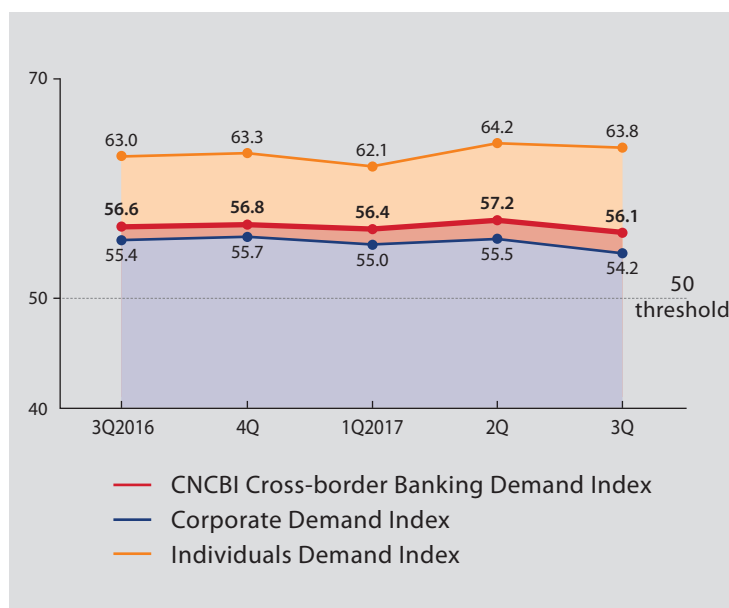


3Q cross-border banking demand softens considerably

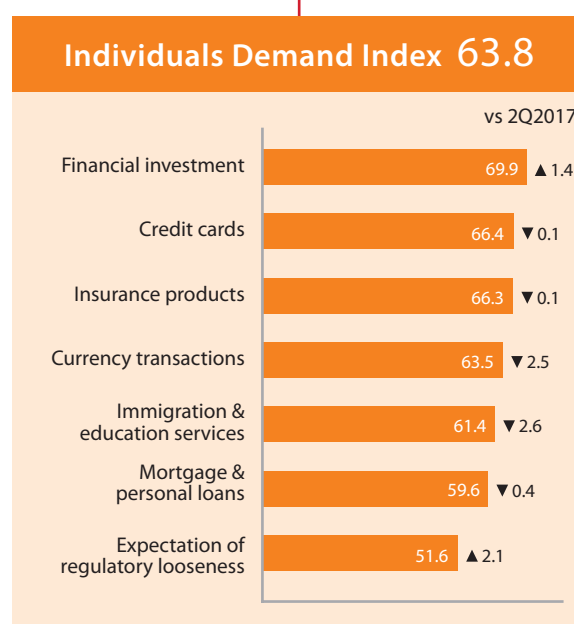
Outward direct investment slowdown poses drag on cross-border corporate finance

www.cncbinternational.com/cross-border-index



- Growth of cross-border banking demand from mainland China in 3Q2017 slows after 2Q's surge as Corporate and Individuals Demand Indices slide
- Corporate demand softens more noticeably as outward direct investment (ODI) slumps after years of high growth due to central government's tighter controls, hampering cross-border financing and related activities directly
- Growth of individuals' demand slows down relatively moderately. Demand for currency transactions and immigration & education services falls relatively sharper as a result of the higher level of government control over the outflows of individual capital whereas financial investment demand strengthens on Hong Kong's upbeat stock market
- Encouragingly, an increase in the corporate and individuals sub-indices of expectation of regulatory looseness suggests an impending rebound of cross-border banking demand

CNCBI Cross-border Banking Demand Index 56.1



1. Key analysis

- According to the 2Q2017 survey results, 3Q2017 CNCBI Cross-border Banking Demand Index drops 1.1 to 56.1, indicating that 3Q demand for cross-border banking services from mainland China is to drop significantly after the remarkable 2Q increase
- Corporate and Individuals Demand Indices drop 1.3 and 0.4 respectively to 54.2 and 63.8, implying that corporations' and individuals' cross-border banking demand weakens, with the former at a greater speed

Corporate demand softens significantly – ODI plunge slows down corporations' cross-border financing and related activities

- Except for the sub-index of expectation of regulatory looseness, all the other 8 corporate demand sub-indices fall in 3Q. The loans, bond issuance, currency transactions and settlement & cash management sub-indices show significant drops of 3.1, 2.0, 2.0 and 1.9 respectively from 2Q's 59.0, 54.9, 58.5 and 57.6 to 55.9, 52.9, 56.5 and 55.7. The asset management & financial consultancy, structured finance, trade finance and derivative products sub-indices fall moderately by 1.1, 0.7, 1.4 and 1.0 respectively from 2Q's 57.5, 54.1, 55.0 and 54.1 to 56.4, 53.4, 53.6 and 53.1
- In terms of the rankings, currency transactions moves up 1 spot to the top as loans drops to 3rd. Asset management & financial consultancy overtakes settlement & cash management with a rise from 4th to 2nd as the latter drops from 3rd to 4th with trade finance remaining 5th. With a notch up to 6th, structured finance outstrips bond issuance which slides from 6th to 8th while derivative products claims 7th place
- The noticeable softening of corporate demand in 3Q2017 is attributable to the significant drop of ODI in 1H2017. Improvement in the macroeconomic environment since the dawn of this year with factors such as mainland China's stabilising economy, accelerating recovery in the global economy and RMB appreciation should have helped strengthen cross-border banking demand from corporations. But, emerging effects of mainland authority's strengthening controls over ODI since 2H2016 against fraudulent ODIs and investments in non-compliance with the country's industrial policy have caused a 56.1% y-o-y plunge in non-financial ODIs from January to April this year, curbing ODI related cross-border financing demand for loans, structured finance and bond issuance while also weakening cross-border financing related demand for settlement & cash management, asset management & financial consultancy and derivative products. Demand for currency transactions also weakens due in part to the mainland regulator's control over capital outflows and in another to remaining market expectation on RMB depreciation. Demand for trade finance slides unexpectedly. In fact, the trade volume between mainland China and Hong Kong recovers quickly this year, logging a y-o-y increase of 10% or above. Trade finance demand is likely to be suffering from a lag effect and hence is expected to bounce back shortly

Individuals' demand subsides moderately overall, while financial investment gains steam

- Of the 7 individual demand sub-indices, 5 slide in 3Q with immigration & education services and currency transactions showing the biggest fall of 2.6 and 2.5 from 2Q's 64.0 and 66.0 to 61.4 and 63.5 respectively. Insurance products, credit cards and mortgage & personal loans drop slightly by 0.1, 0.1 and 0.4 respectively whereas financial investment posts a further

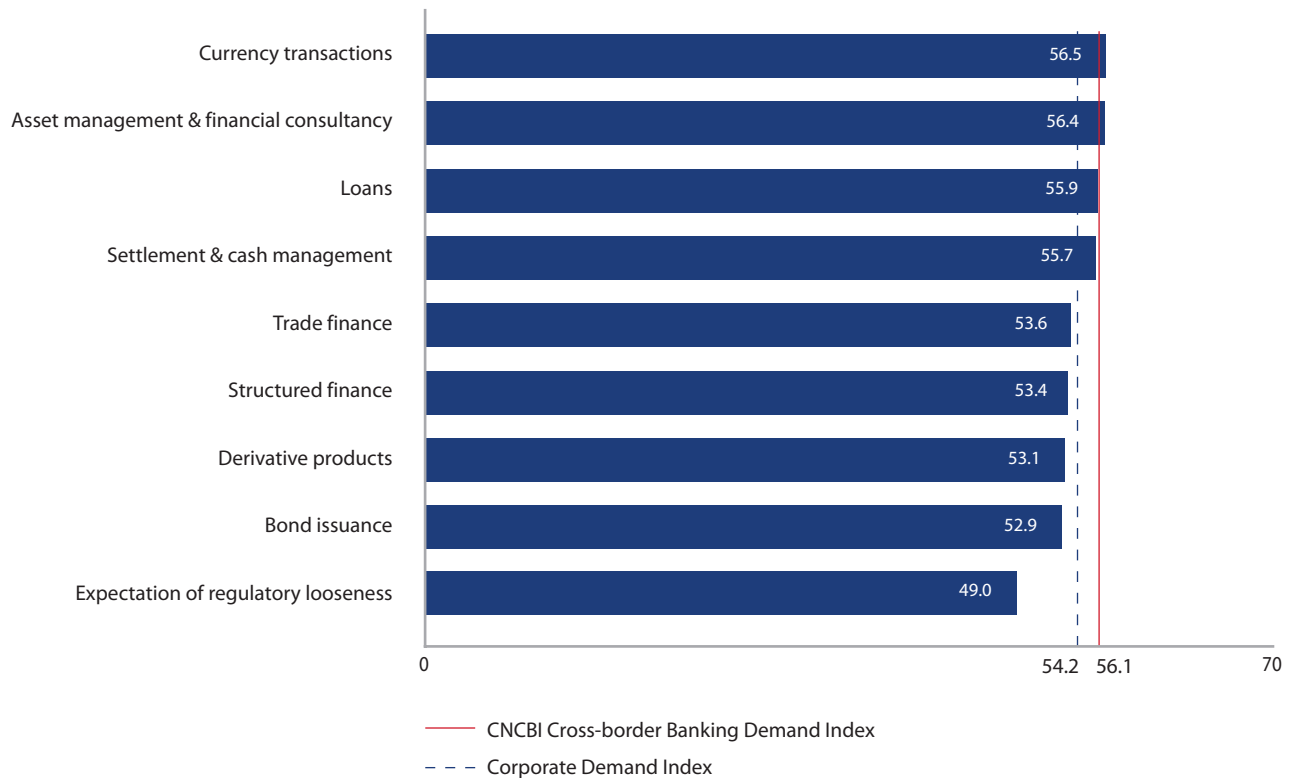
increase of 1.4 to 69.9

- The sub-indices rank the same as 2Q: financial investment, credit cards, insurance products, currency transactions, immigration & education services and mortgage & personal loans
- Currency transactions demand from individuals weakens considerably, as does demand from corporations, as a result of the government's control over capital outflows and prolonged market expectation on RMB depreciation. Falling demand for credit cards and immigration & education services is believed to be related also to the government grip on capital outflows. Insurance products demand retreats in 3Q after a strong 2Q rise, revealing the emergence of the effect of the Chinese government's curb on investment-linked insurance products. After a 2Q rebound, mortgage & personal loans demand falls possibly on the Hong Kong government's April announcement of the 15% "one contract for multiple flats" stamp duty. The further increase in financial investment demand constitutes the only bright spot of individuals' 3Q cross-border banking demand. The Hong Kong stock market remains robust under the effect of Shenzhen-Hong Kong Stock Connect and the inclusion of A-shares in the MSCI, attracting mainland capital into the city's investment market and boosting cross-border demand for stocks and other financial investments

Corporations' and individuals' expectation of regulatory looseness on the rise

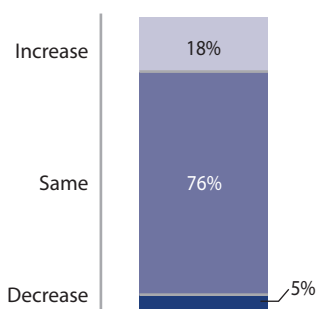
- The 3Q2017 expectation of regulatory looseness sub-indices from both the corporate and individuals sides post a substantial rise of 3.0 and 2.1 respectively from 46.0 and 49.5 to 49.0 and 51.6, reflecting that mainland corporations and individuals expect the controls over cross-border capital flows to slow down or even loosen after last year's tightening. The legal and regulatory environment for cross-border banking services will in turn improve progressively. The RMB has embarked on a stabilising trend since the dawn of this year towards apparent appreciation recently. Since the opening up of the mainland's financial markets remains a major policy target of the central government, gradual relaxation of cross-border capital flows and subsequent improvement of the cross-border banking service environment can be expected. Corporations and individuals' understanding of the mainland authority's stronger regulatory grip is deeper and more rational
- On the corporate side, the substantial rise of 3.0 of the sub-index signifies that mainland corporations have come to terms with the true purpose of 4Q2016's government policies regarding the approval requirement for capital projects involving capital outflows of more than US\$5 million, as well as controls of illegal capital flight. It is anticipated that the negative impact of such policies on the legal and regulatory environment for cross-border banking will ease gradually
- The 2.1 increase in the individuals sub-index also reflects mainland residents' restored confidence over the legality of capital outflows and subsequently demand for compliant cross-border banking services. Surely, stronger regulatory controls since last year on individual foreign currency purchases, in addition to crackdown on underground banks and the bar on cross-border investment-linked insurance product purchases have caused mainland residents to think negatively of cross-border banking services but such negativity is being rectified and more people now believe that the laws and regulations regarding cross-border banking services are steadily improving

2. Corporate demand sub-indices

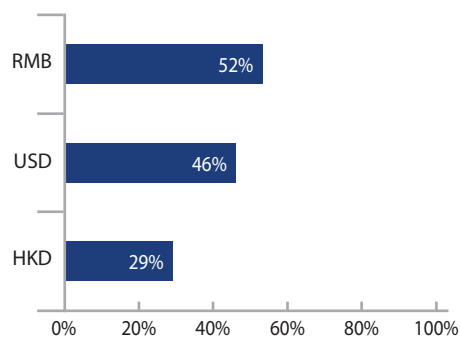


Currency transactions (56.5)

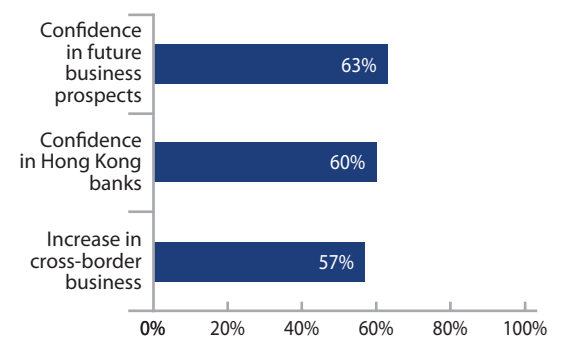
Demand expectation



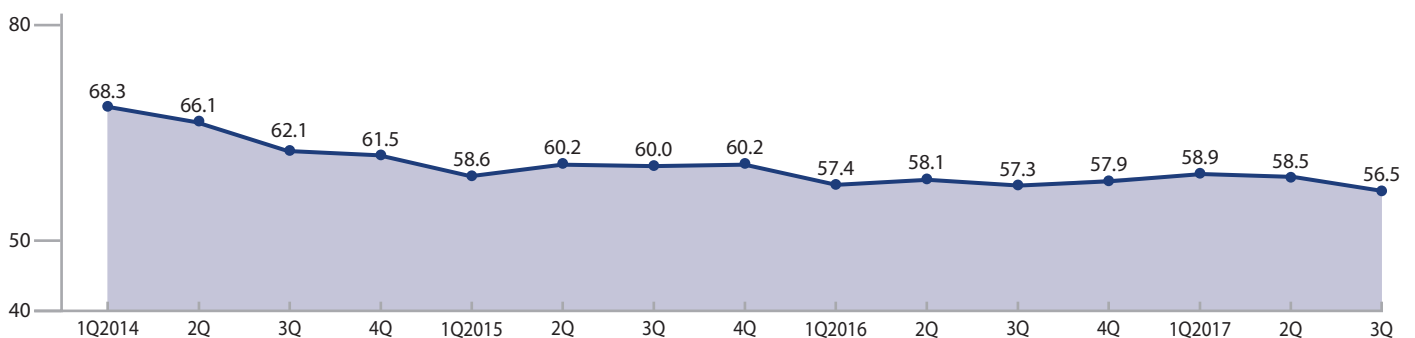
Choice of Currency



Demand drivers

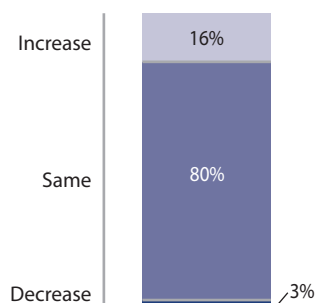


Demand trend

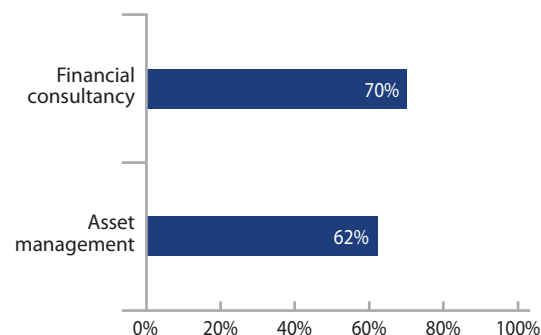


Asset management & financial consultancy (56.4)

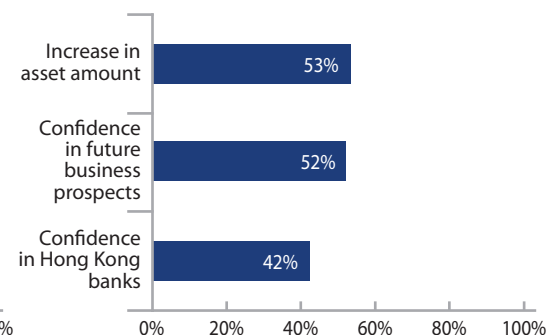
Demand expectation



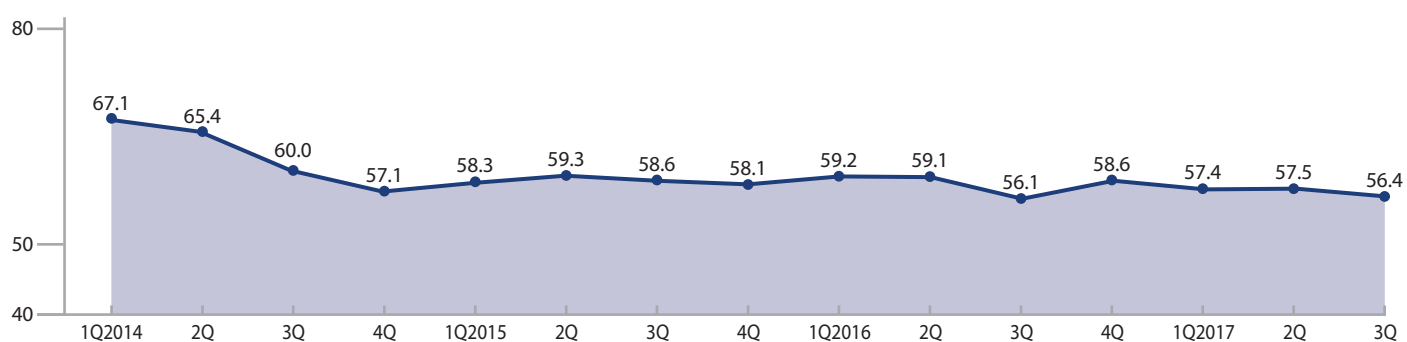
Choice of products/services



Demand drivers

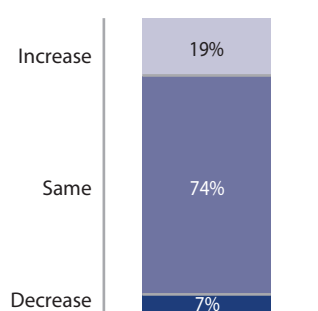


Demand trend

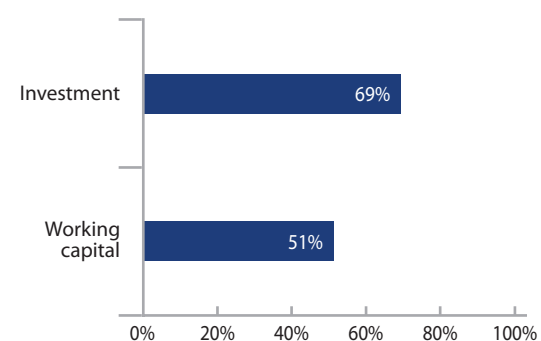


Loans (55.9)

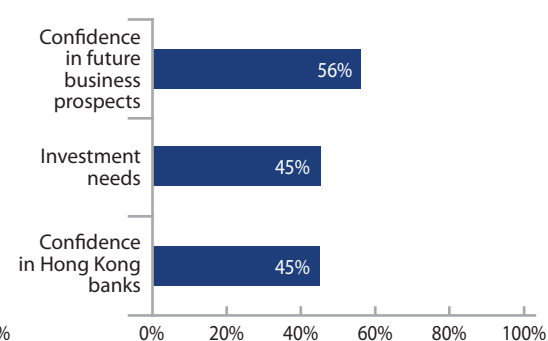
Demand expectation



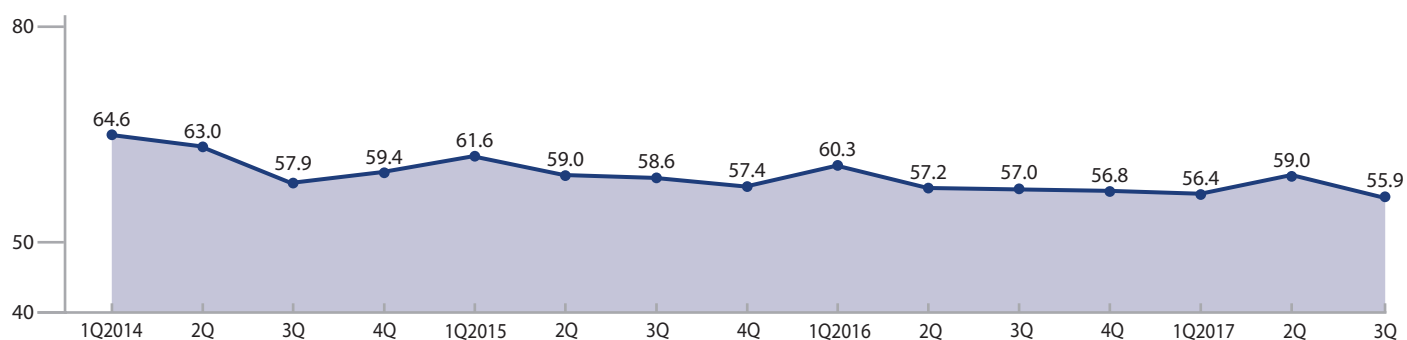
Choice of products/services



Demand drivers

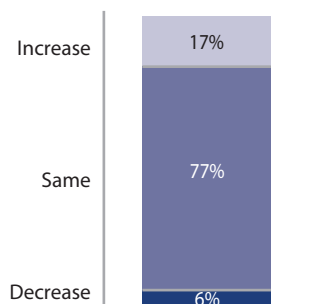


Demand trend

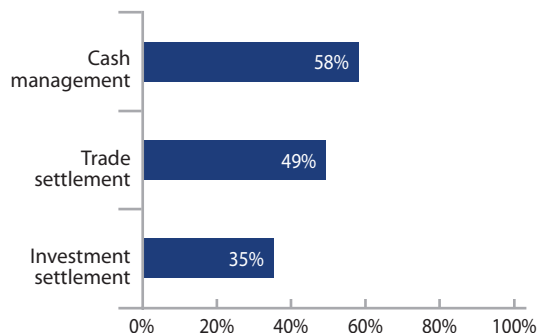


Settlement & cash management (55.7)

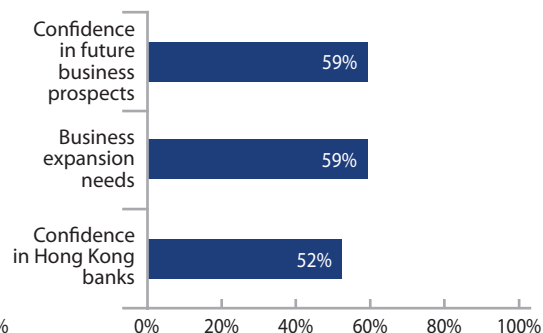
Demand expectation



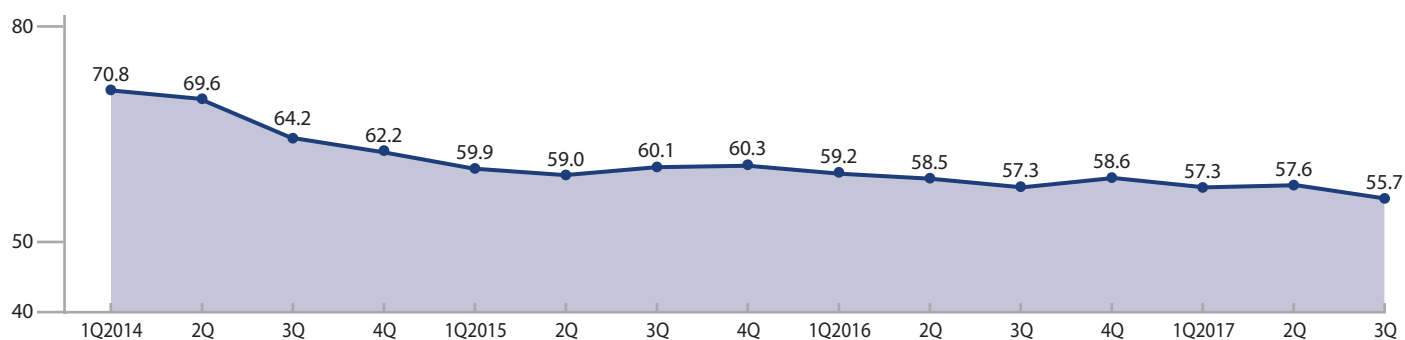
Choice of products/services



Demand drivers

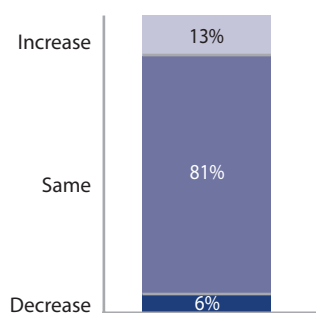


Demand trend

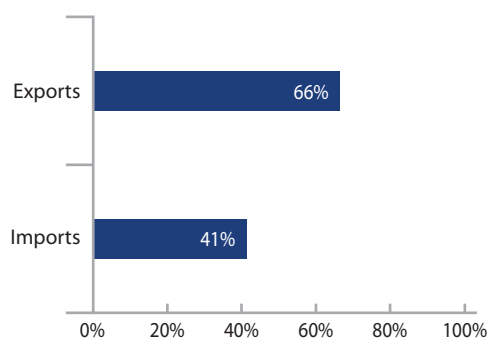


Trade finance (53.6)

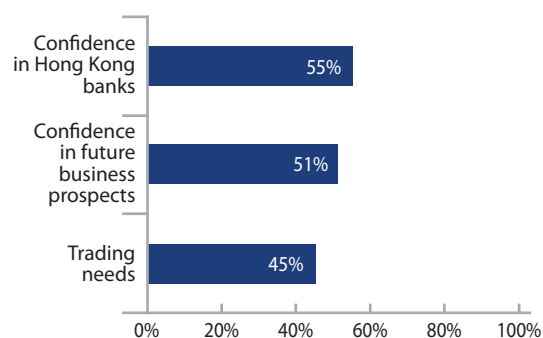
Demand expectation



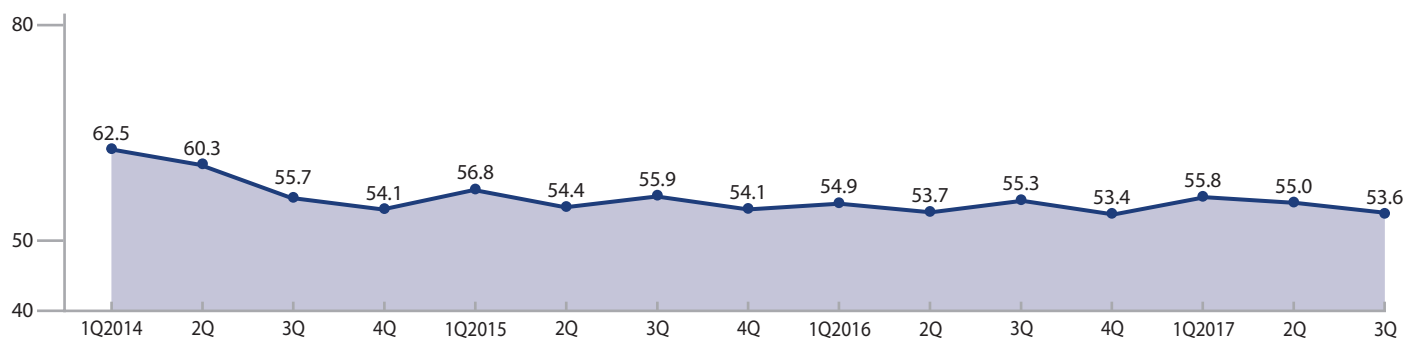
Choice of products/services



Demand drivers

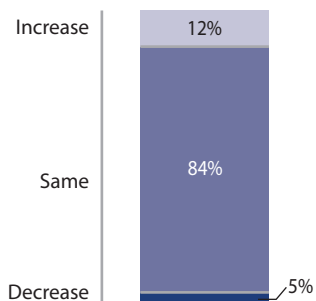


Demand trend

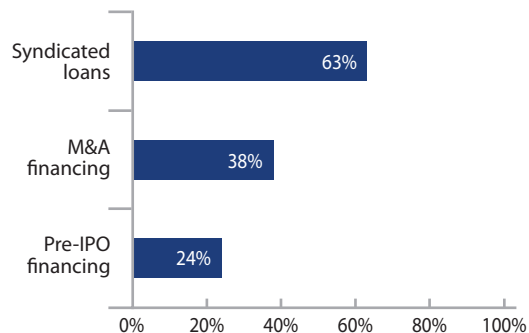


Structured finance (53.4)

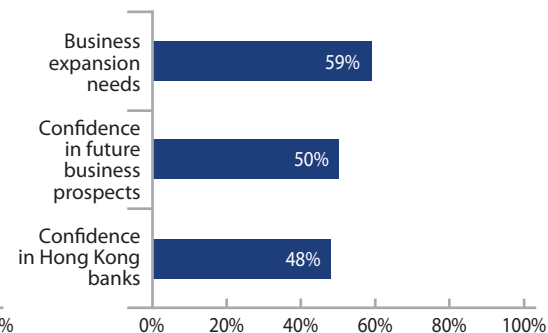
Demand expectation



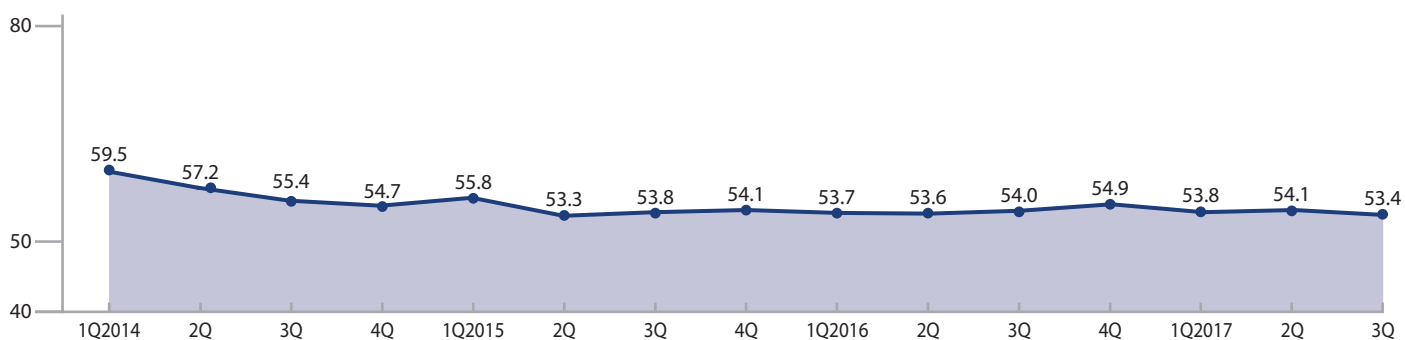
Choice of products/services



Demand drivers

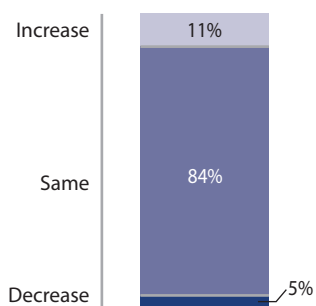


Demand trend

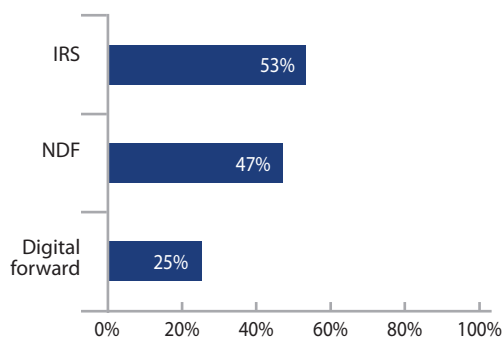


Derivative products (53.1)

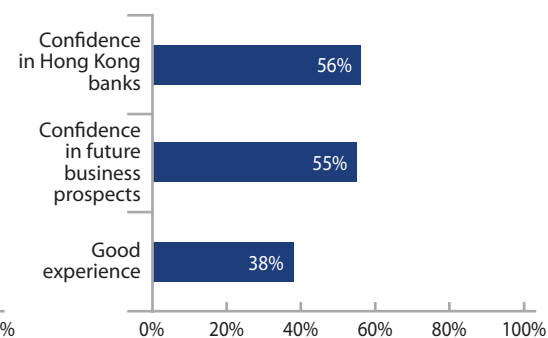
Demand expectation



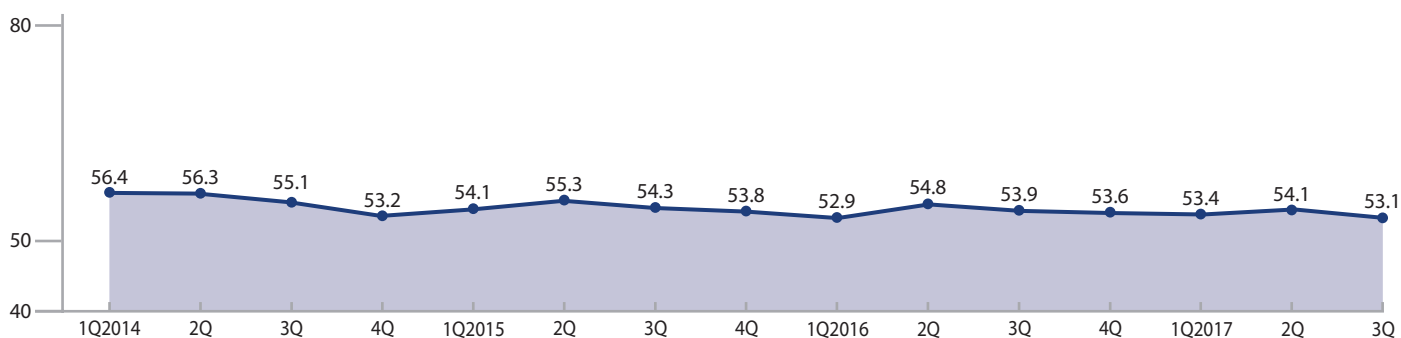
Choice of products/services



Demand drivers

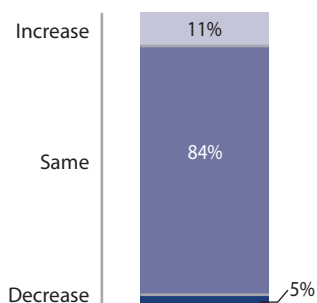


Demand trend

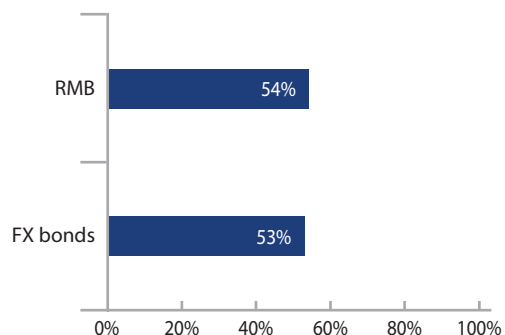


Bond issuance (52.9)

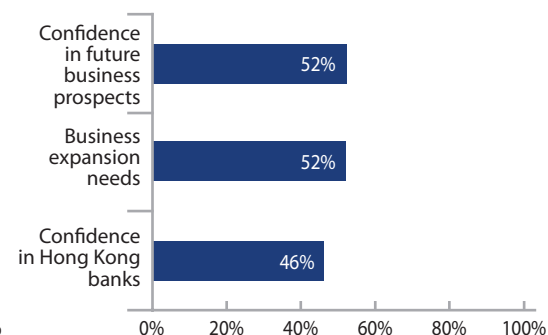
Demand expectation



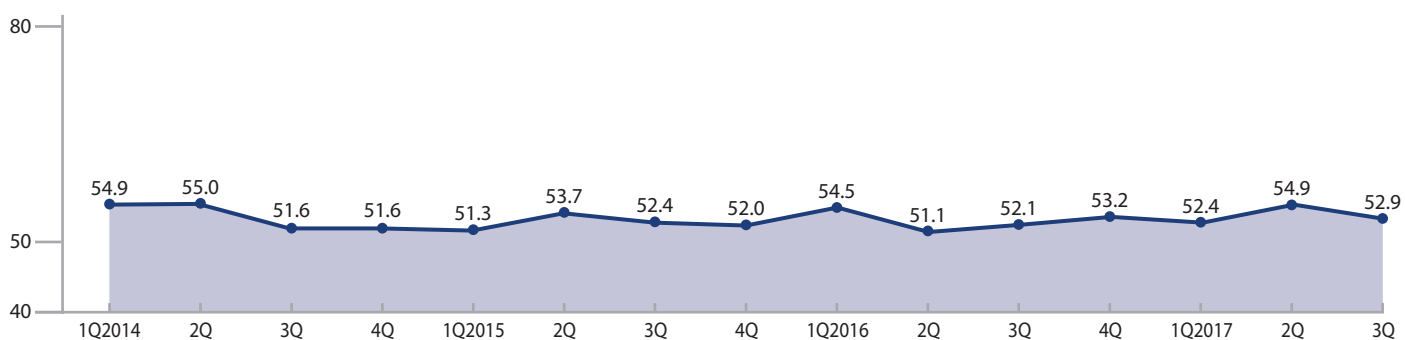
Choice of currency



Demand drivers

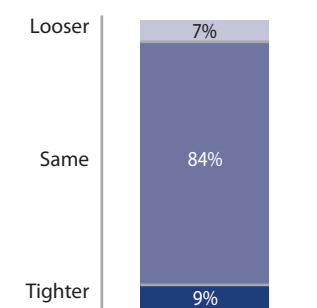


Demand trend

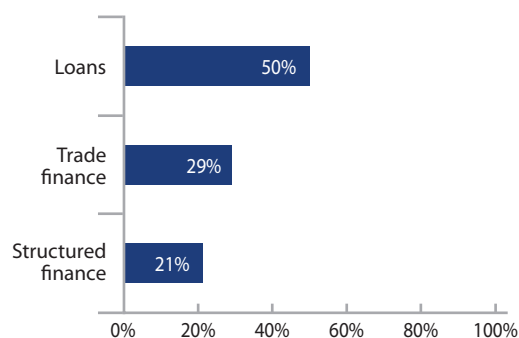


Expectation of regulatory looseness (49.0)

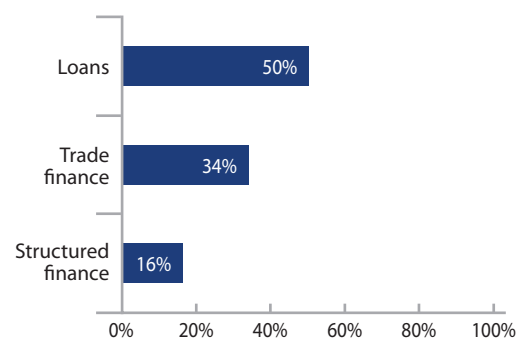
Expectation of laws and regulations



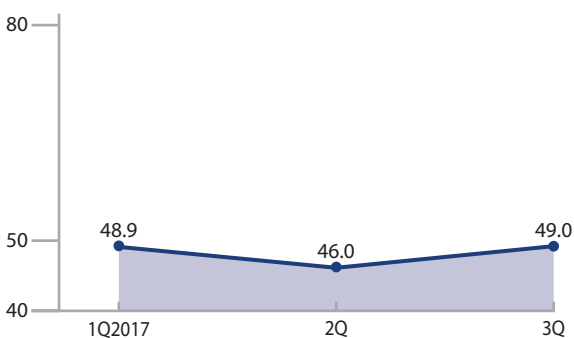
Expected regulatory loosening



Expected regulatory tightening

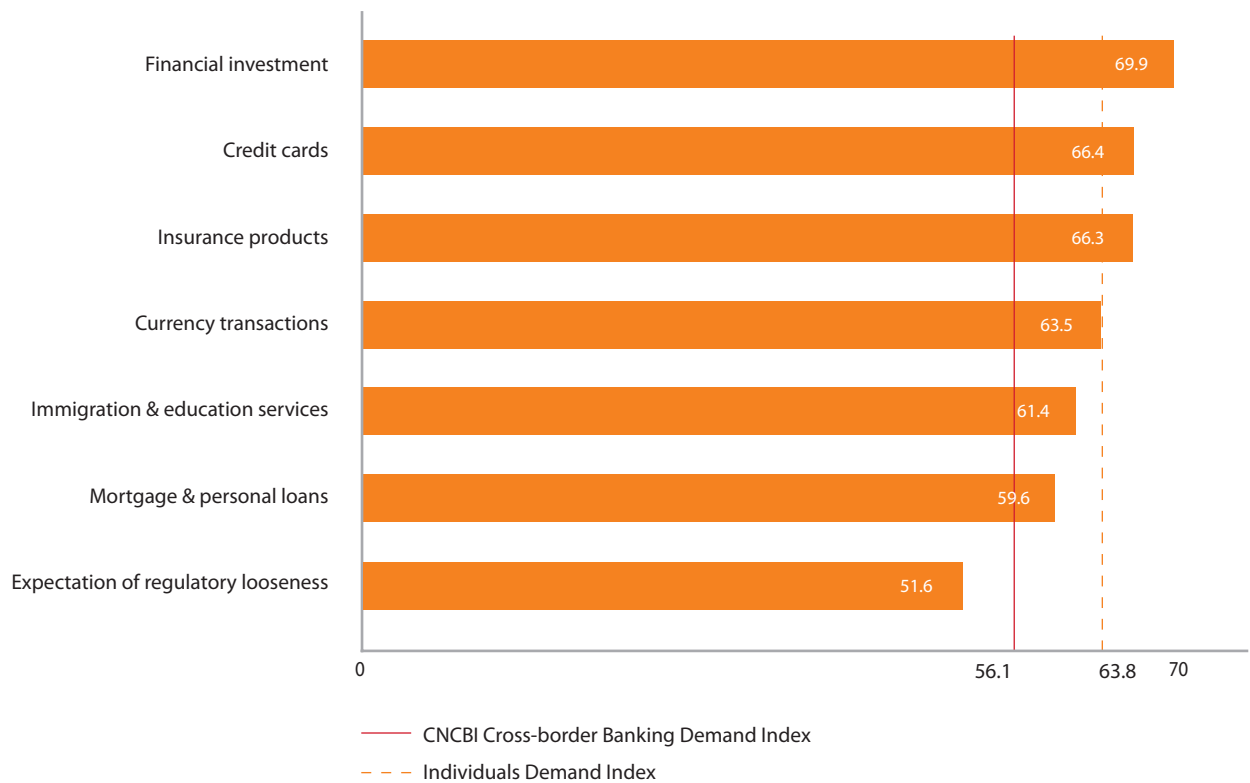


Expectation trend



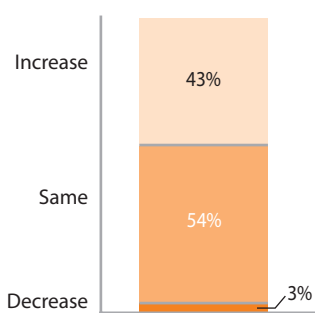
Note: This sub-index is introduced since 1Q2017

3. Individuals demand sub-indices

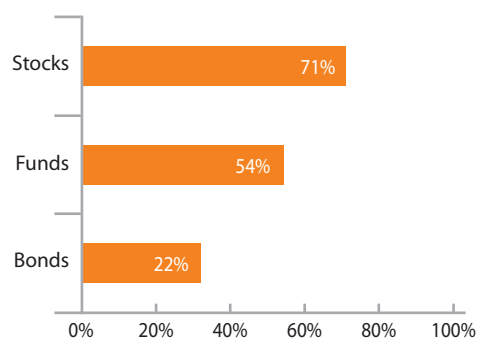


Financial investment (69.9)

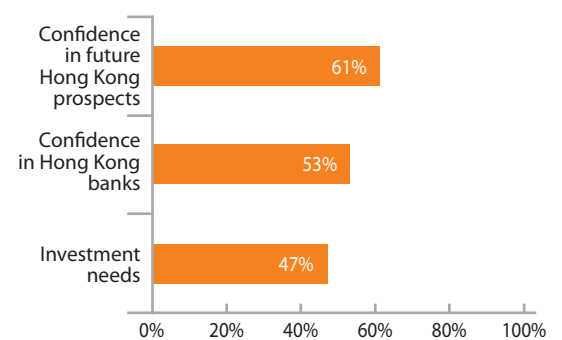
Demand expectation



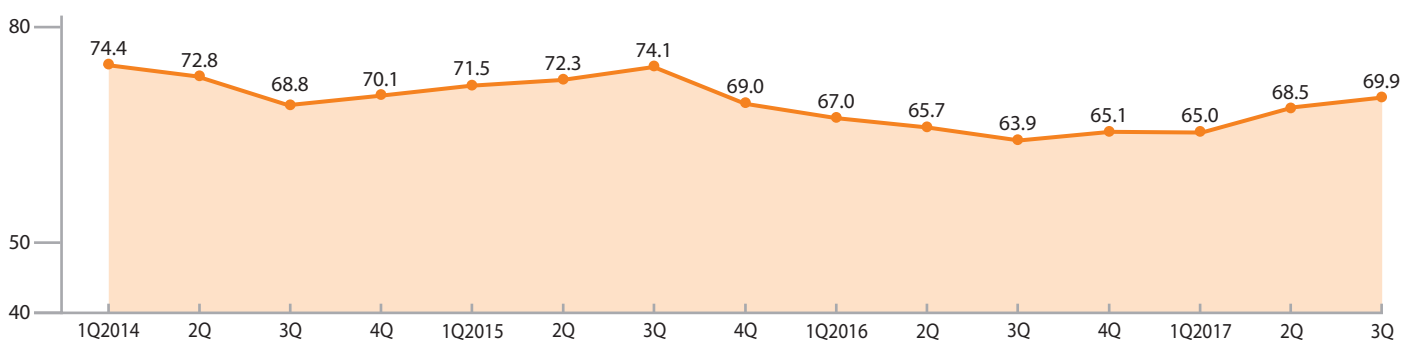
Choice of products/services



Demand drivers

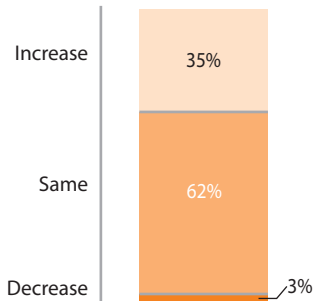


Demand trend

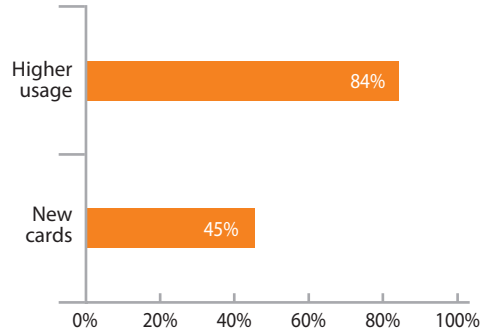


Credit cards (66.4)

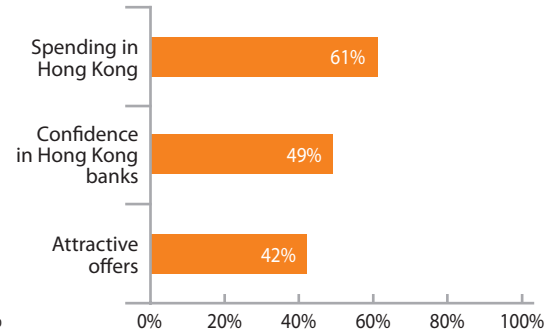
Demand expectation



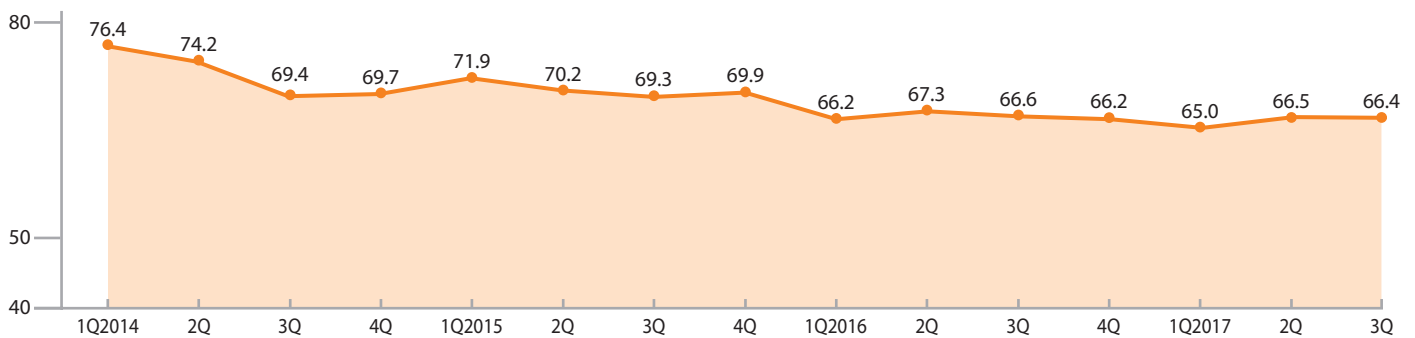
Choice of products/services



Demand drivers

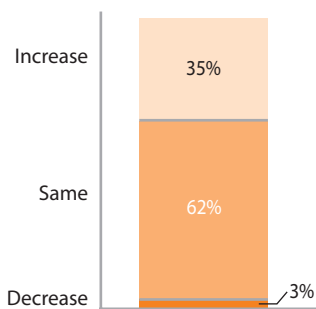


Demand trend

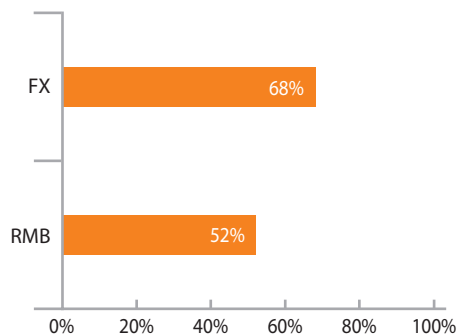


Insurance products (66.3)

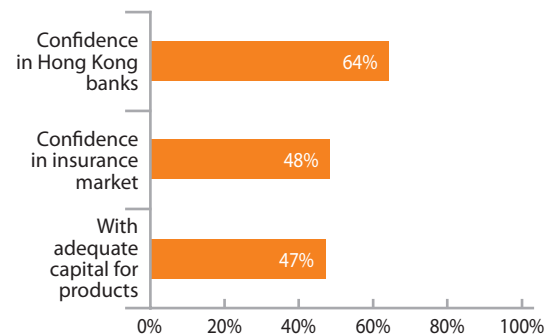
Demand expectation



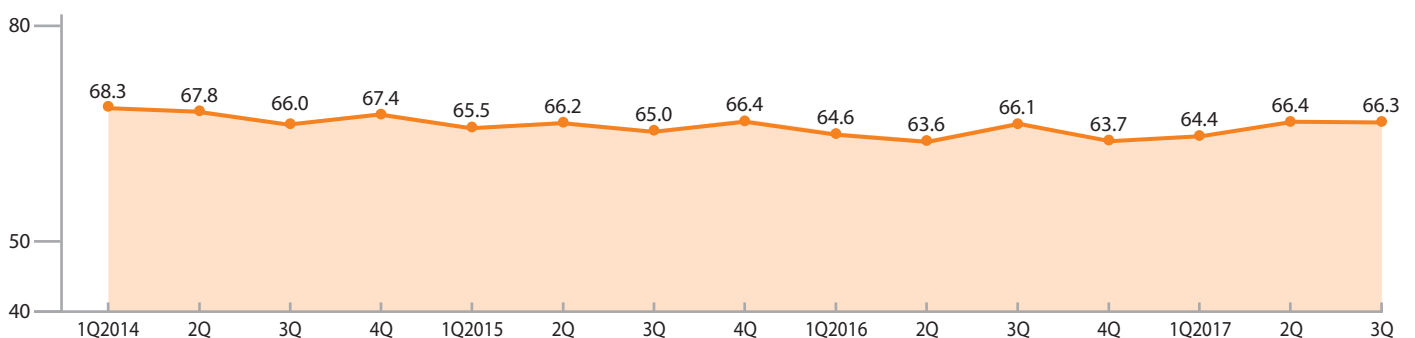
Choice of currency



Demand drivers

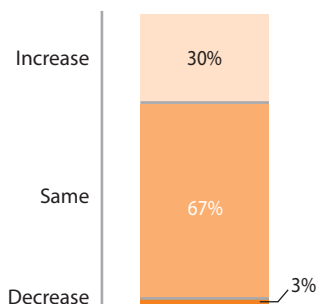


Demand trend

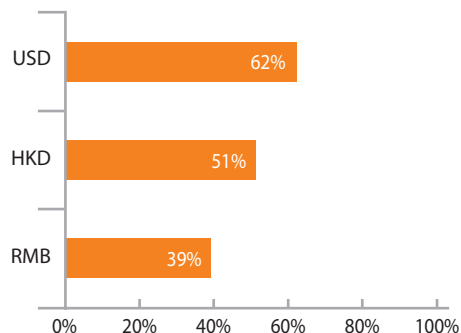


Currency transactions (63.5)

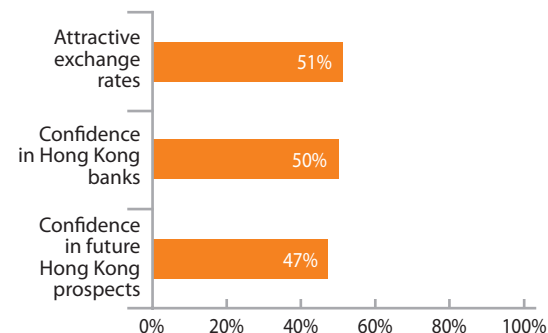
Demand expectation



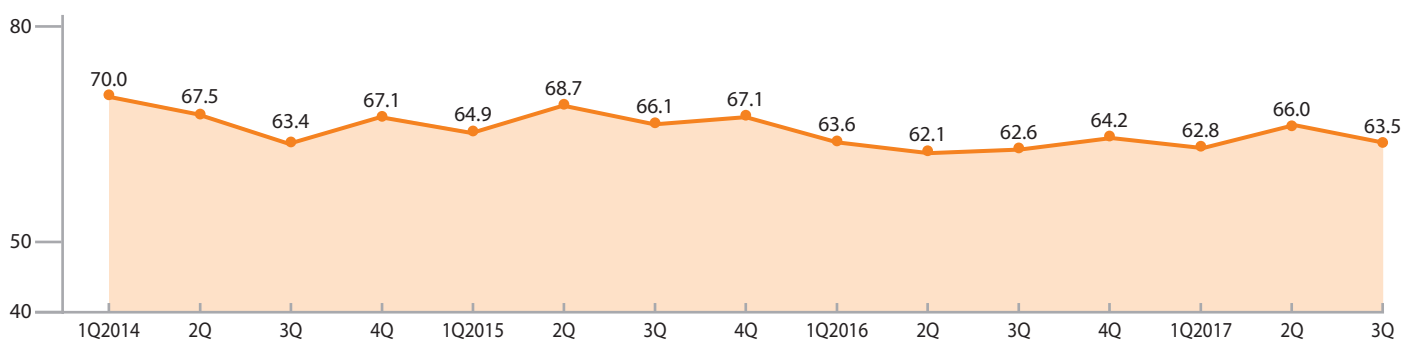
Choice of currency



Demand drivers

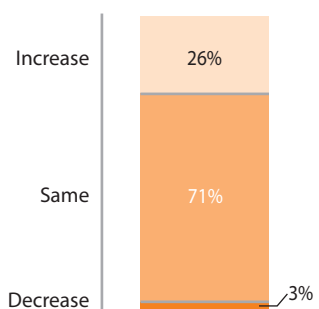


Demand trend

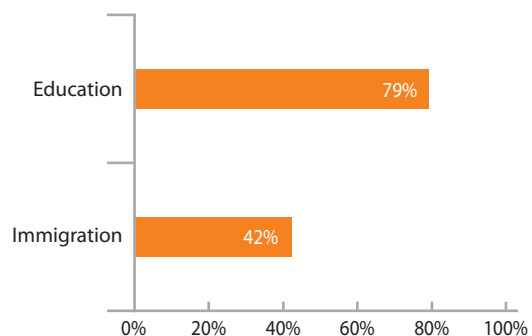


Immigration & education services (61.4)

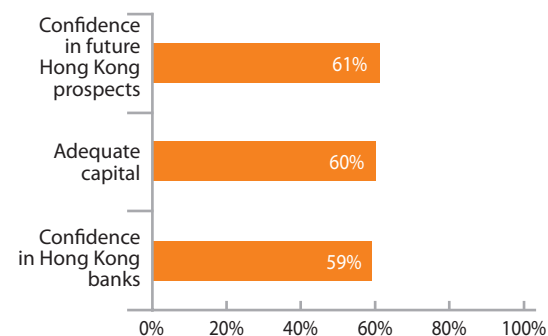
Demand expectation



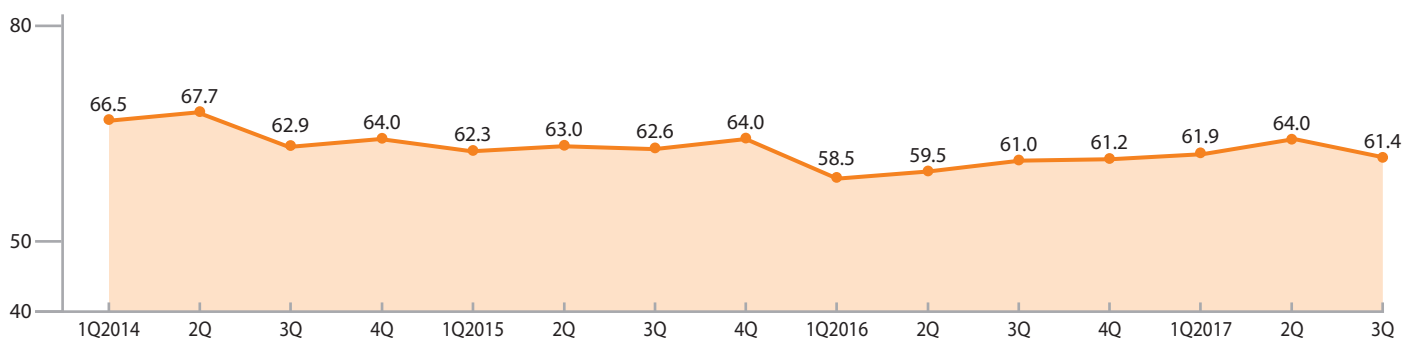
Choice of products/services



Demand drivers

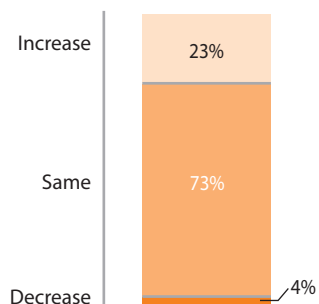


Demand trend

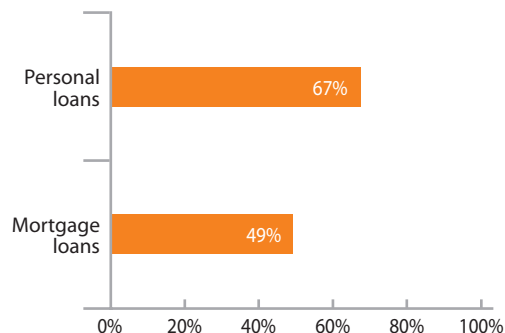


Mortgage & personal loans (59.6)

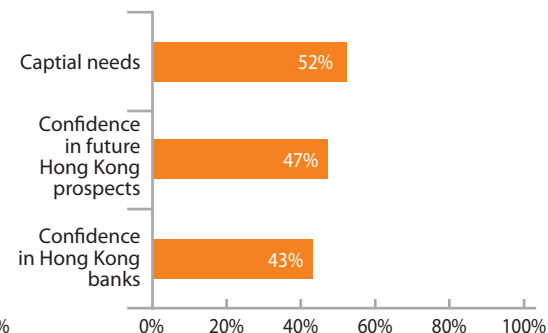
Demand expectation



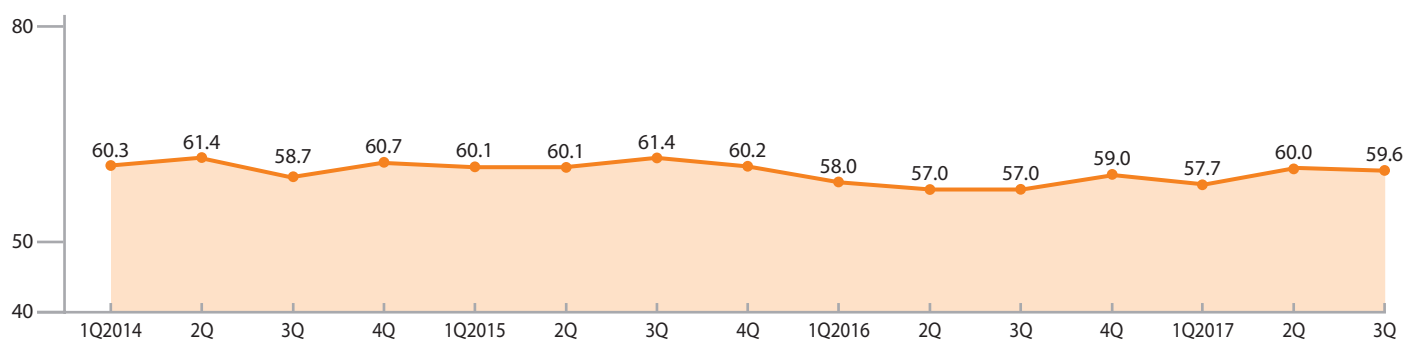
Preferred products/services



Demand drivers

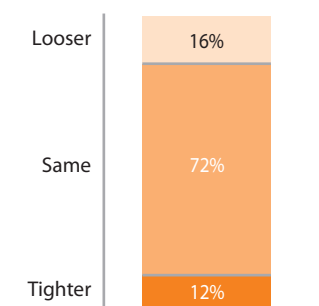


Demand trend

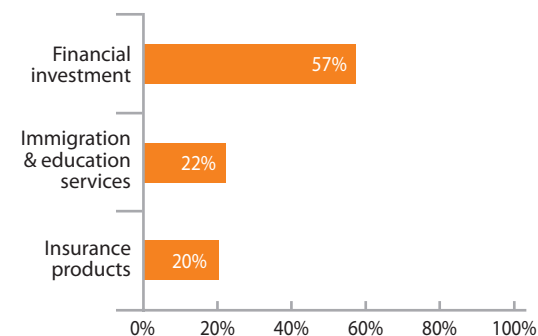


Expectation of regulatory looseness (51.6)

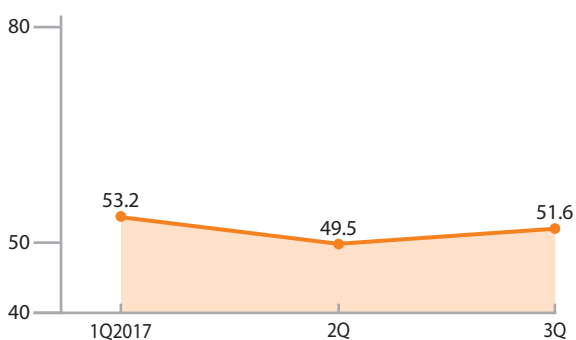
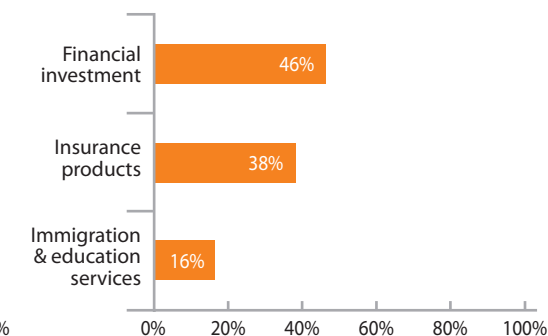
Expectation of laws and regulations



Expected regulatory loosening



Expected regulatory tightening



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.

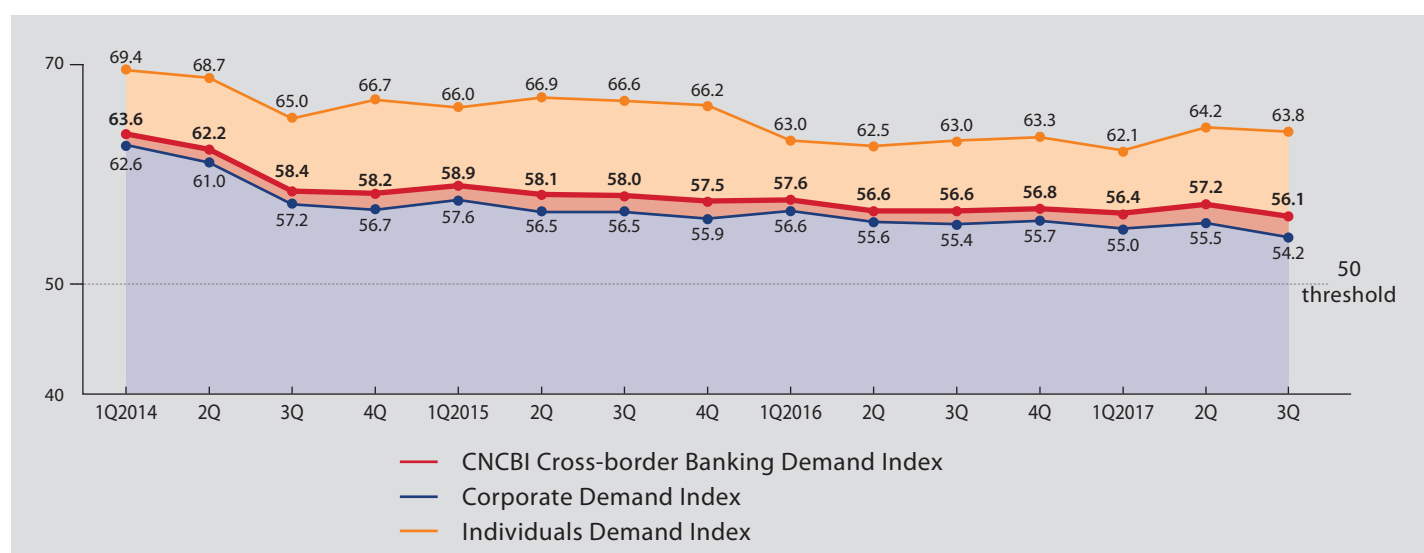
Diffusion indices have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading of above 50 indicates a strengthening of demand, and below 50 a weakening.

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。