



## European companies' views on China increasingly positive

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- The latest SEB Financial Index stands at 62.2, up from 61.9 in September 2017 and 61.6 one year ago.
- Increased optimism and confidence in the Chinese economy, supported by stronger CNY against USD
- Companies are expecting strong growth in order intake, however, fewer companies are expecting higher profits
- More respondents believe that the regulatory impact is unchanged or relaxed

[Niina Äikäs](#)  
General Manager  
[Laura Lavikainen](#)  
Business Analyst  
SEB Shanghai  
+86 21 2052 1888

### GREATER MARKET CONFIDENCE

The firms that participated in SEB's survey have adopted a more positive outlook for business in China: according to the survey that was conducted in March, SEB's China Financial Index is at 62.2 compared to last October's 61.9. Global growth combined with the Chinese government's reforms has resulted in a brighter business climate in China. The tightened regulations to curb the country's evolving shadow banking and actions to limit credit growth have begun to tackle the economy's indebtedness and have consequently boosted confidence in China's capability to mitigate the risk of a major market crisis.

China is making an active effort to improve regulation of its still immature financial system, which is gradually contributing to a more stable and predictable business environment in China. Companies' investment appetite in China supports the positive view of the market: half of the survey respondents report new investment plans, while the surveyed companies do not report to be divesting or reducing staff.

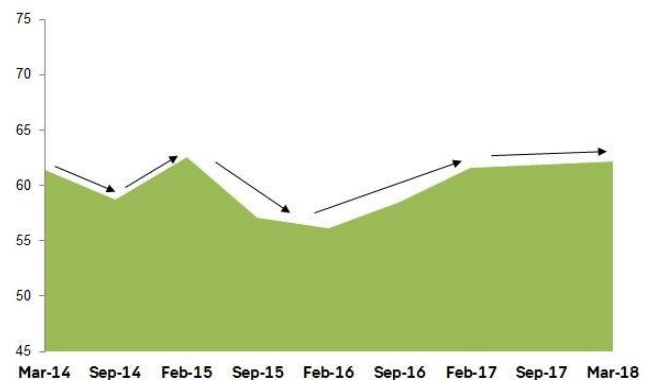
### RISE IN VOLUMES BUT WEAKENING PROFITABILITY

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. Also, the sales figures from the second half of 2017 are strong. Only a fifth of

companies have not been able to grow sales from one year ago. Even

though China has changed to emphasise quality over quantity to make its economy healthier, the country's growth rate is still high when compared globally. Last year the Chinese economy was reported to have 6.9% annual growth, which was mainly driven by continued growth in domestic consumption and a rising middle class. SEB has projected China's GDP to grow 6.6% this year and 6.2% in 2019.

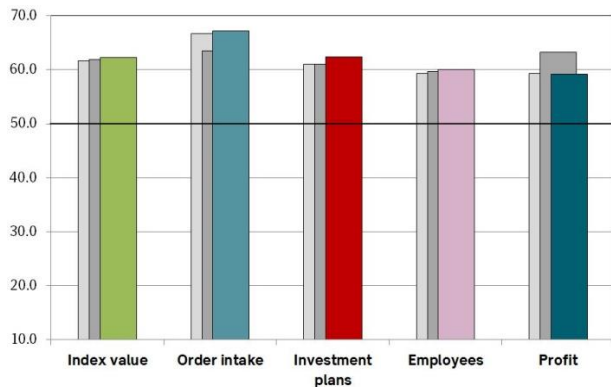
Historical development for SEB's China Financial Index



Despite of the strong growth potential in volumes, companies' profit 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 were expecting 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.

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.



China Financial Index, March 2018

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

**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 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,” comments 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.

**OUR CONCLUSIONS**

There is no major change in the business sentiment, and companies have become slightly more positive about China. There has been a small increase in companies’ investment activity compared to the last survey, signalling the boosted confidence that China’s economy is maintaining its growth.

**Global GDP growth and SEB predictions**

Global GDP growth				
Year-on-year percentage change				
	2016	2017	2018	2019
<b>United States</b>	1.5	2.3	2.8	2.5
<b>Japan</b>	0.9	1.5	1.2	1.0
<b>Germany</b>	1.9	2.2	2.5	2.2
<b>China</b>	6.7	6.9	6.6	6.2
<b>India</b>	7.9	6.6	7.5	7.8
<b>United Kingdom</b>	1.9	1.8	1.4	1.1
<b>Euro zone</b>	1.8	2.3	2.5	2.2
<b>Nordic Countries</b>	2.2	2.4	2.4	2.3
<b>Baltic Countries</b>	2.2	4.2	3.5	3.2
<b>OECD</b>	1.8	2.4	2.5	2.2
<b>Emerging markets</b>	4.3	5.0	5.2	5.1
<b>World, PPP</b>	3.2	3.9	4.0	3.9

Source: OECD, IMF, SEB \*Purchasing power parities

**INFORMATION ABOUT THE SURVEY**

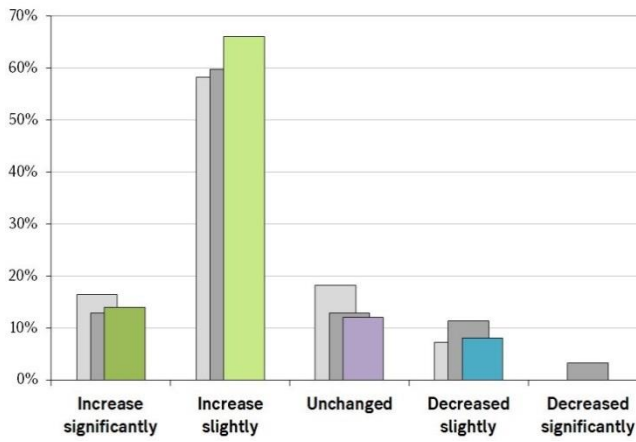
SEB’s China Financial Index was first launched in 2007 and is based on input in this edition from CEOs and CFOs at 50 subsidiaries of major Swedish, Finnish, Norwegian, German and Swiss companies. Most of the surveyed companies have a global turnover of more than EUR 500m. The survey is web-based and confidential, and was carried out from 2 March to 22 March 2018.

**CHINA FINANCIAL INDEX – COMPOSITION**

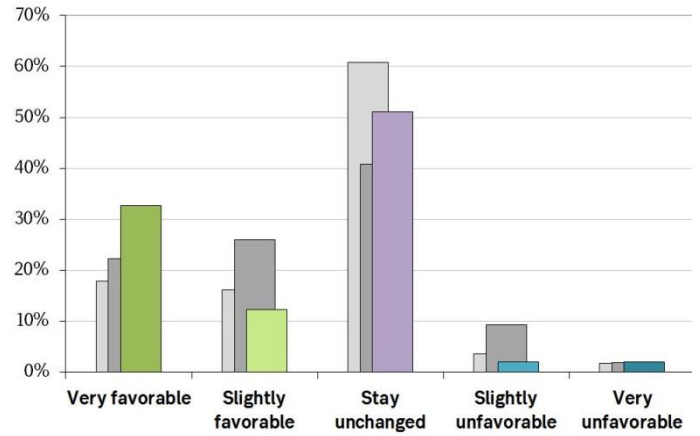
SEB’s China Financial Index in March displayed a value of 61.6, indicating an optimistic increase in the business environment compared to previous surveys in September and one year ago.

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.

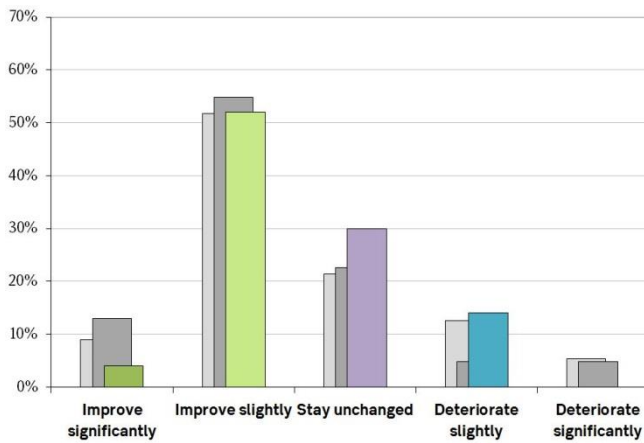
### 1A. ORDER INTAKE/SALES



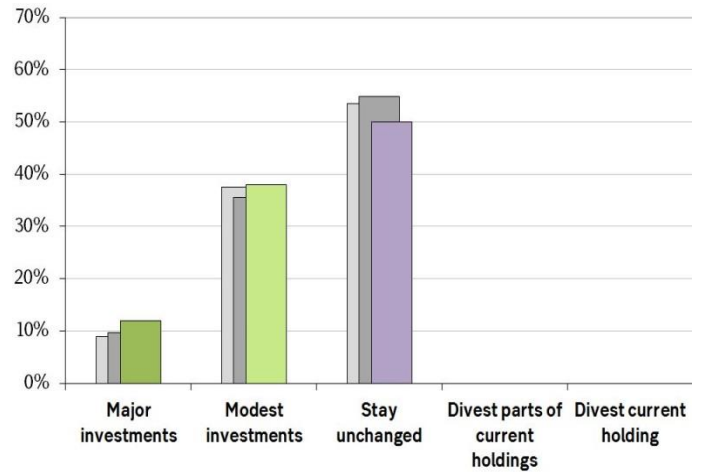
### 4. LENDING ATTITUDE



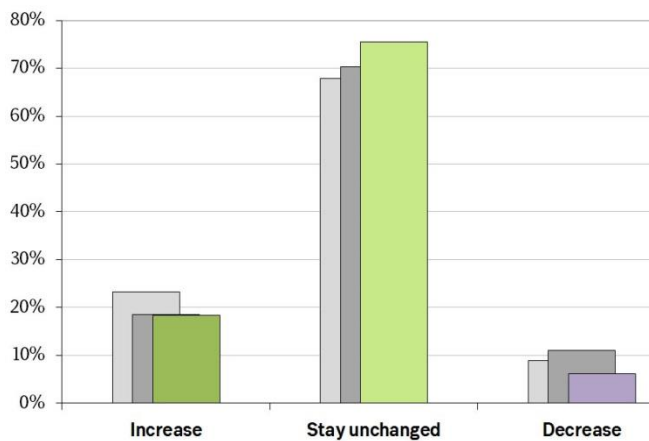
### 2. PROFIT EXPECTATIONS



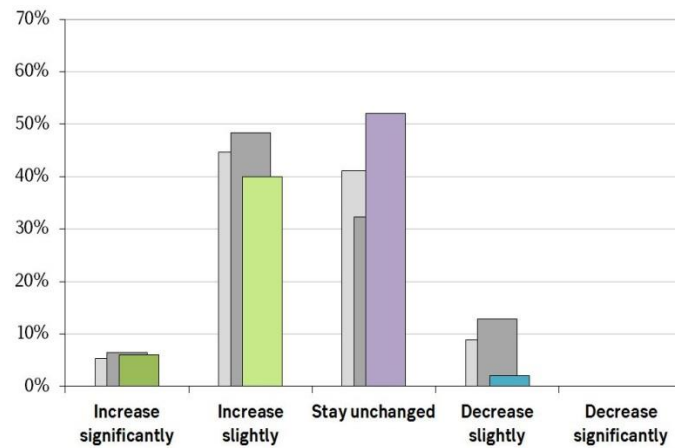
### 5. INVESTMENT/ACQUISITION PLANS



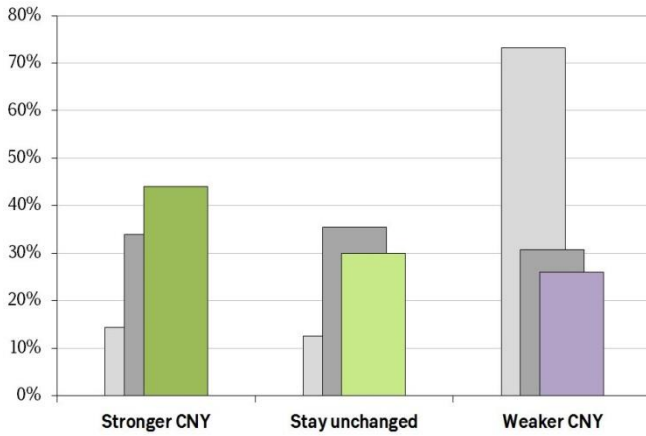
### 3. FUNDING NEEDS



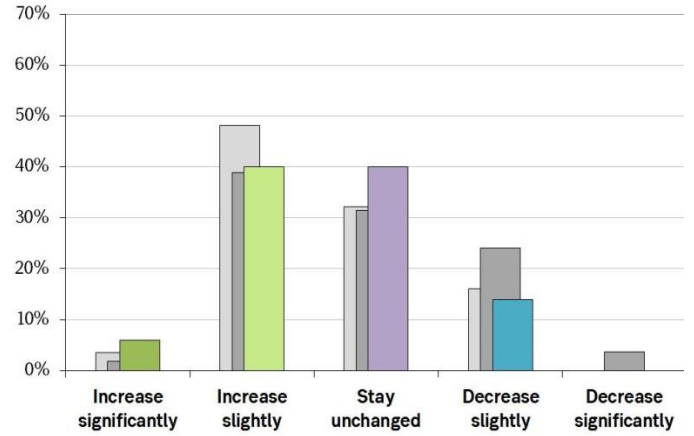
### 6. NUMBER OF EMPLOYEES



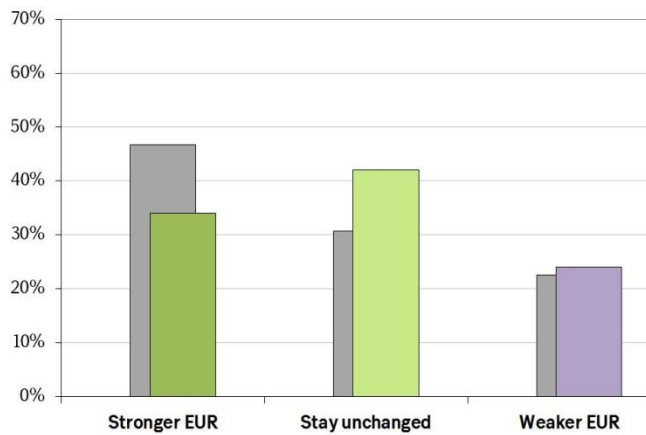
7A. CNY/USD EXPECTATIONS



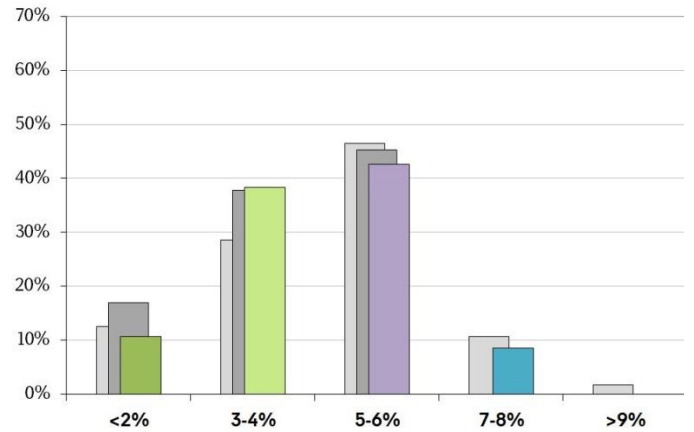
9. INVENTORY EXPECTATIONS



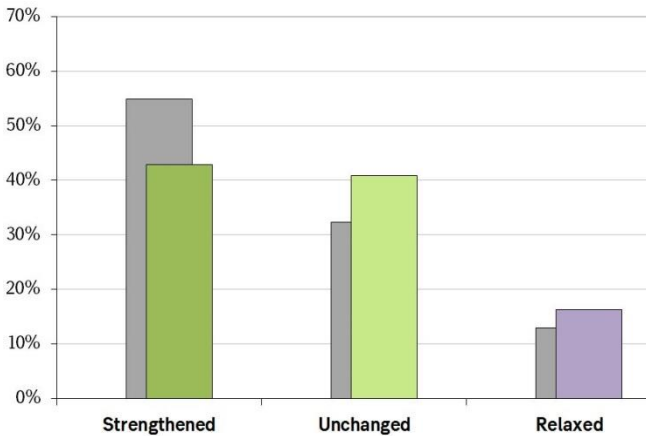
7B. CNY/RMB EXPECTATIONS



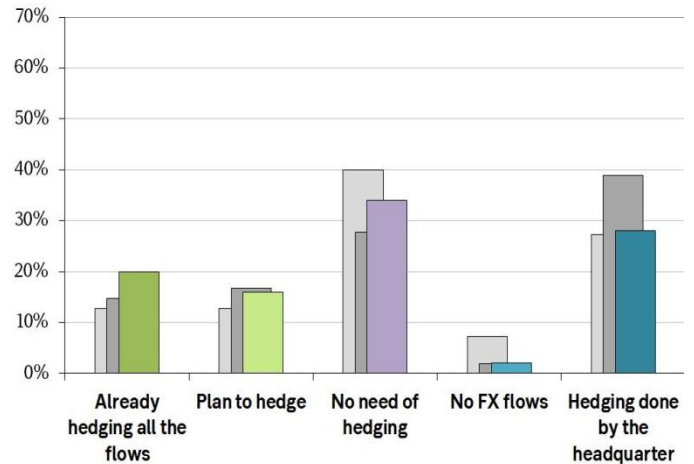
10. AVERAGE SALARY INCREASE



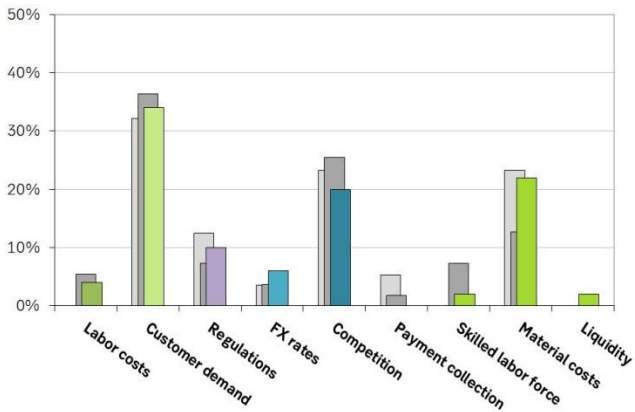
8. IMPACT OF REGULATION



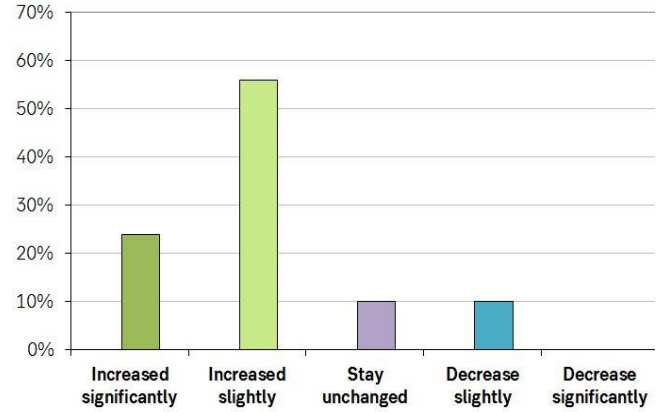
11. HEDGING STRATEGY



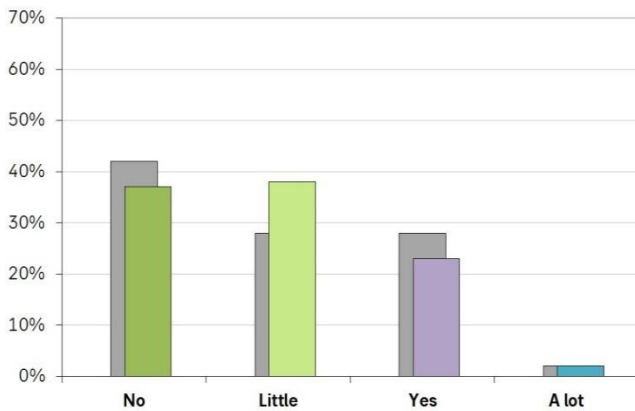
12. MAIN CONCERNS



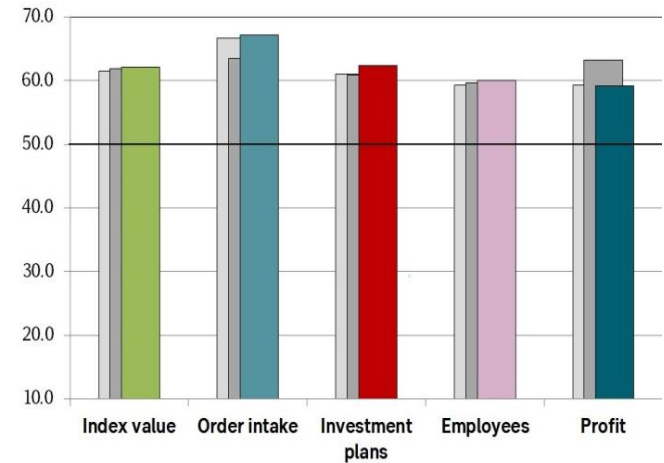
14. ACTUAL SALES



13. THE IMPACT OF RECENT REGULATORY CHANGES ON LIQUIDITY MANAGEMENT



15. MAIN INDEX



\*Source: SEB Shanghai. Grey stacks indicate companies' answers in the last two surveys, in March 2017 and September 2017

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