

Special edition - Summer 2019

SEB China Financial Index



Trade conflict impact and medium term outlook

11 July 2019

Following the positive talks between Beijing and Washington during the course of spring, President Trump took to Twitter on May 5th announcing that he would raise tariffs on USD 200bn worth of Chinese goods. This tweet sent the Chinese Yuan out on a depreciation path losing all of the gains it had in the year's first four months and made a positive outcome of the trade talks seem less likely in the short term.

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After this period of uncertainty, SEB in Shanghai decided to send out a short-form survey to the corporate clients following the G20 Summit in Osaka (June 28-29) to get the latest status on how the market thinks and experiences the business climate in China.

A POSITIVE START TO THE YEAR - THEN WHAT?

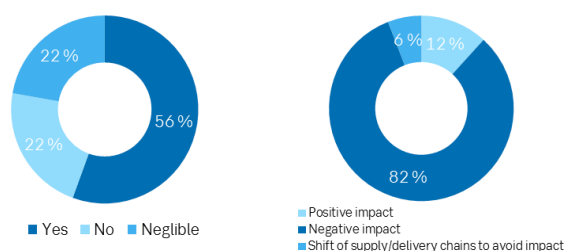
Over the last couple of years, SEB's corporate client base has experienced a strong performance in the Chinese market and generally reported increased sales. As the trade talks had loomed, optimism fell somewhat back; however, we see from this survey that only 15 % of the respondents report of negative year-over-year sales growth once we hit the first half mark of 2019.

When we look at the short-term expectation of profit on the other hand, we see a less positive development. Close to 50% of the respondents still expect growth in profit: however, there is a significant increase in corporates expecting their profit to decrease over the next six months compared to survey numbers from April this year.

CORPORATES ARE AFFECTED

We asked our clients explicitly whether they had been affected by the trade conflict and 56% responded that they have been impacted by it, while 22% have noticed only a negligible impact.

HAVE YOU BEEN IMPACTED BY THE TRADE WAR AND IN WHAT WAY?



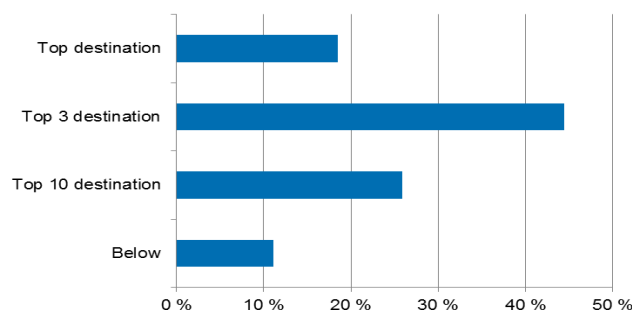
Out of the 56% that reports to have been effected, 82% reports of a negative impact. This could also support the less optimistic view on profit development in the coming months.

CHINA AS AN INVESTMENT DESTINATION

Trade conflict nonetheless, China remains an important market – and a market of untapped growth potential. With a targeted GDP growth in the range of 6 –6.5% annually, this is equivalent to the size of the Australian economy in nominal levels. While historically a production location, the Chinese market is gradually becoming more developed. Team Sweden¹ recently published their bi-annual Business Climate Survey², where 89% of respondents list “Access to the local market” as the main reason for setting up operations in China. In 2013, the same reason only accounted for 42% of the responses.

Investments have always been on the agenda in our normal China Financial Index and we asked our clients about where China would fall as a prioritized investment destination within their company. In total 63% of replies fall within either the “Top 3” or “Top” category – 19% replying that China holds the number one position.

ON A GLOBAL SCALE, WHERE DOES CHINA RANK AS A DESTINATION FOR PRESENT AND FUTURE INVESTMENTS FOR YOUR COMPANY?



¹ Embassy of Sweden in Beijing, Consulate General of Sweden in Shanghai, Business Sweden and SwedCham China

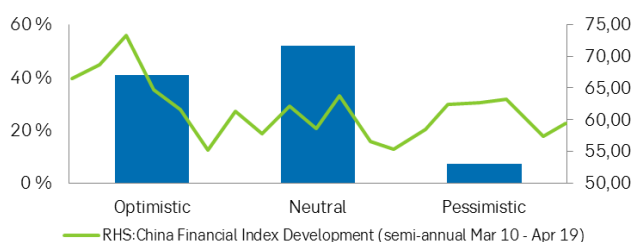
² <https://www.swedcham.cn/wp-content/uploads/2019/06/2019-06-13-China-BCS-report-2019-FINAL.pdf>

These findings are also similar to the ones gathered by the European Chamber of Commerce in China (“EUCCC”) in their Business Confidence Survey³ published in May this year.

MEDIUM-TERM OUTLOOK

So, how do corporates see the business outlook for their sector over the coming two years? Very few are pessimistic; in fact, 93% of the respondents are either optimistic or at best neutral in the view of future business opportunities in China.

HOW WOULD YOU DESCRIBE THE BUSINESS OUTLOOK FOR YOUR SECTOR IN CHINA OVER THE NEXT TWO YEARS?



Looking back since March 2010, the SEB China Financial Index has not dropped below 50, which indicates a *neutral view* on the outlook for doing business and it looks like corporates are continuing the (slight) optimism.

OUR CONCLUSIONS

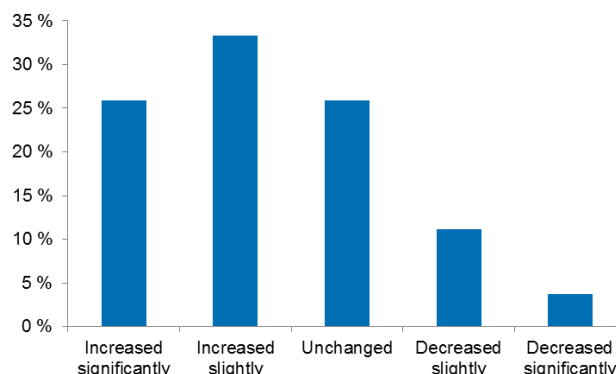
While Beijing and Washington have been imposing tariffs and both sharpened and relaxed their language over the last year, the corporates within our client base seem to have enjoyed a rather good 2018 and 2019 so far. The trade conflict has impacted the Northern European corporates asked in this survey and mostly on the negative side. That being said, there is still a neutral to positive medium-term view on the business outlook in China.

INFORMATION ABOUT THE SURVEY

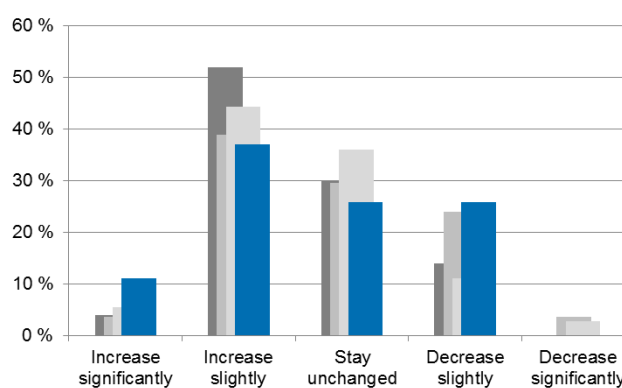
SEB’s China Financial Index was first launched in 2007 and this short-form edition is based on input from CEOs and CFOs at around 30 subsidiaries of major Swedish, Finnish, Norwegian, German, British and Swiss companies. Most of the surveyed companies have a global turnover of more than EUR 500m. The survey is web-based and confidential, and was carried out from July 1 to July 10, 2019.

SURVEY DATA

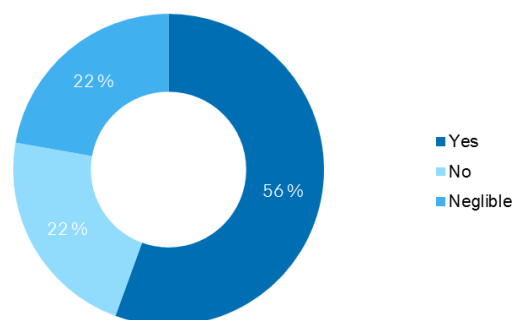
1 – SALES DEVELOPMENT (1H19 VS 1H18)



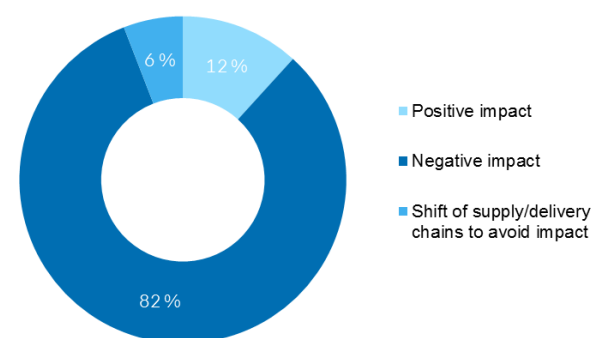
2 – PROFIT EXPECTATIONS*



3 – IMPACTED BY TRADE CONFLICT?



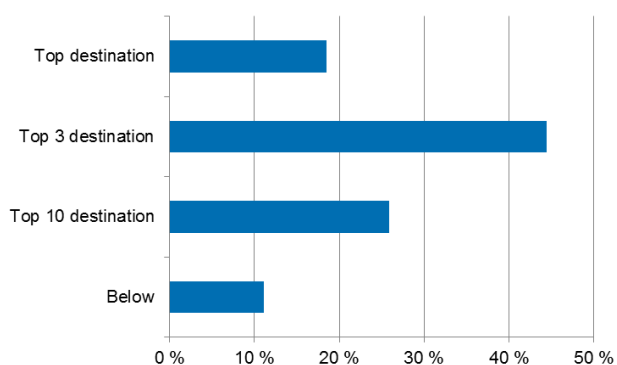
4 – WAY OF TRADE CONFLICT IMPACT



Graphs continue on next page

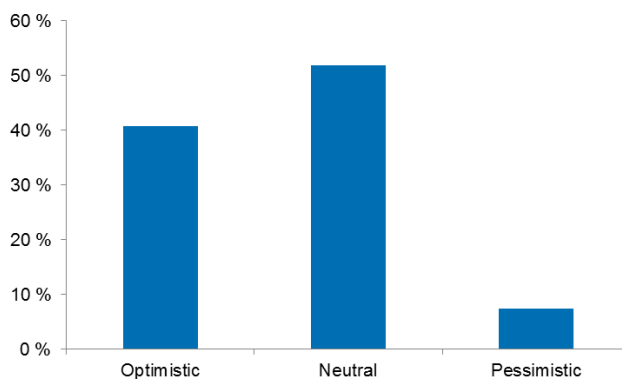
³ <https://www.europeanchamber.com.cn/en/publications-business-confidence-survey>

5 – CHINA AS INVESTMENT DESTINATION



Source: SEB Shanghai. * Grey stacks indicate companies' answers in the last three regular surveys, April 2019, November 2018 and April 2018

6 – BUSINESS OUTLOOK OVER NEXT TWO YEARS



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