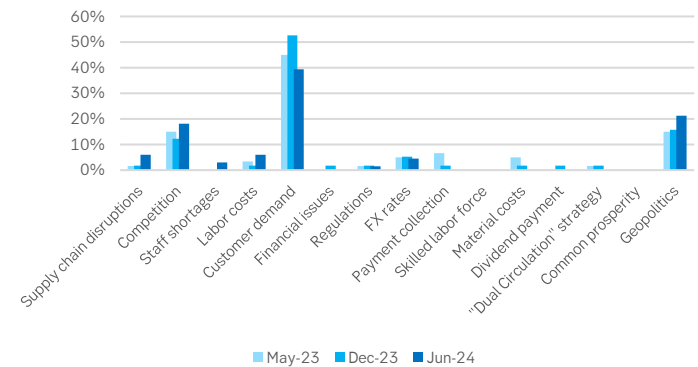
14 – Main concern regarding data/cyber security



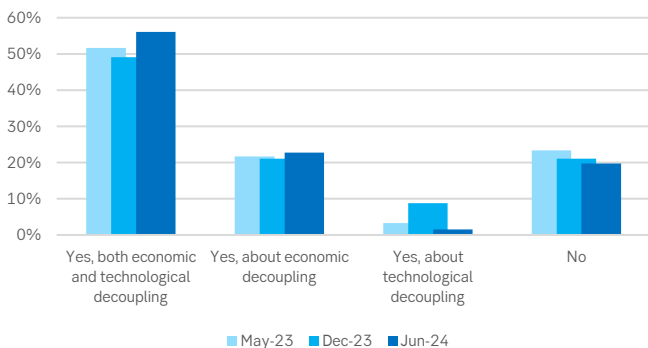
11 – Regulatory development in China



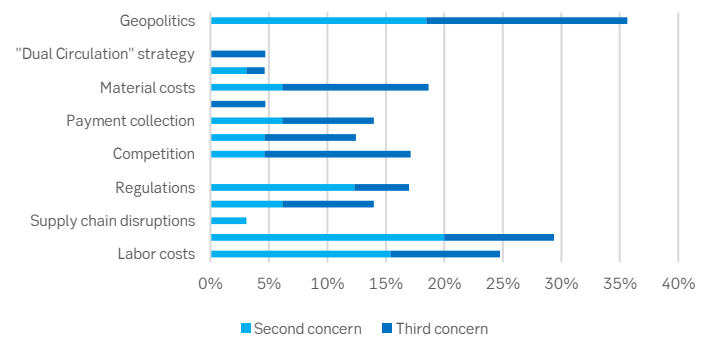
15 – Main concern over the next six months



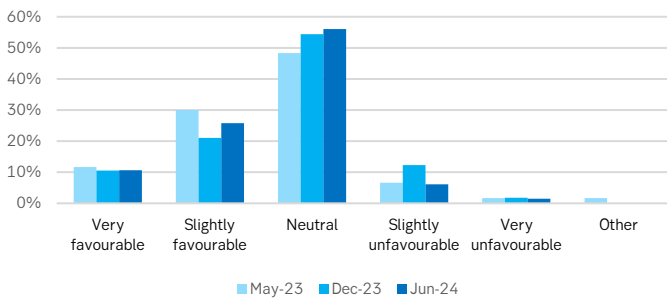
12 – Concerned about decoupling?



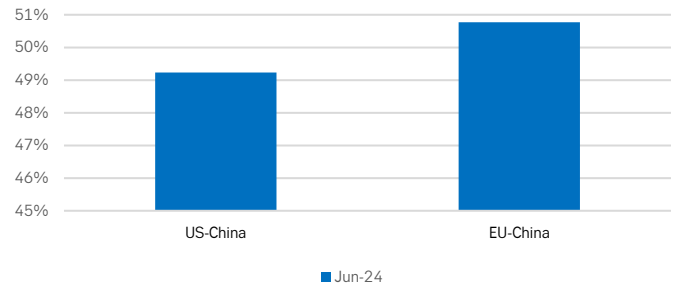
Second and third concern over the next six months



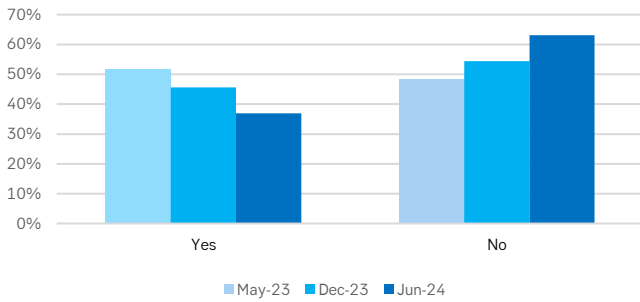
16 – ESG impact



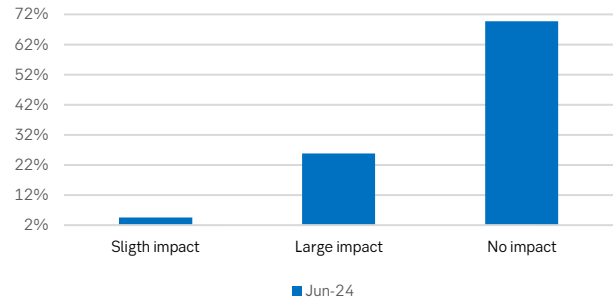
19- Which trade relationship will have a greater negative impact over the next 12-18 months?



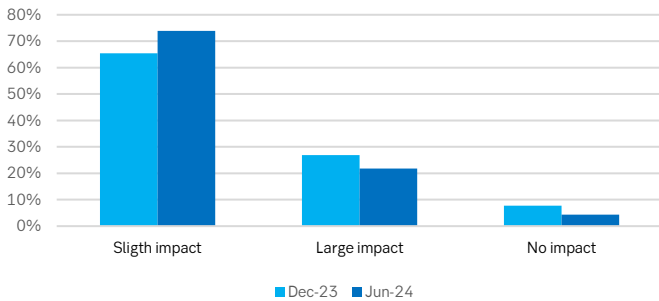
17 – Changed view on geopolitical risk



20- View on EU-China tariffs evolving in the coming 12-18 months



18 – To what extent has the changed view affected your operations in China?



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