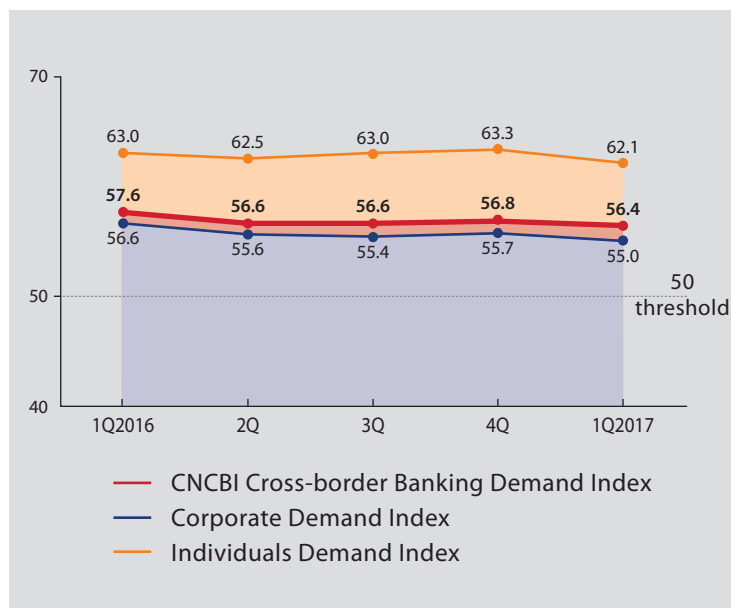


# Cross-border banking demand softens slightly on RMB depreciation

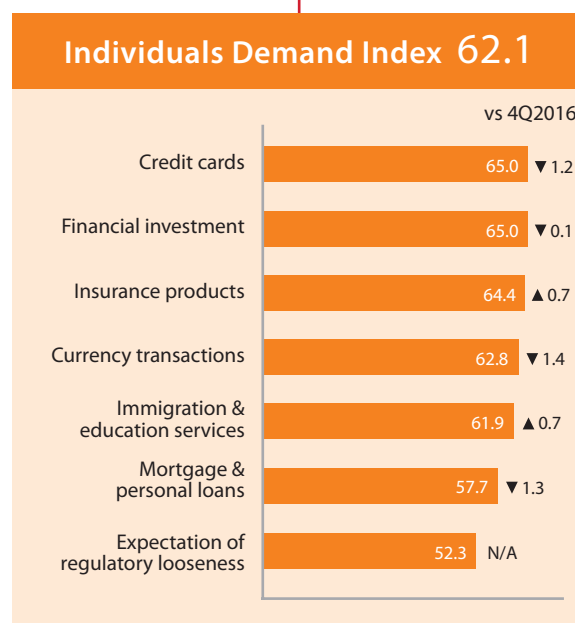
Corporate demand for structured finance slows down significantly

[www.cncbinternational.com/cross-border-index](http://www.cncbinternational.com/cross-border-index)



- 1Q2017 growth of cross-border demand for Hong Kong's banking services softens slightly as Corporate and Individuals Demand Indices both decline modestly
- On corporate demand, factors such as the accelerating RMB depreciation and mainland's sufficient liquidity impact on the demand, with 6 of the sub-indices weakening, more significantly of demand for structured finance whereas demand for currency transaction and trade finance gain strength
- On individuals demand, credit cards, currency transactions and mortgage & personal loans slow down significantly whereas financial investment remains steady while demand for insurance products and immigration & education services rise
- New sub-indices of expectation of regulatory looseness introduced this quarter indicate that laws and regulations are expected to tighten in the aspect of corporate services whereas the same are expected to loosen as regards services for individuals

## CNCBI Cross-border Banking Demand Index 56.4



# 1. Key analysis

- According to 4Q2016 survey results, the 1Q2017 CNCBI Cross-border Banking Demand Index drops 0.4 from last quarter to 56.4. Discounting the effect of the newly introduced expectation of regulatory looseness sub-indices, the index is only 0.2 lower than 4Q2016 at 56.6.
- Corporate Demand Index and Individuals Demand Index stand at 55.0 and 62.1 respectively, behind last quarter's readings by 0.7 and 1.2. Discounting the effect of the new sub-indices, the readings are 55.5 and 63.1, respectively both representing a 0.2 fall from 4Q2016. This signifies in general that cross-border banking demand from both corporations and individuals on the mainland soften at the year's start.

## **Corporate demand for structured finance and relevant services weakens considerably whereas demand for trade finance and currency transactions gains noticeable strength**

- Among the 9 Corporate Demand Sub-indices, 6 of them post a decline. Services such as structured finance and the related asset management & financial consultancy, and settlement & cash management, record relatively bigger declines from last quarter's 54.9, 58.6 and 58.6 to 53.8, 57.4 and 57.3 respectively. Loans, derivative products and bond issuance sub-indices post smaller declines of 0.4, 0.2 and 0.8 respectively. On the other hand, the trade finance and currency transactions sub-indices leap from 53.4 and 57.9 to 55.8 and 58.9 respectively.
- As for the rankings, currency transactions climbs 2 places to the top while trade finance climbs 2 places to the 5th, whereas settlement & cash management falls 2 places to the 3rd and derivative products and structured finance drop 1 place to the 6th and 7th respectively. Meanwhile, asset management & financial consultancy, loans and bond issuance sub-indices stay 2nd, 4th and 8th.
- The softening of 1Q2017 corporate demand for cross-border banking services is attributable to factors such as accelerating RMB devaluation, mainland China's sufficient liquidity, market uncertainties as a result of Donald Trump's US President Election win, and the central government's tightening control over capital outflows. Under the effects of these factors, mainland corporations' intention to seek cross-border banking services decreases although the mainland economy has demonstrated clearly a stabilising trend. In particular, sliding structured finance demand reveals that mainland corporations will be prudent about overseas M&A activities in a situation where control of capital outflows is being tightened. Sampled data shows that 20% of the corporations plan will increase overseas investment while those that plan otherwise has also come to 8%. Correspondingly, asset management & financial consultancy and settlement & cash management demand follows the softening trail. The slower decline of loans, derivative products and bond issuance demand could be a result of the positive support from the stabilising of the mainland economy which shores up the fundamental stability of such demand. As for demand for loans, a high ratio of 66% of the sampled corporations choose RMB as the currency for loans on the back of the expectation on RMB devaluation. Encouragingly, trade finance demand shows a strong rebound owing to the increase in trade between mainland China and Hong Kong. Currency transactions demand also gains steam, as fuelled by corporations' growing intention of RMB exchange against the RMB devaluation backdrop.

## **Individuals' demand for most services softens but demand for insurance products and immigration & education services strengthens against the odds**

- Of the 7 Individuals Demand Sub-indices, credit cards, currency transactions and mortgage & personal loans decline significantly from last quarter's 66.2, 64.2 and 59.0 to 65.0, 62.8 and 57.7

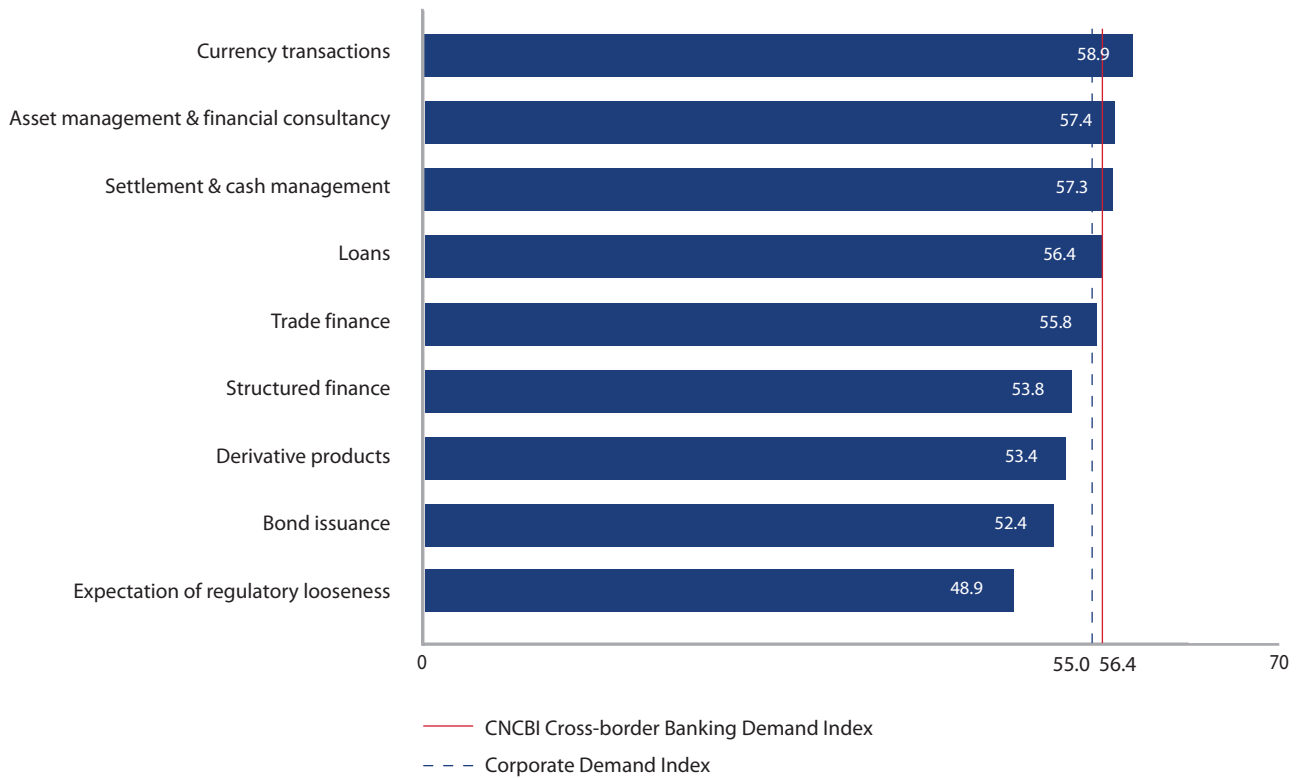
respectively. But the financial investment sub-index drops merely 0.1 to 65.0 while insurance products and immigration & education services rise from 63.7 and 61.2 to 64.4 and 61.9 respectively.

- Regarding the rankings, insurance products overtakes currency transactions and rises from 4th to 3rd as currency transactions drops from 3rd to 4th while credit cards, financial investment, immigration & education services and mortgage & personal loans stay put in the 1st, 2nd, 5th and 6th positions respectively.
- Individuals' demand for financial investment remains steady, indicating that the central government's control over capital outflows has reduced the feasibility of mainland individuals engaging in financial investment in Hong Kong on the one hand, and that the rollout of Shenzhen-Hong Kong Stock Connect has opened up a new formal channel for southbound investment in Hong Kong for mainland individuals on the other. Weakening demand for credit cards to an extent reveals the trend of mainland individuals' decreasing use of money and spending in Hong Kong. Mortgage & personal loans demand further softens and remains 6th in the rankings above the expectation of regulatory looseness sub-index. This has to do with the Hong Kong government's new round of property regulating spicy measures. Individuals' demand for currency transactions weakens and it goes the opposite direction of that from corporations, implying that individuals face more restrictions than corporations on fund shifts to Hong Kong for foreign exchange regardless of expectation on RMB devaluation (34% of the sampled individuals expect RMB to devalue while 18% expect it to appreciate). Growth of insurance products demand is rather surprising. It looks like it may take some time for the impact of China UnionPay's late-October curb on investment-oriented insurance purchases in Hong Kong by mainland individuals to emerge.

## **Corporations expect tightening laws and regulations while individuals feel otherwise**

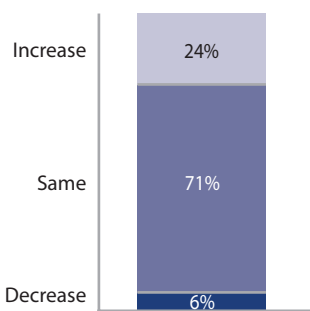
- Starting 1Q2017, the CNCBI Cross-border Banking Demand Index has incorporated a new sub-index "expectation of regulatory looseness" into both the Corporate Demand Index and Individuals Demand Index to reflect mainland corporations and individuals' expectation towards the legal and regulatory environment in relation to cross-border banking services.
- For 1Q2017, this sub-index for corporate stands below the 50 threshold at 48.9 and ranks last, indicating that the sampled corporations expect the laws and regulations in relation to cross-border banking services to be tighter. This reveals a gap between the "going out" pace of corporations and RMB internationalisation, which has yet to close. Also, this is a consequence of the central government's 4Q2016 measures to control corporate capital outflows.
- In contrast, the 1Q2017 sub-index for individuals of expectation of regulatory looseness reaches higher than the 50 threshold at 52.3, which indicates that the sampled individuals expect the laws and regulations in relation to cross-border banking services to loosen in general. Mainland individuals' pace of "going out" is slower than that of corporations. The scale of "going out" is also smaller. As such, mainland individuals face fewer restrictions of related laws and regulations when acquiring cross-border banking services. In 4Q2016, however, tightening measures for the curb of investment insurance products and control of capital outflows have a realistic negative impact on the legal & regulatory environment sub-index, which makes the index post a much lower reading than other sub-indices of individuals' demand. Further to this, 57% of the sampled individuals expect laws and regulations in financial investment to loosen, while 22% and 21% expect immigration & education services and insurance products respectively.

## 2. Corporate demand sub-indices

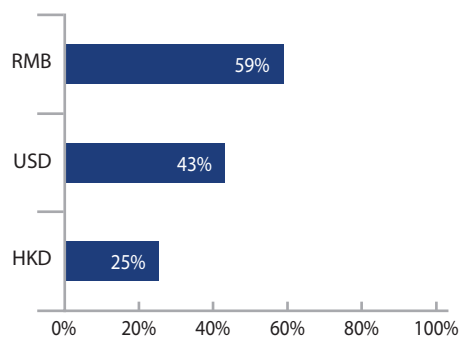


### Currency transactions (58.9)

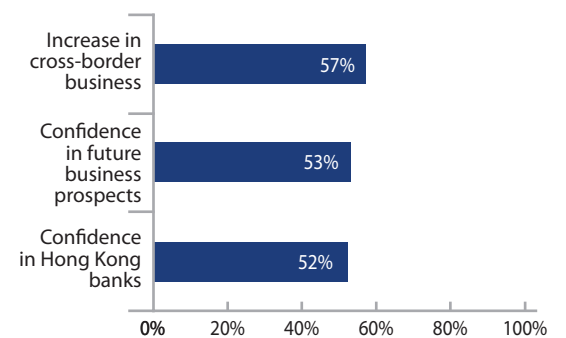
#### Demand expectation



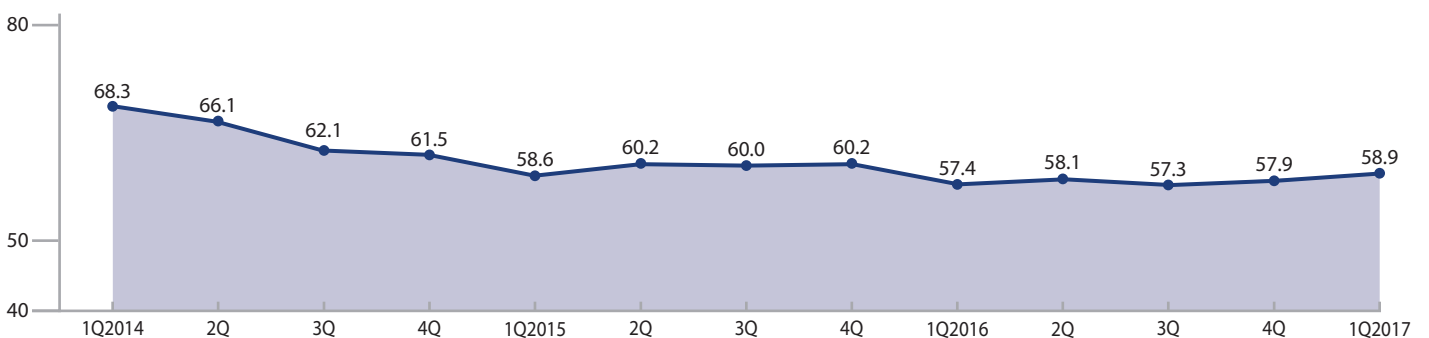
#### Choice of Currency



#### Demand drivers

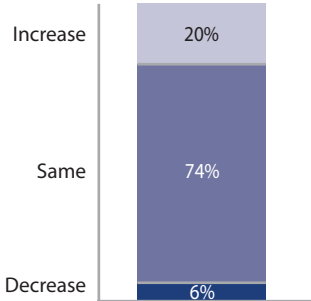


#### Demand trend

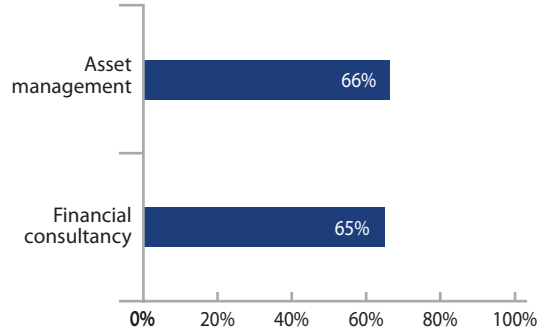


## Asset management & financial consultancy (57.4)

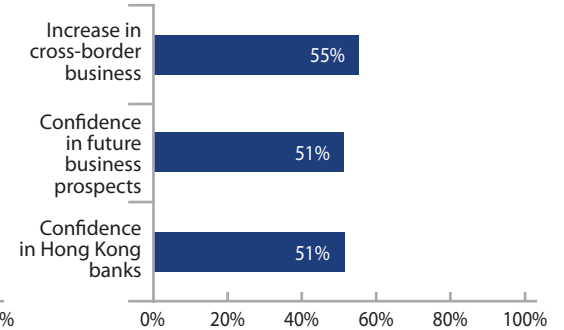
### Demand expectation



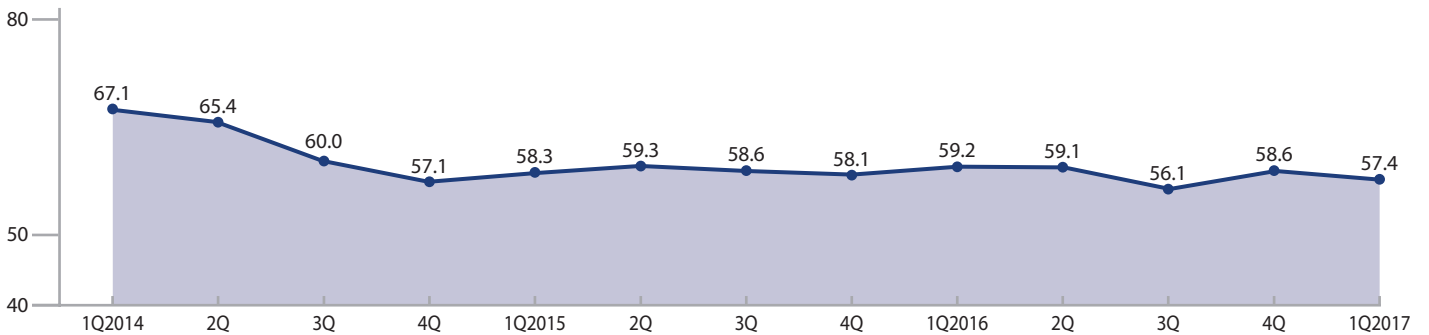
### Choice of products/services



### Demand drivers

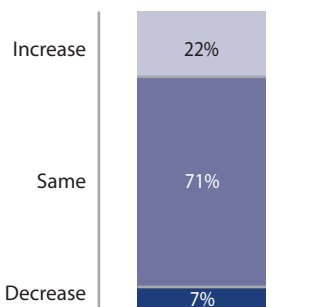


### Demand trend

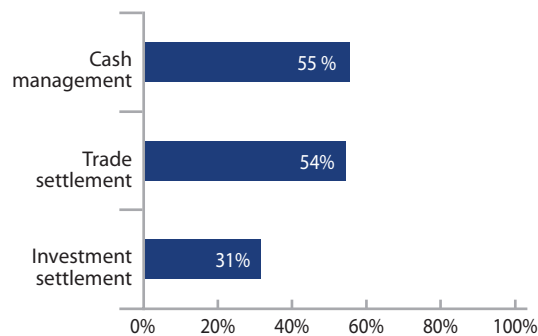


## Settlement & cash management (57.3)

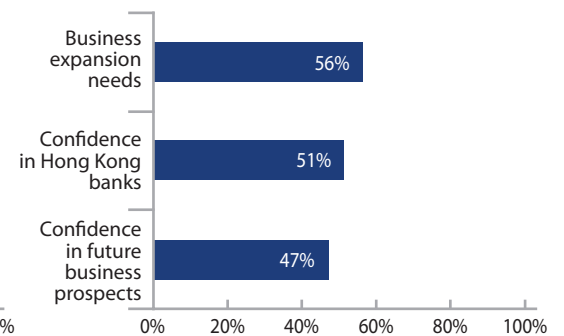
### Demand expectation



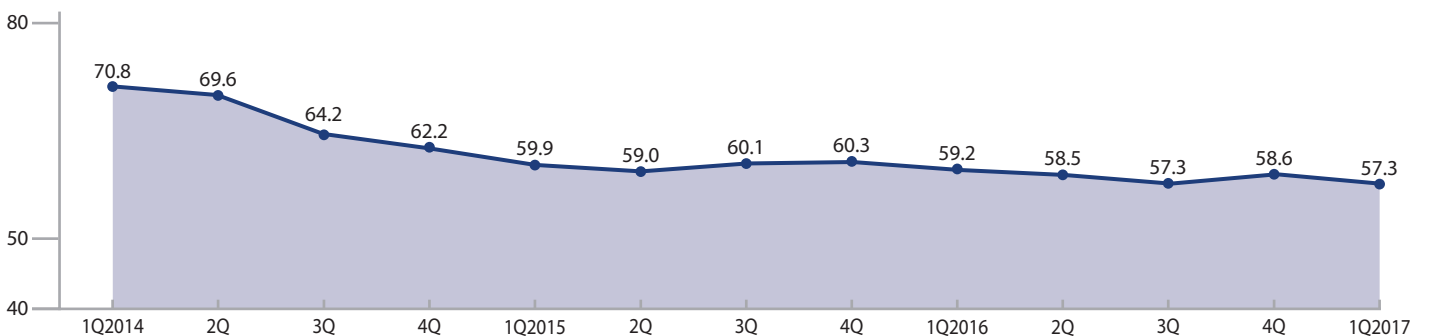
### Choice of products/services



### Demand drivers

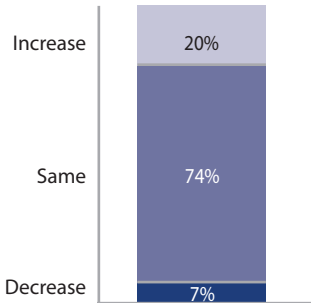


### Demand trend

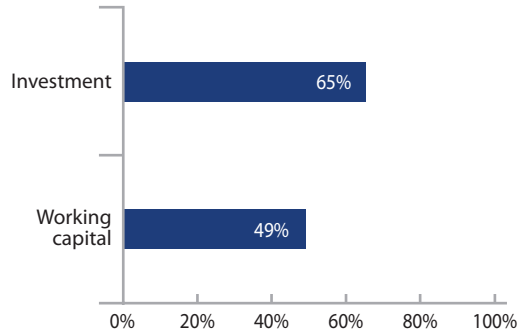


## Loans (56.4)

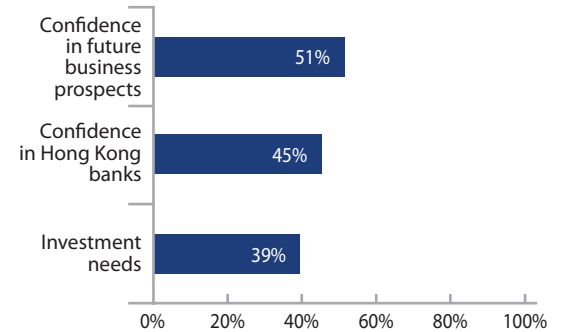
### Demand expectation



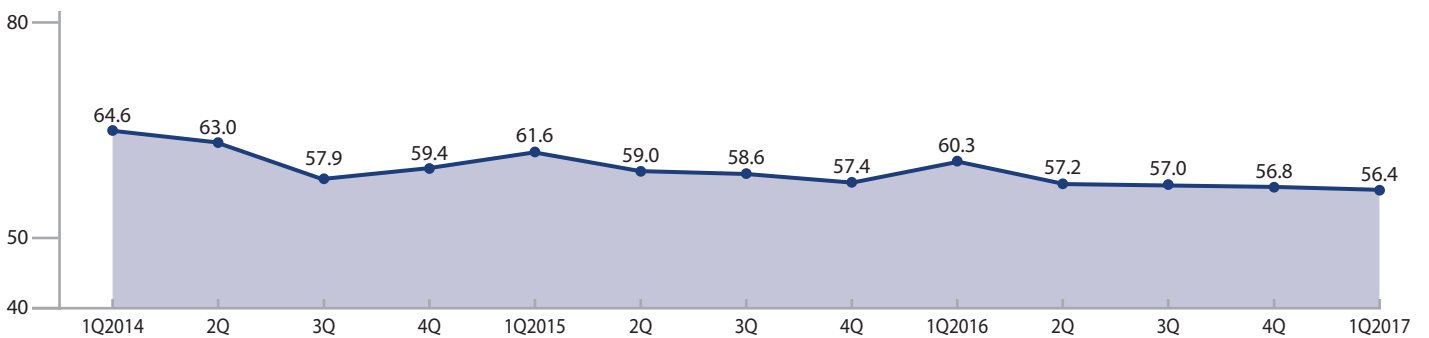
### Choice of products/services



### Demand drivers

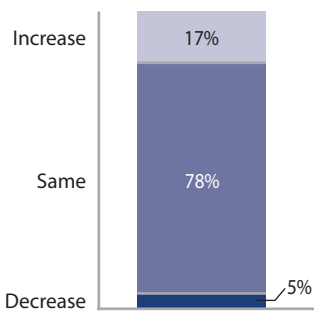


### Demand trend

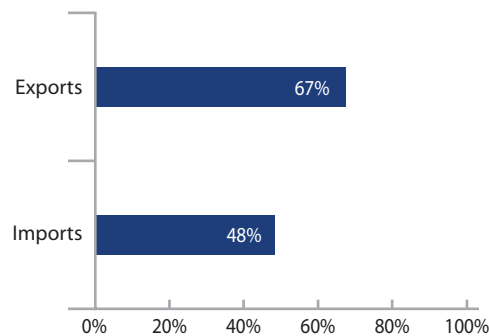


## Trade finance (55.8)

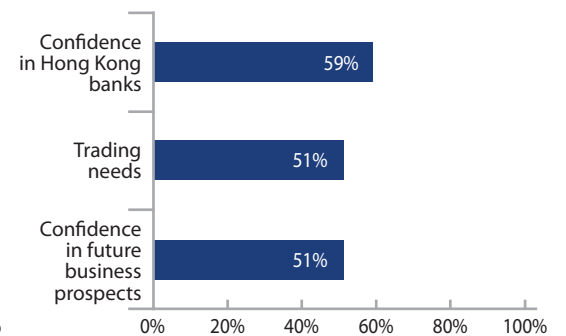
### Demand expectation



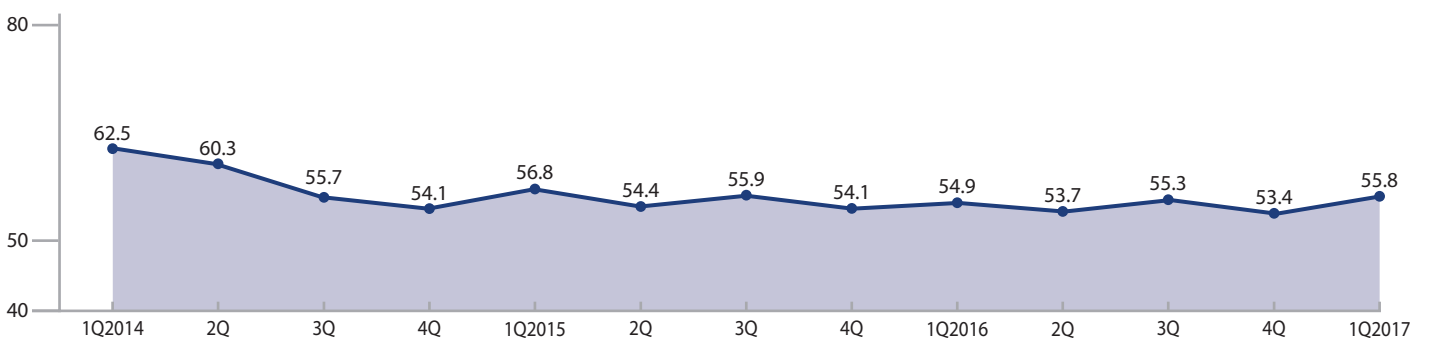
### Choice of products/services



### Demand drivers

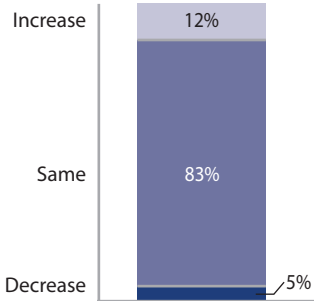


### Demand trend

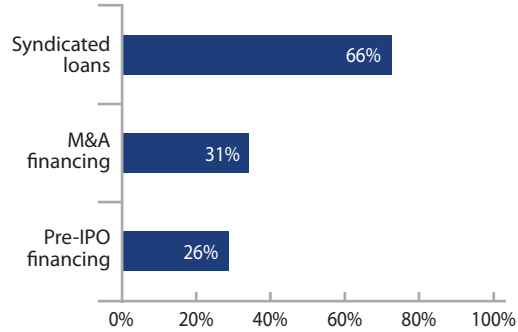


## Structured finance (53.8)

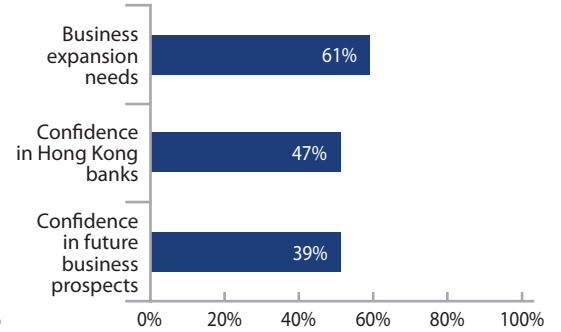
### Demand expectation



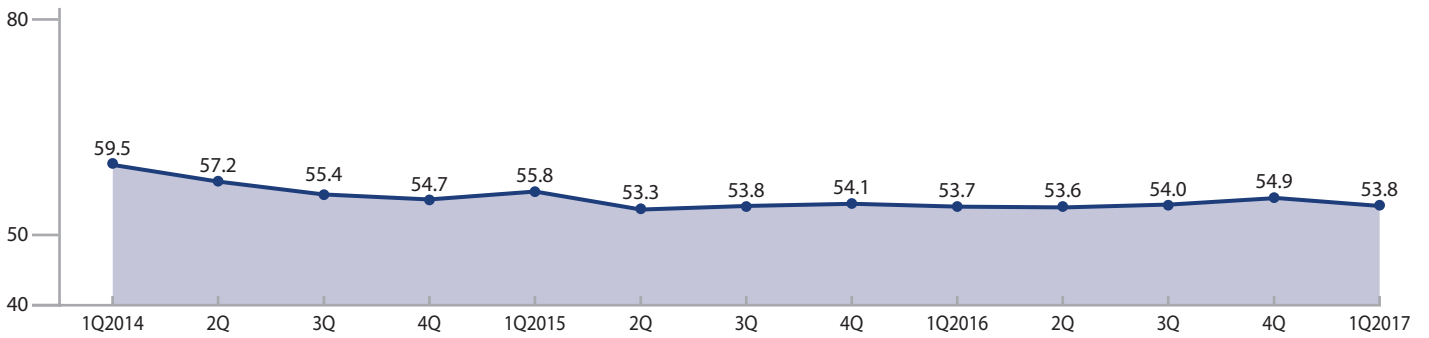
### Choice of products/services



### Demand drivers

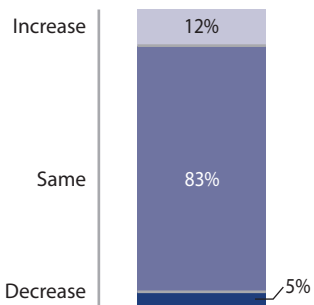


### Demand trend

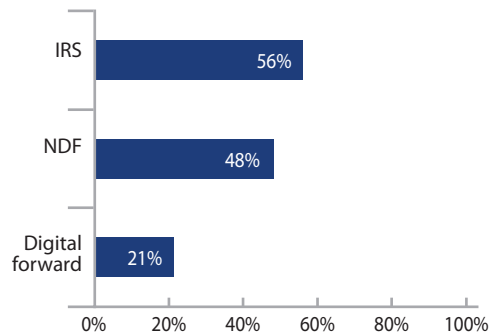


## Derivative products (53.4)

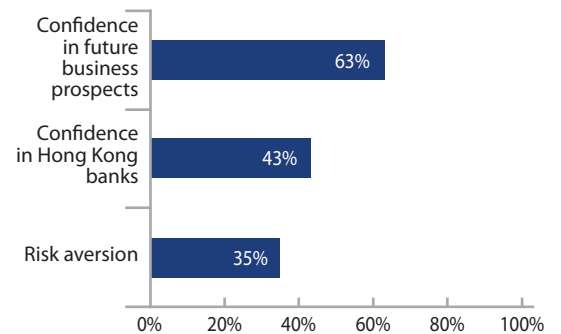
### Demand expectation



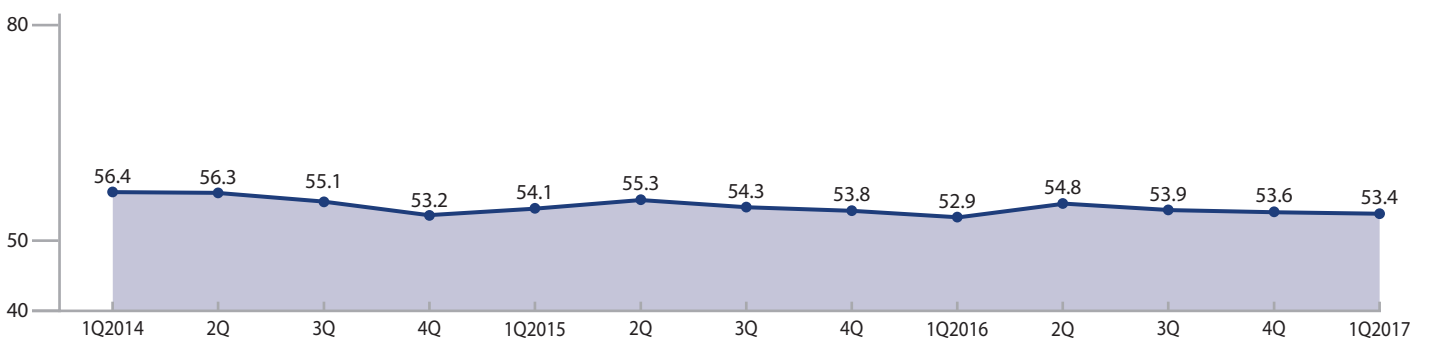
### Choice of products/services



### Demand drivers

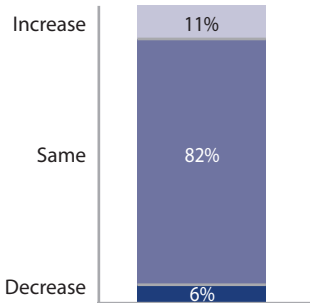


### Demand trend

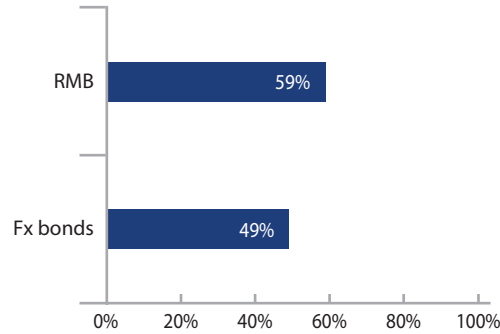


## Bond issuance (52.4)

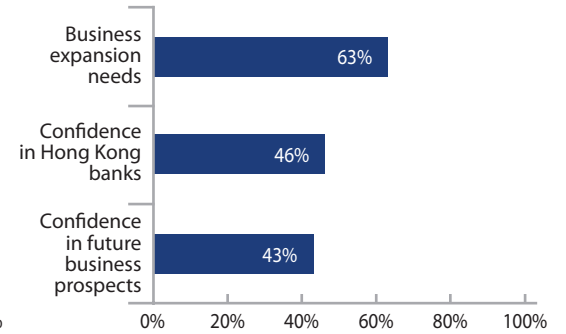
### Demand expectation



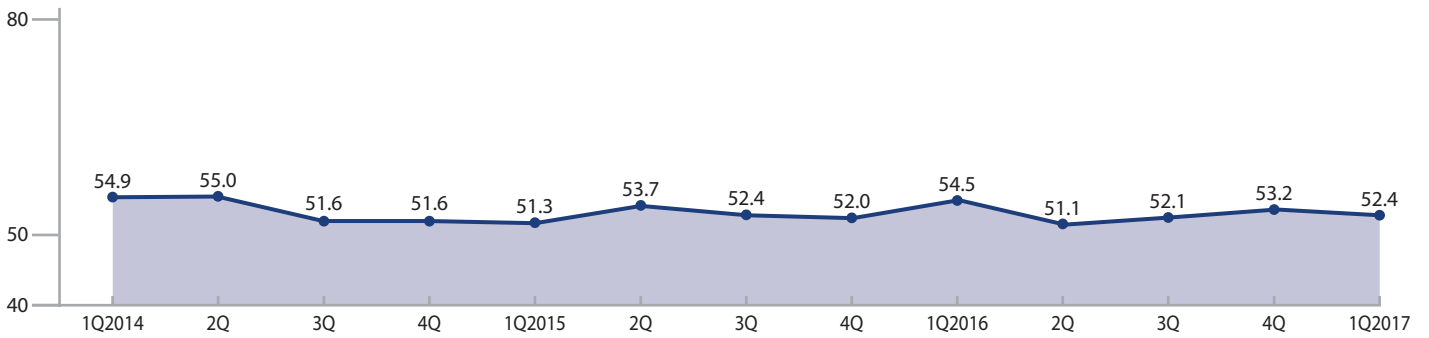
### Choice of currency



### Demand drivers

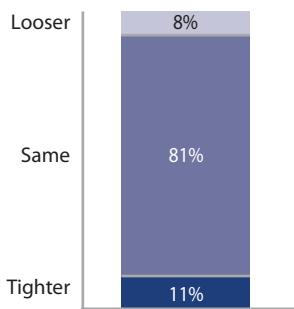


### Demand trend

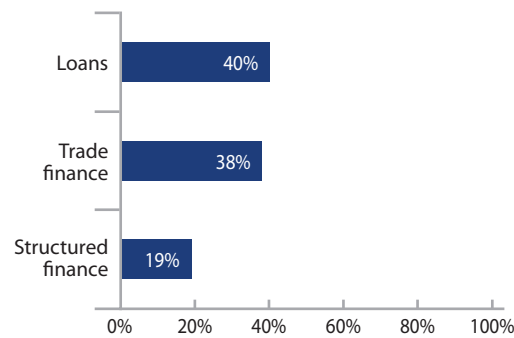


## Expectation of regulatory looseness (48.9)

### Expectation of laws and regulations

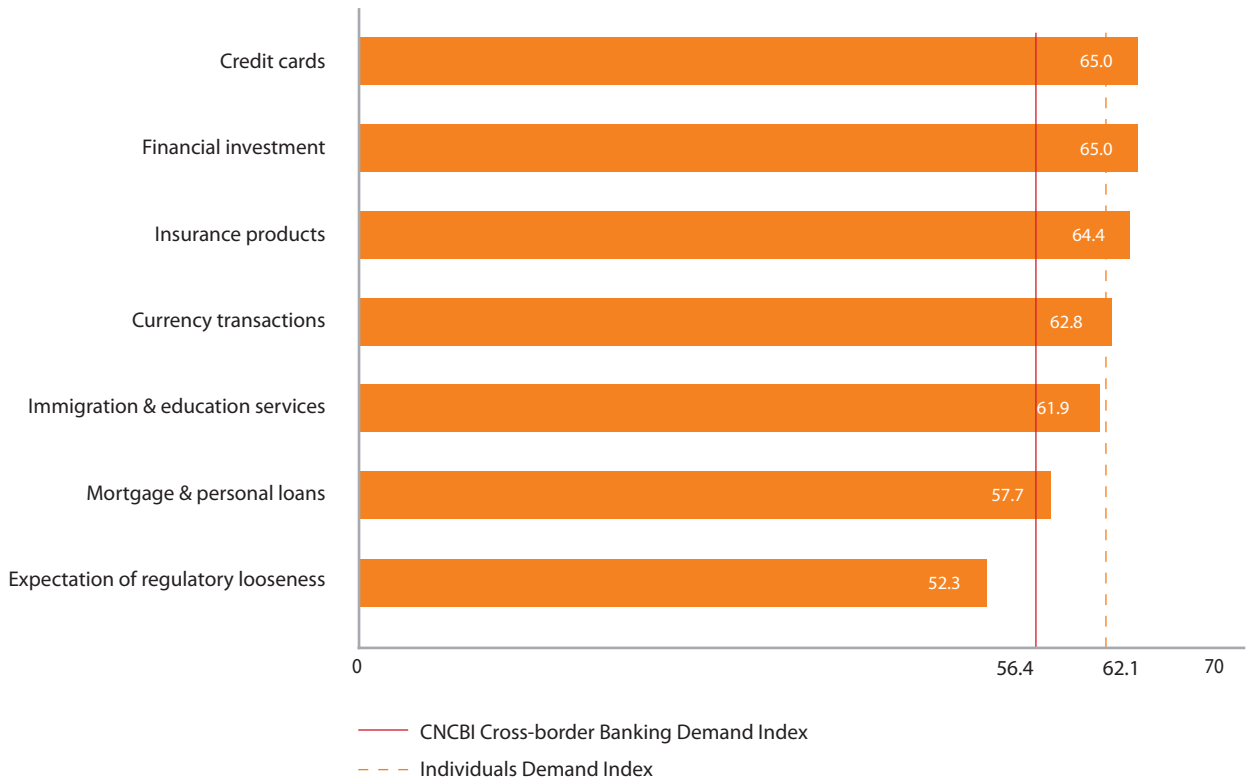


### Expected regulatory loosening



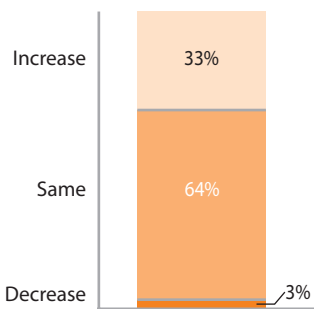
Note: This sub-index is introduced since 1Q2017

### 3. Individuals demand sub-indices

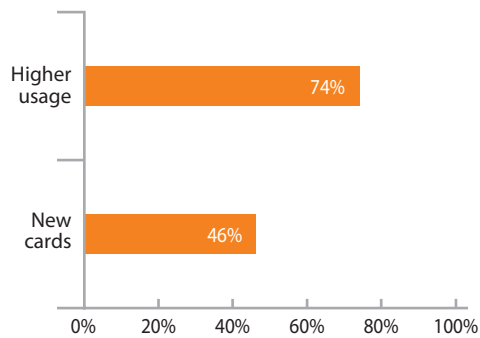


#### Credit cards (65.0)

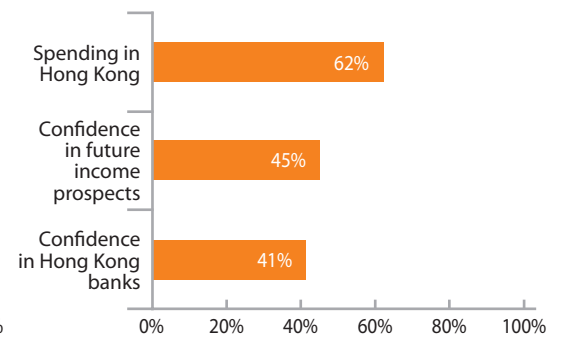
##### Demand expectation



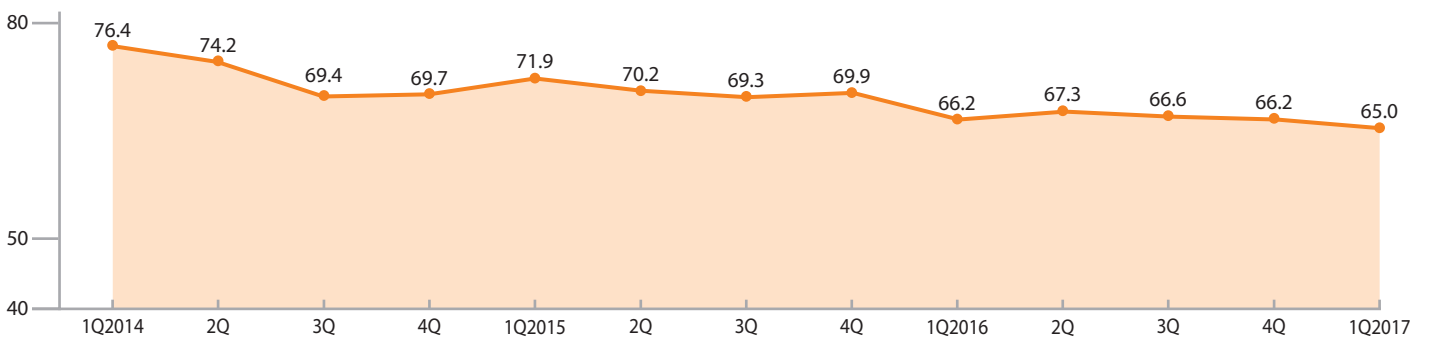
##### Choice of products/services



##### Demand drivers



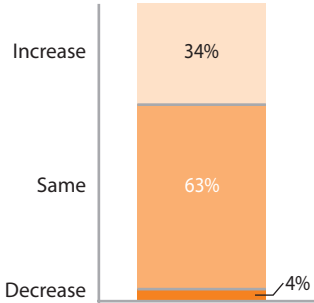
##### Demand trend



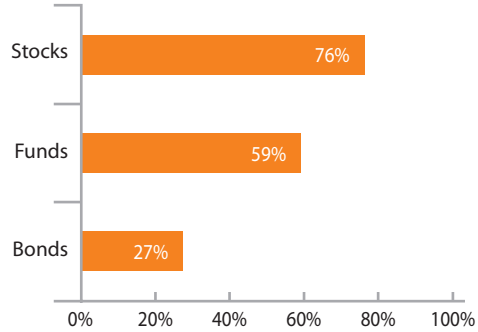


## Financial investment (65.0)

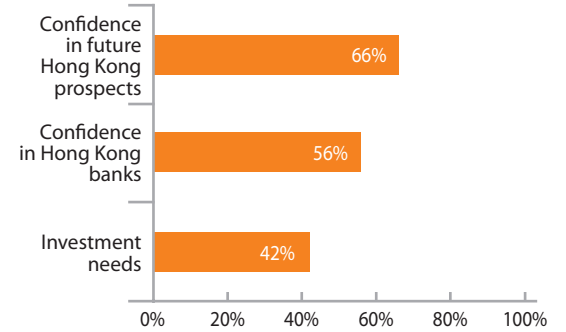
### Demand expectation



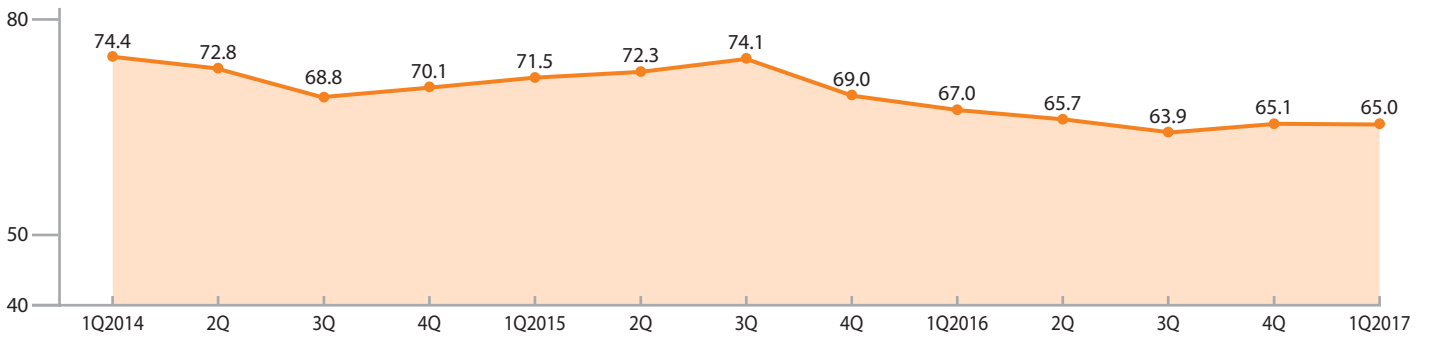
### Choice of products/services



### Demand drivers

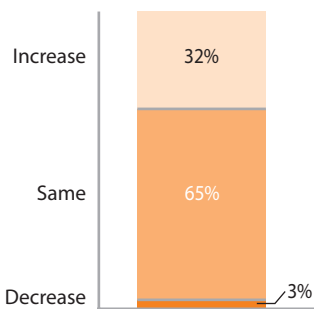


### Demand trend

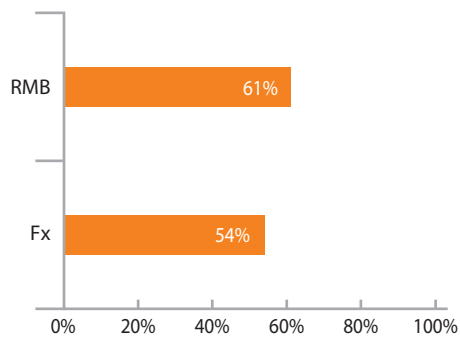


## Insurance products (64.4)

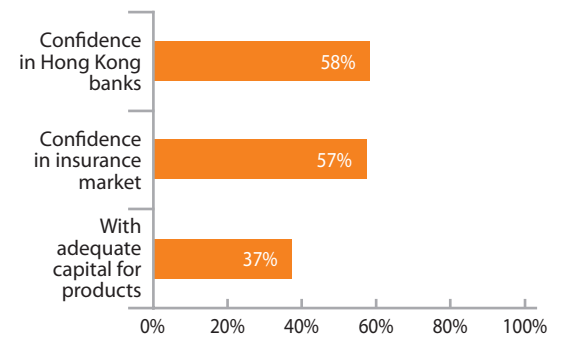
### Demand expectation



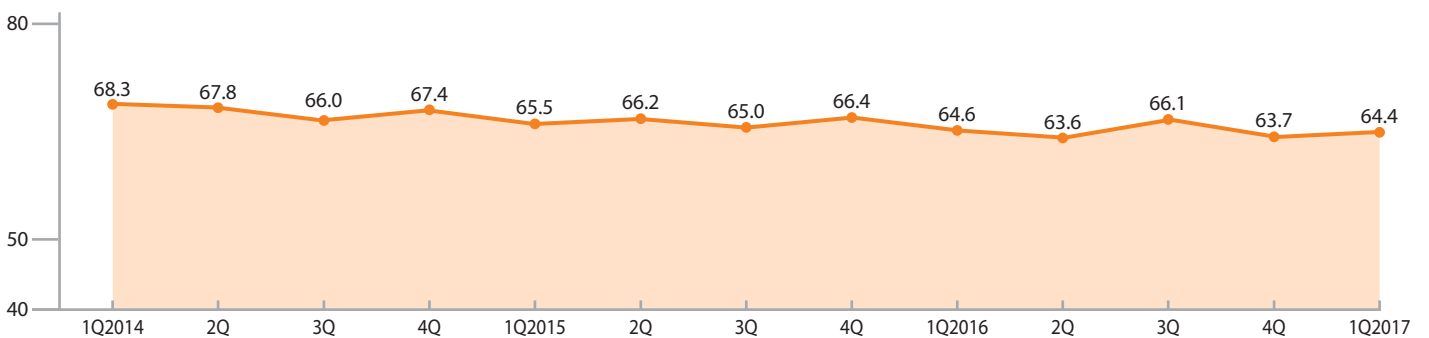
### Choice of currency



### Demand drivers

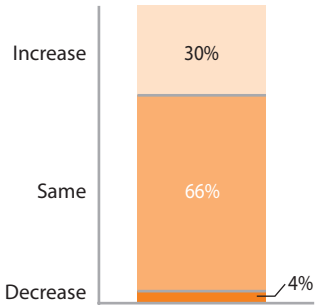


### Demand trend

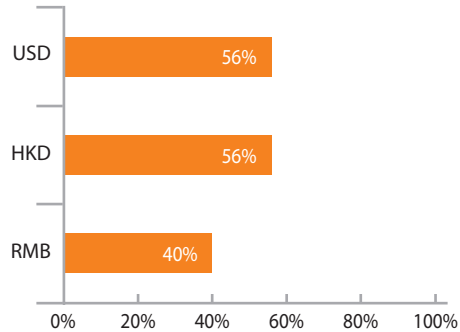


## Currency transactions (62.8)

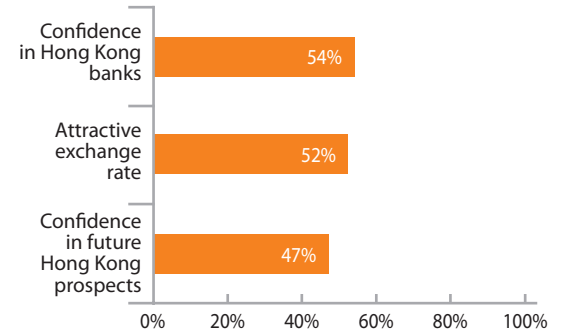
### Demand expectation



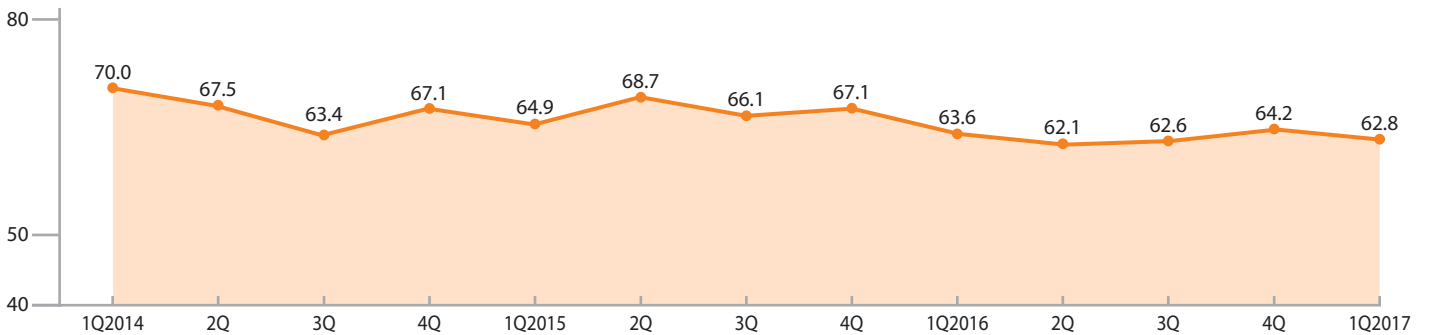
### Choice of currency



### Demand drivers

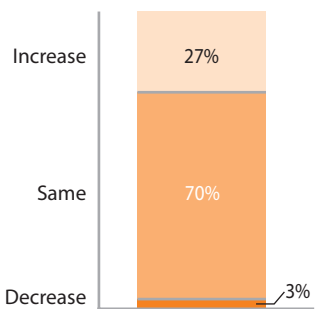


### Demand trend

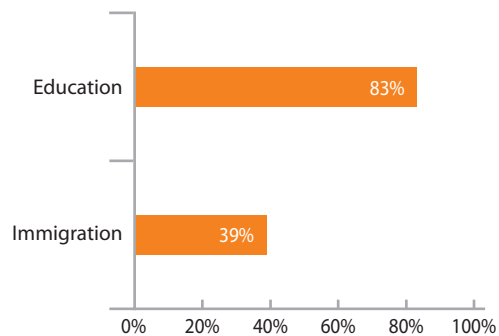


## Immigration & education services (61.9)

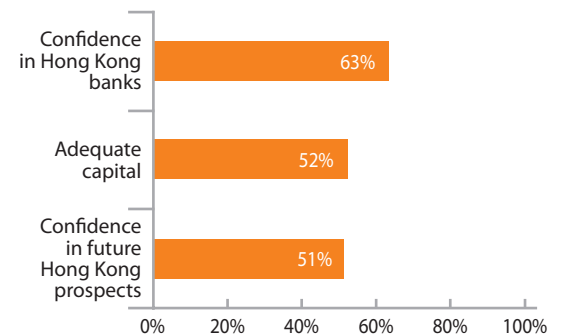
### Demand expectation



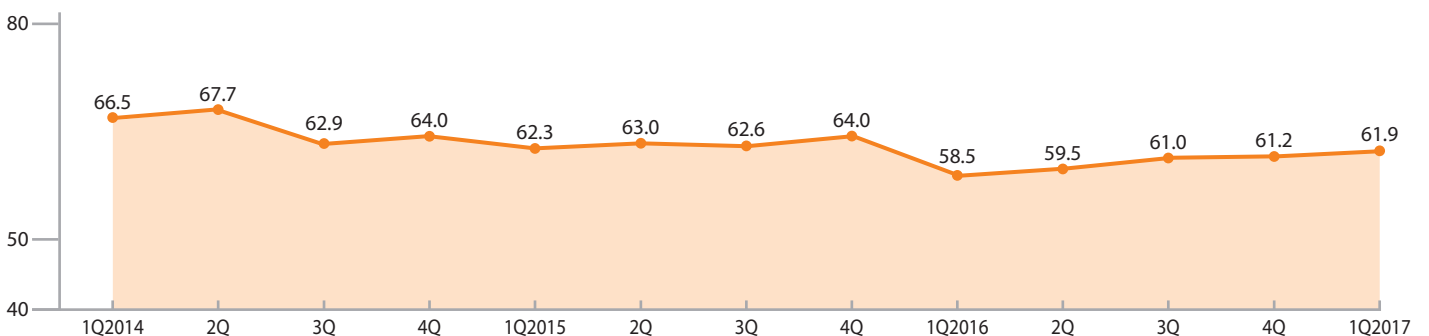
### Choice of products/services



### Demand drivers

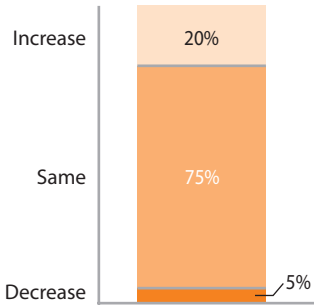


### Demand trend

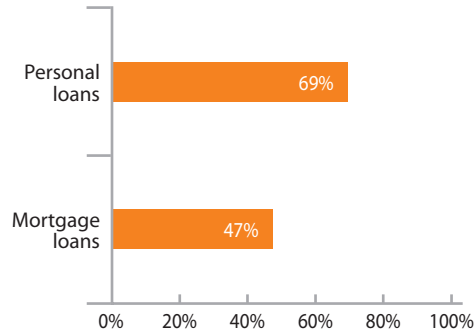


## Mortgage & personal loans (57.7)

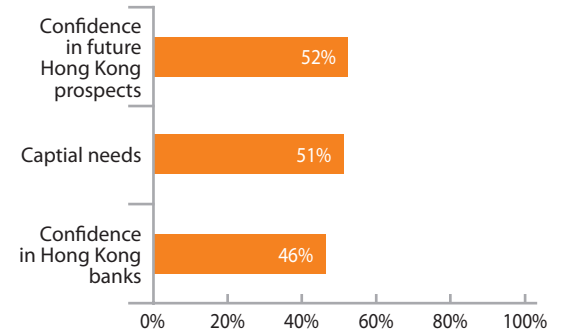
### Demand expectation



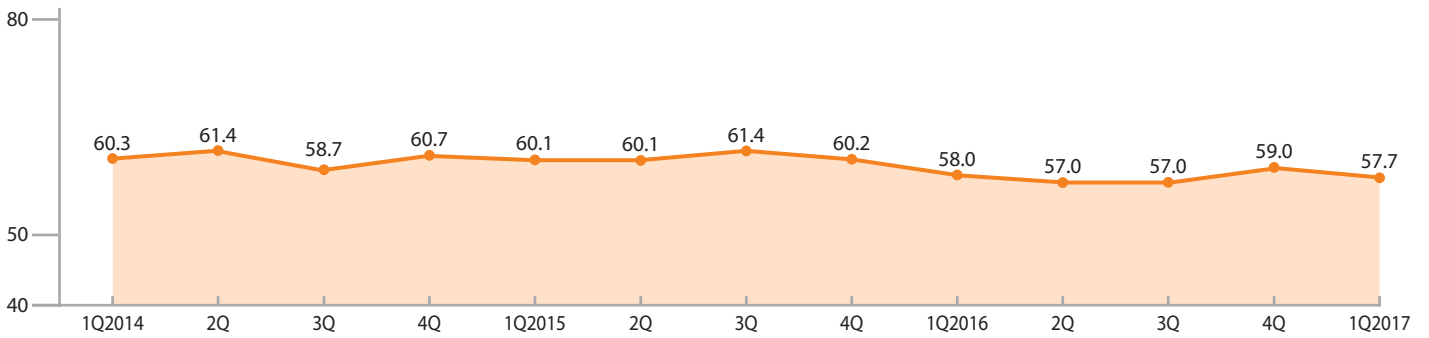
### Preferred products/services



### Demand drivers

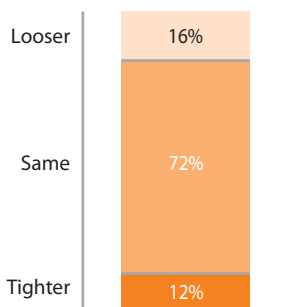


### Demand trend

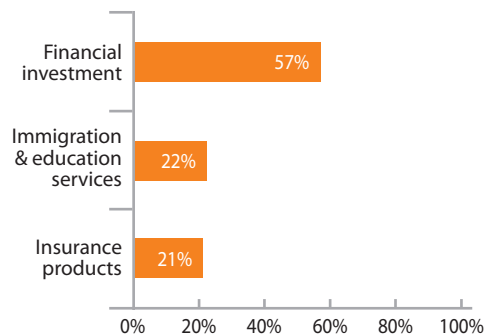


## Expectation of regulatory looseness (52.3)

### Expectation of laws and regulations



### Expected regulatory loosening



Note: This sub-index is introduced since 1Q2017

## 5. Methodology and data

### Definition and calculation

The CNCBI Cross-border Banking Demand Index captures the trends of cross-border demand from mainland companies and individuals for banking services provided by banks in Hong Kong in the next quarter, based on the results of a quarterly survey over mainland companies and individuals conducted by international market research firm Ipsos.

The CNCBI Cross-border Banking Demand Index is a weighted average of the Corporate Demand Index and the Individuals Demand Index, while the Corporate Demand Index and the Individuals Demand Index are in turn weighted averages of nine service-specific corporate demand sub-indices and seven service-specific individuals demand sub-indices respectively.

Each of the sub-indices is a diffusion index and is calculated from the replies of survey respondents to the question: "Do you expect your/your company's demand for the cross-border banking service (as specified) will increase, decrease or remain the same in the next quarter as compared to the current quarter?" For the sub-index of expectation of regulatory looseness, respondents answer the question: "Do you expect the regulatory environment to be looser, the same or tighter in the next quarter as regards your/your company's demand for cross-border banking service?" The value of the diffusion index is the sum of the responses of "Increase/Looser" plus half of those responding "Same" in percentage terms.

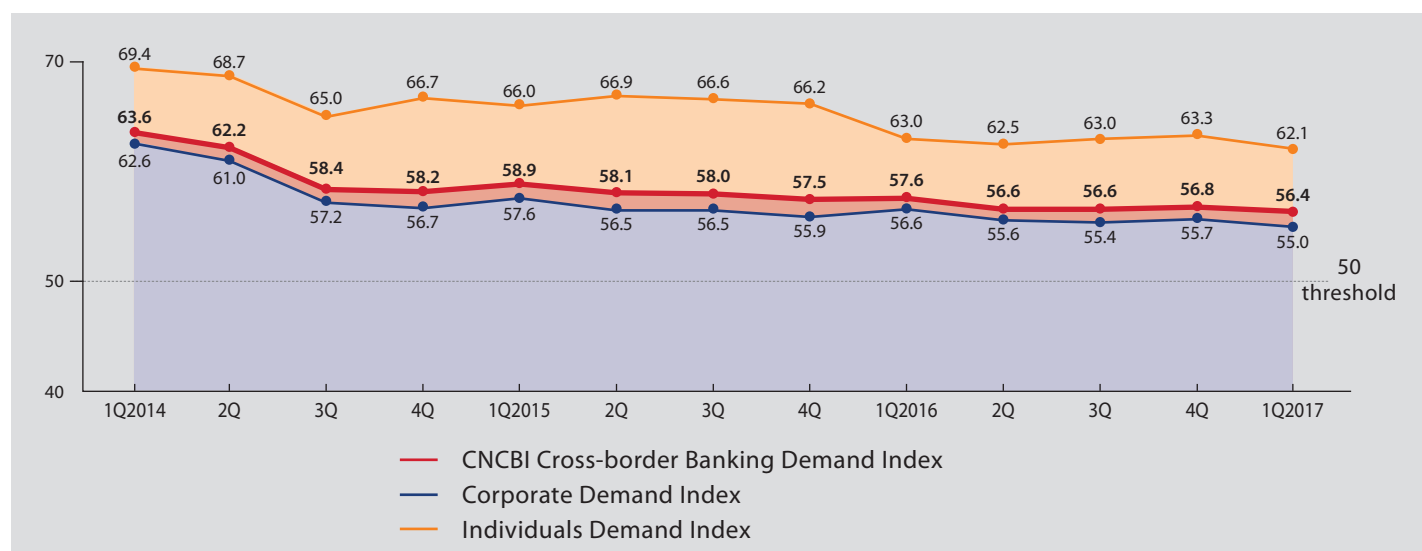
Diffusion indices have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading of above 50 indicates a strengthening of demand, and below 50 a weakening.

### Sample data

The CNCBI Cross-border Banking Demand survey spans 15 cities across the Pearl River Delta, Yangtze River Delta, Pan-Bohai and Central & Western areas of China. This quarterly survey covers 500 companies and 500 affluent mainlanders who are currently using cross-border banking services or indicated an intention to do so. Data is collected mainly through telephone interviews.

The corporate sample represents a wide spectrum of industries including import/export trade, manufacturing, real estate, construction, power & energy, etc, with quotas on small, medium and large enterprises based on their annual turnover. Finance managers or directors of qualified companies are interviewed. The individuals sample consists of high-net-worth (>US\$1 million liquid assets) and upper affluent (>HK\$1 million liquid assets) individuals.

## 5. Historical data



Disclaimer:

The information contained in this document is provided for general information purposes only and is subject to change at any time without notice and at the sole discretion of China CITIC Bank International Limited ("CNCBI" or the "Bank"). The information has been taken from sources believed to be reliable, but the Bank makes no warranties or representations as to the accuracy, correctness, reliability or otherwise with respect to such information, and assumes no liability or responsibility for any omissions or errors in the content of this document. This document may contain statements, estimates or projections which are inherently speculative and are prepared based on currently available information and projections about future events and trends. Such statement, estimates and projections are subject to numerous risks and uncertainties and the actual results may differ from the Bank's expectations or projections. The information in this document herein is not to be construed as an offer or a solicitation of an offer to buy or sell any products or services. Investors should obtain appropriate professional advice when necessary. The Bank accepts no liability for any direct, special, indirect, consequential, incidental damages or any other loss or damages of any kind arising from any use of the information herein.

Copyright © 2017 China CITIC Bank International Limited. All rights reserved.

© 2017 中信銀行(國際)有限公司版權所有。