Press release

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SEB's latest China Financial Index indicates corporates to be increasingly positive on China

Survey results from our European corporates continue to deliver a positive business outlook for China. Companies are reporting surges in order intakes, investments and sales, while profit expectations have decreased from the last survey in September 2017. This time the SEB Financial Index stands at 62.2 – up from 61.9 in September 2017 and 61.6 one year ago. Global growth combined with the Chinese government's reforms has resulted in a brighter business climate in China.

Order intake up, but profit expectations down: material costs and demand mentioned as main concerns

Companies' expectations of a rising top line illustrate that the economy is expected to grow steadily in the near future: four of five companies expect order intake to increase slightly or significantly during the next six months. However, despite of the strong growth potential in volumes, companies' profits expectations have lowered from the previous survey. In September 2017 seven out of ten respondents expected their profits would increase during the next six months, whereas in this edition only about half of the companies expected to see a surge in earnings, and the number of companies expecting a decline in profits increased. The reasons for this change may be rising material costs, intense competition and customer demand, which are cited as the main concerns for many companies.

It is good to notice that a large share of respondents represent manufacturing industries, so their performance is affected by global commodity prices. With the world economy showing sustained growth for the first time in over a decade, the sentiment in the commodity markets is turning, and commodity prices have been moving up over the past three years. Accordingly, a third of respondents mention material costs to be their greatest concern.

More stable and favourable currency

USD began to weaken against CNY in December 2016, and since then the value of USD has dropped 10% against CNY. Followed by the recent strengthening trend, CNY is seen to be bullish against USD in the near future. The share of those that view CNY in negative terms has dropped among the companies that participated in our survey: in March 2017 three of four companies expected CNY to weaken against USD, while in this survey only a quarter of firms expect CNY to decrease against USD during the next six months. SEB forecasts the currency pair USD/CNY to be 6.1 at year-end of 2018.

"*Despite the stronger CNY, firms are not enjoying the competitive advantage of lower material costs because most companies have their business denominated in CNY and their supply chains are localised,*" says Niina Äikäs，General Manager of SEB Shanghai.

China's efforts to internationalise CNY have finally begun to achieve results. According to Sean Yokota, SEB's Head of Asia Strategy, the status of CNY as a reserve currency will increase. USD will remain the dominant reserve currency, but the "market share" for CNY will increase as China opens its capital market, gets included in major global indices, and demand for CNY increases.

Increased confidence on China's economy

The tightened regulations to curb the country's evolving shadow banking and actions to limit credit growth have begun to tackle the economy's high indebtedness and have consequently boosted confidence in China's capability to mitigate the risk of a major market crisis. As a result, companies' investment appetite in China supports a more confident view of the market: half of the respondents are reporting new investment plans, while the surveyed companies do not report to be divesting or reducing staff.

China is making an active effort to improve regulation of its still young immature financial system, which is gradually contributing to a more stable and predictable business environment in China. The survey results also point to this change as more respondents view the regulatory impact to be unchanged or relaxed.
This is the nineteenth edition of SEB's China Financial Index, a unique semi-annual survey. The purpose is to mirror changes in expectations among Nordic and German companies in China, in order to facilitate understanding of economic and financial development in the country. The survey was carried out between 2 March and 22 March 2018 and includes a total of 14 questions related to the business climate, investment plans, recruitment plans and views on currencies. An index level over 50 signals overall positive sentiment. Download the full report here: www.sebgroup.com\press.

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