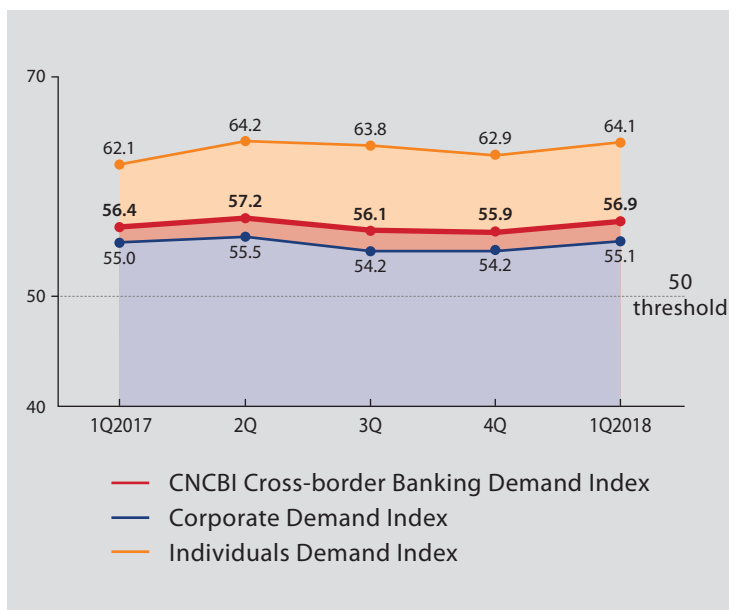


Cross-border banking demand set for all-round rebound

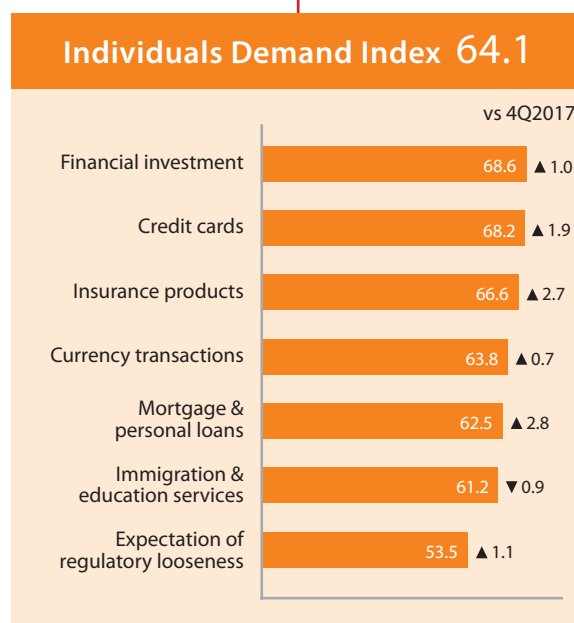
Improving macro-economy and clearer policy stance to lift cross-border market confidence

www.cncbinternational.com/cross-border-index



- 1Q2018 banking demand from mainland China for Hong Kong bounces back fully on 4Q2017's recovery, revealing that the stabilising mainland China economy, faster global economic recovery, reversal of RMB devaluation and mainland government's clearer capital outflow control measures lead mainland corporations and individuals to increase their confidence in cross-border banking services
- 8 of the 9 corporate demand sub-indices rebound, with asset management & financial consultancy, bond issuance and derivative products rising remarkably
- All the individuals demand sub-indices, except for immigration & education services, show a rebound with most of them displaying also strong momentum particularly in the demand growth of mortgage & personal loans, insurance products and credit cards
- Regarding the expectation of regulatory looseness, a marked rebound on 4Q2017's dip is seen on the corporate side while an accelerated increase is observed among individuals

CNCBI Cross-border Banking Demand Index 56.9



1. Key analysis

- According to the 4Q2017 survey results, the 1Q2018 CNCBI Cross-border Banking Demand Index rises 1.0 on the quarter to 56.9, indicating noticeably stronger confidence in cross-border banking services among mainland corporations and individuals as a result of the stabilising mainland China economy, accelerating global economic recovery, reversal of RMB devaluation and mainland government's clearer capital outflow control measures
- Demand from both mainland corporations and individuals bounces back with the Corporate Demand Index climbing 0.9 on the quarter to 55.1 which is indicative of a strong rebound of demand for cross-border banking services from mainland corporations. With a more encouraging rise of 1.2 from last quarter to a high of 64.1, the Individuals Demand Index manifests mainland individuals' increased confidence in Hong Kong's banking services

Corporate Banking Demand

Service demand strongest amid all-round rebound

- Growth of structured finance is flat but the other 8 Corporate Demand Sub-indices post increases with asset management & financial consultancy and bond issuance outrunning the others with a rise of 2.4 and 2.0 respectively. Derivative products, currency transactions and loans in turn climbs 1.6, 1.2 and 1.2 respectively, while settlement services & cash management and trade finance report mild growth of 0.6 and 0.2 respectively
- In the rankings, asset management & financial consultancy, derivative products and bond issuance rise from 3rd, 7th and 8th to 1st, 5th and 7th whereas settlement services & cash management, trade finance and structured finance drop from 1st, 5th and 6th to 3rd, 6th and 8th places while currency transactions and loans stay 2nd and 4th
- As stated in last quarter's report, the stabilising mainland China economy, accelerating global economic recovery, reversal of RMB devaluation and mainland government's clearer capital outflow control measures have curbed the deterioration rate of 4Q2017's growth of cross-border corporate demand. Following the release of the report, such positive factors continued to ripen or became more prominent as corporations increased their awareness and acceptance of those factors, contributing to mainland corporations' growing confidence in using cross-border banking services and subsequently the marked rebound of the 1Q2018 Corporate Demand Index
- Corporate demand for all cross-border banking services, except for structured finance, rebounded in 1Q2018. Regarding demand for financing services, bond issuance demand bounces back strongly after a rather lengthy feeble period and sends a noteworthy positive signal which suggests a steady recovery of the "Dim-sum bond" market from its decline. Demand for loans and trade finance maintains last quarter's momentum as demand for structured finance holds steady in wait for a surge as the mainland's Outbound Direct Investment picks up its usual pace. More encouraging is the strength of rebound of service-related demand especially for asset management & financial consultancy, derivative products and currency transactions. Subsequent to the continuous rebound of financing demand, service-related demand demonstrates strong rebound strength, resulting in an overall recovery of cross-border corporate banking demand

Individuals Banking Demand

Rebounding robustly to a new high

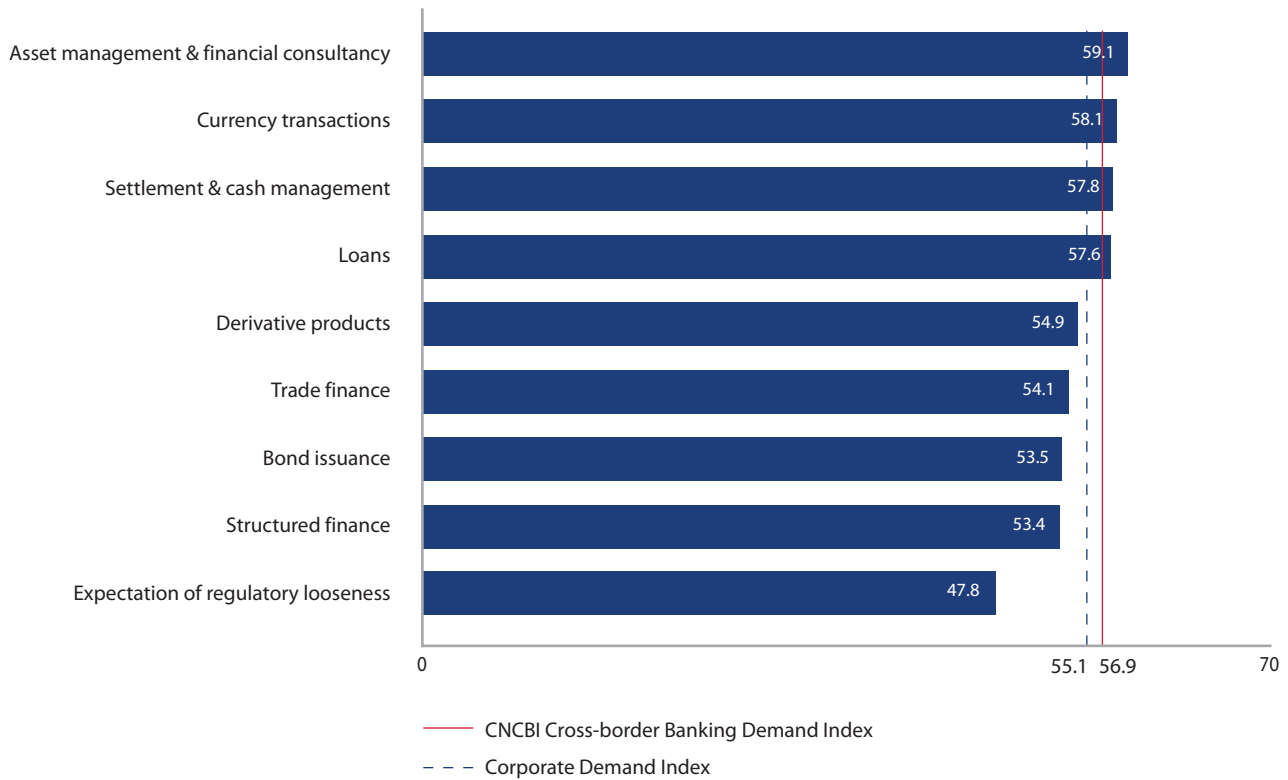
- Of the 6 service- or product-related Individuals Demand Sub-indices, 5 increase and 1 drops, marking a stark contrast to 4Q2017 where 2 increased and 4 fell. More noticeable are the mortgage & personal loans, insurance products and credit cards sub-indices with respective increases of 2.8, 2.7 and 1.9. The increments of the financial investment and currency transactions sub-indices are relatively mild at 1.0 and 0.7 respectively whereas immigration & education services drops 0.9 from its 4Q2017 rise
- The sub-index rankings show little changes. Mortgage & personal loans and immigration & education services swap places with the former claiming 5th place as the latter falls to the 6th. Financial investment, credit cards, insurance products and currency transactions stay put from 1st to 4th places
- The Individuals Demand Index has been above the 60-high amid four years of fluctuations. Except for the expectation of regulatory looseness, most of the sub-indices rebound significantly after last quarter's softening and even reach a near 3-year peak, revealing the rapidly diminishing negative impacts of mainland China's controls on individuals' capital outflow and RMB depreciation. Owing to the ban of cross-border investment-linked insurance products, demand for insurance products decelerated notably last quarter but has recovered the strongest in this quarter. This suggests that overall demand for cross-border insurance remains strong. Demand for mortgage & personal loans bounces back from last quarter's relatively low level thanks to the reheated Hong Kong property market and the continuously booming stock market. Despite the unchanged policies for limiting mainland individuals' purchases of Hong Kong properties, mainland individuals' wishes for entering the Hong Kong property market via various means strengthen. Demand for credit cards gains traction on 2 years' relatively stable growth, attributable to the rebound of mainland tourists number as well as their spending in Hong Kong. Financial investment and currency transactions bounce back on last quarter's softening stance, reflecting respectively the influence of the increased south-bound capital flows into the stock market and the stabilising of RMB from devaluation. Demand for immigration & education services soften unexpectedly after last quarter's rebound due possibly to the change in US immigration and oversea education policies

Expectation of Regulatory Looseness

Strong in corporations and new highs in individuals

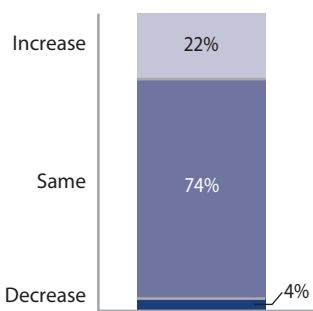
- The sub-indices on both the corporate and individuals sides increase this quarter, indicating an overall improvement in cross-border banking services related regulatory environment
- On the corporate side, the sub-index bounces back on last quarter's decline which was attributable to mainland corporations' insufficient understanding of the corporate capital outflow restrictions, as pointed out in the 4Q2017 report. It also predicted a rebound of sub-index as the situation changes this quarter while the rebound of the 1Q2018 sub-index proves it right. In fact, clearer government policy on Outbound Direct Investment has eased many corporations' concerns over cross-border investment and financing
- On the individuals side, the 4Q2017 report predicted that this sub-index will continue its uptrend which is proven by its continuous rise in 1Q2018. In fact, the sub-index has reached a one-year high. This demonstrates that mainland individuals' "going out" momentum has strengthened further as a result of the mainland government's clearer policy stance on capital outflow controls

2. Corporate demand sub-indices

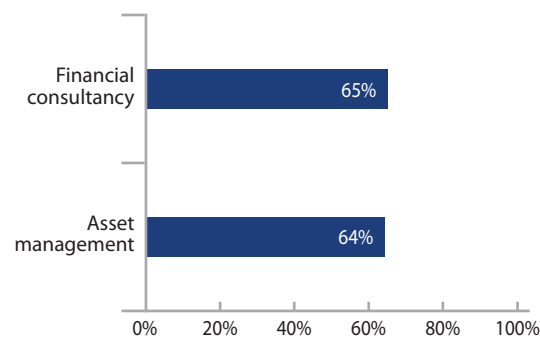


Asset management & financial consultancy (59.1)

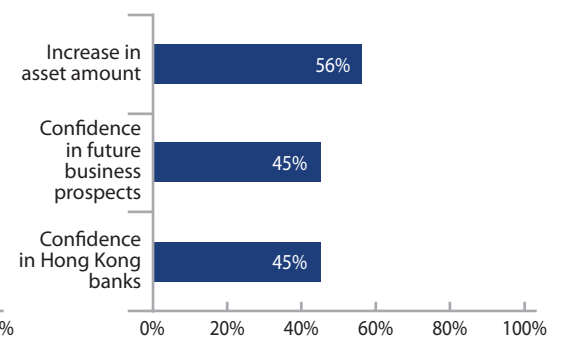
Demand expectation



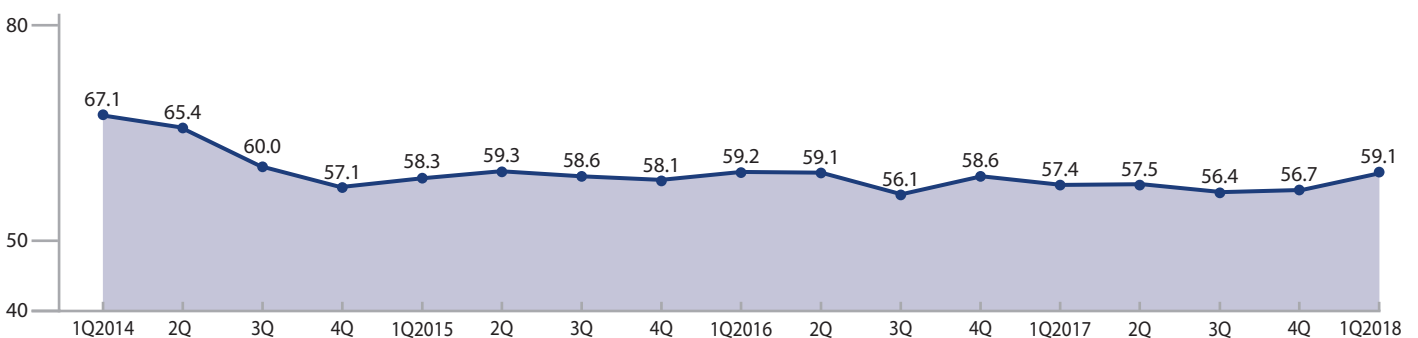
Choice of products/services



Demand drivers

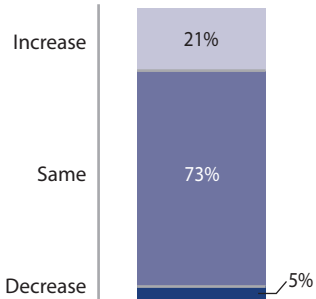


Demand trend

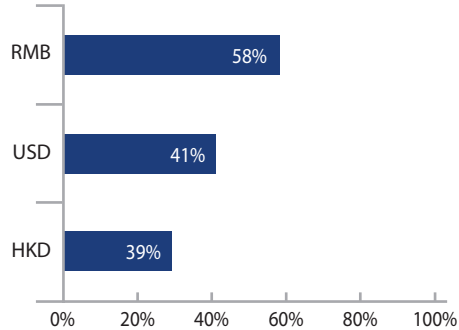


Currency transactions (58.1)

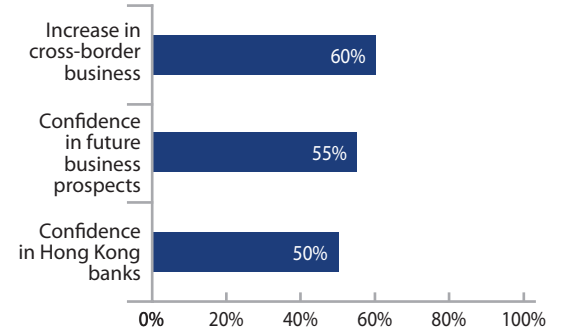
Demand expectation



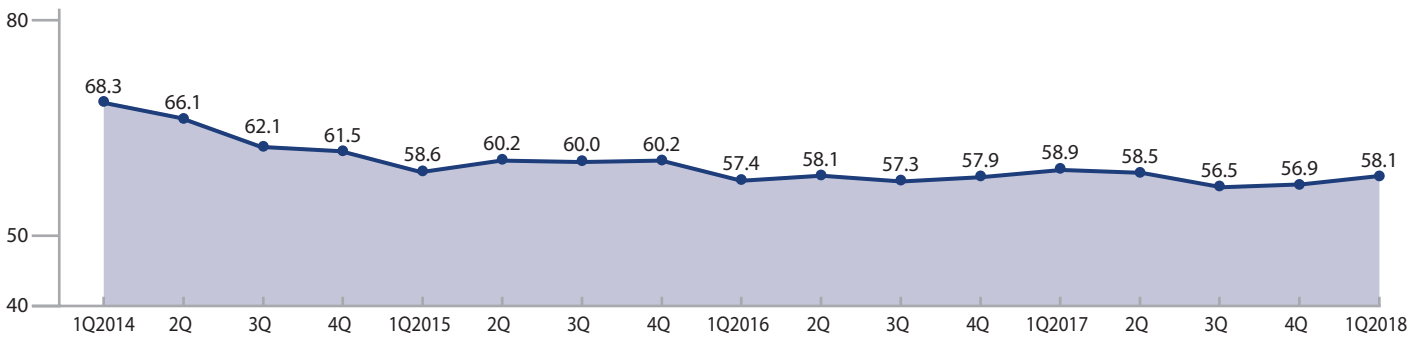
Choice of Currencies



Demand drivers

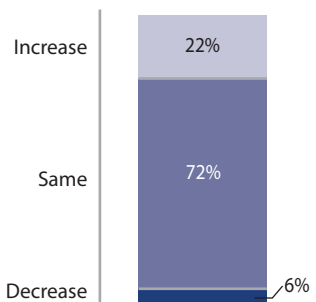


Demand trend

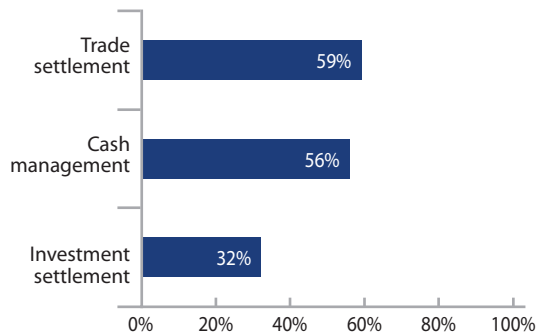


Settlement & cash management (57.8)

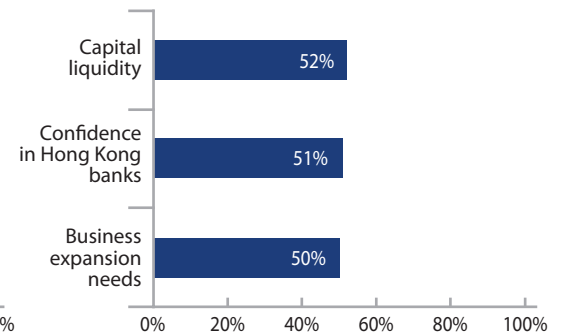
Demand expectation



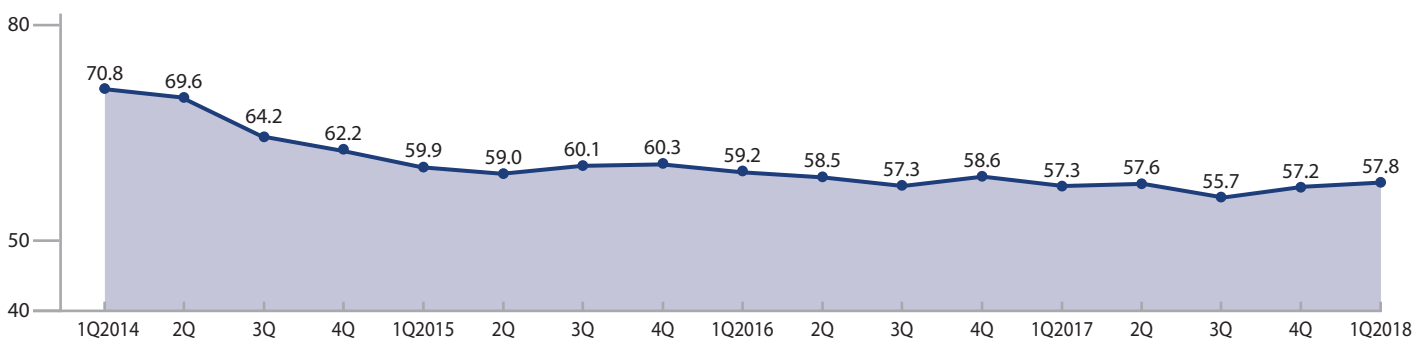
Choice of products/services



Demand drivers

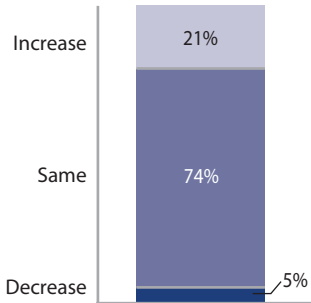


Demand trend

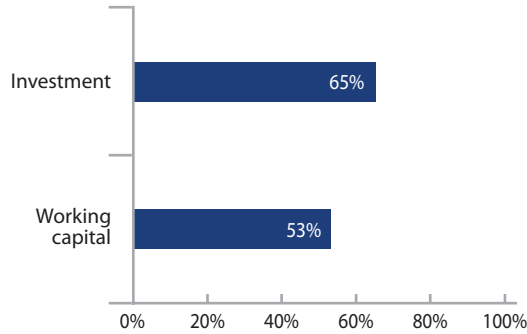


Loans (57.6)

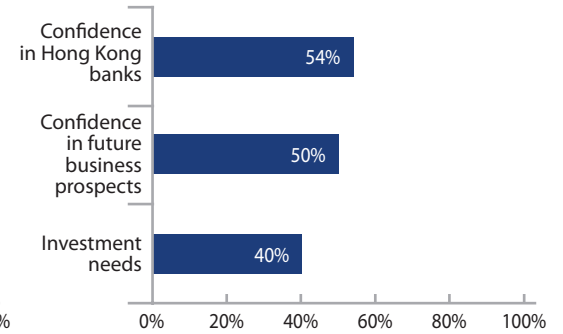
Demand expectation



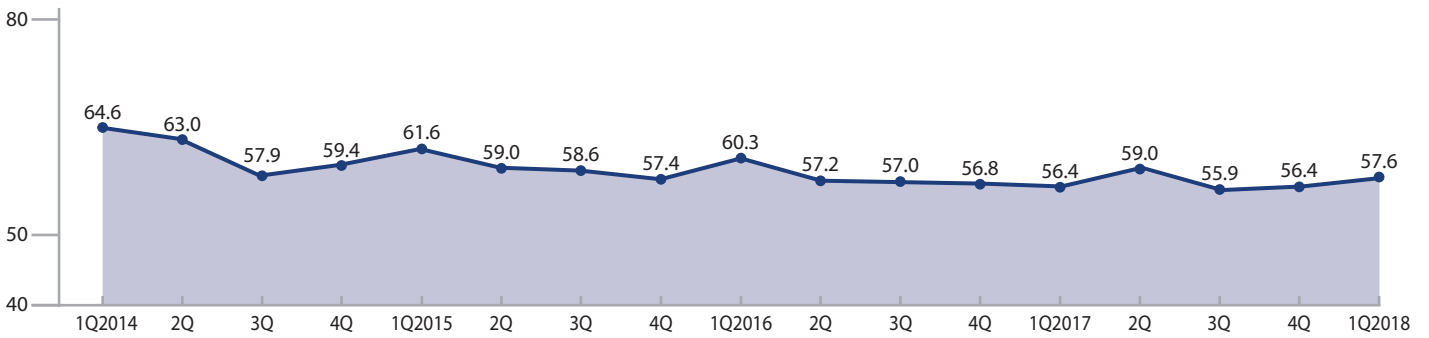
Usage



Demand drivers

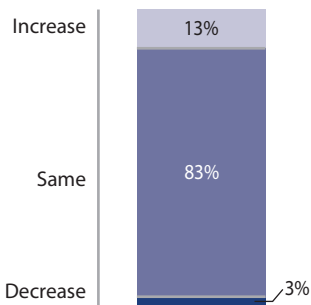


Demand trend

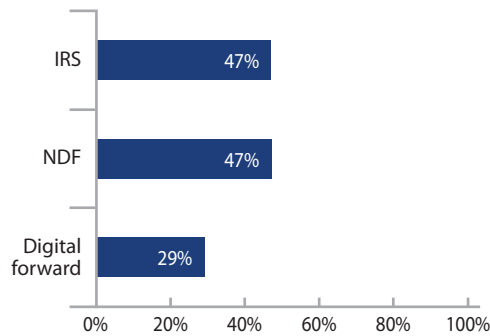


Derivative products (54.9)

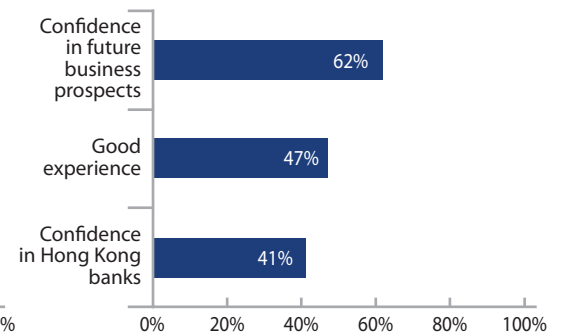
Demand expectation



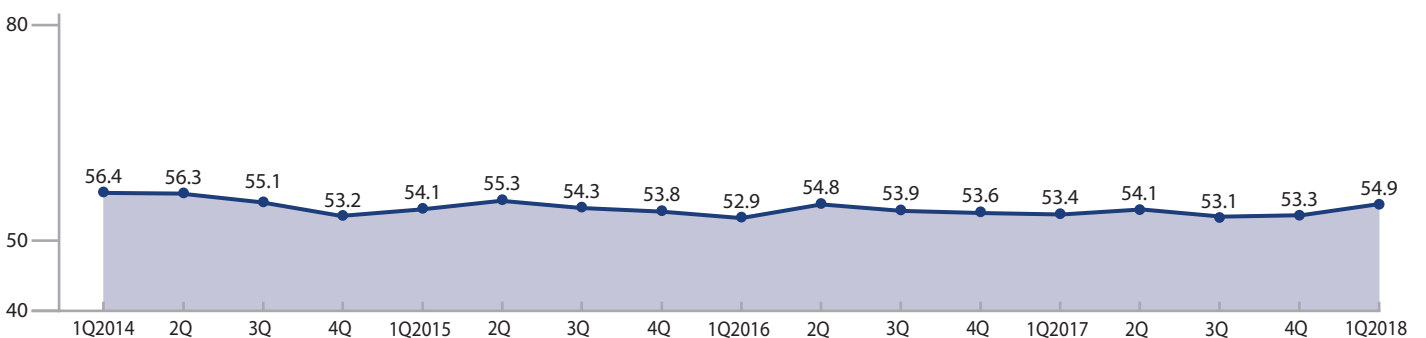
Choice of products/services



Demand drivers

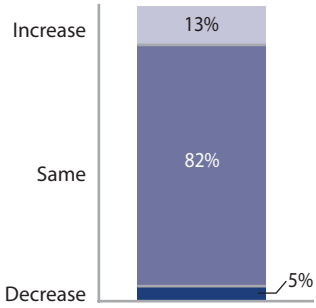


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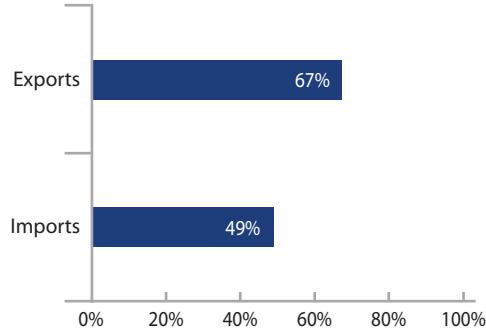


Trade finance (54.1)

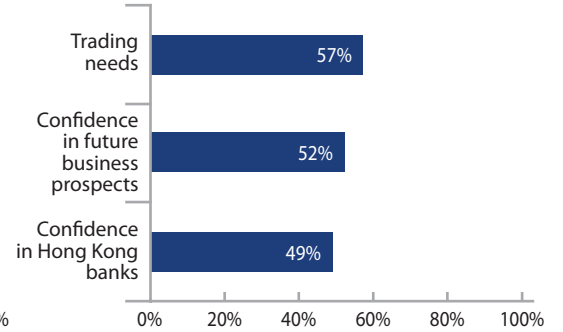
Demand expectation



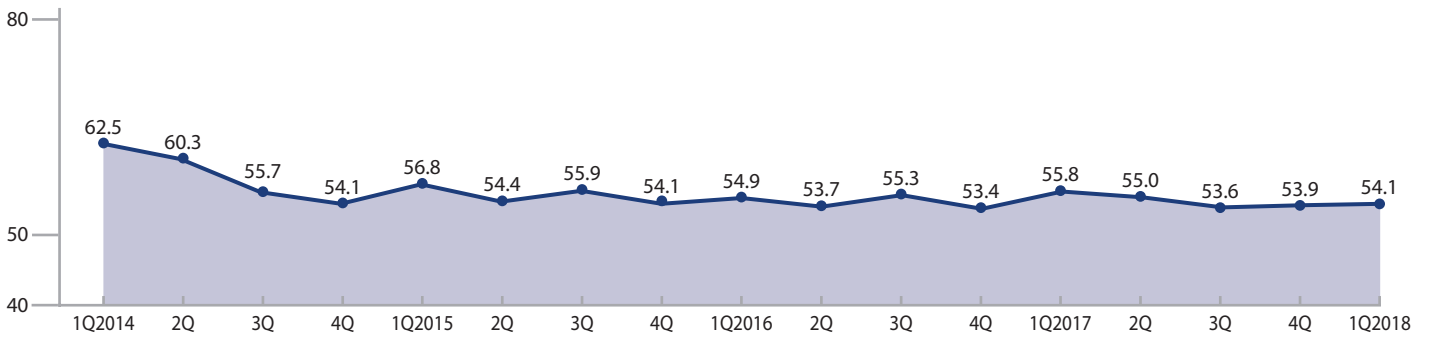
Choice of products/services



Demand drivers

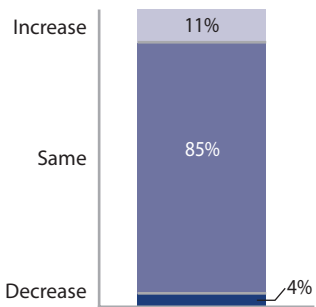


Demand trend

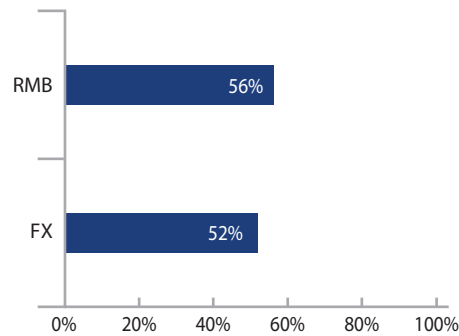


Bond issuance (53.5)

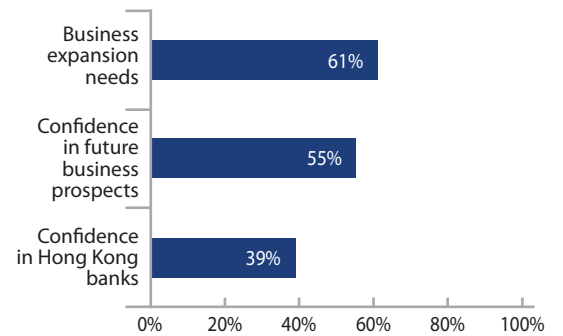
Demand expectation



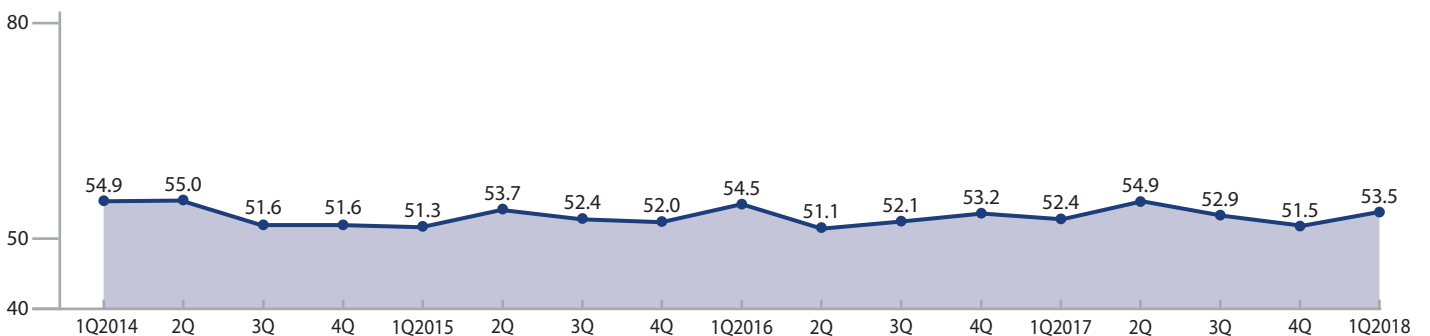
Choice of currencies



Demand drivers

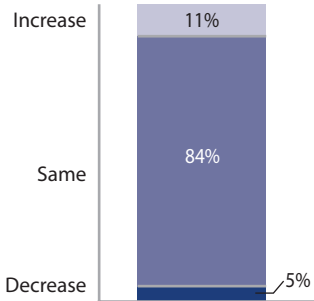


Demand trend

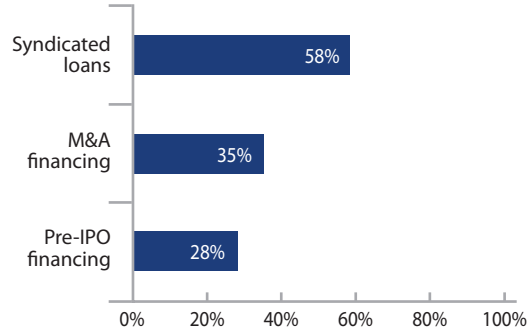


Structured finance (53.4)

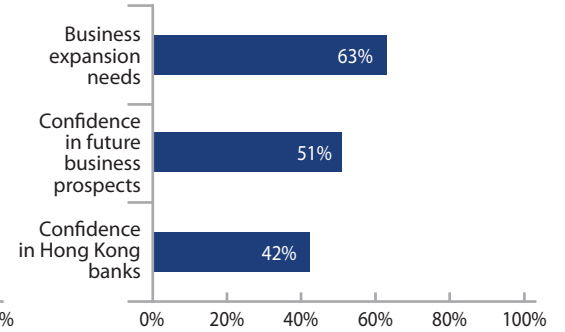
Demand expectation



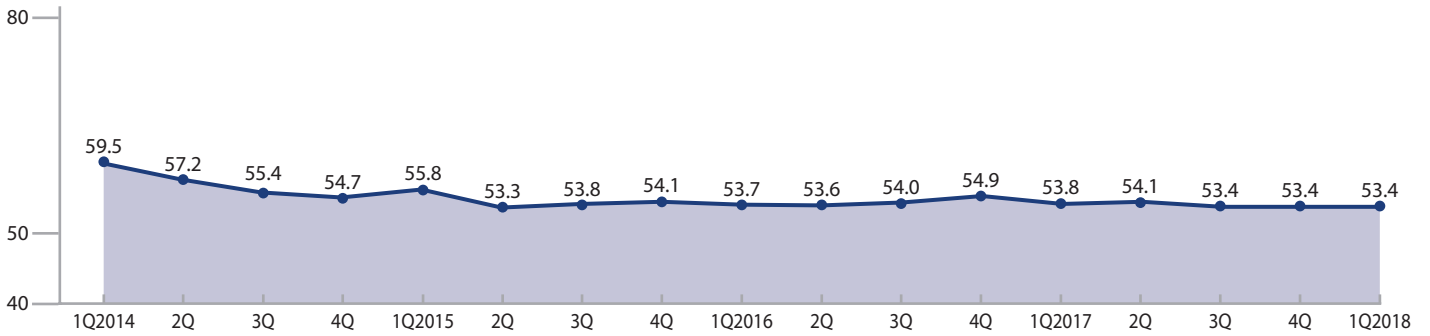
Choice of products/services



Demand drivers

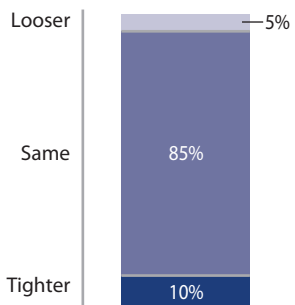


Demand trend

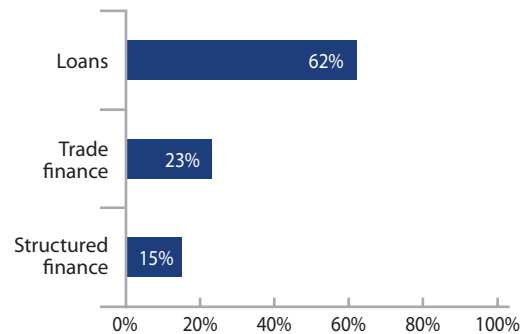


Expectation of regulatory looseness (47.8)

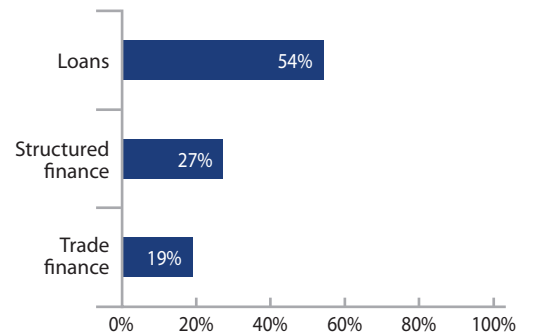
Expectation of laws and regulations



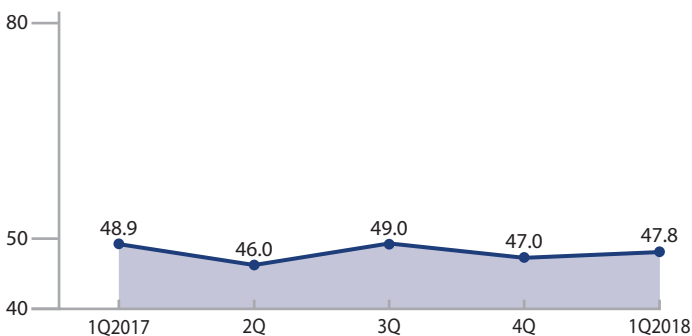
Expected regulatory loosening



Expected regulatory tightening

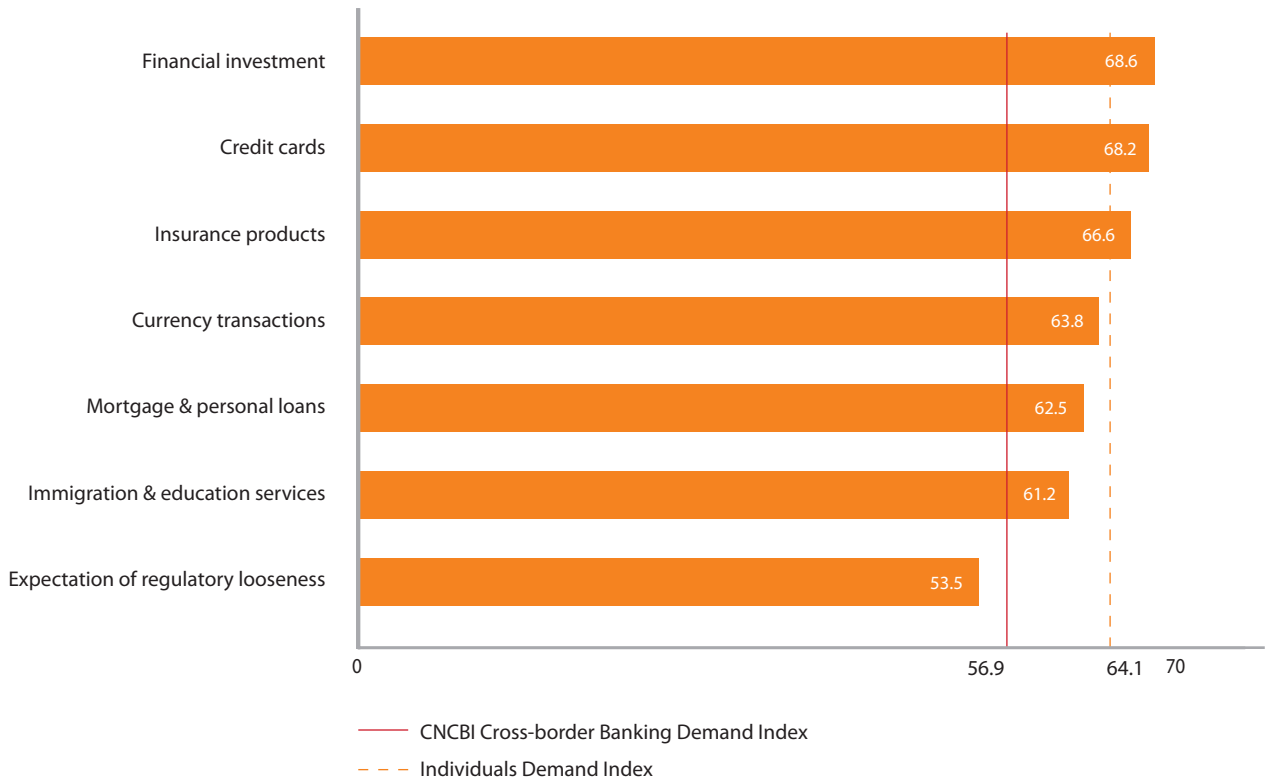


Expectation trend



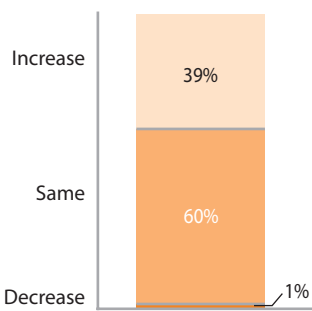
Note: This sub-index is introduced since 1Q2017

3. Individuals demand sub-indices

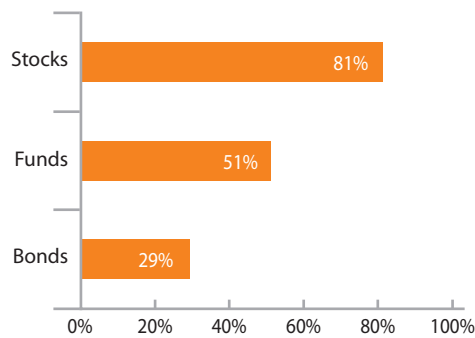


Financial investment (68.6)

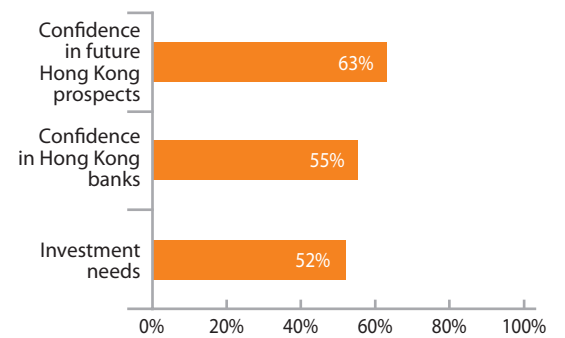
Demand expectation



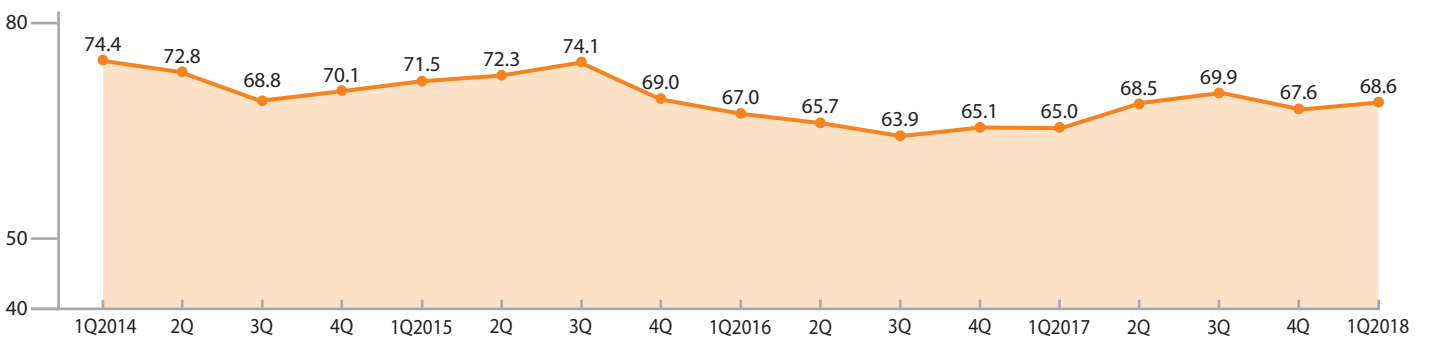
Choice of products/services



Demand drivers

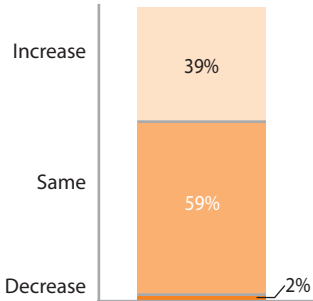


Demand trend

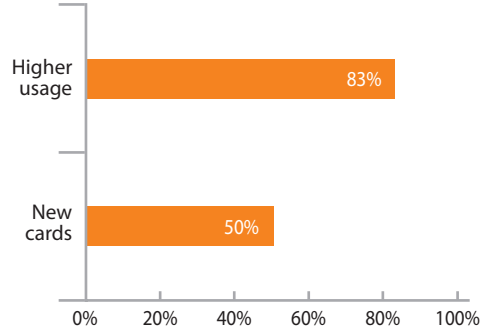


Credit cards (68.2)

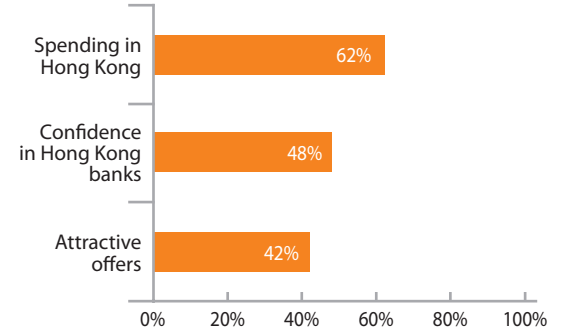
Demand expectation



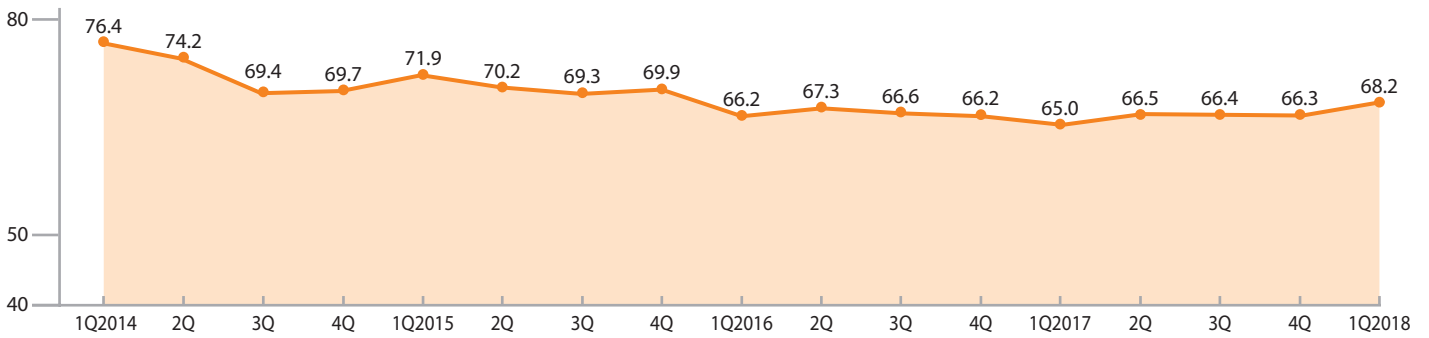
Choice of products/services



Demand drivers

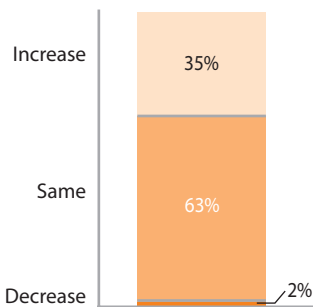


Demand trend

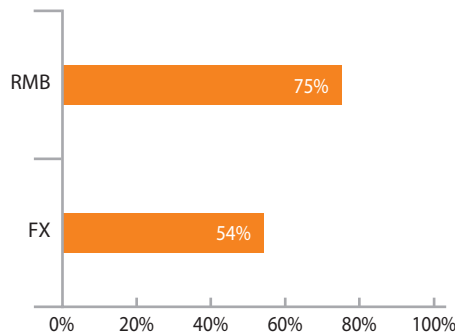


Insurance products (66.6)

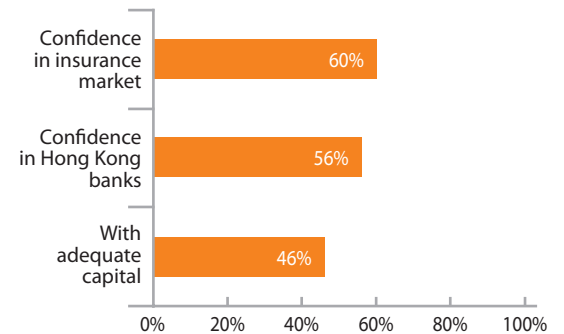
Demand expectation



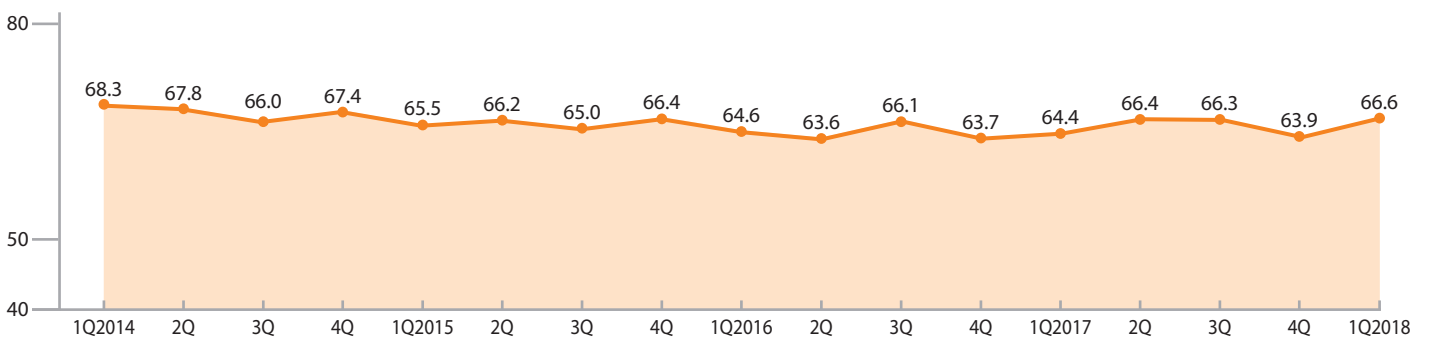
Choice of currencies



Demand drivers

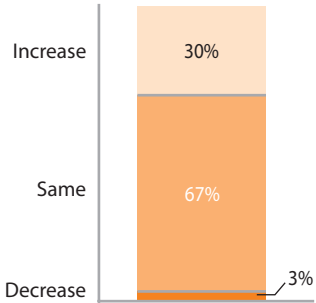


Demand trend

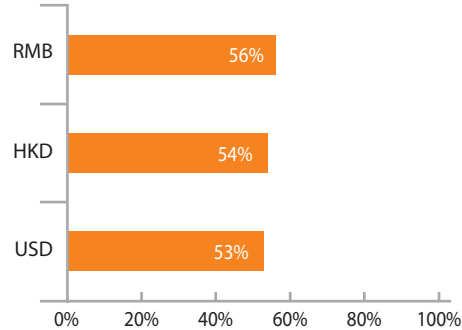


Currency transactions (63.8)

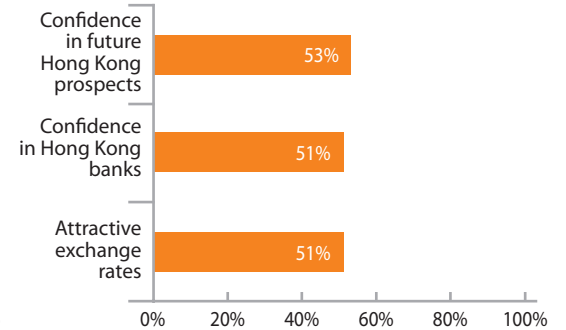
Demand expectation



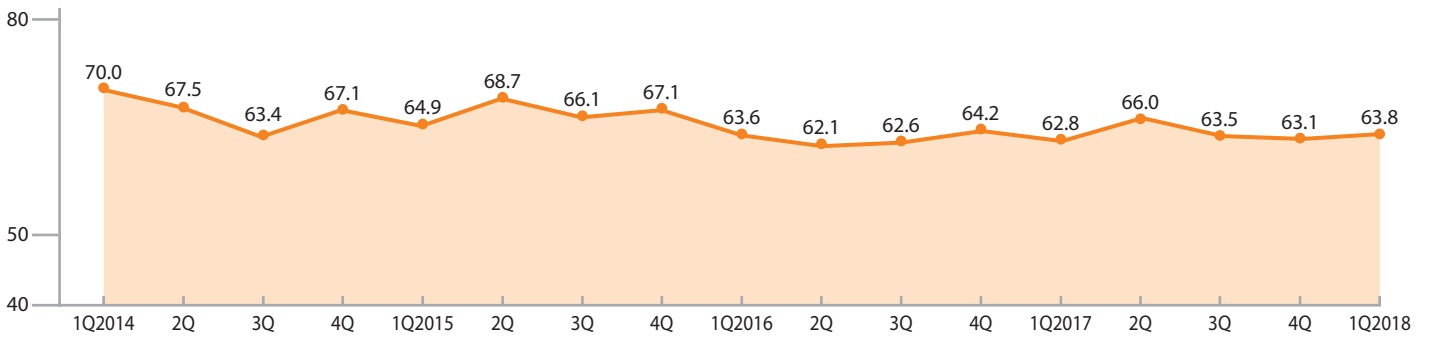
Choice of currencies



Demand drivers

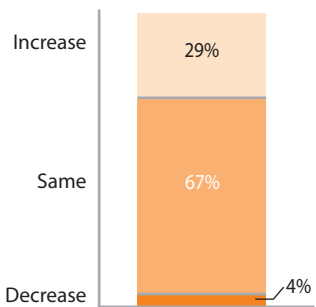


Demand trend

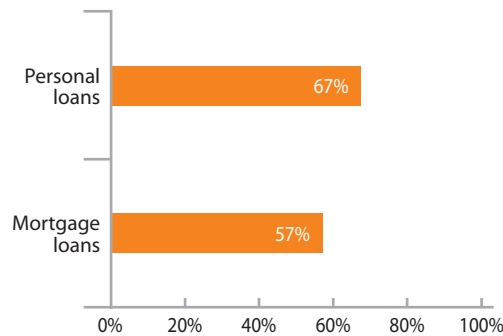


Mortgage & personal loans (62.5)

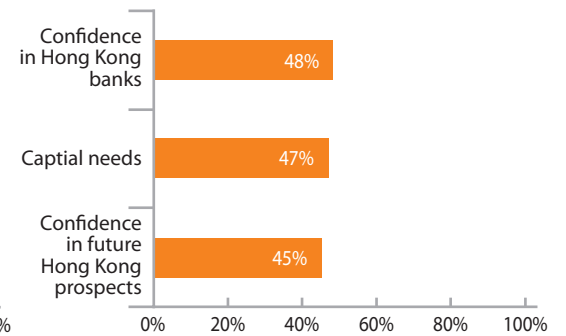
Demand expectation



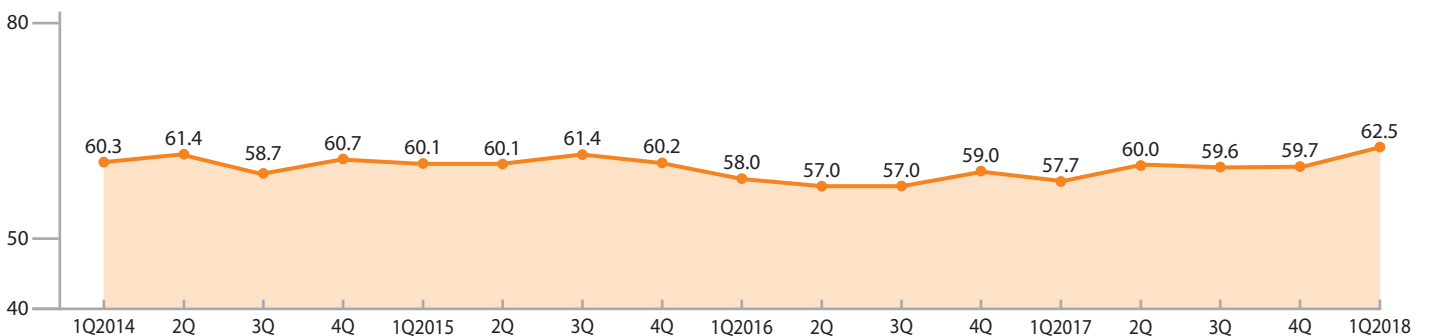
Preferred products/services



Demand drivers

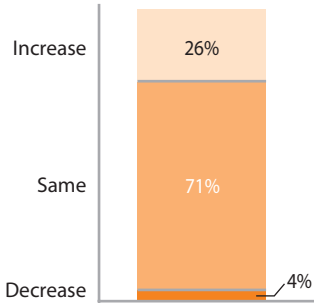


Demand trend

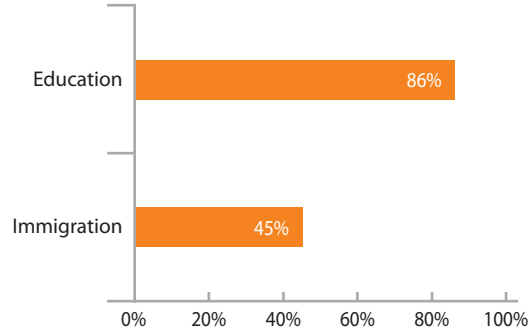


Immigration & education services (61.2)

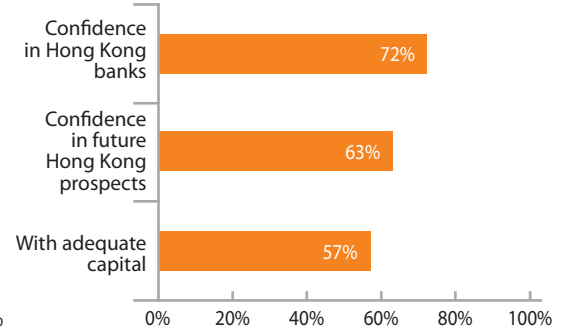
Demand expectation



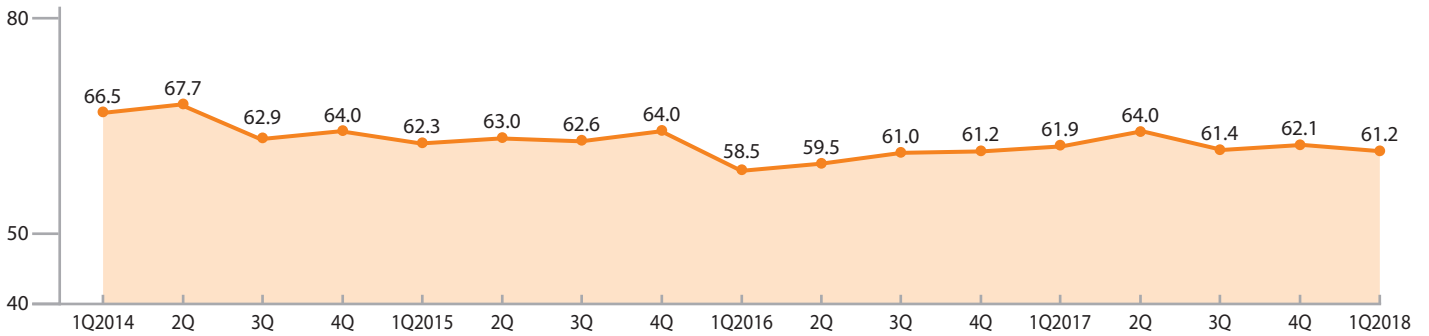
Choice of products/services



Demand drivers

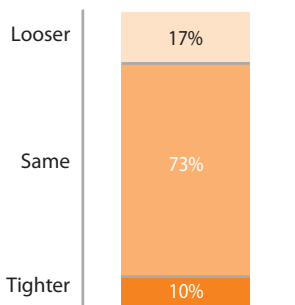


Demand trend

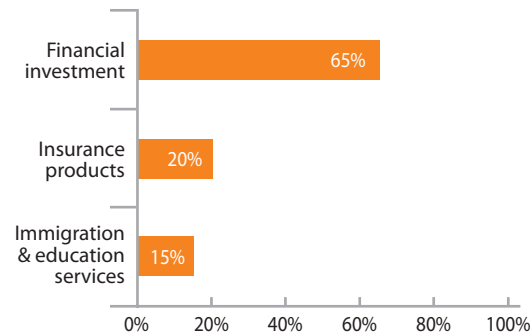


Expectation of regulatory looseness (53.5)

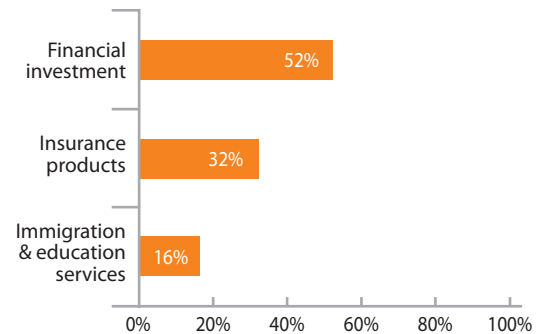
Expectation of laws and regulations



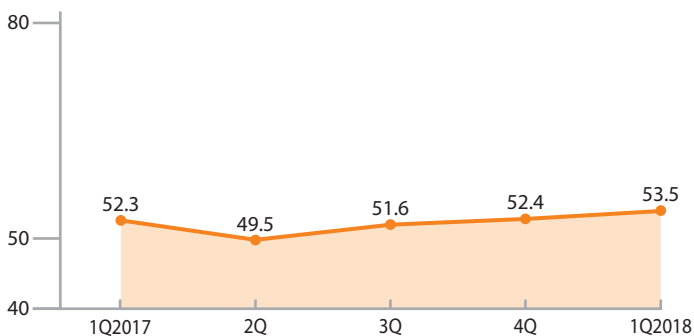
Expected regulatory loosening



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.

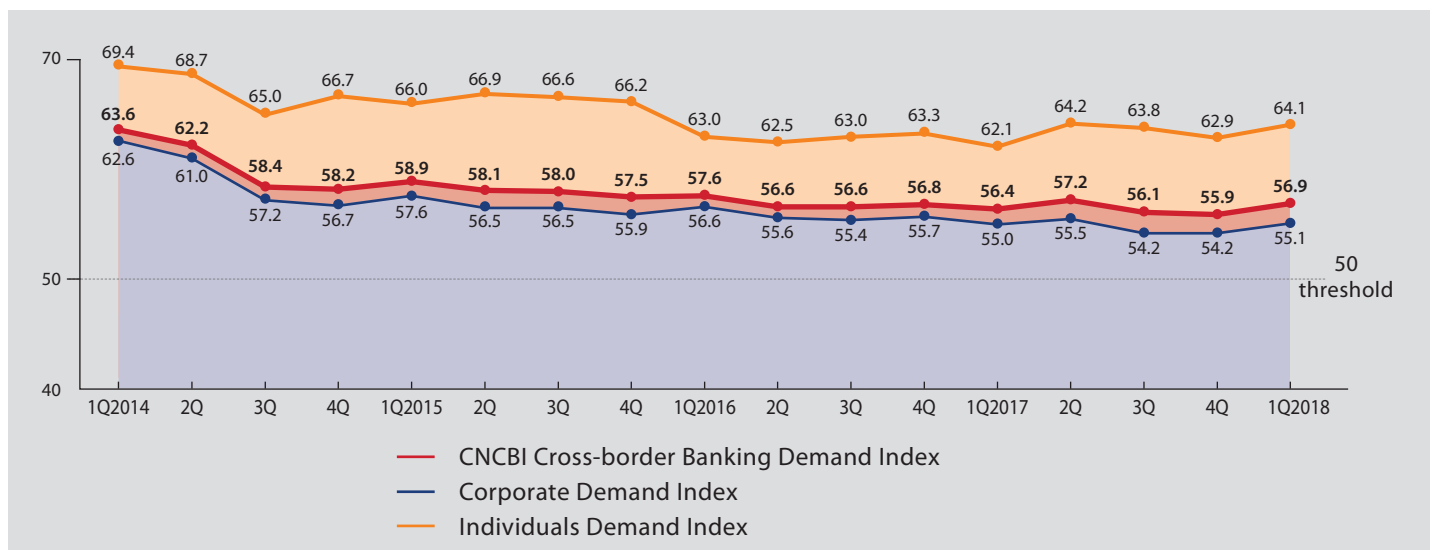
Diffusion indices have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading of above 50 indicates a strengthening of demand, and below 50 a weakening.

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



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