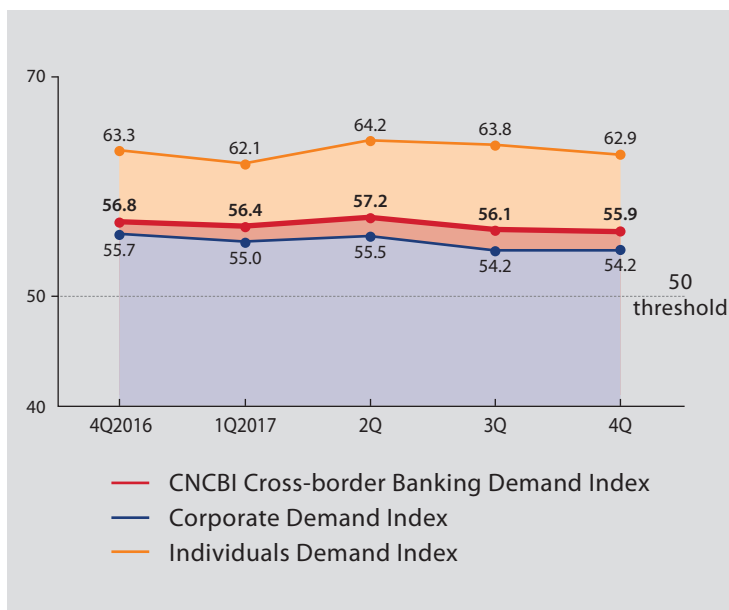


Deceleration of cross-border demand to ease significantly

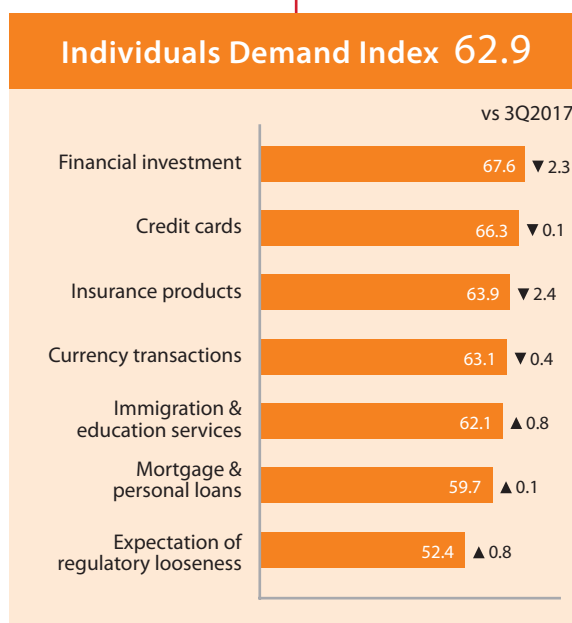
Corporate demand stabilising and upward while individuals demand softening but still high

www.cncbinternational.com/cross-border-index



- Growth of cross-border banking demand from mainland China to Hong Kong to soften continuously in 4Q but at a markedly slower pace than in 3Q
- Corporate Demand Index on par with 3Q as expectation of regulatory looseness and bond issuance sub-indices drop while the others rise or remain unchanged, indicative of stabilising and upward actual demand from corporations for cross-border banking on the back of improving macroeconomic environment
- Individuals Demand Index to slide further but remain at a high, suggesting continuously strong demand from mainland individuals for Hong Kong's banking services with immigration & education services and mortgage & personal loans sub-indices climbing and financial investment and insurance products sub-indices dropping notably
- As regards expectation of regulatory looseness, corporate sub-index shows obvious retreats after 3Q's surge as individuals sub-index continues its rise on 3Q's strength

CNCBI Cross-border Banking Demand Index 55.9



1. Key analysis

- According to 3Q2017's survey results, the 4Q2017 CNCBI Cross-border Banking Demand Index stands at 55.9, falling further by merely 0.2 as compared with 3Q's drop of 1.1, indicating that demand from mainland China for Hong Kong's cross-border banking services may be slacking but at a much slower pace characteristic of a stabilising process
- Corporate Demand Index stays put at last quarter's 54.2, indicating steady demand for overall cross-border banking services from mainland corporations. In fact, most of the sub-indices reflecting actual corporate demand pose a rebound. Individuals Demand Index slips slightly but remains at a 62.9 high, implying that mainland individuals' demand for Hong Kong's banking services is still strong

Corporate demand to stabilise with most actual demands set for rebound on improving macroeconomic environment

- Of the Corporate Demand Sub-indices, 6 bounce back from 3Q. The settlement & cash management sub-index shows the most remarkable growth of 1.5 to reach 57.2, while the currency transactions, asset management & financial consultancy, loans, trade finance and derivative products sub-indices rise moderately to 56.9, 56.7, 56.4, 53.9 and 53.3 respectively from 56.5, 56.4, 55.9, 53.6 and 53.1. The structured finance sub-index remains at 53.4 whereas bond issuance plunges to 51.5 from 52.9
- As for the sub-index rankings: settlement & cash management rises from the 4th to claim the top spot. Currency transactions, asset management & financial consultancy and loans drop one spot to the 2nd, 3rd and 4th respectively. Trade finance, structured finance, derivative products, bond issuance and expectation of regulatory looseness rank the same from 5th to 9th
- The macroeconomic environment that supports corporate cross-border banking demand has improved overall since 3Q. The mainland economy stabilises further as the global economic recovery accelerates despite the weakening prospects of the US. The RMB appreciates notably while the drop of Outbound Direct Investment (ODI) narrows. The Central Government provides clearer indications of capital controls, specifying that real, compliant and industrial-policy adhered outward investments are still encouraged. These improvements in the macroeconomic environment may not have been fully understood and accepted by the market but they nevertheless restore corporations' confidence in acquiring cross-border banking services, causing the majority of corporate demand to stabilise towards future growth.
- The rebound of cross-border loans and stabilisation of structured finance are encouraging, implying a recovery of fundamental cross-border financing activities which paves the way for the full recovery of overall cross-border banking demand. The slight increase in currency transactions is likely to be a result of the acceleration of RMB appreciation, while the rebound of trade finance demand reflects the recovery lag of trade between mainland China and Hong Kong since earlier this year. The further drop in bond issuance is indicative of the continuous downturn of the "dim-sum bond" market. It seems that "dim-sum bond" issuers and investors are yet to rekindle their confidence in the market

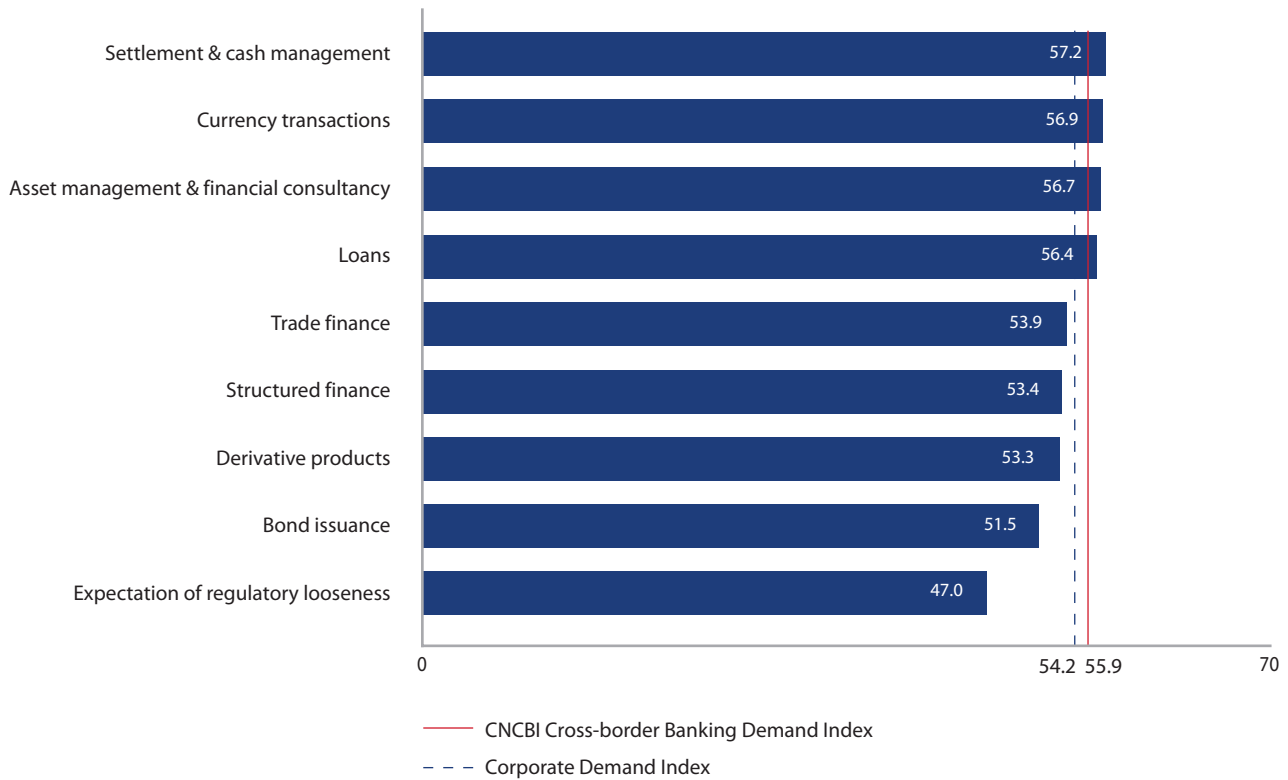
Individuals demand to soften but remain high

- Of the Individuals Demand Sub-indices, 4 decrease and 2 increase. The decline in the financial investment and insurance products sub-indices is significant, respectively from 69.9 and 66.3 to 67.6 and 63.9. The credit cards and currency transactions sub-indices drop slightly from 66.4 and 63.5 to 66.3 and 63.1 respectively. On the other hand, the immigration & education services and mortgage & personal loans sub-indices rise moderately from 61.3 and 59.6 to 62.1 and 59.7
- There are no changes to the sub-index rankings: financial investment, credit cards, insurance products, currency transactions, immigration & education services and mortgage & personal loans rank the same from 1st to 7th
- Despite the downtrend, most of the sub-indices remain above the 60 threshold, suggesting continuous strength in cross-border banking service demand from mainland individuals. Falling demand for financial investment and insurance products is due in part to a retreat from 4 consecutive quarters of strong growth and in another to the mainland authority's control on personal capital outflows and in particular requirements of capital usage disclosure in addition to the cross-border investment-linked insurance product ban, which proves to have a rather big impact on cross-border demand. Despite the capital outflows controls, demand for credit cards holds strong at a high as the volume of mainland tourists and their spending in Hong Kong increase. Softening demand for currency transactions is also related to the control on capital outflows but accelerating RMB appreciation is keeping demand in check. Demand for immigration & education services also strengthens. A moderate increase in mortgage & personal loans demand underscores mainlanders' steady demand for Hong Kong properties as restrictions on home purchases by mainland individuals continue to see no changes

Corporations lower expectation of regulatory looseness as individuals grow positive

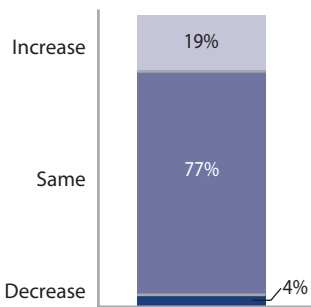
- On the corporate side, the sub-index of expectation of regulatory looseness retreats from 49.0 to 47.0 in 4Q after last quarter's significant increase. This unexpected trend underpins that mainland corporations' understanding of cross-border banking related regulations has been inconsistent and they were oversensitive to such regulations. In fact, the mainland authority has clarified its policy of the restrictions on corporate capital outflows, especially for ODI, and it has also relaxed its control. Meanwhile, the ODI drop has narrowed. It seems that the market has not effectively understood and grasped such changes at the time of this survey. If this is the case, the corporate sub-index of expectation of regulatory looseness is likely to bounce back in the first quarter of next year
- Mainland regulator's control on individuals' capital outflows in 3Q also loosened, with an emphasis that legitimate capital outflows are still encouraged. Meanwhile, mainlanders' understanding of legal capital outflows is increasing and so is their confidence in cross-border banking demand environment. As such, the individuals sub-index of expectation of regulatory looseness rises further on last quarter's surge. This trend is expected to continue

2. Corporate demand sub-indices

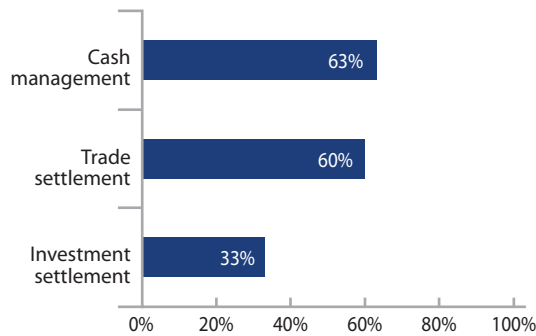


Settlement & cash management (57.2)

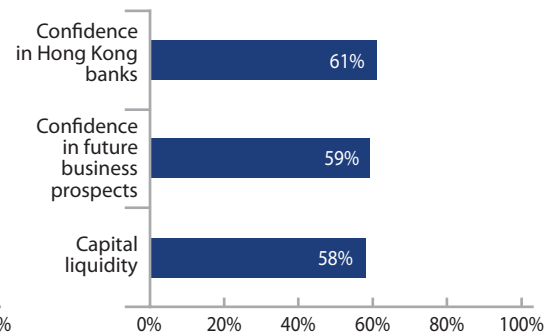
Demand expectation



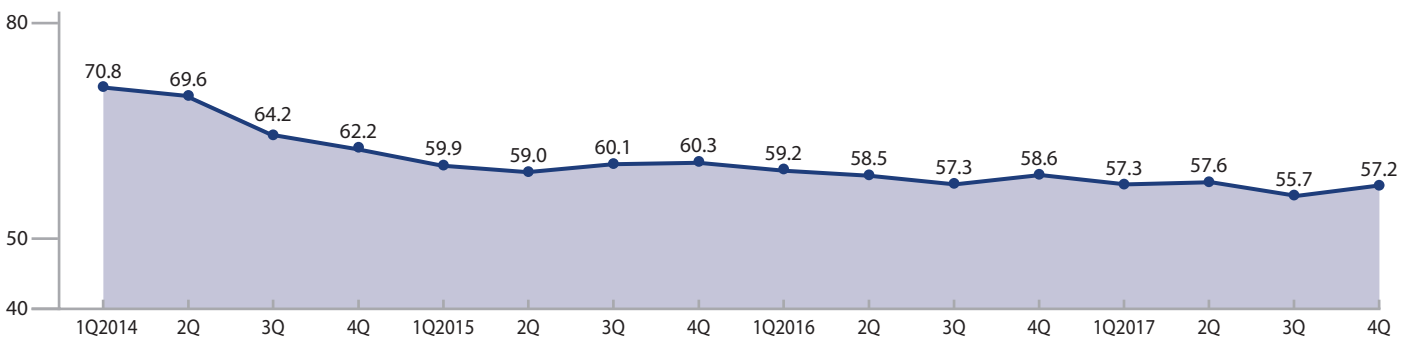
Choice of products/services



Demand drivers

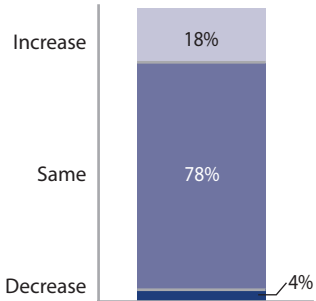


Demand trend

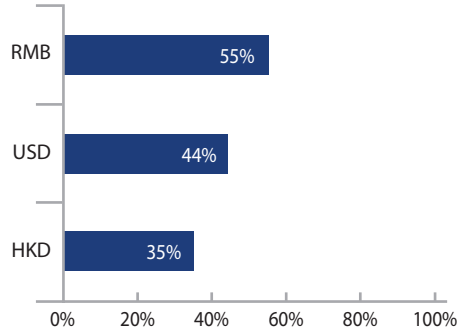


Currency transactions (56.9)

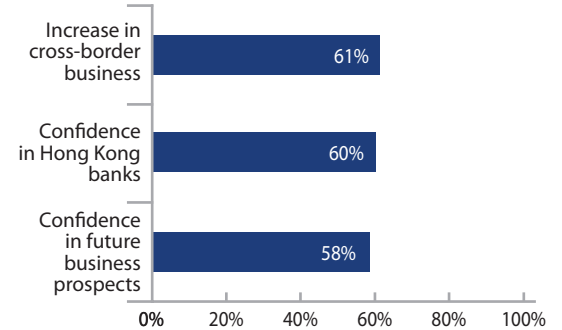
Demand expectation



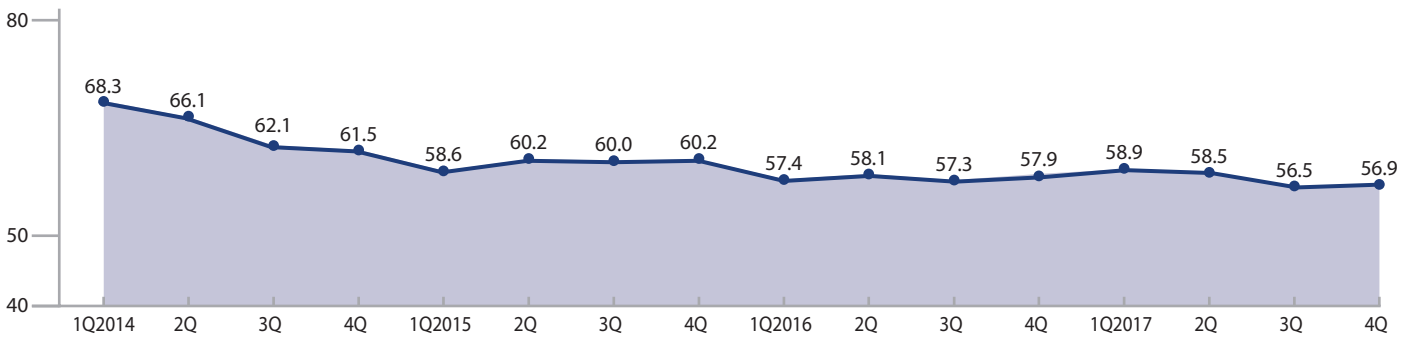
Choice of Currencies



Demand drivers

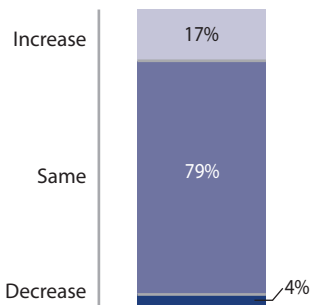


Demand trend

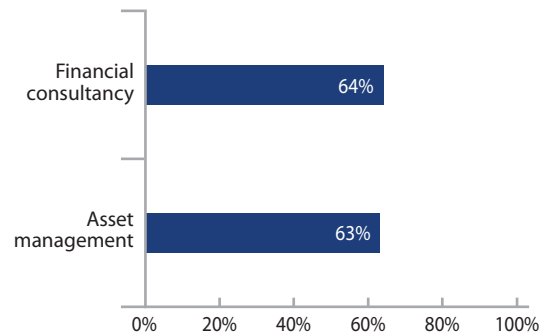


Asset management & financial consultancy (56.7)

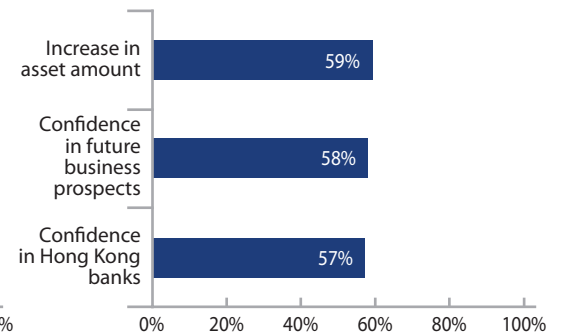
Demand expectation



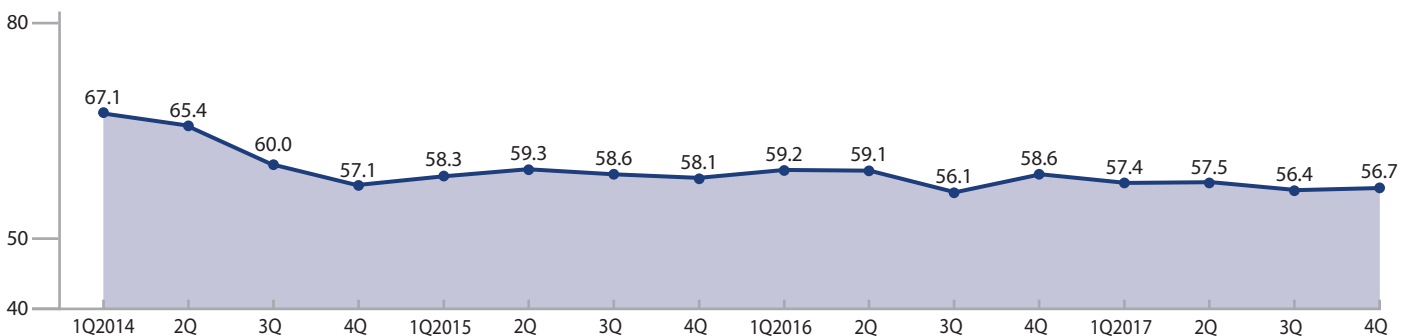
Choice of products/services



Demand drivers

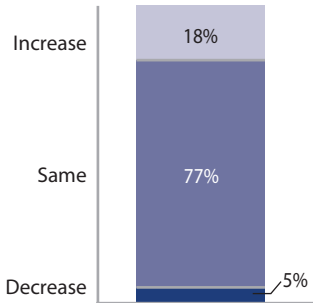


Demand trend

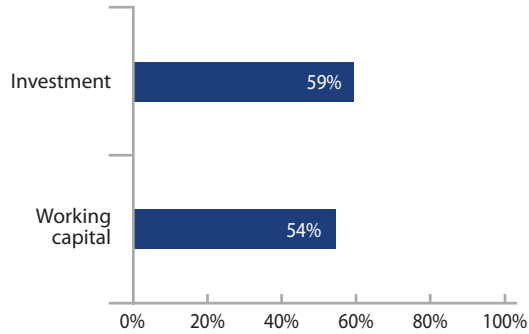


Loans (56.4)

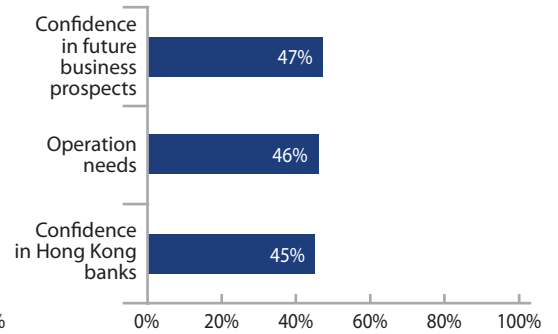
Demand expectation



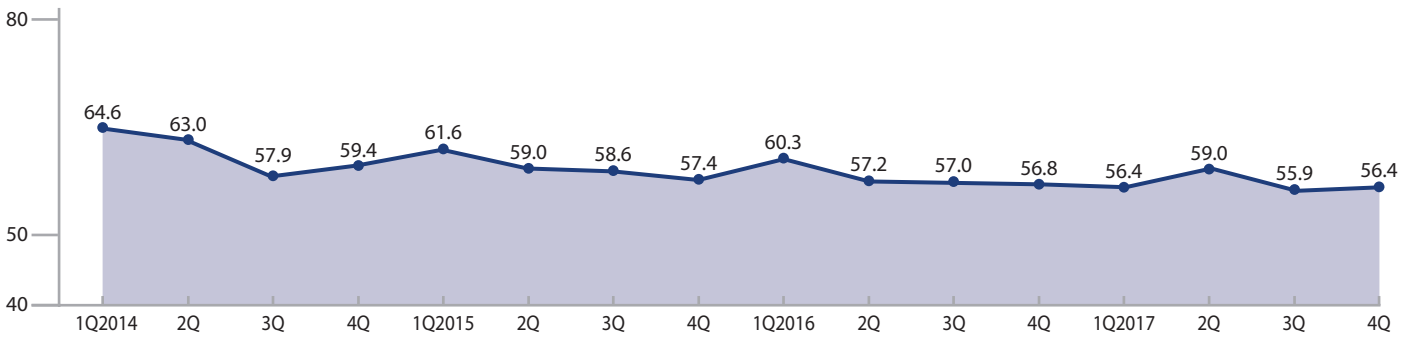
Usage



Demand drivers

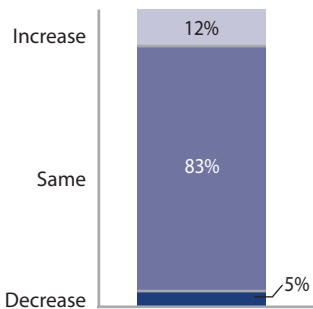


Demand trend

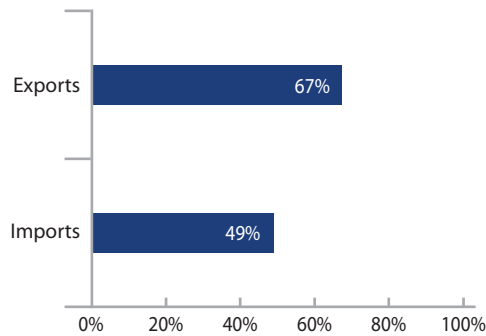


Trade finance (53.9)

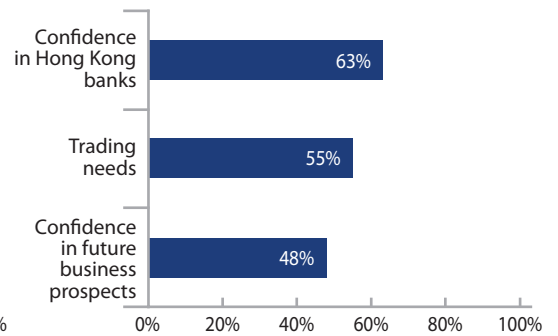
Demand expectation



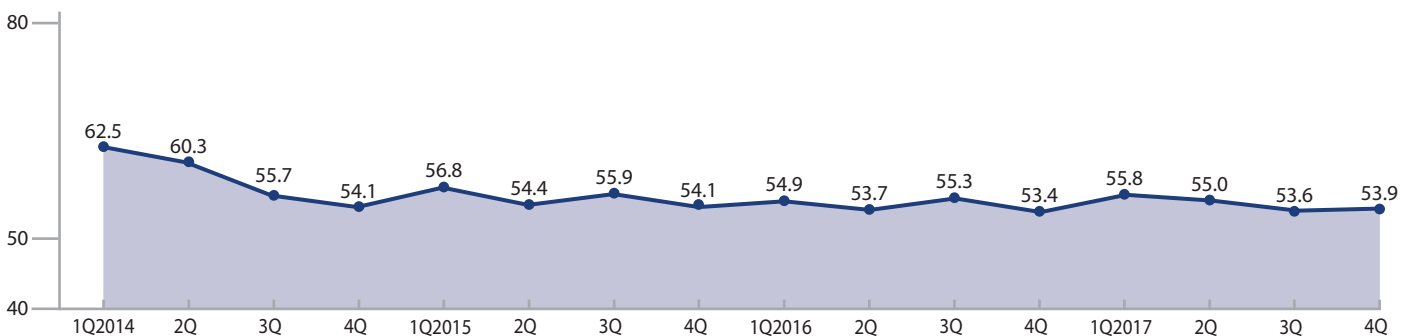
Choice of products/services



Demand drivers

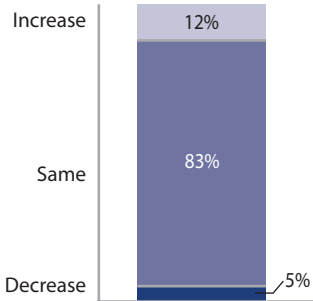


Demand trend

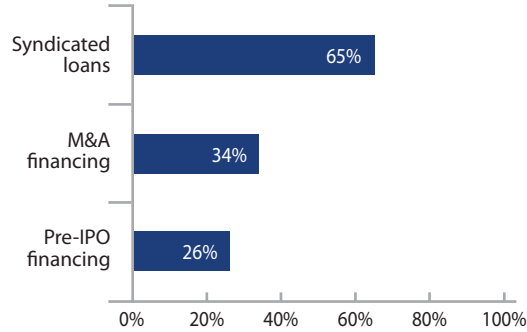


Structured finance (53.4)

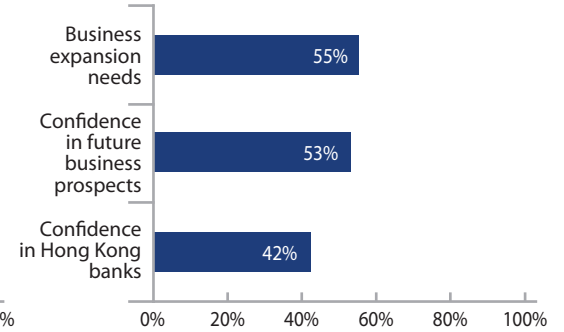
Demand expectation



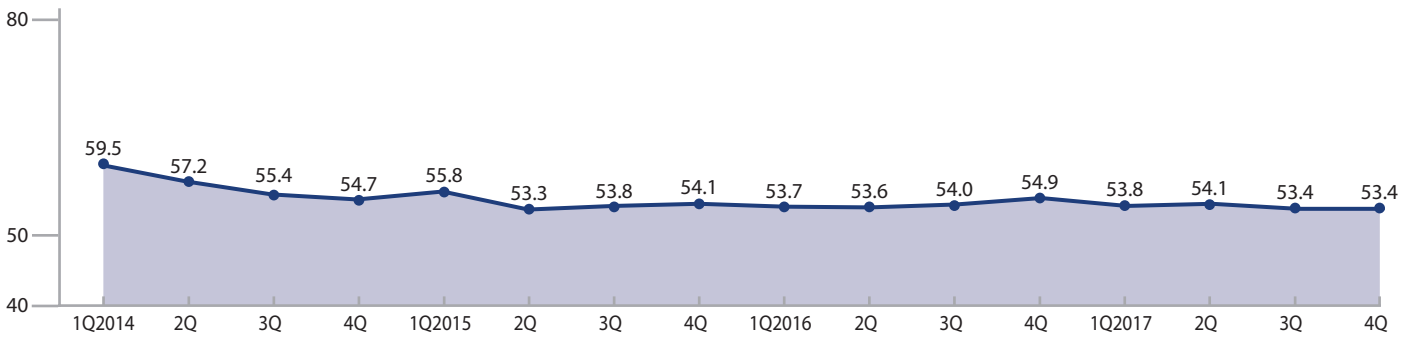
Choice of products/services



Demand drivers

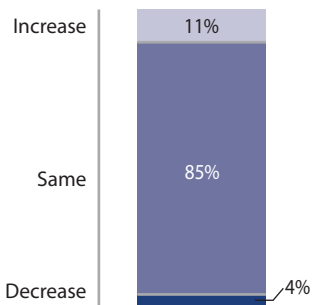


Demand trend

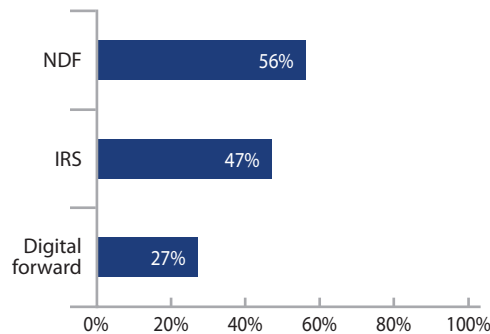


Derivative products (53.3)

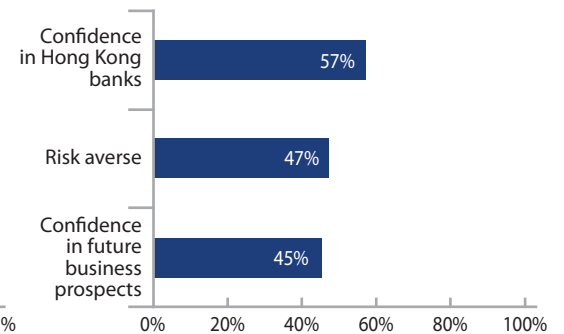
Demand expectation



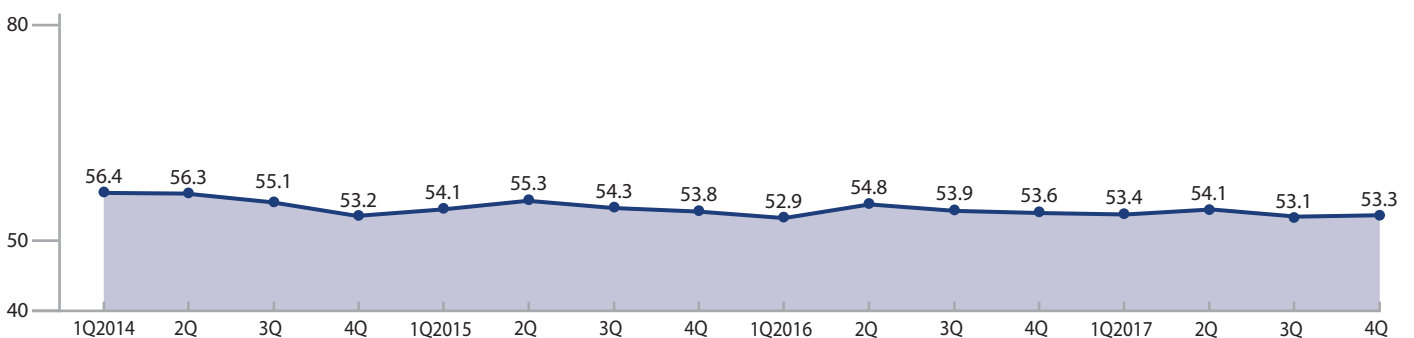
Choice of products/services



Demand drivers

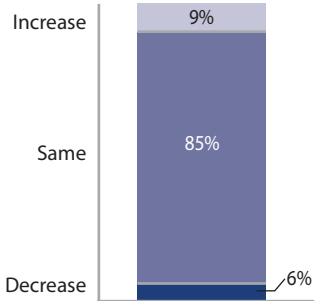


Demand trend

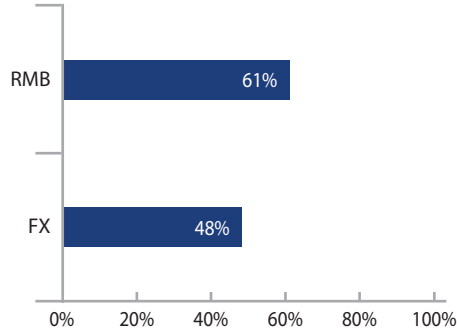


Bond issuance (51.5)

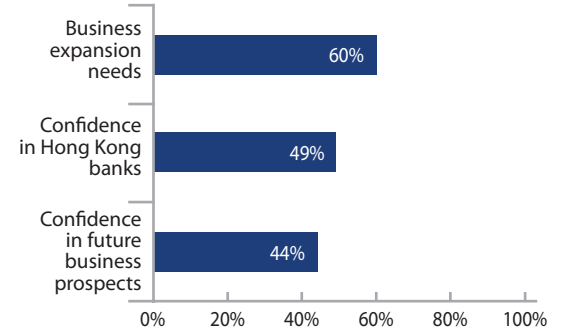
Demand expectation



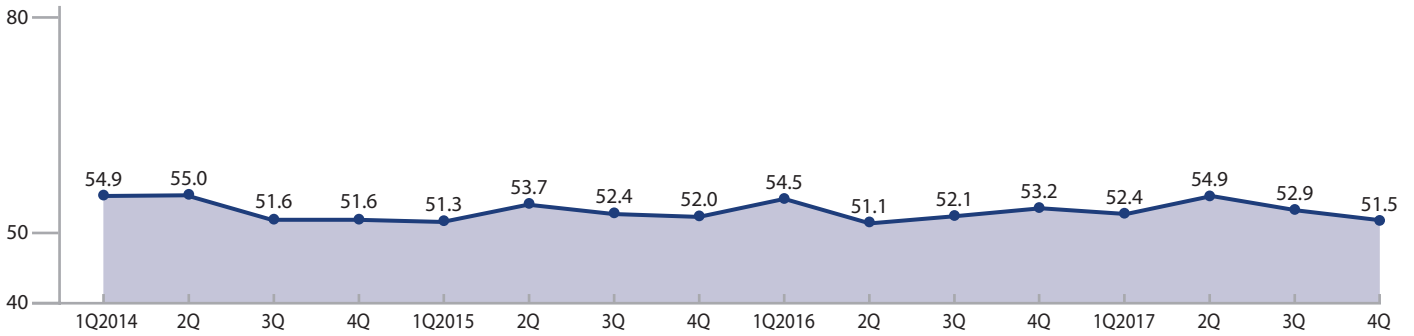
Choice of currencies



Demand drivers

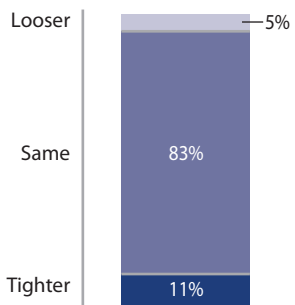


Demand trend

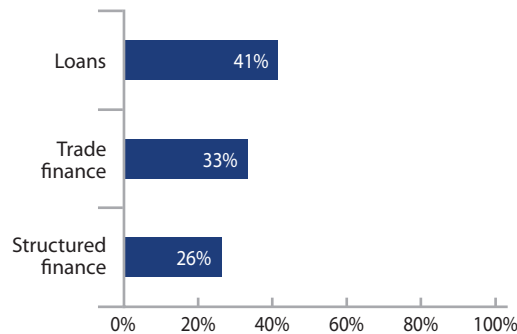


Expectation of regulatory looseness (47.0)

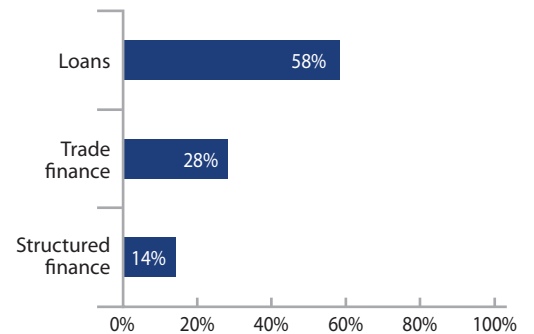
Expectation of laws and regulations



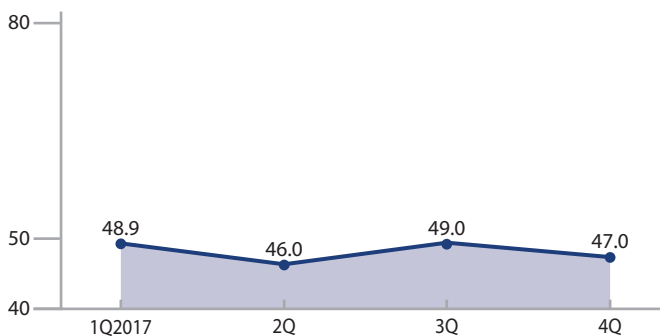
Expected regulatory loosening



Expected regulatory tightening

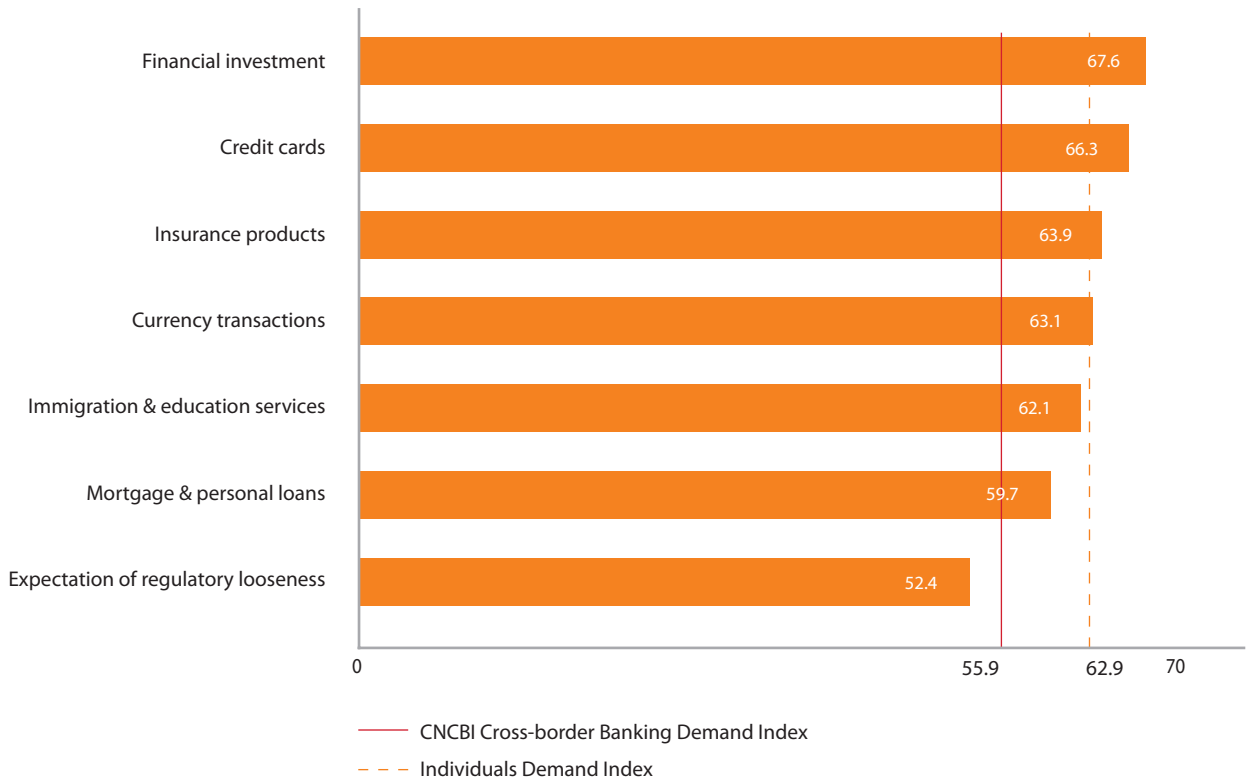


Expectation trend



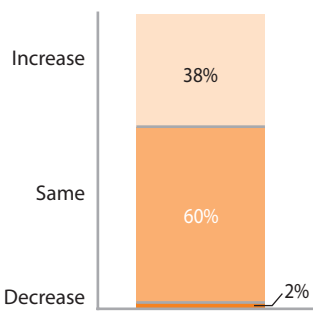
Note: This sub-index is introduced since 1Q2017

3. Individuals demand sub-indices

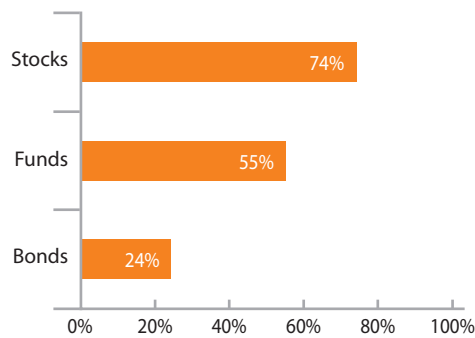


Financial investment (67.6)

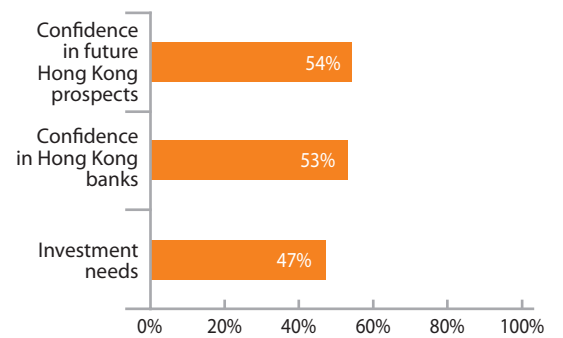
Demand expectation



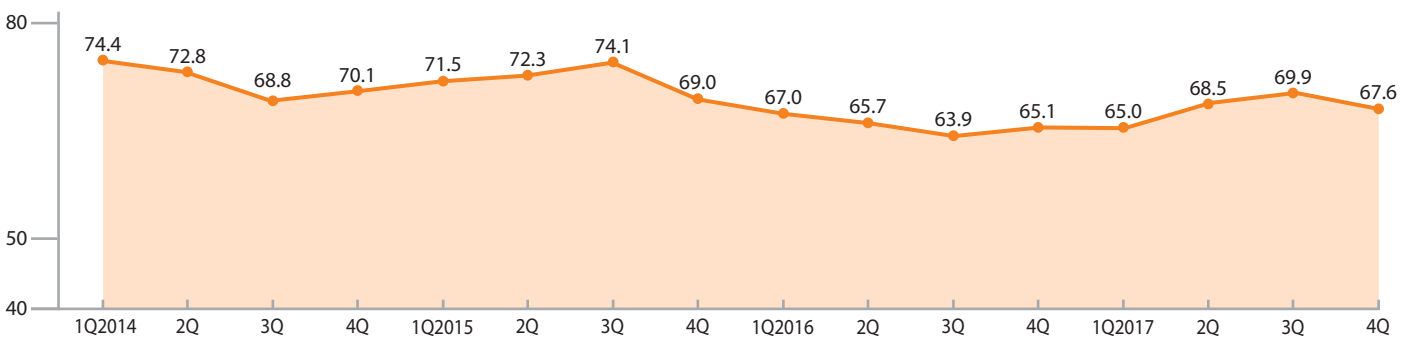
Choice of products/services



Demand drivers

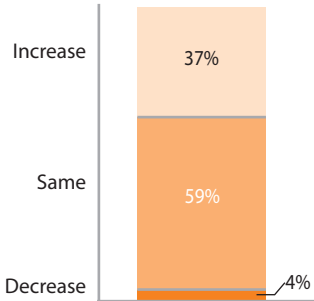


Demand trend

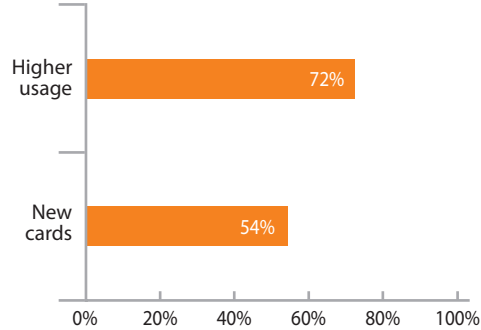


Credit cards (66.3)

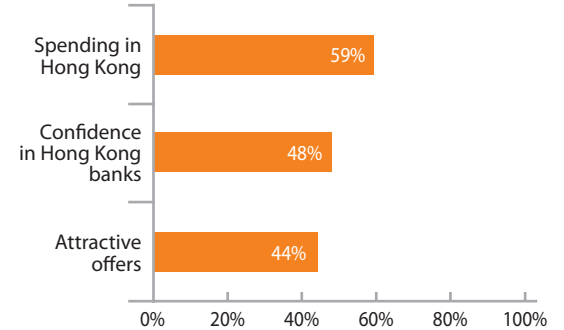
Demand expectation



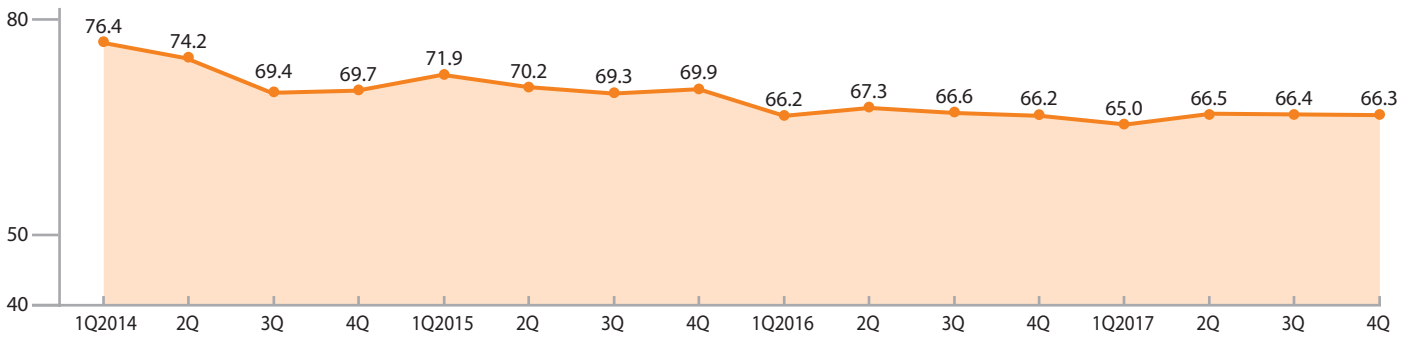
Choice of products/services



Demand drivers

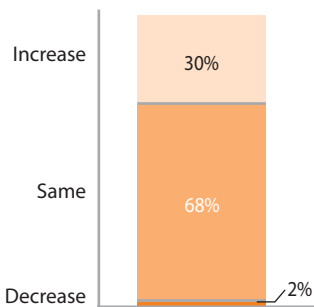


Demand trend

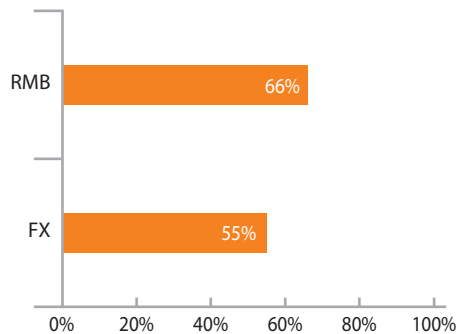


Insurance products (63.9)

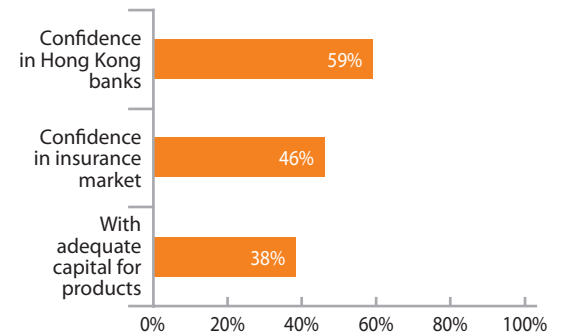
Demand expectation



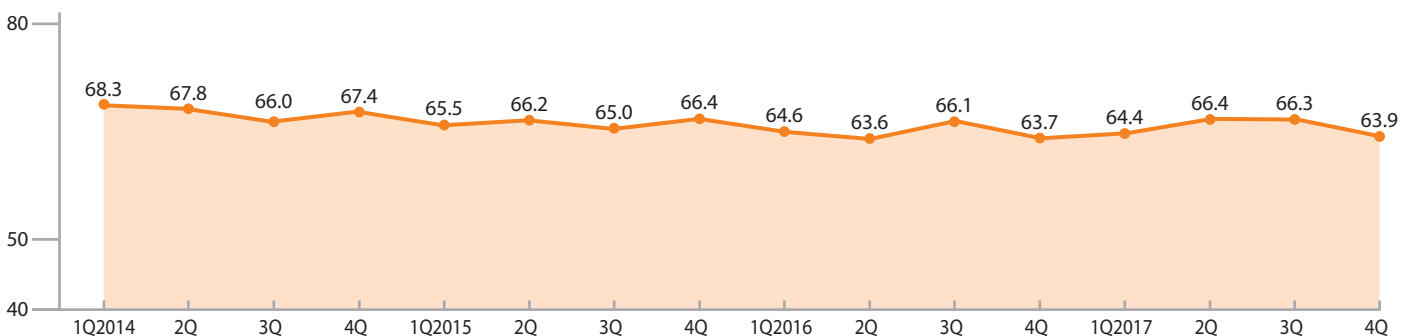
Choice of currencies



Demand drivers

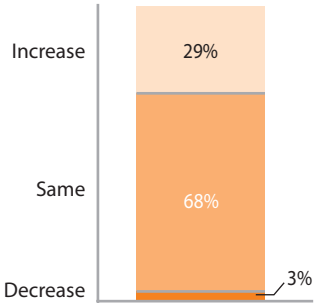


Demand trend

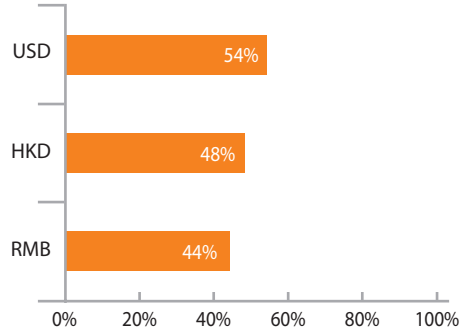


Currency transactions (63.1)

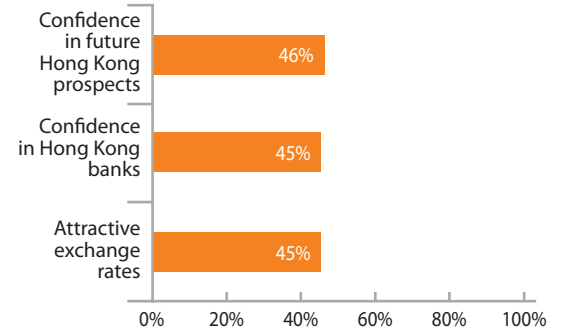
Demand expectation



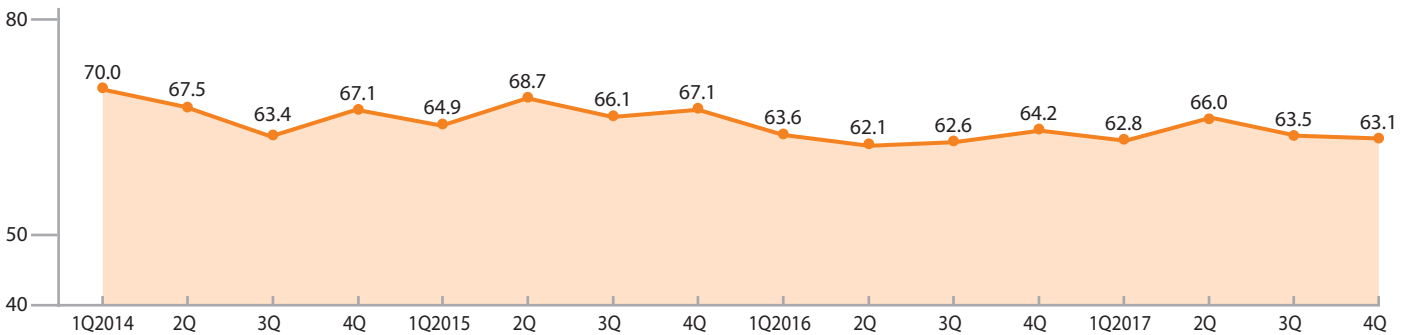
Choice of currencies



Demand drivers

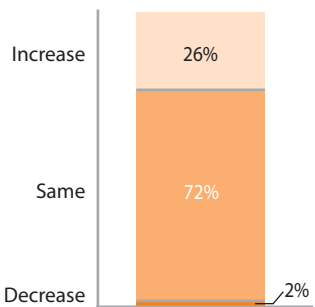


Demand trend

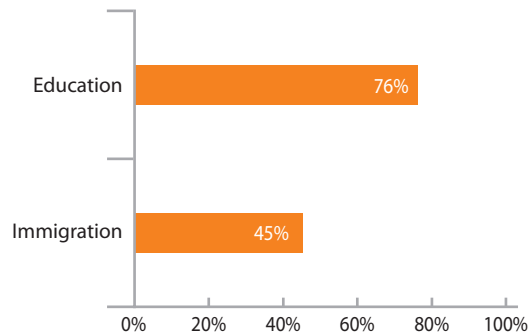


Immigration & education services (62.1)

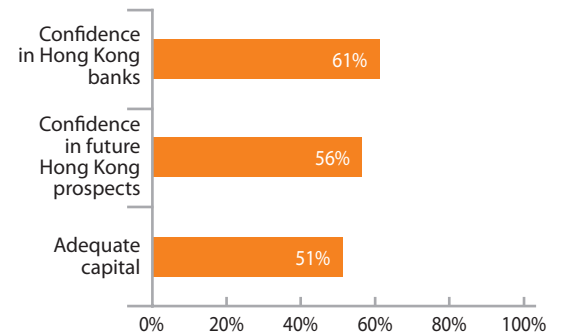
Demand expectation



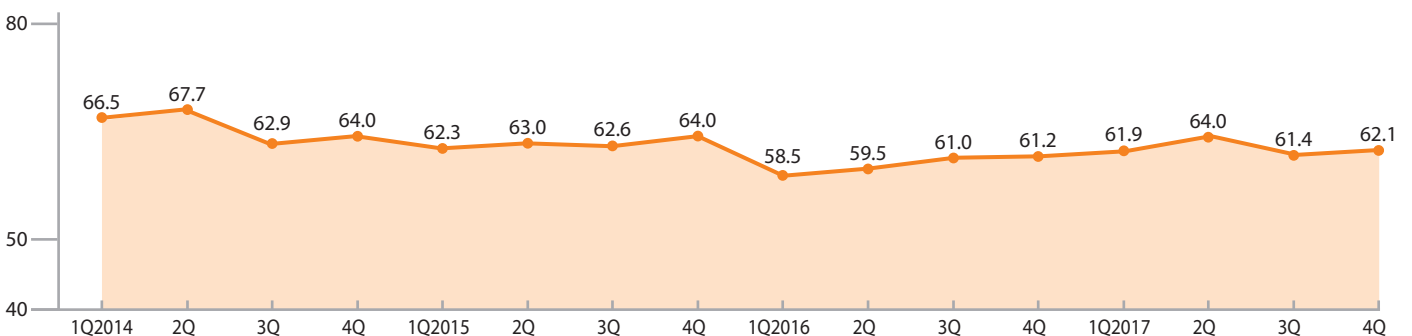
Choice of products/services



Demand drivers

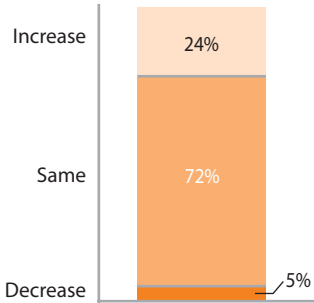


Demand trend

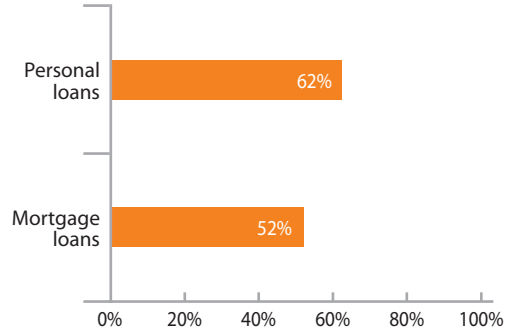


Mortgage & personal loans (59.7)

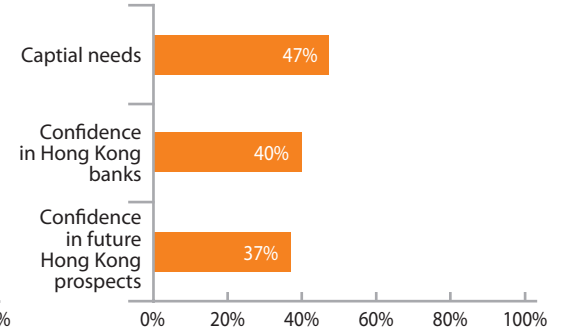
Demand expectation



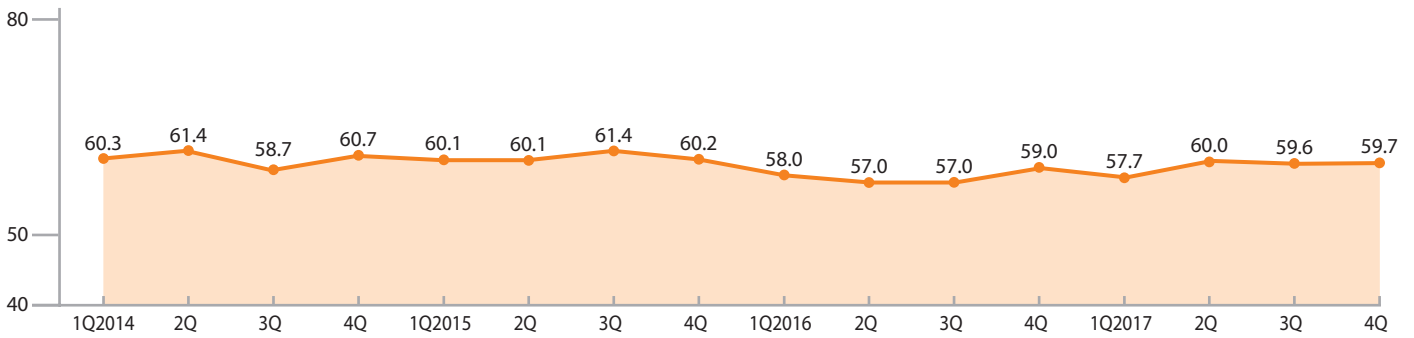
Preferred products/services



Demand drivers

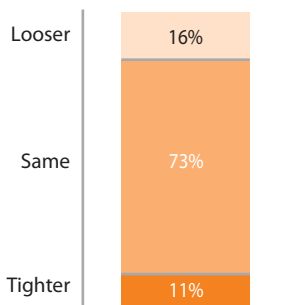


Demand trend

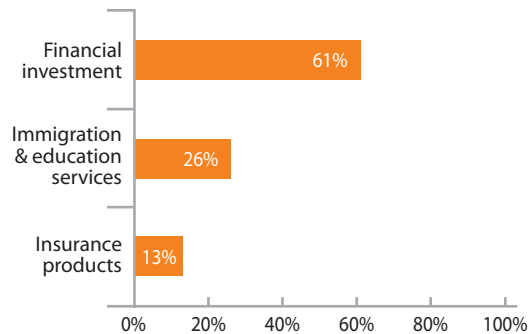


Expectation of regulatory looseness (52.4)

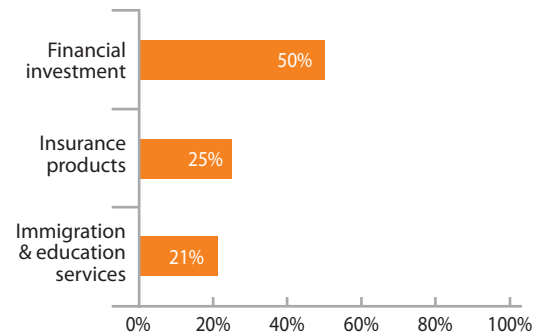
Expectation of laws and regulations



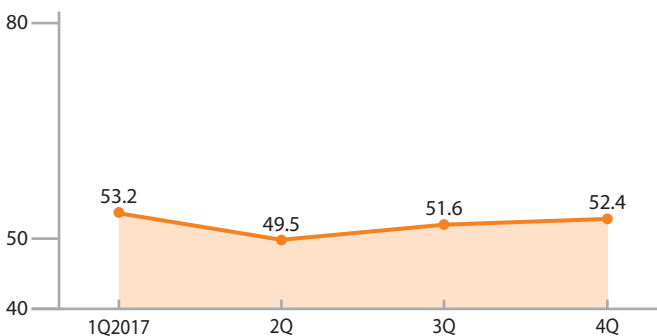
Expected regulatory loosening



Expected regulatory tightening



Expectation trend



Note: This sub-index is introduced since 1Q2017

4. 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.

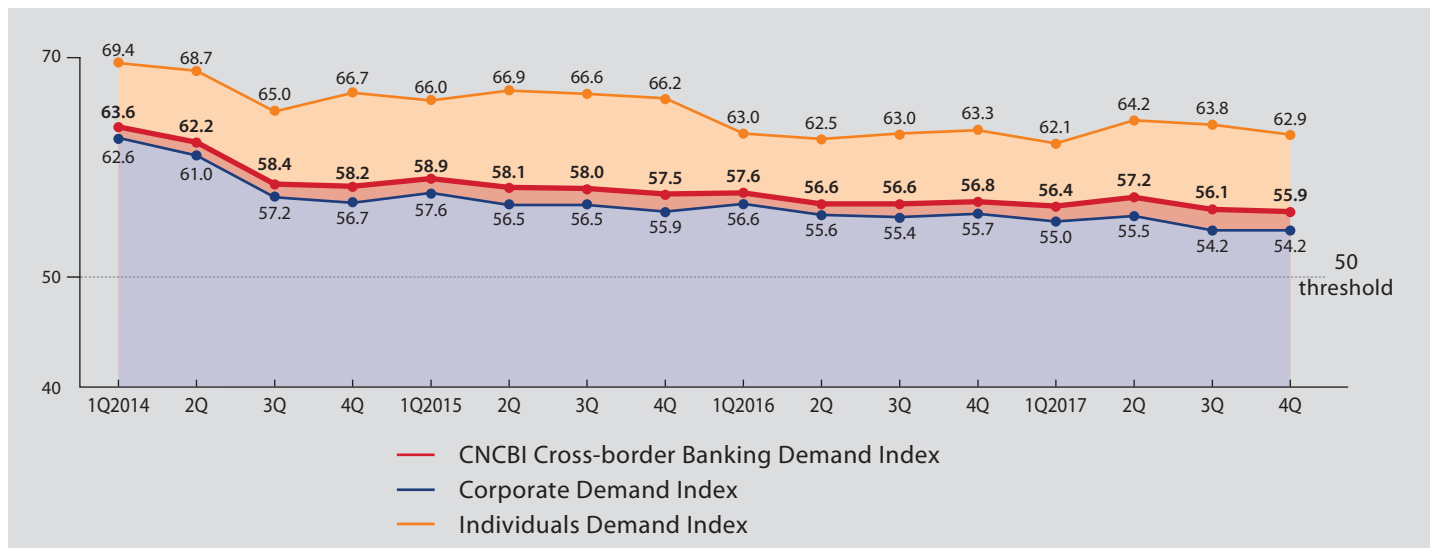
Diffusion indices have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading of above 50 indicates a strengthening of demand, and below 50 a weakening.

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.