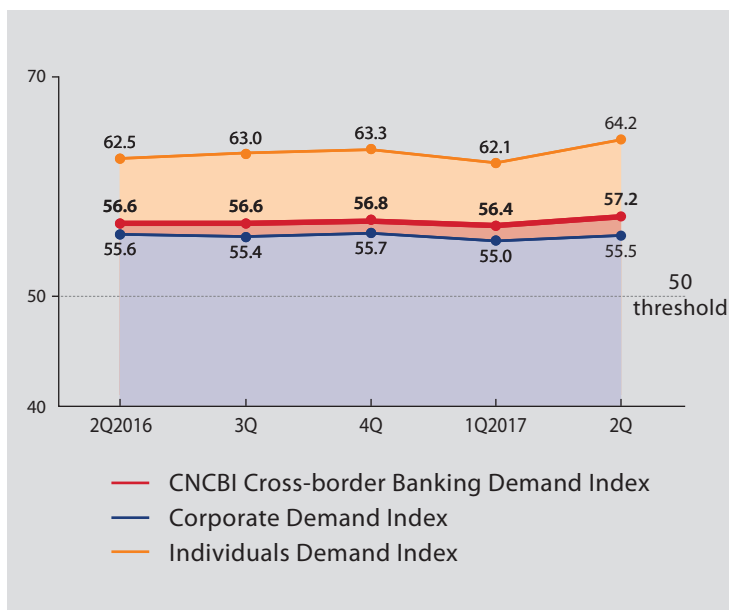


# Rebound notable in 2Q cross-border banking demand

Warming economy to raise level of cross-border activities for corporations and individuals

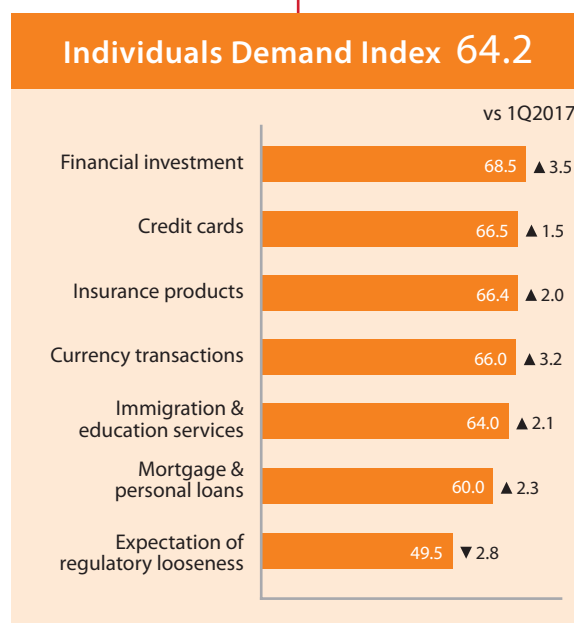
[www.cncbinternational.com/cross-border-index](http://www.cncbinternational.com/cross-border-index)



- As the global and mainland economies regain warmth, China's cross-border banking demand on Hong Kong bounces back notably on the quarter, resulting in rises in both Corporate and Individuals Demand Indices
- The rebound of corporate demand is encouraging. Positive factors such as steady Chinese economic growth, faster US economic recovery, acceleration of "going out" of Chinese corporations and slowing RMB depreciation fuel rebounds of cross-border demand for financing and most other services with demand for

- loans and bond issuance rising the sharpest
- Demand from individuals rebounds even faster and more comprehensively. The abovementioned factors contribute also to the acceleration of mainland individuals' "going out", strengthening all 6 individuals sub-indices particularly of financial investment and currency transactions
- Both corporations and individuals expect cross-border banking related laws and regulations to be tightened due to the central government's tightening grip on capital outflow

## CNCBI Cross-border Banking Demand Index 57.2



# 1. Key analysis

- According to the 1Q2017 survey results, the 2Q2017 CNCBI Cross-border Banking Demand Index increases 0.8 to 57.2, indicating that Mainland China's demand for Hong Kong's cross-border banking services bounces back notably
- Corporate Demand Index and Individuals Demand Index are up 0.5 and 2.1 to 55.5 and 64.2 respectively, reflecting a rebound in cross-border demand from both mainland corporations and individuals, with the strength of rebound in individuals' demand particularly strong

## Corporate demand bounces back in most areas

### Rebound of loans and bond issuance noticeable

- Six of the corporate demand sub-indices rise in 2Q2017. Demand for loans and bond issuance is highest with a 2.0-plus increase from 1Q's 56.4 and 52.4 to 59.0 and 54.9 respectively, while settlement & cash management, asset management & financial consultancy, structured finance and derivative products pick up 0.3, 0.1, 0.3 and 0.7 respectively. On the other hand, currency transactions and trade finance fall moderately by 0.4 and 0.8 respectively
- In terms of rankings, loans climbs from 4th to the top as currency transactions and asset management & financial consultancy drop from 1st and 2nd to 2nd and 4th respectively. Settlement & cash management and trade finance stay put in 3rd and 5th respectively, bond issuance rises from 4th to 6th respectively; and structured finance and derivative products fall 1 spot to 7th and 8th respectively
- The strengthening of corporate demand is attributable to a series of changes since the year's dawn, including China's steady economic growth, faster US economic recovery, slowing RMB depreciation, acceleration of mainland corporations' "going out" and the launch of "Belt and Road" projects. These positive changes have restored mainland corporations' offshore investment and business confidence, driving cross-border demand for loans and bond issuance to leap back. This also causes demand to rebound in cross-border service demand including that for structured finance and settlement & cash management, asset management & financial consultancy and derivative products. Last year, the volume of mainland corporations' cross-border loans and bond issuance slid significantly. A revival can be expected this year in view of the strong rises in these 2 sub-indices. Retreating demand for trade finance and currency transactions is unanticipated because growth is expected to follow the increase in trade between China and Hong Kong and the slowing RMB depreciation. This should be attributable to the rapid 1Q2017 demand growth (2.4 and 1.0) which has left increasing pressure on further rises. As such, the retreat could be considered as an adjustment of last quarter's growth

## Growth of individuals' demand more comprehensive

### Demand for financial investment and currency transactions bounces back strongly

- Individuals demand sub-indices in 2Q2017, except the expectation on regulatory looseness, rise substantially particularly of financial investment and currency transactions which are up by 3.5 and 3.2, reaching 68.5 and 66.0 respectively. Meanwhile, insurance products, immigration & education services, mortgage & personal loans and credit cards are also up noticeably 2.0, 2.1, 2.3 and 1.5 to 66.4, 64.0, 60.0 and 66.5 respectively
- As for the rankings, financial investment and credit cards swap positions with the former taking the top spot and the latter in 2nd place. Insurance products, currency transactions, immigration & education services and mortgage & personal loans remain in 3rd, 4th, 5th and 6th respectively as their

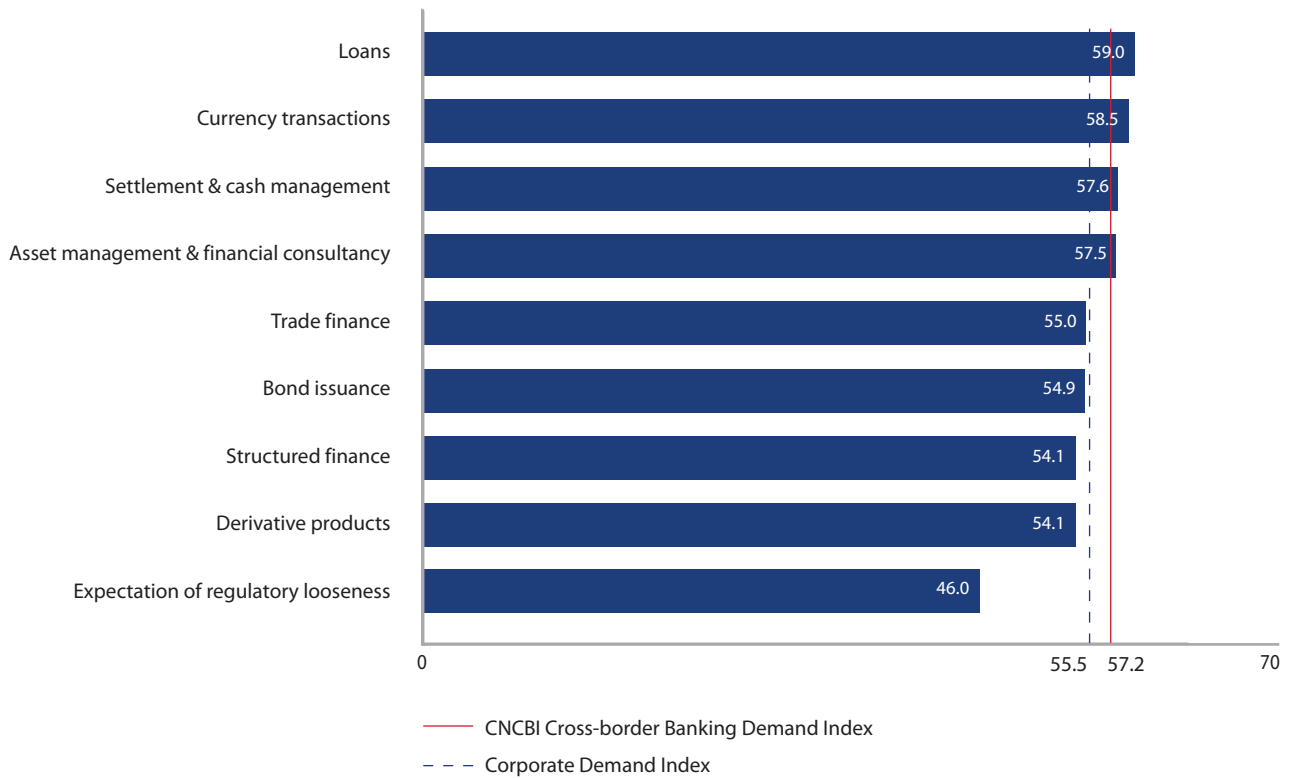
levels of increases are similar

- The rapid rebound of individuals' cross-border demand is also attributable to the improvements in macro-economic environment and market situation which improved mainland individuals' confidence in income growth and overseas investment returns and hence "going out". Hong Kong's stock and wealth management markets serve as "going out" mainland individuals' main overseas investment channel. The launch of Shenzhen-Hong Kong Stock Connect last November has widened this channel and increased its attractiveness. In fact, 1Q2017 saw an influx of Chinese capital into Hong Kong, pushing Hong Kong stock prices up. Demand for insurance products bounces back further, implying that mainland citizens' enthusiasm for Hong Kong's insurance products remains high despite mainland authority's curb on investment-linked insurance products. Strengthening demand for credit cards should be related to the stabilising number of mainland visitors in recent months. Cross-border demand for immigration & education services has been increasing gradually, which reflects the trend of more mainland individuals looking to "going out". The rebound of mortgage & personal loans demand's turnaround from the decline may be a result of the Hong Kong property market's recovery. The higher stamp tax seems insufficient for deterring some high-net-worth mainland individuals from buying Hong Kong properties. As a result, demand for currency transactions also increases strongly

## Corporations and individuals expect tighter cross-border laws and regulations

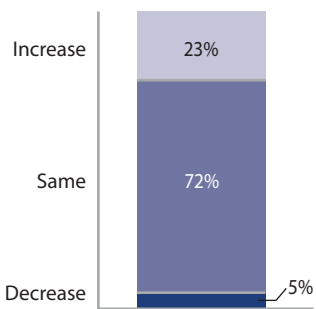
- Corporate and individuals' expectation of regulatory looseness dropped from 48.9 and 52.3 to 46.0 and 49.5 respectively, reflecting that both mainland corporations and individuals expect laws and regulations related to cross-border banking services to be tightened further in 2Q2017. Since the second half of 2016, mounting pressure on RMB depreciation has led the central government to increase control on capital outflow. This has influenced corporations' and individuals' outlook on the law & regulation environment for cross-border banking demand
- On the corporate side, the sub-index falls to a low of 46.0. In 4Q2016, the central government implemented a measure which requires outflow of capital of more than USD5million be reported and approved. Though it aims at preventing fraudulent investment and controlling excessive property related projects and seems to have no material impact on investment projects that are qualified as foreign investments, the measure has given many mainland corporations a strong impression that cross-border regulations will be tightened
- As for the individuals sub-index, a rather marked decline of a similar size of 2.8 is recorded and more notably it falls below the 50-threshold from last quarter's 52.3 to 49.5. For mainland individuals, the most influential factors should be tighter supervision on underground banks and the curb on investment-linked insurance products. These measures may not have prevented mainland individuals from "going out" or using cross-border banking services but they have made mainland individuals to feel that the law & regulation environment will be tightened further
- Mainland regulators will continue to regulate capital outflow and cross-border financial activities under the pressure of RMB depreciation. However, they are unlikely to step up measures and may even loosen its grip as RMB depreciation pressure eases and China's economy continues to stabilise. As such, the law & regulation environment for cross-border banking demand can expect to be loosened and enhanced

## 2. Corporate demand sub-indices

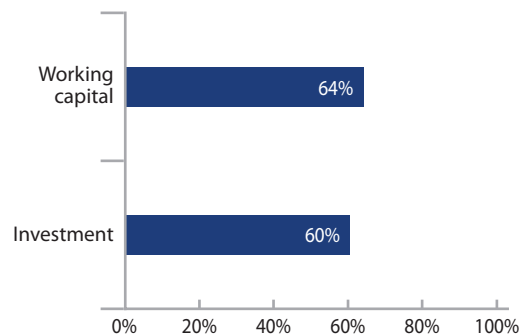


### Loans (59.0)

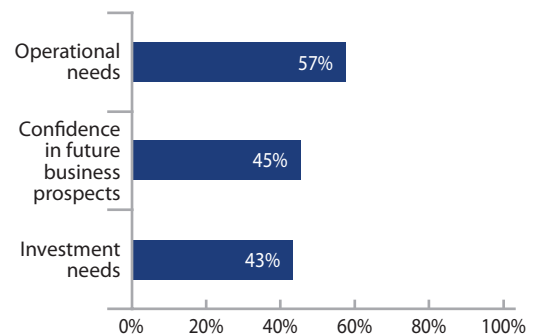
#### Demand expectation



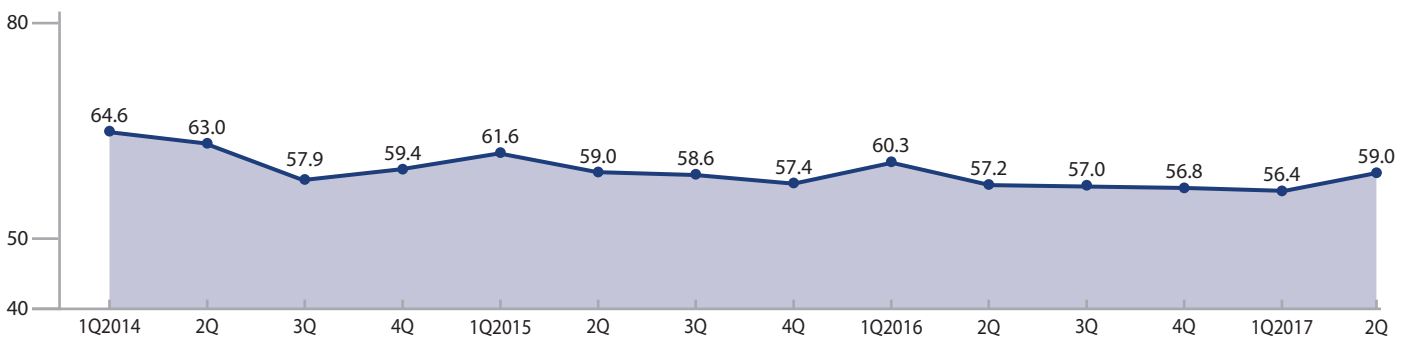
#### Choice of products/services



#### Demand drivers

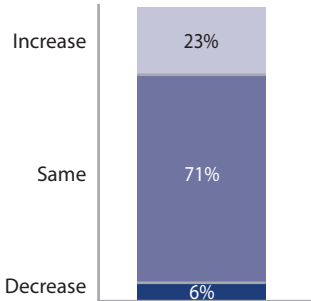


#### Demand trend

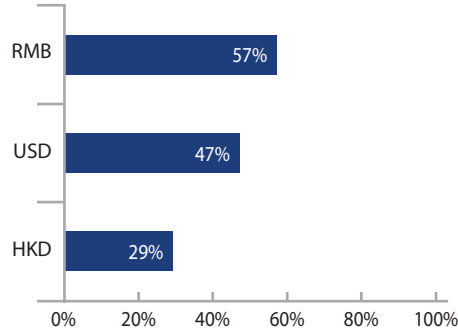


## Currency transactions (58.5)

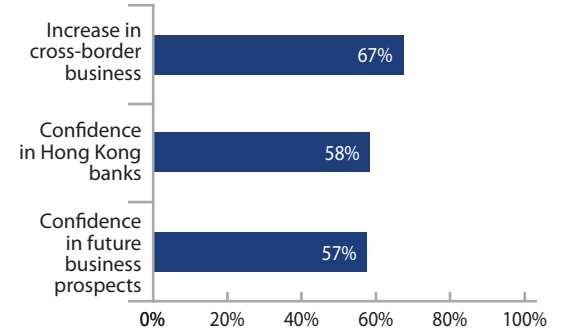
### Demand expectation



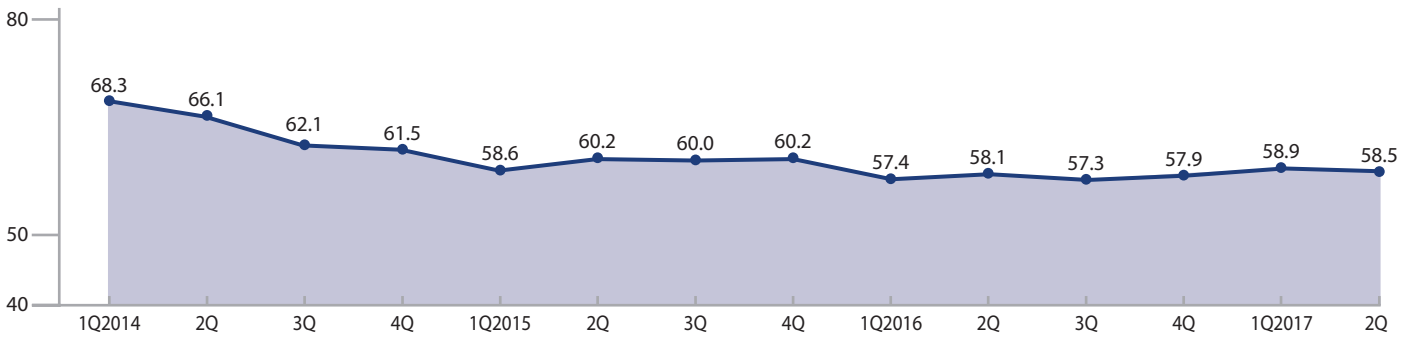
### Choice of Currency



### Demand drivers

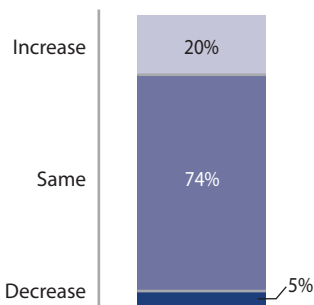


### Demand trend

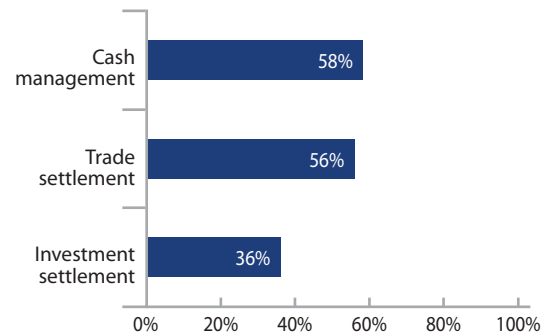


## Settlement & cash management (57.6)

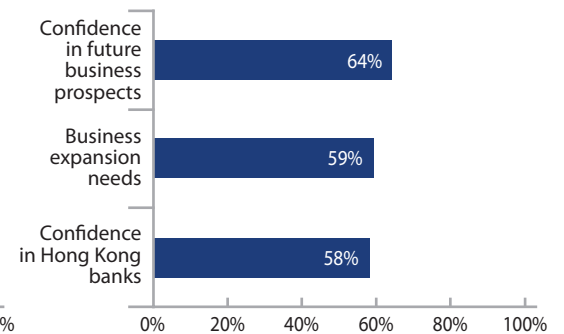
### Demand expectation



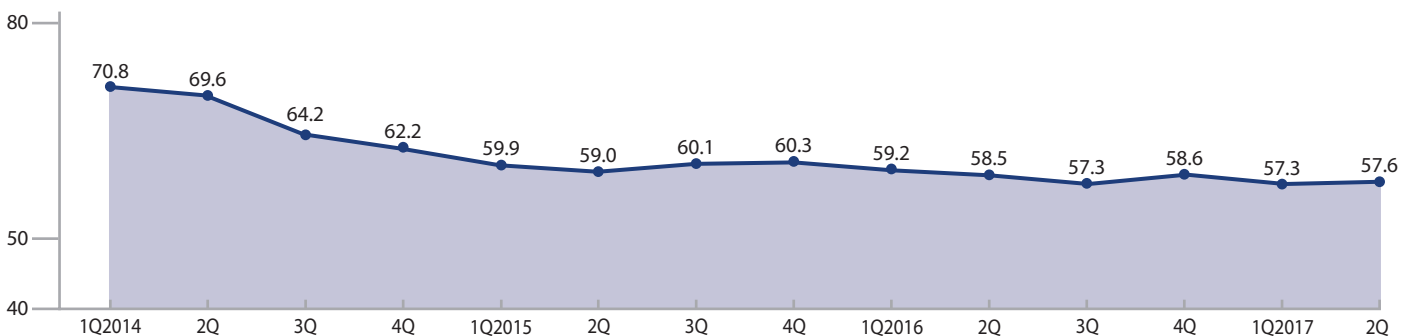
### Choice of products/services



### Demand drivers

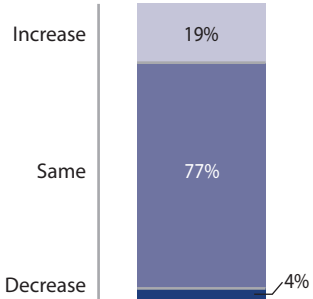


### Demand trend

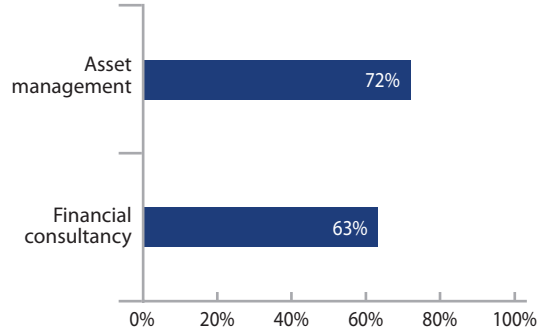


## Asset management & financial consultancy (57.5)

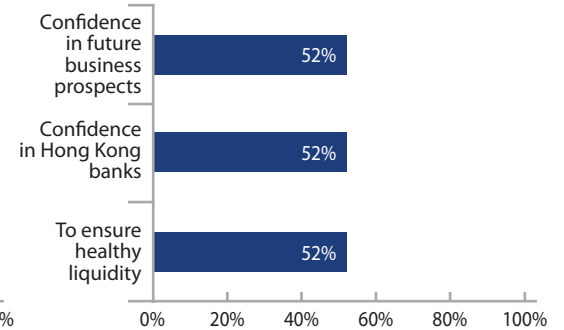
### Demand expectation



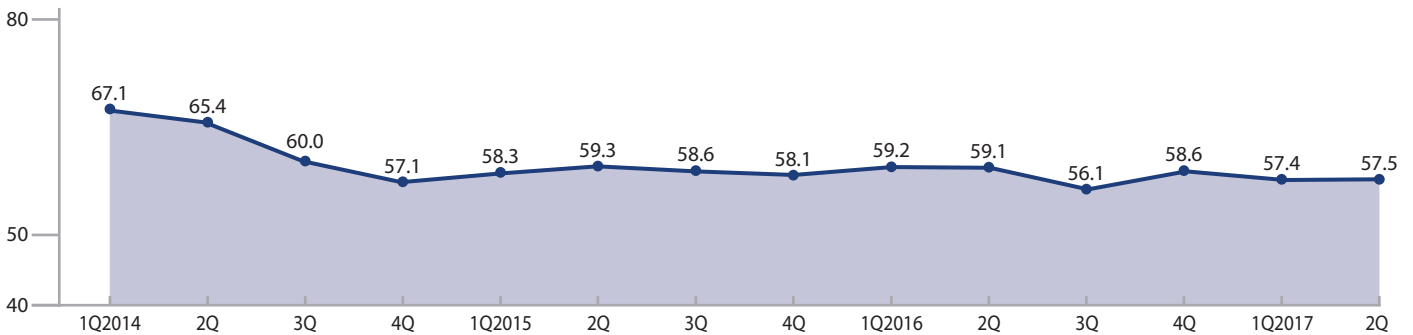
### Choice of products/services



### Demand drivers

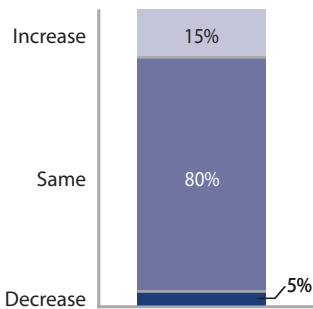


### Demand trend

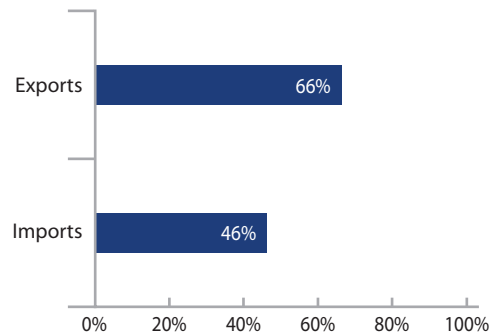


## Trade finance (55.0)

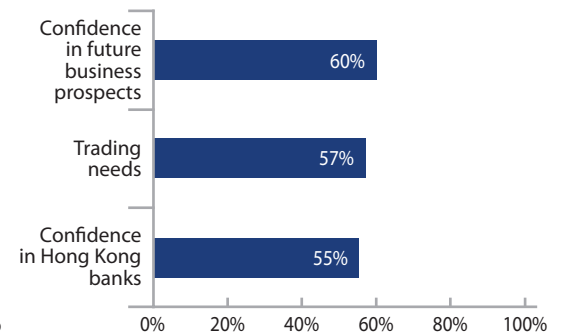
### Demand expectation



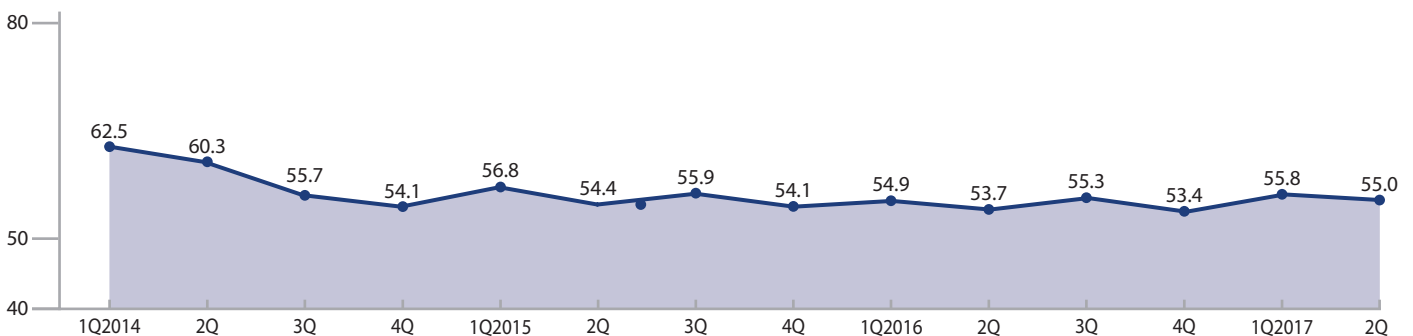
### Choice of products/services



### Demand drivers

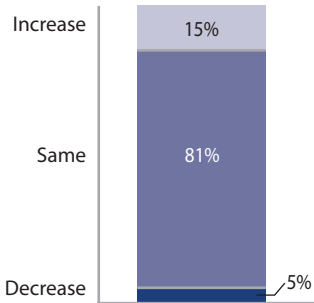


### Demand trend

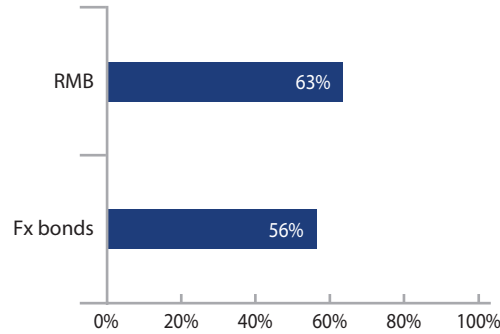


## Bond issuance (54.9)

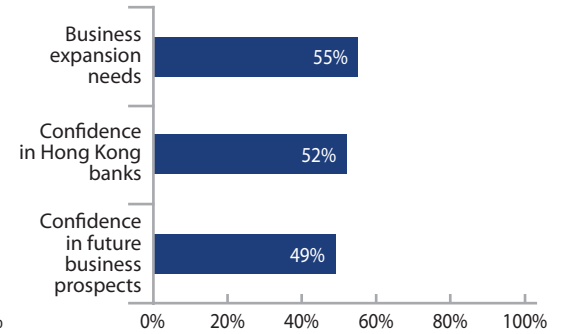
### Demand expectation



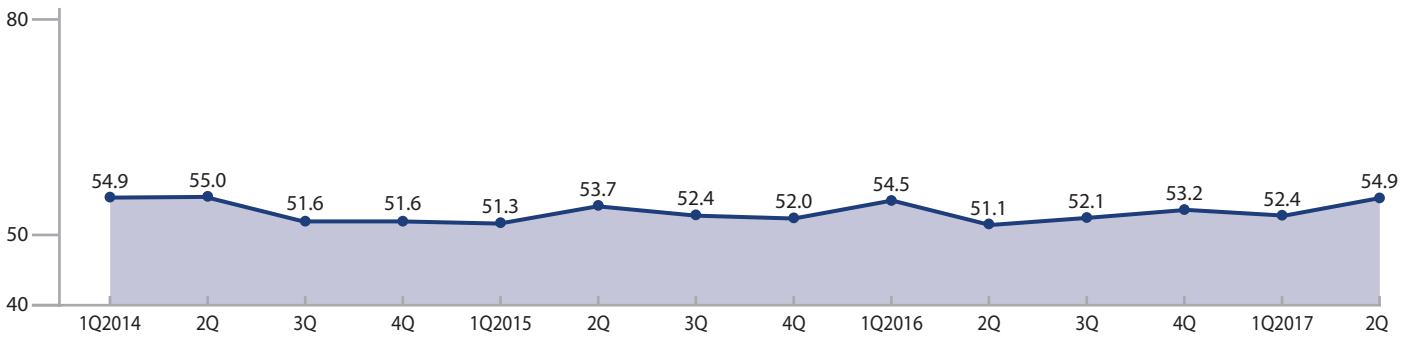
### Choice of currency



### Demand drivers

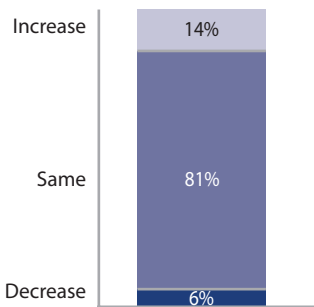


### Demand trend

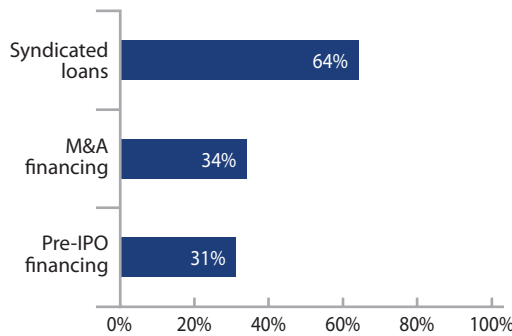


## Structured finance (54.1)

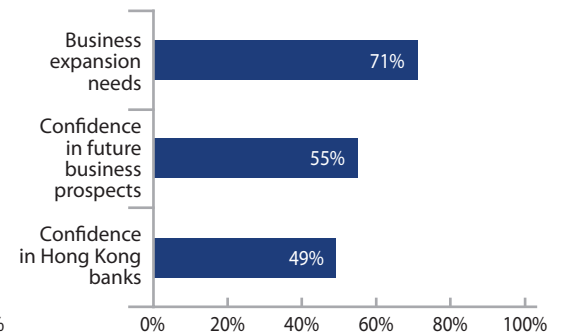
### Demand expectation



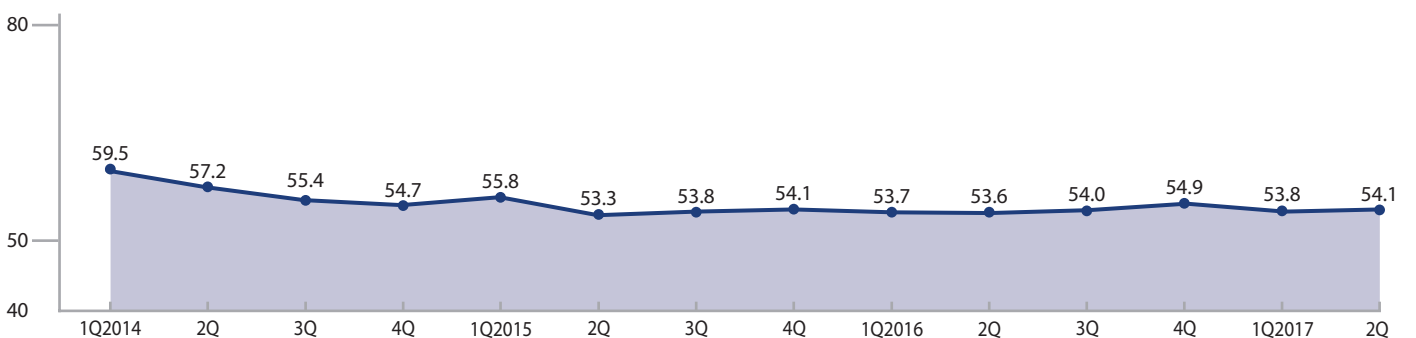
### Choice of products/services



### Demand drivers

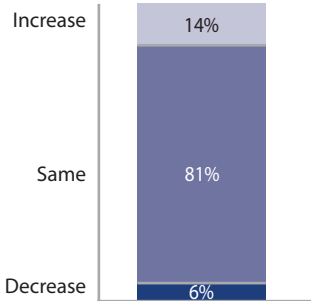


### Demand trend

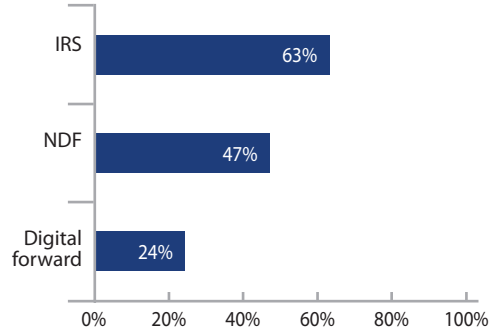


## Derivative products (54.1)

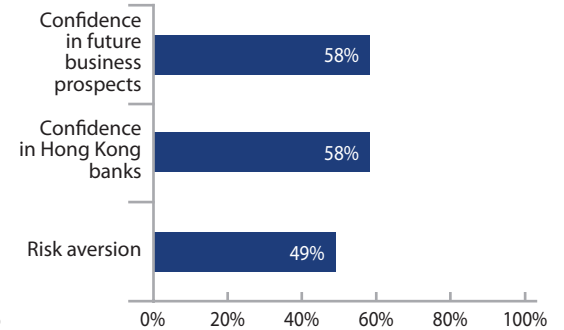
### Demand expectation



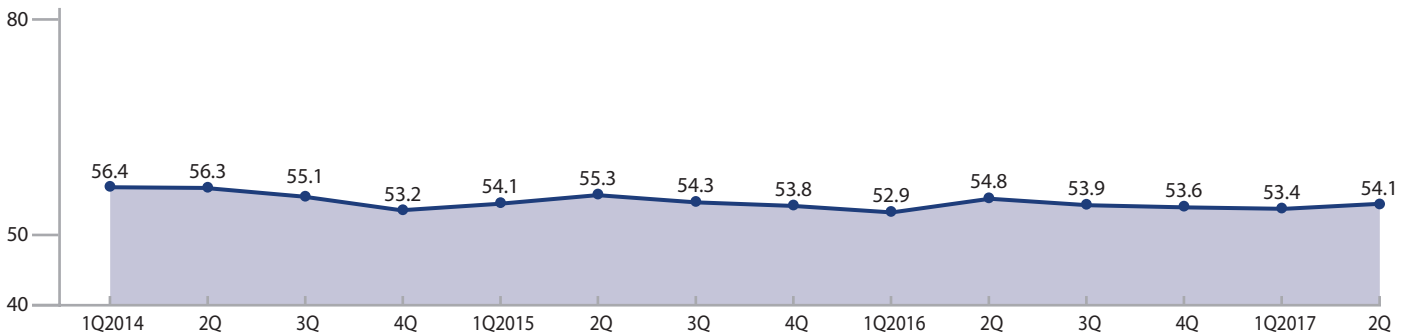
### Choice of products/services



### Demand drivers

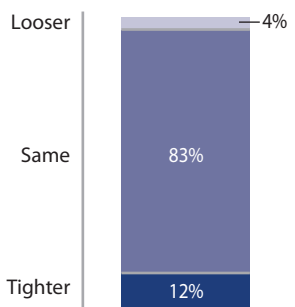


### Demand trend

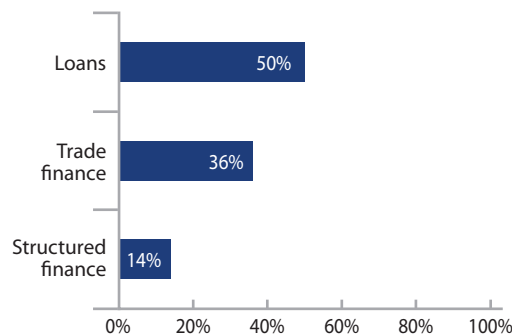


## Expectation of regulatory looseness (46.0)

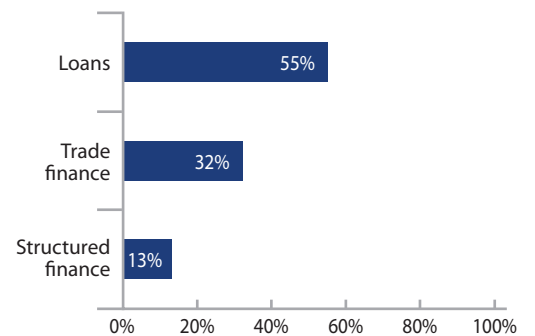
### Expectation of laws and regulations



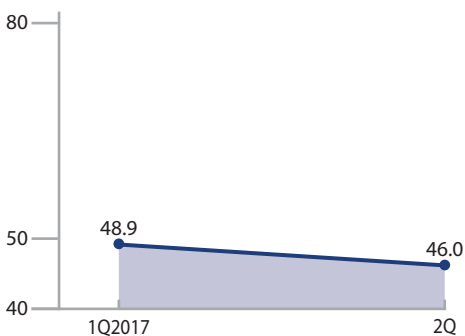
### Expected regulatory loosening



### Expected regulatory tightening

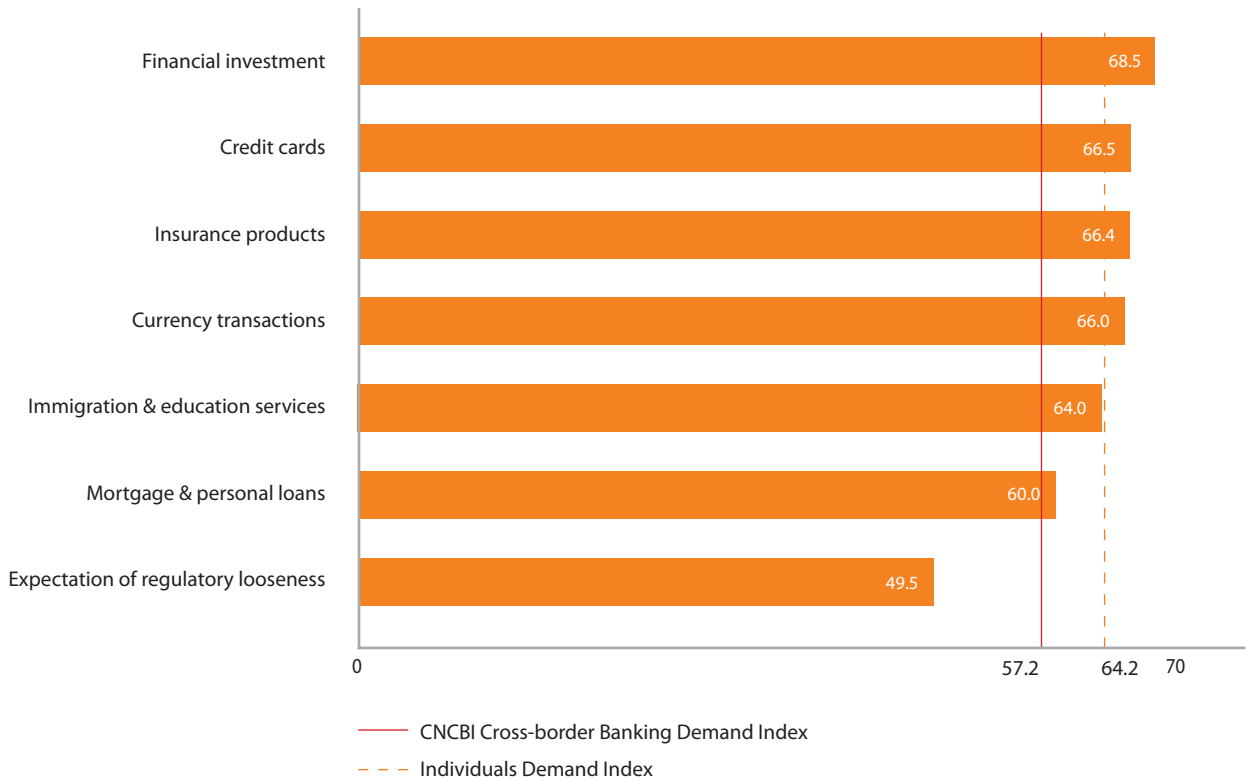


### Expectation trend



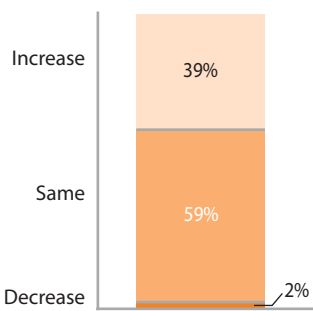
Note: This sub-index is introduced since 1Q2017

### 3. Individuals demand sub-indices

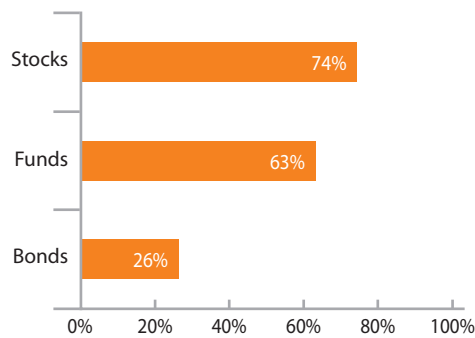


### Financial investment (68.5)

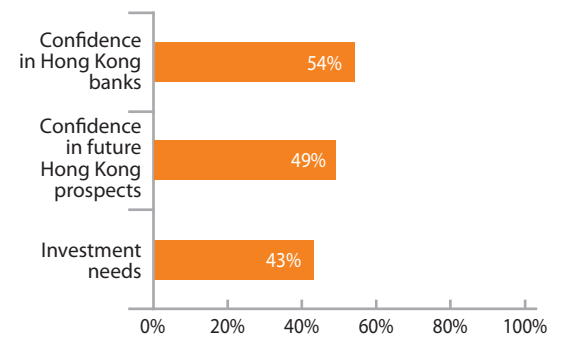
#### Demand expectation



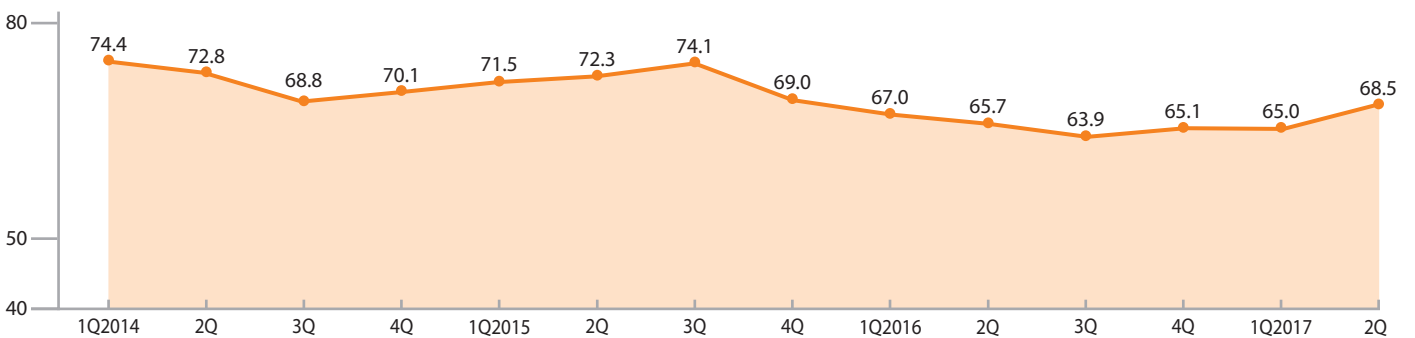
#### Choice of products/services



#### Demand drivers



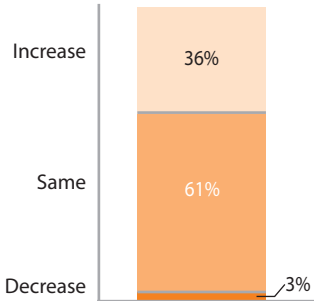
#### Demand trend



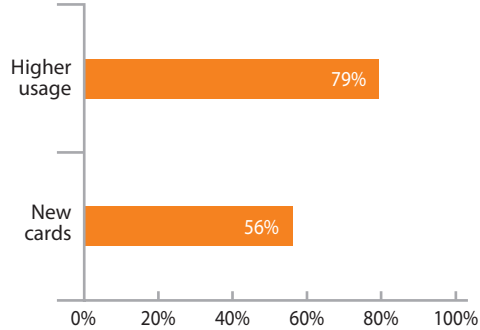


## Credit cards (66.5)

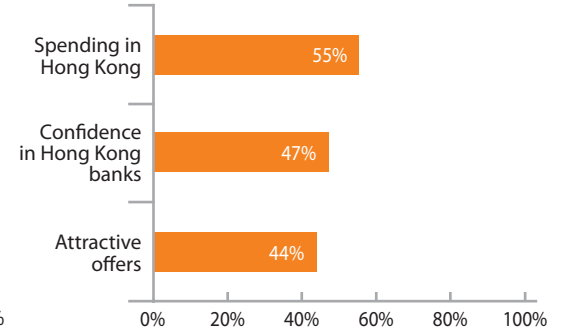
### Demand expectation



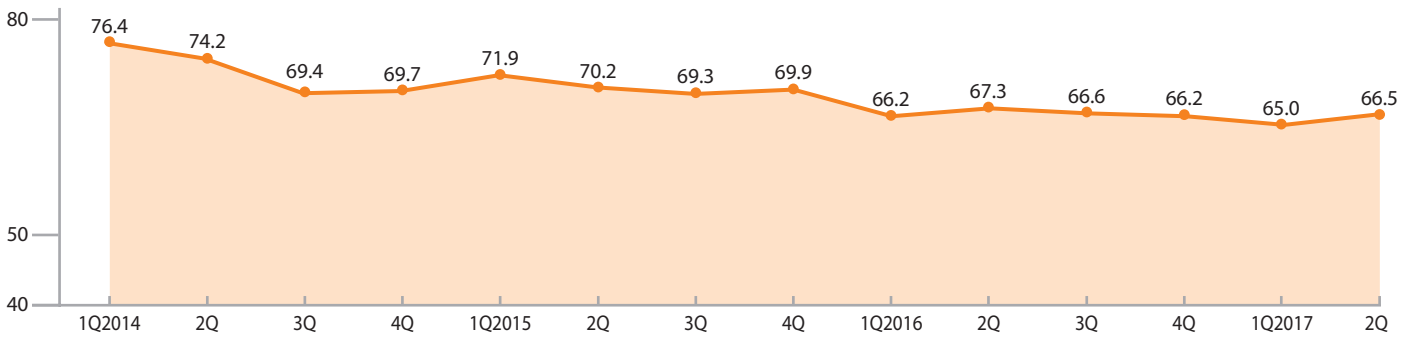
### Choice of products/services



### Demand drivers

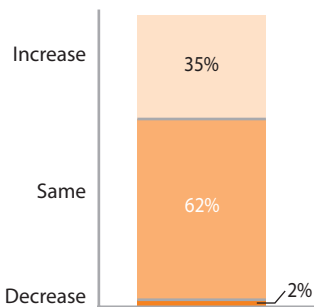


### Demand trend

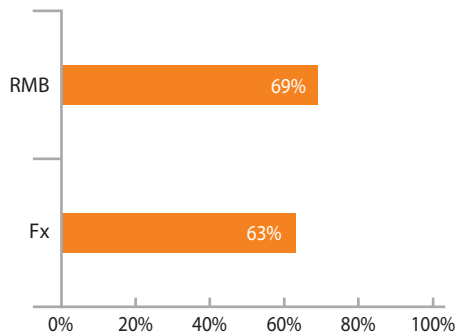


## Insurance products (66.4)

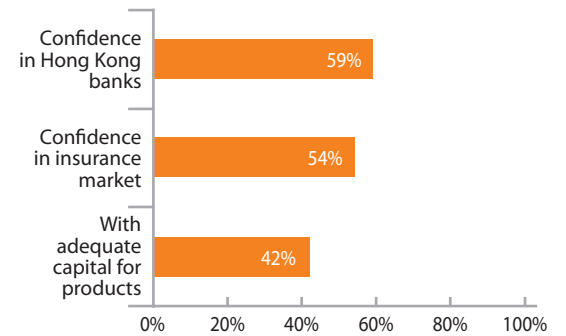
### Demand expectation



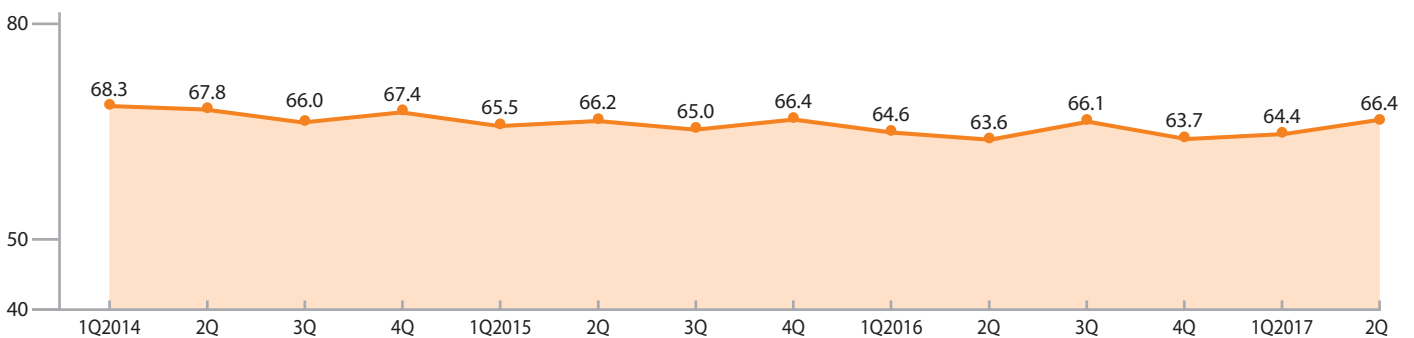
### Choice of currency



### Demand drivers

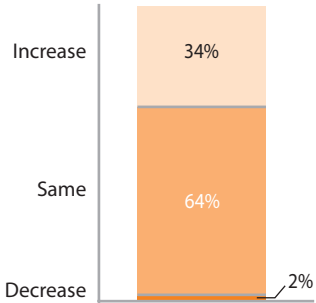


### Demand trend

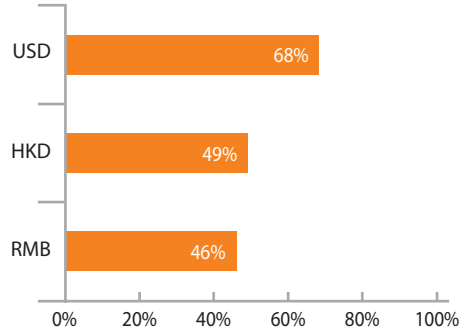


## Currency transactions (66.0)

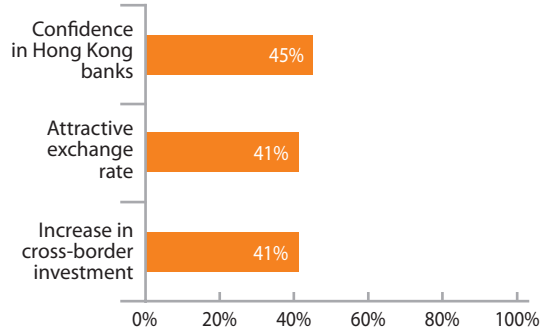
### Demand expectation



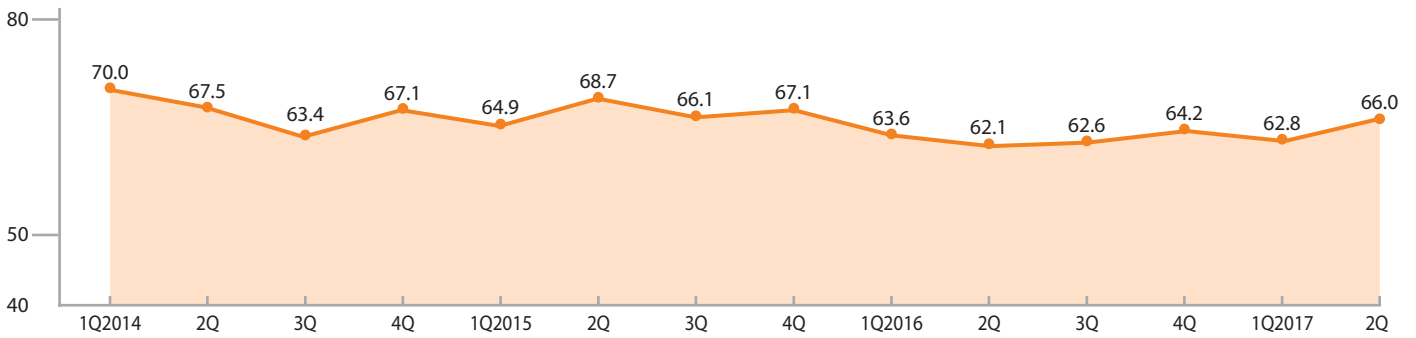
### Choice of currency



### Demand drivers

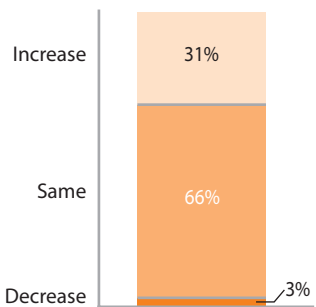


### Demand trend

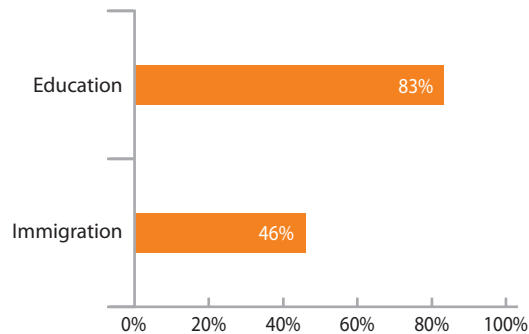


## Immigration & education services (64.0)

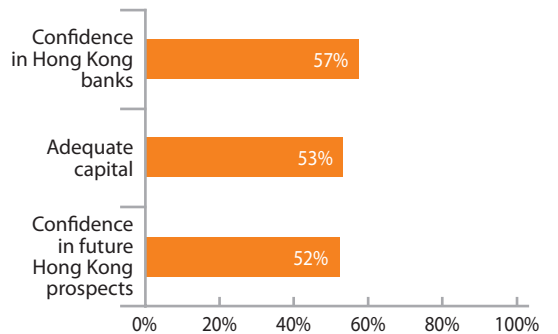
### Demand expectation



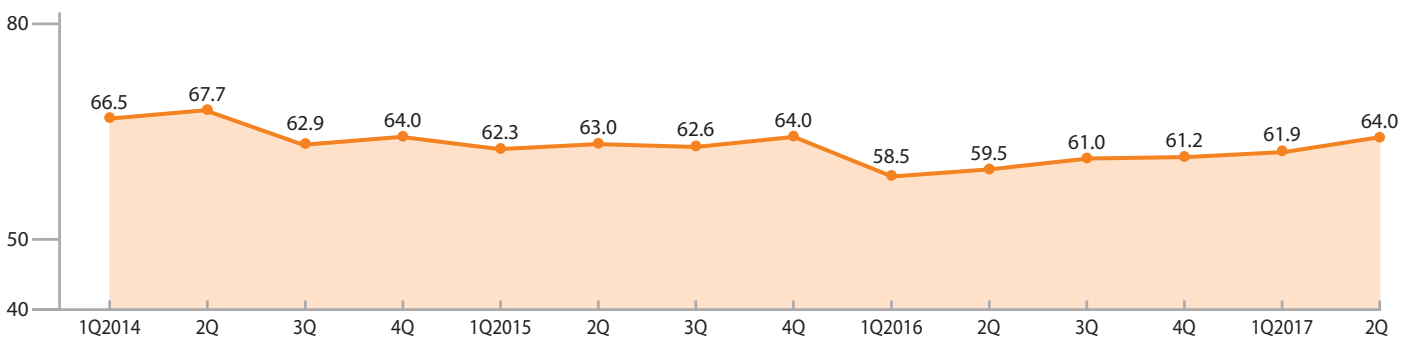
### Choice of products/services



### Demand drivers

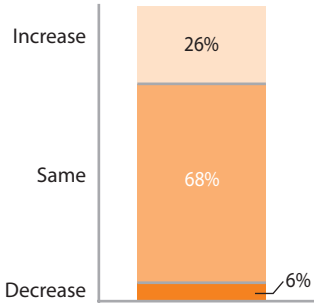


### Demand trend

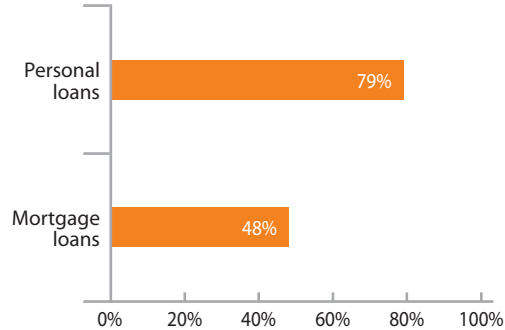


## Mortgage & personal loans (60.0)

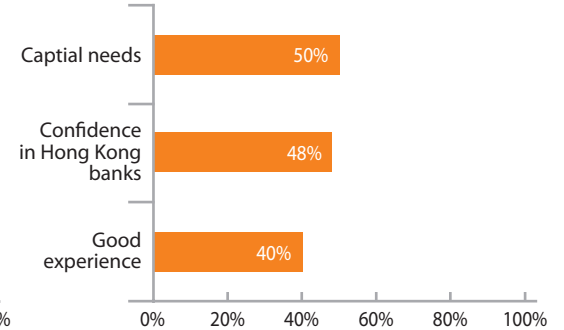
### Demand expectation



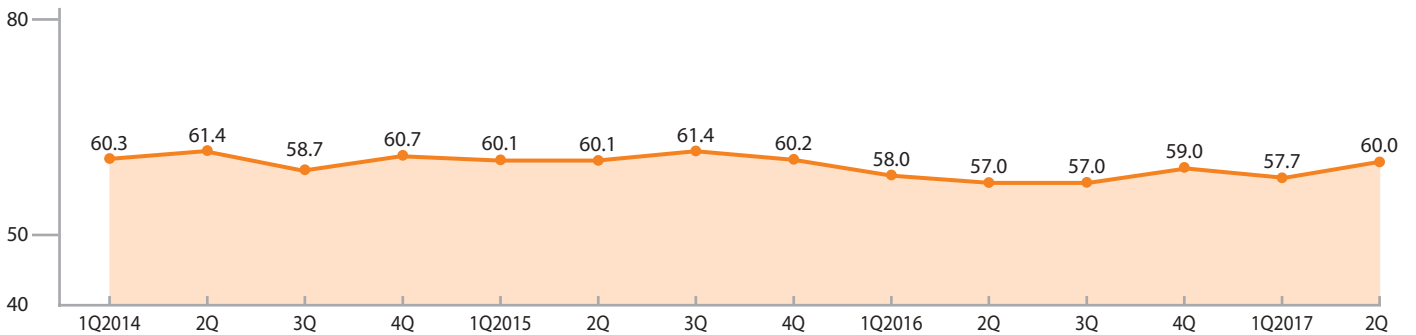
### Preferred products/services



### Demand drivers

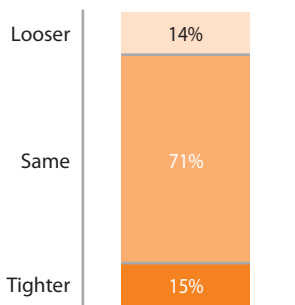


### Demand trend

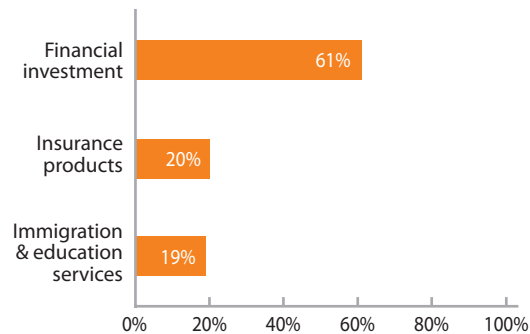


## Expectation of regulatory looseness (49.5)

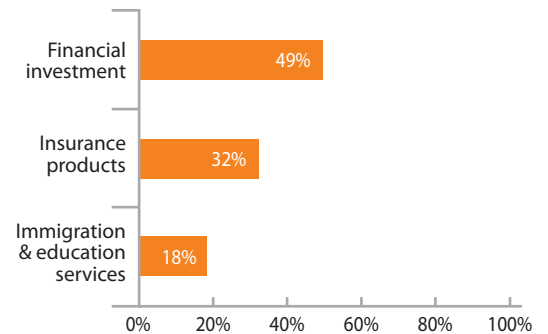
### Expectation of laws and regulations



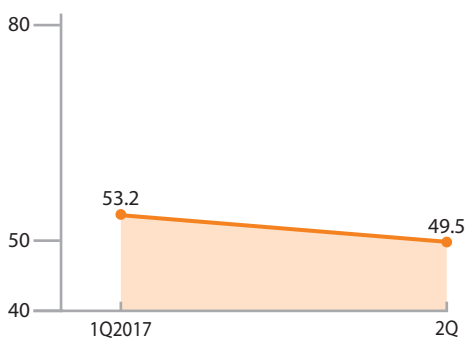
### Expected regulatory loosening



### Expected regulatory tightening



### Expectation trend



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.

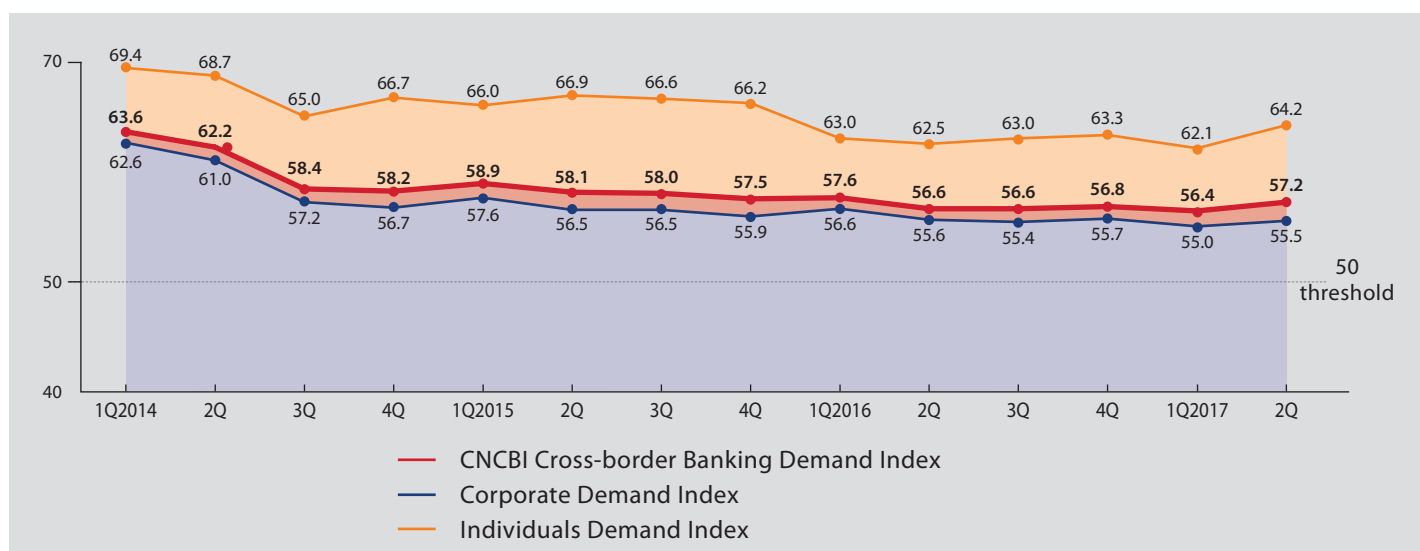
Diffusion indices have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading of above 50 indicates a strengthening of demand, and below 50 a weakening.

### 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



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