China Equity Strategy

Do FX losses warrant concern?

Equity Strategy

China

Lei Meng
Strategist
lei.meng@ubs.com
+86-21-3866 8939

James Wang
Strategist
james-zb.wang@ubs.com
+852-3712 2557

Tommy Tang, CFA
Strategist
tommy.tang@ubs.com
+852-2971 8357

Robin Xu
Analyst
S1460511010012
bin.xu@ubs.com
+86-21-3866 8872

FX losses amounted to 5.5% of A-share non financials' net profit in H126

On 21 September 2026, USD/CNY once dipped below 6.7. Since the cyclical low on 9 April 2025, the CNY is up c9.5% against the USD, but China's exports remained robust with USD-denominated exports up 19% YoY in 8M26. A stronger CNY reduces the Rmb value of foreign-currency revenues, creating FX losses for exporters with Rmb denominated costs. In H126, FX losses for non-financial A-shares reached Rmb107bn, equivalent to -5.5% of aggregate net profit—well above the -0.4% average in 2015-25 (Figure 2). At the sector level, industries with high overseas revenue exposure broadly overlapped with those facing the largest FX-related earnings headwinds in H126 (Figure 5).

Why are FX losses unusually high relative to net profit this year?

We identify two main drivers of the sharp rise in FX losses among non-financial A-shares in H126. First, overseas exposure has increased, while overseas business remained more profitable: overseas GPM was 2.8ppt above domestic GPM in 2025, and overseas revenue share rose from below 10% in 2010 to 18.7% in 2025. Against this backdrop, significant YTD CNY appreciation has amplified FX losses. Second, A-share companies' FX hedging remains limited and their risk-management frameworks relatively underdeveloped. According to data from the State Administration of Foreign Exchange (SAFE), Chinese corporates' FX hedging ratio was 30% in 2025, leaving room for improvement. In comparison, a 2021 RIETI survey found that c80% of listed Japanese manufacturers used FX hedging instruments.

FX loss impact on the market and Chinese companies' going global

FX gains/losses do not materially affect the intrinsic value of a company's core business, and their long-term earnings impact on non-financial A-shares as a whole remains limited. Industry analysts should therefore focus less on current period net profit and more on whether currency moves affect product competitiveness, gross margins, overseas market share, and other operating metrics. From a strategy perspective, however, a high FX loss-to-earnings ratio can weigh on near-term sentiment. If CNY appreciation persists and overseas revenue exposure continues to rise, FX losses could become a more sustained earnings headwind. A-share companies—particularly those expanding overseas—may therefore need to strengthen FX hedging.

This report has been prepared by UBS Securities Asia Limited. **ANALYST CERTIFICATION AND REQUIRED DISCLOSURES, INCLUDING INFORMATION ON THE QUANTITATIVE RESEARCH REVIEW PUBLISHED BY UBS, BEGIN ON PAGE 10.**

Since reaching a cyclical low on 9 April 2025, the CNY has appreciated c9.5% against the USD. Despite the sustained appreciation, China's external trade performance has remained robust. Supported by strong exports of technology products, automobiles and related products, and electrical equipment, China's exports measured in USD grew 19% YoY in 8M26. However, while China's aggregate exports have continued to grow rapidly, many corporates have experienced FX-related losses. Market participants generally believe that companies with high export exposure are more sensitive to FX movements than those with overseas manufacturing footprints. Because such companies incur most of their costs in CNY but earn the majority of revenues in foreign currencies, a stronger RMB converts foreign-currency earnings into less yuan and compressing margins, resulting in FX losses.

Figure 1: China's exports have remained resilient YTD in 2026 despite continued CNY appreciation



Source: Wind, UBS-S

Definition of FX gains/losses

FX gains/losses arise from exchange-rate fluctuations affecting foreign-currency-denominated transactions, assets and liabilities during settlement or translation. The main sources include foreign currency receivables and payables, borrowings, deposits and the translation of overseas operations' financial statements.

Chapter 3, Article 9 of the Accounting Standard for Business Enterprises No. 19 - Foreign Currency Translation (2006) (link) stipulates that enterprises should translate foreign currency transactions into their functional currency for accounting purposes.

Chapter 4, Article 12(2) states that revenues and expenses in the income statement should be translated using the spot exchange rate on the transaction date, or an appropriate approximation thereof. Exchange differences arising from foreign currency monetary items due to exchange-rate movements are generally recognised in current period profit and loss.

Chapter 4, Article 12(1) further specifies that when translating foreign currency financial statements, assets and liabilities should be translated at the spot exchange rate on the balance-sheet date, while equity items (other than retained earnings) should be translated at the exchange rates prevailing on the dates on which they arose. Any resulting translation differences should be recorded separately under shareholders' equity.

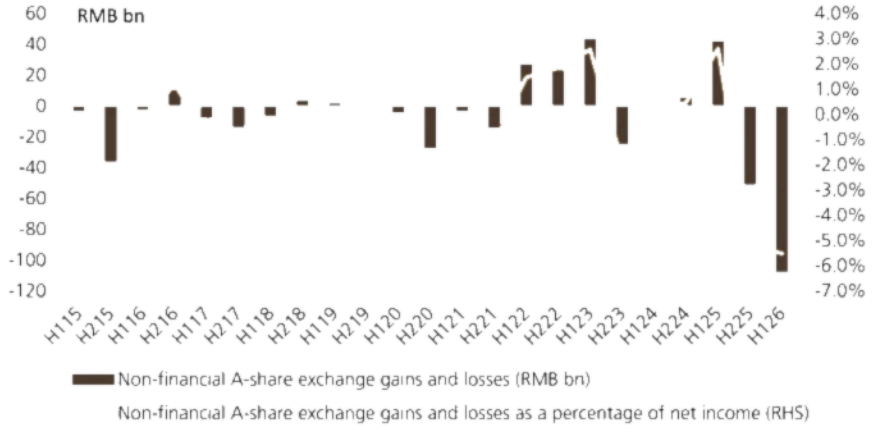
Chapter 4, Article 14 stipulates that when an overseas operation is disposed of, the cumulative foreign currency translation differences attributable to that operation that were previously recognised in shareholders' equity must be transferred from equity to profit or loss in the period of disposal. For a partial disposal, the proportionate share of such cumulative translation differences shall be transferred to profit or loss based on the

portion disposed of.

FX losses represented 5.5% of A-share non financials' net profit in H126

The continued appreciation of the CNY since H225 has coincided with a sharp increase in FX losses for non-financial companies. In H126, such losses aggregated Rmb107bn for all non-financial A-share companies, the highest since 2015, while rising sharply to -5.5% of their total net profit, the largest absolute ratio since 2016. Compared with the 2015-25 average of just -0.4%, the -5.5% figure represents a meaningful and difficult to ignore drag on overall net profit.

Figure 2: FX gains/losses as percentage of net profit for non-financial A-shares since 2015



Source: Wind, UBS-S. Note: Positive values = FX gains; negative values = FX losses

Why have FX losses been high in percentage terms this year?

Behind the steep rise in FX losses for the non-financial A-share sectors in H126, we identify two key factors: 1) the CNY has appreciated significantly this year against a backdrop of a continued rise in the sectors' overseas revenue contributions; and 2) A-share companies have a low FX hedging ratio, and listed companies' FX risk-management systems remain relatively underdeveloped.

With overseas revenue exposure continuing to rise, significant CNY appreciation has resulted in FX losses

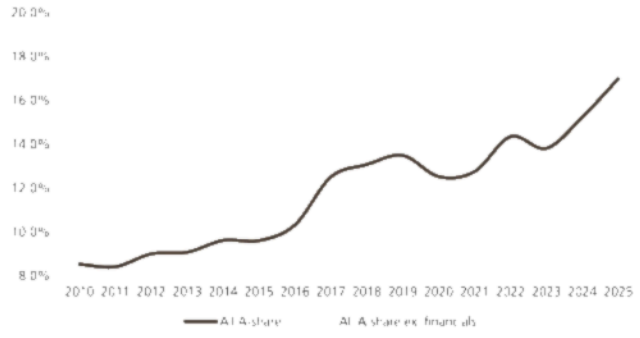
In 8M26, China's exports in USD terms increased 19% YoY, mainly driven by technology products, automobile-related products and power equipment, and supported by China's technological upgrading and stronger supply-chain advantages. We expect Chinese companies' continued R&D investment step-up to give a further boost to product competitiveness while underpinning solid export growth.

Alongside the robust exports, Chinese companies have also been actively building plants and making investments overseas. In H126, A-share technology companies posted particularly resilient investment in ASEAN and Latin America. Specifically, investment in ASEAN's electronic-components sector jumped 90% YoY in H126; in Latin America, the number of investment projects edged up to eight in H126 from six in H125, primarily reflecting momentum in Brazil. Meanwhile, new investments in the healthcare and basic-materials sectors increased from a year prior.

We note that overseas revenue contributions for all A-share companies have continued to expand in recent years. In 2025, such contributions for non-financial A-shares rose to 18.7%, nearly doubling the 9.5% in 2010. Encouraged by generally higher margins at their overseas businesses, A-share companies are increasingly willing to export and expand abroad, thereby driving higher overseas business contributions. The UBS-S China team expects overseas revenue to account for 25% of total A-share revenue in 2030E.

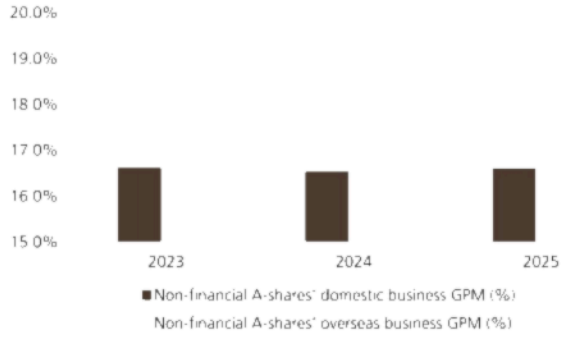
By gathering data from all non-financial A-share companies that disclose overseas operations and comparing their domestic and overseas GPMs across years, we note that their overseas business GPMs have been consistently higher than domestic business GPMs, with the difference widening to 2.8ppt in 2025 from 2.2ppt in 2024.

Figure 3: Overseas revenue contributions for all A-shares continue to rise



Source: Wind, UBS-S estimates. Note: The CSRC does not mandate disclosure of overseas revenue. In 2025, 3,858 A-share companies disclosed their overseas revenue, while 1,666 did not

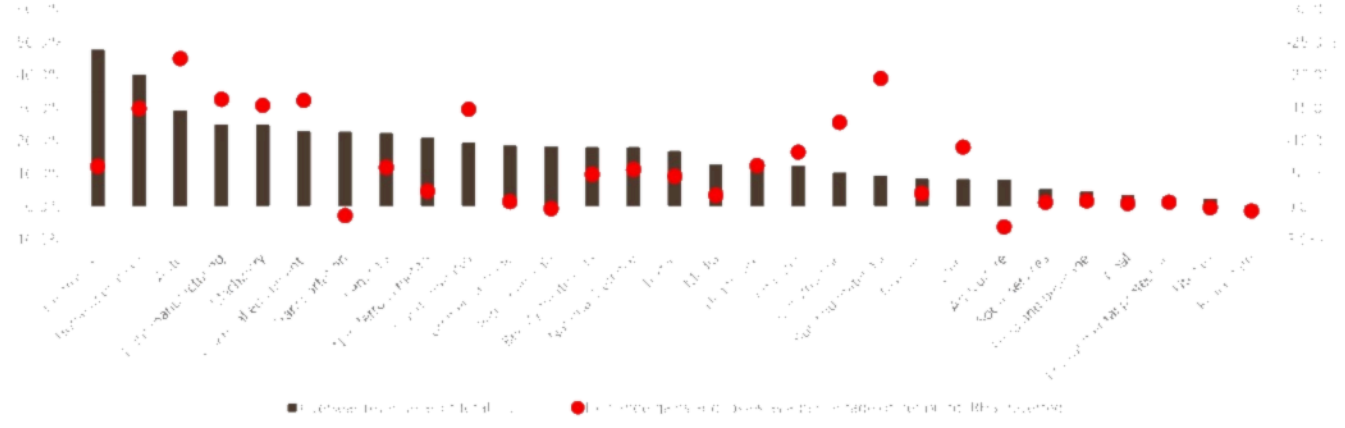
Figure 4: Domestic vs. overseas GPM for non-financial A-shares that disclosed overseas revenue



Source: Wind, UBS-S estimates. Note: Data aggregated from non-financial A-share companies reporting overseas revenue. The top five business segments were included. Total reporting companies: 3,689 in 2023, 3,745 in 2024 and 3,818 in 2025

By ranking the non-financial sectors of the A-share market by 2025 overseas revenue contribution in a highest to lowest order, we note a substantial overlap between sectors with high overseas revenue contributions and industries most impacted by FX losses in H126. Specifically, FX losses as a share of net profit for H126 exceeded 14% in each of the automobile, building material, light manufacturing, electrical equipment, machinery, household appliance and conglomerate sectors, with the percentage reaching 22.5% for automobiles.

Figure 5: Overseas revenue contributions for non-financial A-share sectors (2025)



Source: Wind, UBS-S. Note: Positive values = FX gains; negative values = FX losses

Figure 6: FX gains/losses as a percentage of net profit by sector – H125 vs. H225 vs. H126

	H125	H225	H126
Real estate	0.4%	-0.1%	0.6%
Commercial trade	4.9%	1.0%	-0.8%
Machinery	5.7%	-13.8%	-15.4%
Electrical equipment	10.6%	-13.3%	-16.1%
Construction	2.5%	-8.7%	-12.8%
Building materials	-0.6%	-201.6%	-19.5%
Home appliances	7.0%	-11.1%	-14.9%
Textile	0.8%	-4.0%	-4.6%
Agriculture	1.1%	-9.0%	3.1%
Electronics	2.1%	-6.5%	-6.2%
Conglomerates	-5.7%	1.7%	-14.8%
Utilities	0.0%	0.3%	0.1%
Healthcare	0.6%	-8.9%	-6.3%
Auto	16.8%	-6.7%	-22.5%
Computer	10.2%	-5.8%	-8.3%
Environmental protection	-0.2%	-1.3%	-0.7%
Petrochemicals	-0.5%	-1.3%	0.3%
Non-ferrous metals	0.9%	-0.9%	-2.4%
Telecom	0.5%	-1.7%	-2.0%
Transportation	0.5%	1.1%	1.3%
Media	-0.3%	-2.6%	-1.8%
Chemicals	2.7%	-7.1%	-6.0%
Social services	0.3%	-0.4%	-0.7%
Light manufacturing	5.3%	-43.2%	-16.3%
National Defence	0.7%	-2.8%	-5.6%
Food and beverage	0.0%	-0.7%	-0.9%
Coal	-0.6%	-0.3%	-0.5%
Beauty treatments	0.0%	-5.0%	-4.9%
Steel	1.1%	-10.7%	-9.1%

Source: Wind, UBS-S. Note: Positive values = FX gains; negative values = FX losses

In 2025, 20 of the 31 first-level industries reported higher GPMs for their overseas businesses than for their domestic operations, with a >7ppt difference for the media, pharmaceutical & biotechnology, machinery, computer, non-ferrous metal, communications and electronics industries.

Figure 7: A-share companies' domestic GM vs. overseas GM (by sector)

	Overseas GPM (%)			Domestic GPM (%)		
	2023	2024	2025	2023	2024	2025
Real estate	1.4%	9.2%	10.1%	13.6%	12.6%	12.9%
Computer	35.3%	31.1%	35.3%	24.9%	23.0%	24.2%
Commercial trade	12.1%	12.9%	15.0%	14.2%	13.9%	14.4%
Machinery	27.5%	27.6%	28.8%	18.6%	17.7%	17.1%
Electrical equipment	23.0%	22.0%	21.0%	17.7%	14.7%	15.0%
Construction	10.3%	10.0%	9.8%	10.9%	11.0%	10.9%
Building materials	22.7%	5.9%	25.0%	16.0%	18.4%	20.5%
Home appliances	24.0%	23.0%	23.1%	26.9%	25.4%	24.5%
Textile	22.7%	23.4%	22.9%	22.9%	22.6%	24.0%
Agriculture	11.2%	12.2%	13.0%	5.6%	10.9%	10.5%
Electronics	17.3%	17.4%	17.9%	16.0%	11.4%	10.8%
Conglomerates	19.3%	19.0%	19.3%	10.1%	11.0%	14.4%
Utilities	20.3%	20.1%	16.9%	17.4%	18.8%	21.2%
Healthcare	41.1%	43.1%	48.1%	28.9%	29.0%	27.4%
Auto	18.1%	19.7%	19.0%	15.0%	15.1%	14.9%
Environmental protection	25.3%	25.9%	24.1%	25.1%	26.1%	25.6%
Petrochemicals	8.5%	6.3%	7.1%	1.6%	2.7%	2.9%
Non-ferrous metals	14.3%	18.0%	19.8%	9.4%	9.2%	11.4%
Telecom	31.3%	28.4%	32.7%	26.4%	25.7%	24.8%
Transportation	4.8%	4.5%	4.5%	4.7%	5.0%	4.9%
Media	57.1%	53.6%	55.7%	30.4%	29.9%	29.3%
Chemicals	18.1%	17.6%	17.7%	14.7%	14.3%	14.1%
Social services	27.8%	27.1%	25.4%	20.6%	18.9%	21.5%
Light manufacturing	25.7%	25.0%	24.7%	20.3%	19.7%	18.4%
National Defence	17.0%	5.5%	20.1%	20.5%	20.0%	14.1%
Food and beverage	29.2%	29.2%	27.8%	49.4%	51.9%	58.3%
Coal	13.4%	14.6%	25.7%	18.0%	16.1%	19.7%
Beauty treatments	40.2%	38.4%	38.4%	52.9%	55.7%	49.3%
Steel	10.8%	7.7%	10.9%	5.5%	4.3%	6.8%

Source: Wind, UBS-S estimates. Note: Data aggregated from non-financial A-share companies reporting overseas revenue. The top five business segments were included. Total reporting companies: 3,689 in 2023, 3,745 in 2024 and 3,818 in 2025

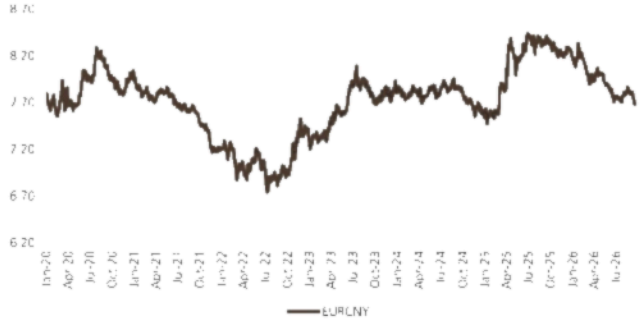
Against the backdrop of steadily rising overseas revenue contribution among non-financial sectors of the A-share market, the CNY has strengthened markedly against the currencies of China's major trading partners YTD, resulting in a higher ratio of FX losses to net profit for the sectors in H126. We note that the CNY has appreciated 4.4ppt against the USD and 6.7ppt against the Euro YTD. Meanwhile, the CFETS RMB Index, which measures the CNY against a basket of currencies, has risen 4.6ppt YTD. For Chinese companies operating overseas, a stronger CNY reduces the value of foreign-currency-denominated revenue when it is converted into CNY, the reporting currency, thereby giving rise to FX losses that adversely affect net profit.

Figure 8: USD-CNY (CFETS)



Source: Wind, UBS-S. Note: Data as of 21 September 2026

Figure 9: EUR-CNY (CFETS)



Source: Wind, UBS-S. Note: Data as of 21 September 2026

Chinese companies' FX risk hedging remains inadequate

This inadequacy is demonstrated by the relatively low FX hedging ratio among Chinese companies. On 15 January 2026, Li Bin, deputy administrator of the State Administration of Foreign Exchange, stated during a State Council Information Office press conference on the effectiveness of monetary and financial policies in supporting the high-quality development of the real economy that FX market turnover reached US $42.6trn in 2025, while the corporate FX hedging ratio rose to 30% (link). Although both figures reached record highs, the hedging ratio still suggests considerable room for improvement.

Looking specifically at the use of FX derivatives as hedging instruments, we note companies in the US and Japan have adopted derivatives to offset currency risk. A study by Allayannis and Weston (2001) of 720 large US non-financial companies in 1990-95 found that 55-64% of companies with foreign sales used FX derivatives (link). Research by Han and Laing (2025) showed that among listed US non-financial companies, those with more developed enterprise risk-management systems are more likely to use FX derivatives for hedging; this relationship is particularly pronounced among companies with a higher degree of multinational operations. A 2021 survey by Japan's Research Institute of Economy, Trade and Industry (RIETI) found that c80% of listed Japanese manufacturing companies used market-based exchange rate hedging instruments such as forwards and options (link). In addition, according to ISDA's 2025 analysis of the annual reports of constituents of major equity indices, 89% of S&P 500 constituents and 90% of Nikkei 225 constituents used derivatives (link).

Should analysts adjust for the impact of FX gains/losses on net profit?

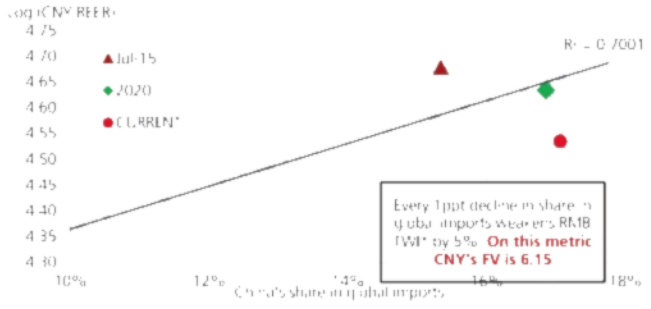
As FX gains/losses essentially have no material impact on the intrinsic value of a company's core business, many industry analysts choose to exclude FX effects from their valuation models from a value investing perspective. In the long run, even if FX gains/losses reduce the net profit of non-financial A-shares, the impact should be limited. Indeed, from 2015 to 2025, FX gains/losses averaged just -0.4% of aggregate net profit. Accordingly, we think industry analysts should look beyond the impact of FX gains/losses on current net profit to assess whether the gains/losses influence underlying operations, including product competitiveness, GPMs and market share, and whether export prices will rise in tandem with FX movements.

From a market-strategy perspective, however, FX gains and losses can still influence investor sentiment when they account for a significant share of overall earnings. In H126, all non-financial A-shares incurred FX losses of Rmb107bn, or 5.5% of total net profit. Over the longer term, investors should focus on whether such losses become a persistent drag on corporate earnings.

The UBS-S China team expects overseas revenue to represent c25% of total A-share revenue by 2030E, suggesting Chinese companies' FX exposure will continue to expand. Meanwhile, according to estimates by UBS's APAC FX research team, the CNY's effective exchange rate is being undervalued by 8%, based on China's share of global exports, with the long-term fair value of CNY-USD estimated at 6.15. During the 2025 Shenzhen Xiangmihu Financial Annual Conference, Huang Qifan, executive vice chairman of the Academic Committee of the China Institute for Innovation & Development Strategy, stated that the CNY could rise gradually from 7.0 to around 6.0 against the USD over the next decade. If the CNY continues to appreciate in the coming years while companies' overseas revenue mix keeps rising, FX losses could emerge as a persistent earnings headwind.

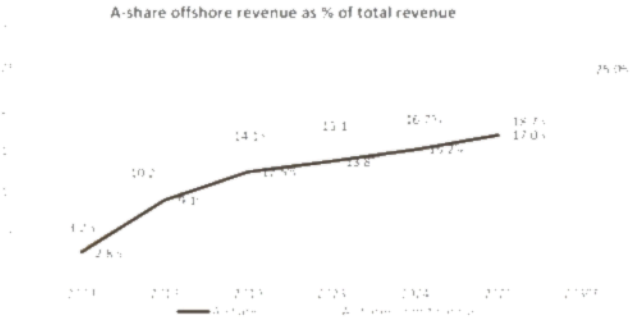
We therefore believe that A-share companies, especially those actively expanding overseas, should attach greater importance to hedging FX risk and taking appropriate measures, which in turn should take their use of FX hedging closer to the levels of developed markets.

Figure 10: CNY's effective exchange rate undervalued by c8%, based on China's share of global exports



Source: Haver, UBS estimates. * TWI=trade-weighted index

Figure 11: UBS-S estimates 25% of A-share revenue will come from overseas by 2030E



Source: Wind, UBS-S estimates

With overseas expansion poised to become a long-term trend for A-shares, Chinese companies – which are facing a strengthening CNY, intensifying global trade frictions, and growing pressures regarding access to the European and US markets – could improve FX risk management and make greater use of financial instruments for hedging, thereby reducing the impact of FX gains/losses on operating performance. They can also move up the value chain by upgrading technologies, building brands and creating higher value-added products, which should enhance product differentiation and strengthen pricing power. Moreover, companies should accelerate their overseas expansion, move closer to customers and end-markets, increase localised production and leverage cost advantages in selected overseas regions to enhance supply-chain resilience, market adaptability and global competitiveness, in our view.

Valuation Method and Risk Statement

For various stocks across the industries we cover in the Hong Kong and mainland China stock markets, we use a variety of valuation approaches, including DCF models, Gordon growth model analysis and relative valuation analysis using various multiples such as PE, EV/EBITDA and P/BV.

We think the risks facing China's equities include a hard landing for the property market, a capital exodus associated with currency depreciation and slow structural reform progress. In our view, any government policies that do not adequately address these risks could result in a shock to the market. For example, an excess of stimulus policies could pose a risk to the transition from an investment-driven to a consumption-driven economy and increase the debt of government and state-owned enterprises.

