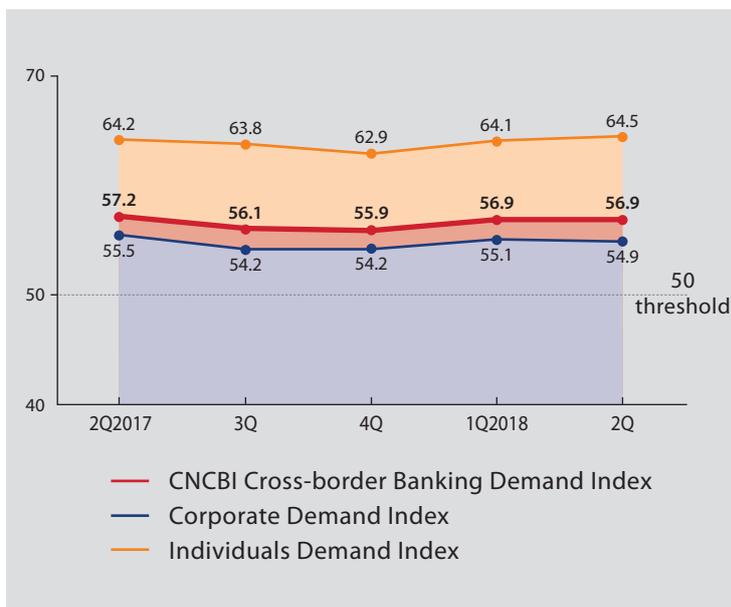


# Cross-border banking demand steady at highs

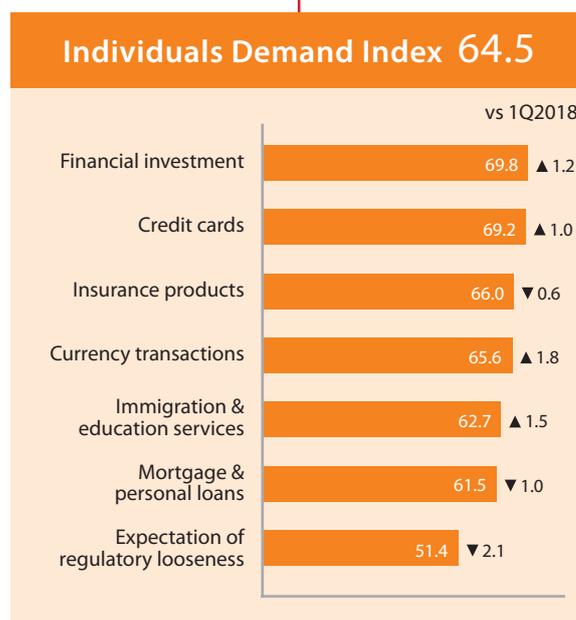
Demand outlook rosy overall  
China-US trade frictions to curb financing demand

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



- Demand for Hong Kong’s banking services from across the mainland - Hong Kong border is expected to stand high in 2Q2018 following the sharp 1Q2018 rebound, indicating that corporations and individuals’ confidence for cross-border banking services remains strong as the overall environment for demand continues to improve
- Corporate demand grows at a slightly softer pace with the derivative products, loans, trade finance and bond issuance sub-indices falling and the currency transactions, structured finance, asset management & financial consultancy and settlement & cash management sub-indices holding up
- Demand from individuals stays strong with the financial investment, currency transactions, immigration & education services, and credit cards sub-indices continuing their remarkable climb whereas the mortgage & personal loans and insurance products sub-indices decline
- Regarding the expectation of regulatory looseness, the corporate sub-index continues to rise, whereas a correction is shown in the individuals sub-index

## CNCBI Cross-border Banking Demand Index 56.9



## 1. Key analysis

- Survey results show that the 2Q2018 CNCBI Cross-border Banking Demand Index remains at 1Q2018's 56.9, which indicates that demand for cross-border banking services stands high in the context of growth as supported by such improving conditions as macroeconomic situations, RMB appreciation expectation and policy clarity
- Corporate Demand Index slips slightly by 0.2 from the last quarter to 54.9, which reflects softer demand from corporations for cross-border banking services; Individuals Demand Index rises 0.4 more and hits a two-year high of 64.5, implying a sustained momentum in individuals' demand

### Corporate Demand

#### **Demand for services to continue strengthening but financing needs to weaken under China-US trade conflicts' spell**

- Of the 8 corporate demand sub-indices, 4 increase and 4 decrease. The drop in derivative products is most significant at 1.4, followed by trade finance (1.0), loans (0.8) and bond issuance (0.1). In the order of magnitude, currency transactions (0.6), structured finance (0.5), asset management & financial consultancy (0.1) and settlement & cash management (0.1) log increases
- As for the sub-index rankings, structured finance climbs from 8th to 5th, whereas derivative products and trade finance drop from 5th and 6th to 6th and 8th respectively. Asset management & financial consultancy (1st), currency transactions (2nd), settlement & cash management (3rd), loans (4th) and bond issuance (7th) stay put
- Driven by positive factors including the stabilisation of mainland's economic growth, acceleration of the global economic recovery, RMB appreciation and policy clarity of the central government's control over capital outflows, corporate cross-border banking demand bounced back considerably in 1Q2018. In this quarter, these factors continue to develop in a positive direction. But, US President Donald Trump's trade protectionism sparks concerns over the prospects of this year's China-US trade. Demand for cross-border financing and even demand across the entire banking spectrum among corporations softens after last quarter's rebound
- Demand for trade finance, loans, bond issuance and derivative products loses steam. Despite China and Hong Kong's strong foreign trade, demand for trade finance weakens significantly due presumably to market concerns over the heated China-US trade conflicts. Conversely, demand for services gains further strength. Demand for currency transactions rises remarkably resulting clearly from the sustained validity of the abovementioned positive factors in the demand environment and particularly from the improving expectation of RMB's exchange rates
- The growth prospects of both the mainland and global economies, RMB development and direction of the central government's foreign policy will continue to pick up pace this year. However, US trade protectionism has escalated rapidly in recent weeks, and how far US will go in this direction in the future is highly uncertain, which will continue to sway corporations' cross-border banking demand

### Individuals Demand

#### **Demand to hit two-year high as a result of improved RMB expectation and clearer policy**

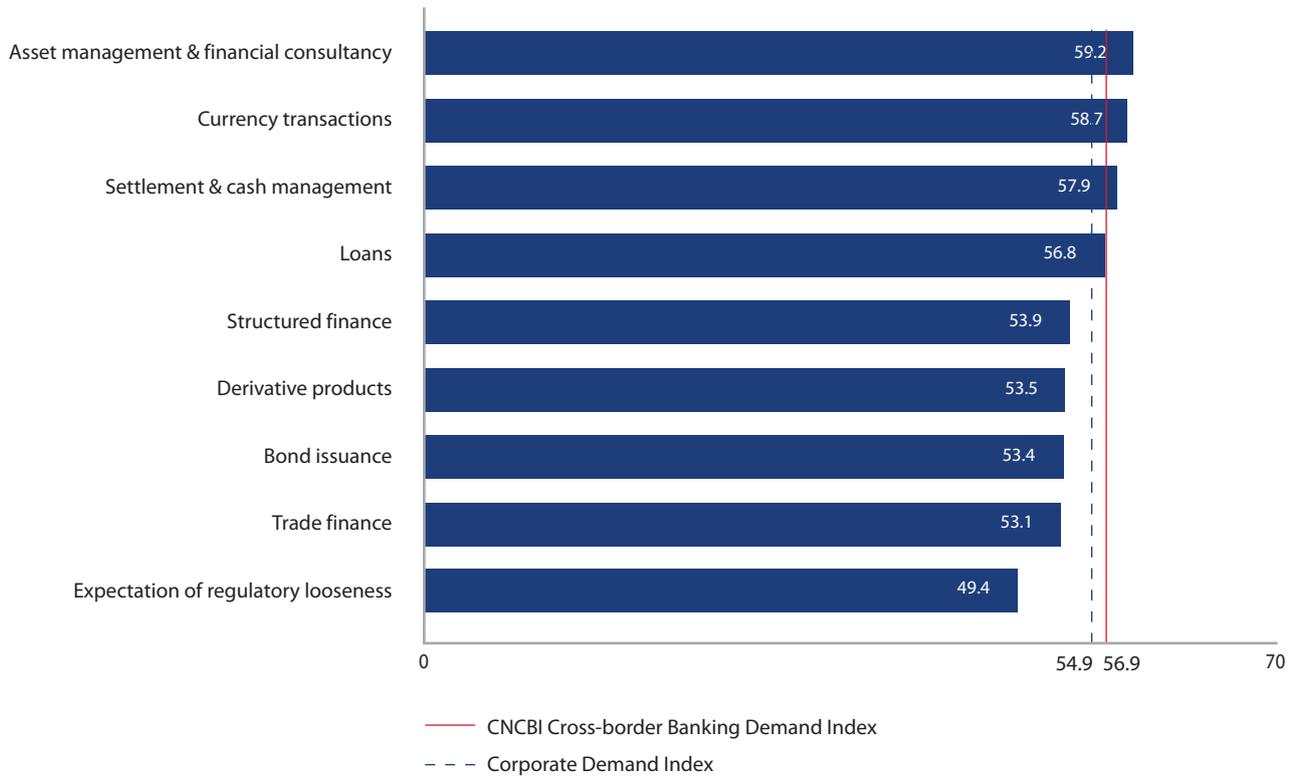
- Of the 6 individuals demand sub-indices, 4 go up and 2 go down. The rising sub-indices, namely currency transactions, immigration & education services, financial investment and credit cards, increase rather significantly by 1.0 or above, with the first two sub-indices gaining 1.8 and 1.5 respectively, whereas the mortgage & personal loans and insurance products sub-indices shed 1.0 and 0.6 respectively
- As for the rankings, only the sub-indices of immigration & education services and mortgage & personal loans swap positions, from 6th and 5th to 5th and 6th respectively. Other sub-indices including financial investment, credit cards, insurance products and currency transactions remain sequentially at the first 4 positions
- Stronger cross-border demand from individuals is attributable evidently to the continuous development of the abovementioned favourable factors, especially the improving expectation of RMB's exchange rates and the central government's clarity and relaxation of its control over capital outflows. These also result in the surge of currency transactions demand. The delayed response to these two factors is seen in the rebound of demand for immigration & education services from the soft 1Q2018. Steady growth of financial investment demand is also directly related to the bullish outlook of Hong Kong's stock market. Demand for credit cards hits a two-year high on the strong 1Q2018 rebound is attributable to the rising number of mainland tourists and their spending. Demand for insurance products and mortgage & personal loans weakens, which can be considered as a natural correction to last quarter's stronger-than-expected rise which is expected to stabilise in the next quarter

### Expectation of regulatory looseness

#### **Corporate sub-index to rise whereas individuals' to retreat from highs**

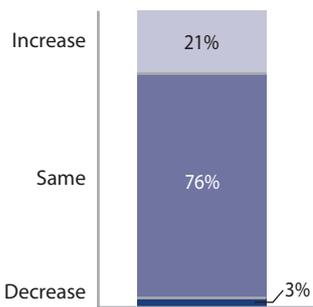
- In 2Q2018, the corporate and individuals law & regulation environment sub-indices stand at 49.4 and 51.4 respectively, representing an increase of 1.6 and a decrease of 2.1 compared to 1Q2018
- On the corporate side, the sub-index rises further and considerably on last quarter, implying that the central government's control over capital outflows is clearer and more relaxed, and that corporations' understanding of the policy is even more thorough and deeper with their concerns over this policy eased to a large extent
- On the individuals side, the sub-index shows a significant correction after a three-quarter increase. In view of the great magnitude of the correction, the sub-index is expected to stabilise shortly
- The intensity of China-US trade conflicts will have a direct impact on mainland corporations and individuals' expectations of regulatory looseness while a trade war can cause their expectations to deteriorate

## 2. Corporate demand sub-indices

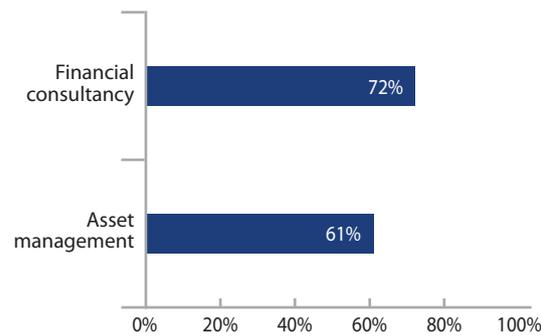


### Asset management & financial consultancy (59.2)

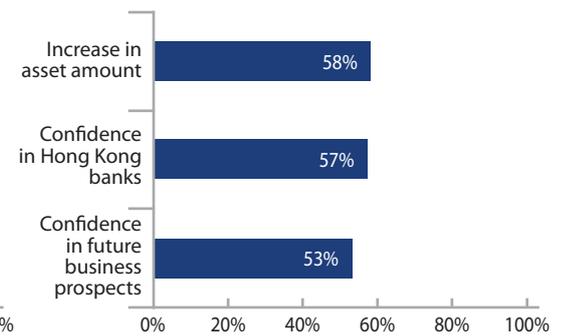
#### Demand expectation



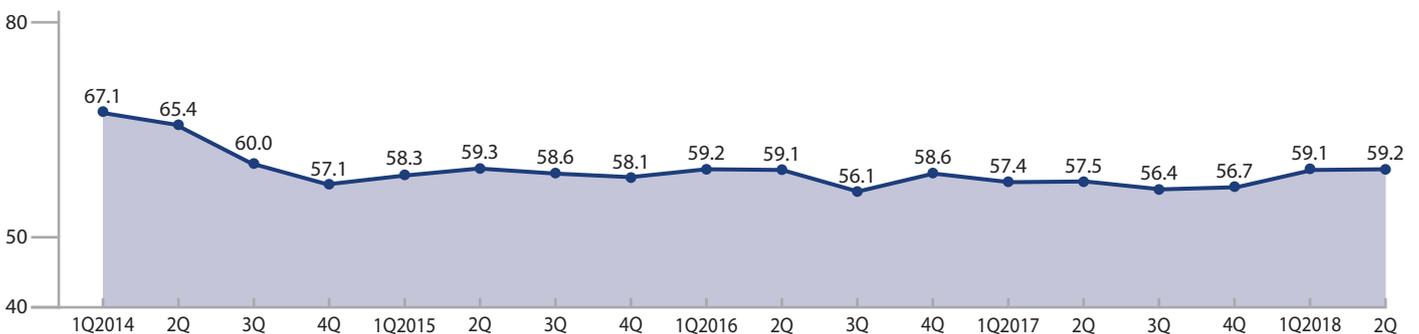
#### Choice of products/services



#### Demand drivers

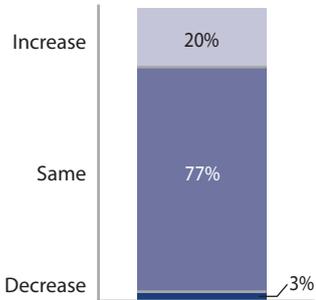


#### Demand trend

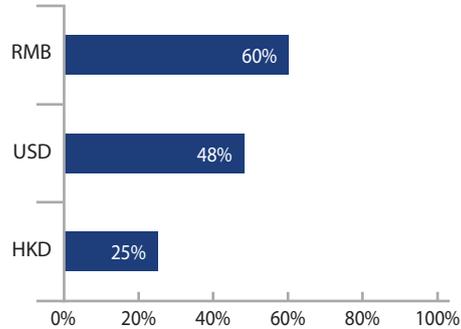


## Currency transactions (58.7)

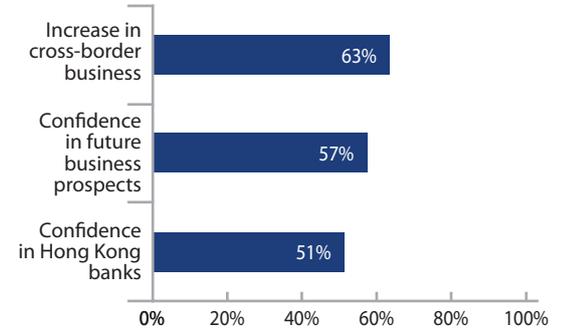
### Demand expectation



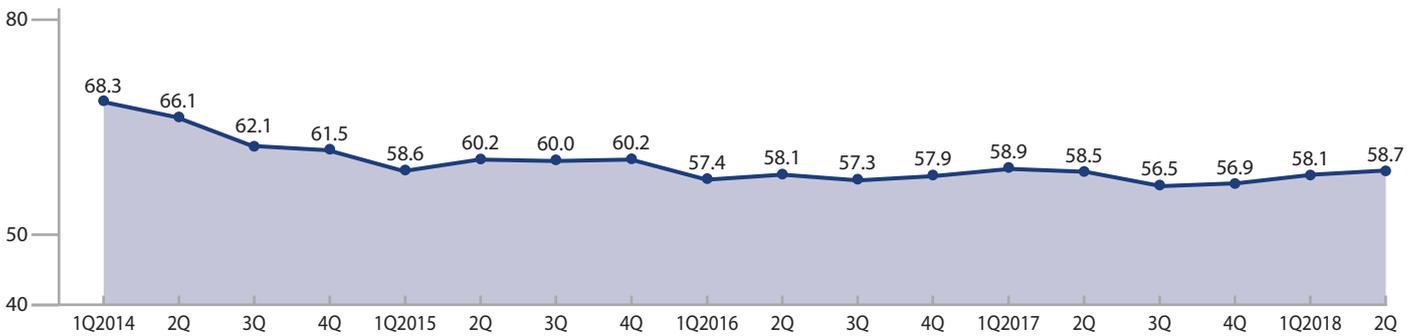
### Choice of Currencies



### Demand drivers

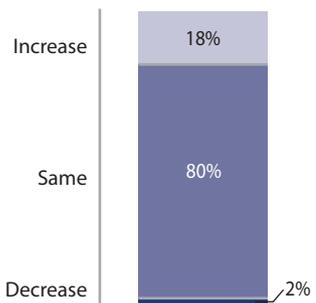


### Demand trend

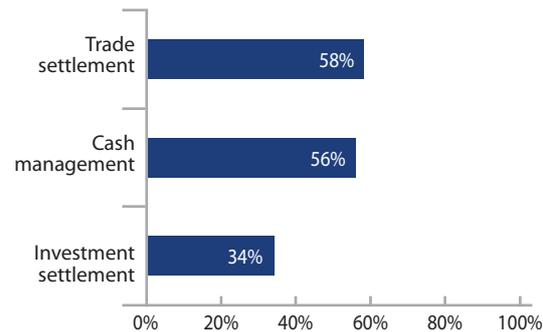


## Settlement & cash management (57.9)

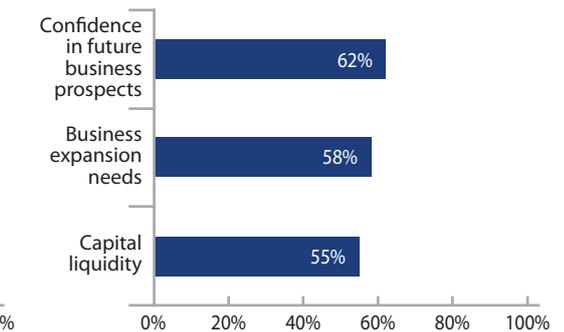
### Demand expectation



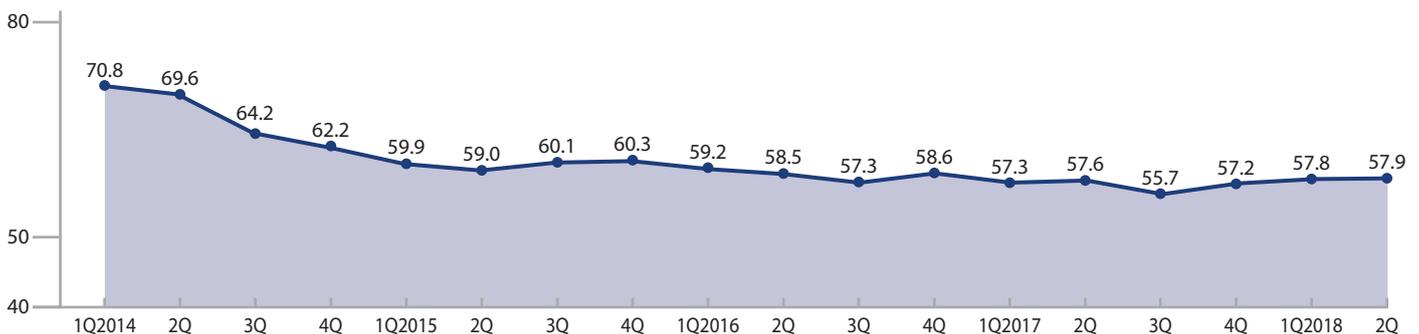
### Choice of products/services



### Demand drivers

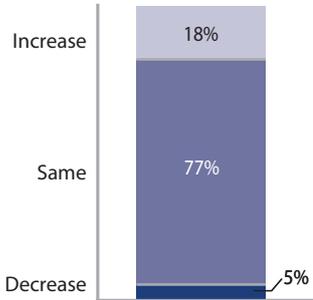


### Demand trend

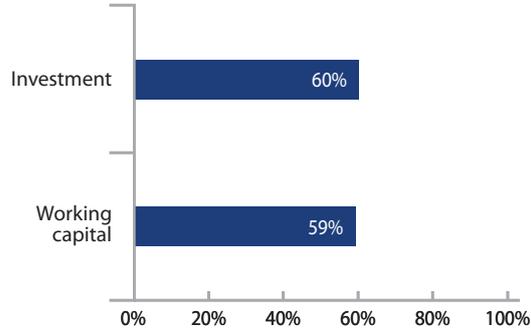


## Loans (56.8)

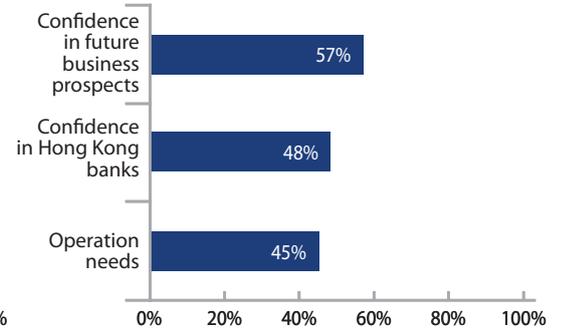
### Demand expectation



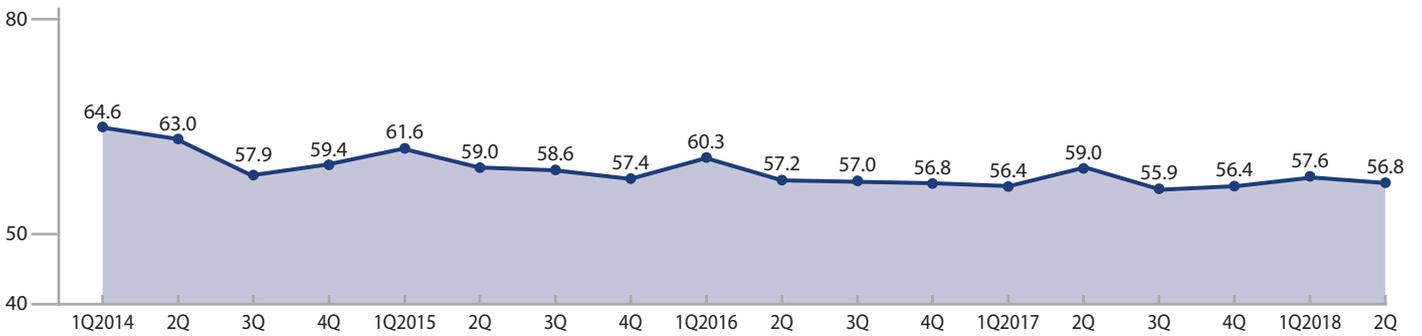
### Usage



### Demand drivers

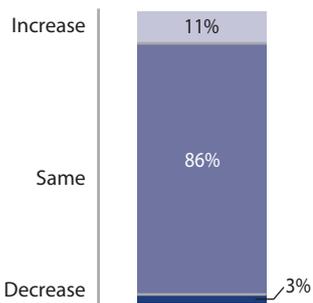


### Demand trend

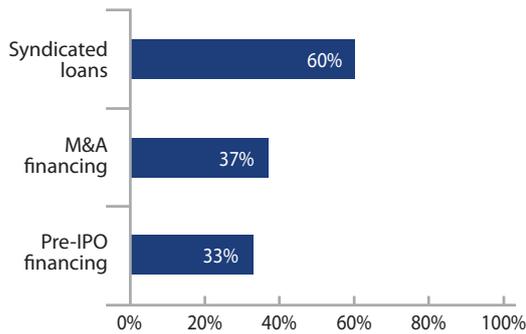


## Structured finance (53.9)

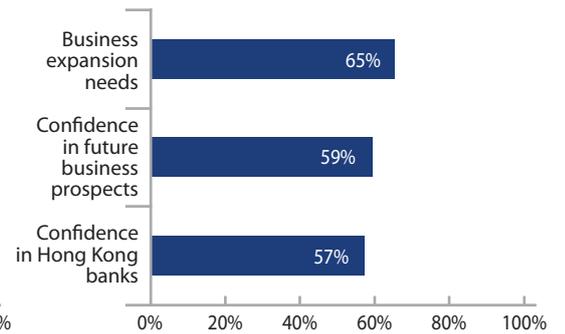
### Demand expectation



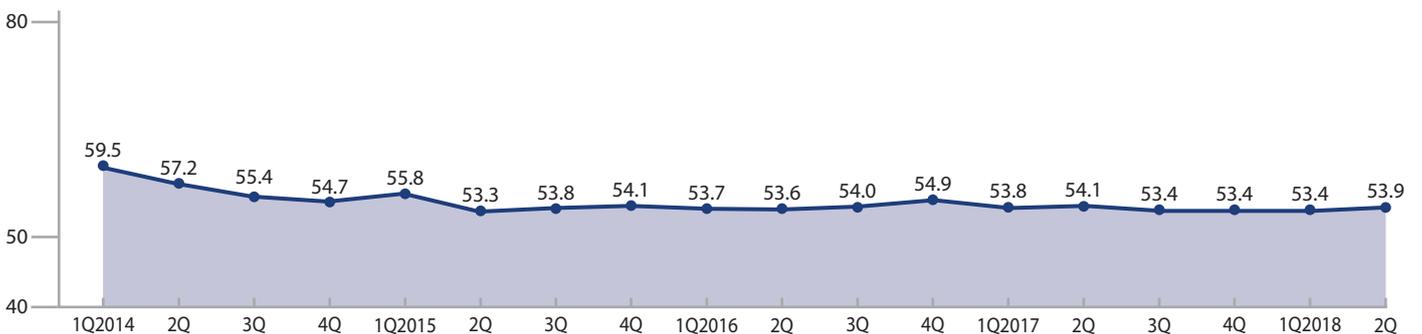
### Choice of products/services



### Demand drivers

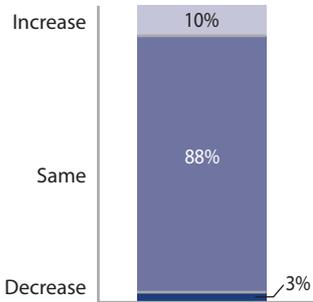


### Demand trend

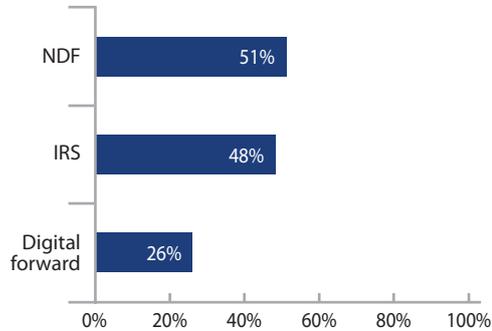


## Derivative products (53.5)

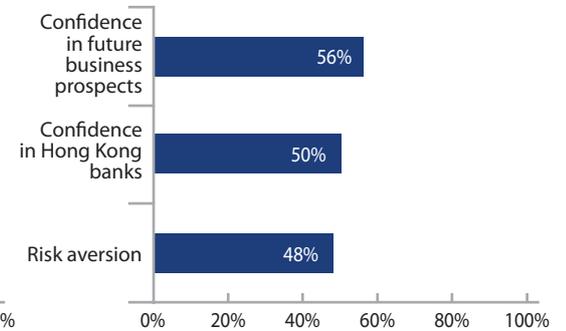
### Demand expectation



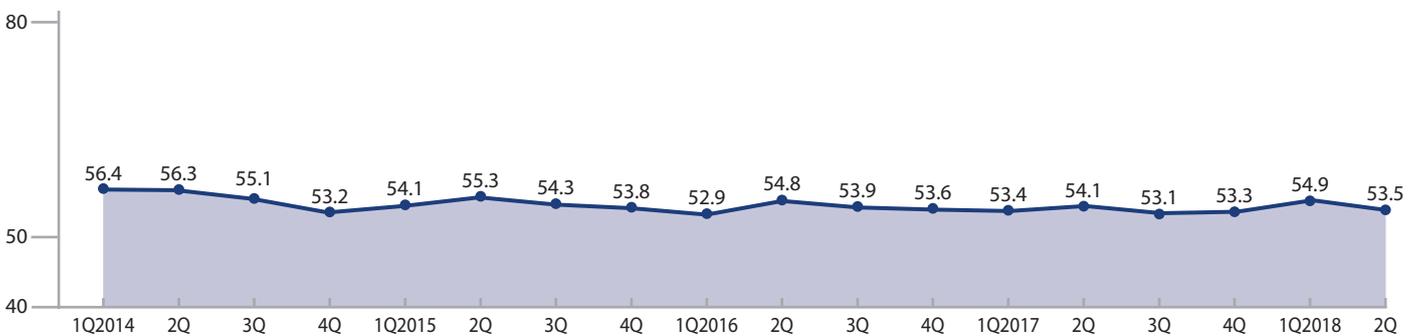
### Choice of products/services



### Demand drivers

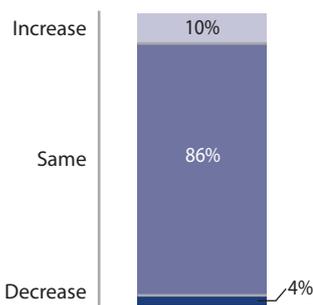


### Demand trend

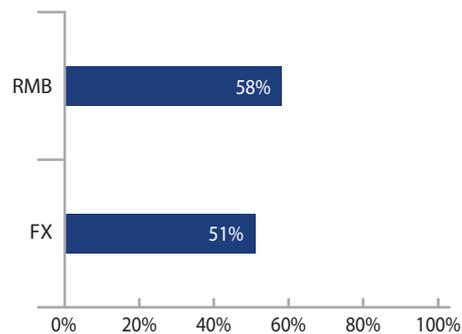


## Bond issuance (53.4)

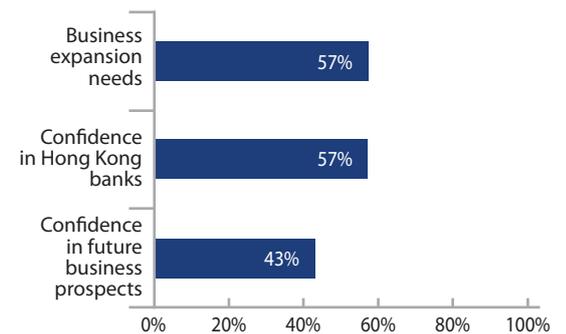
### Demand expectation



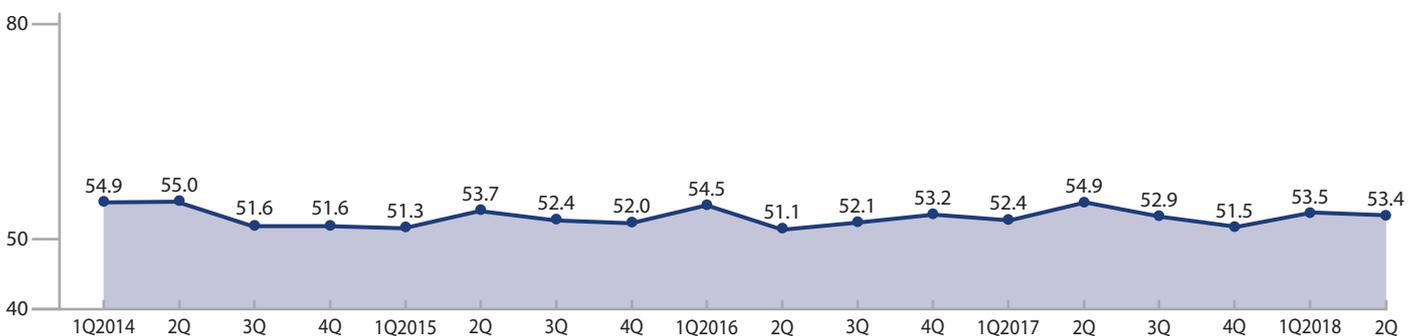
### Choice of currencies



### Demand drivers

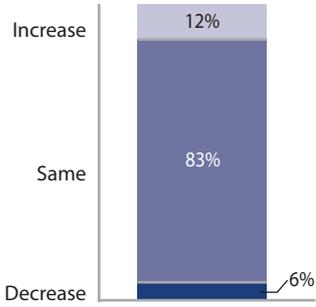


### Demand trend

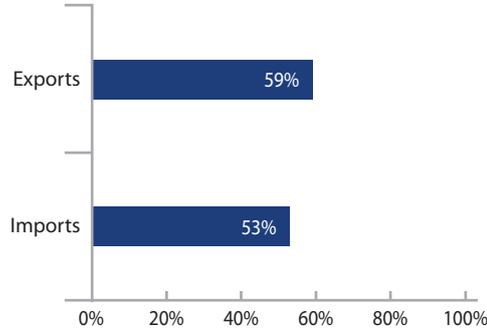


## Trade finance (53.1)

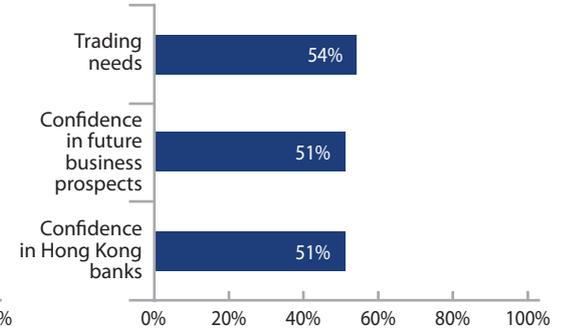
### Demand expectation



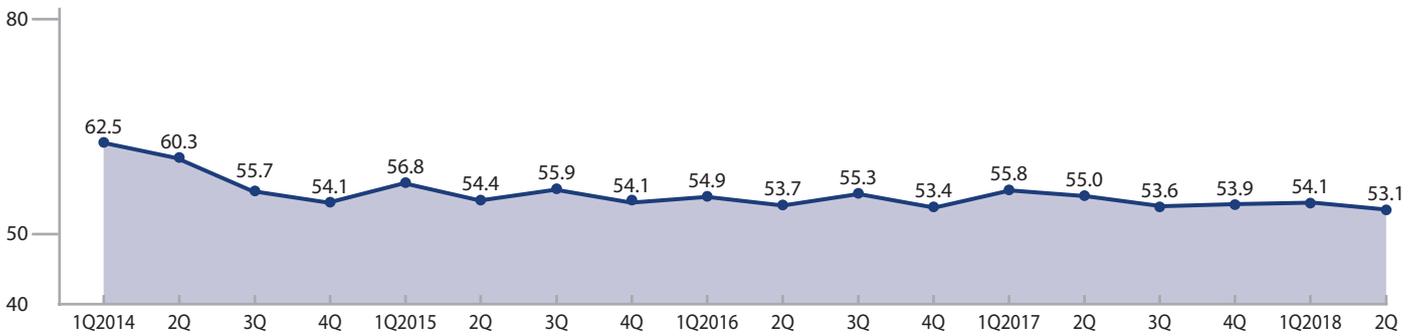
### Choice of products/services



### Demand drivers

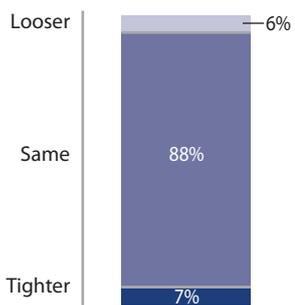


### Demand trend

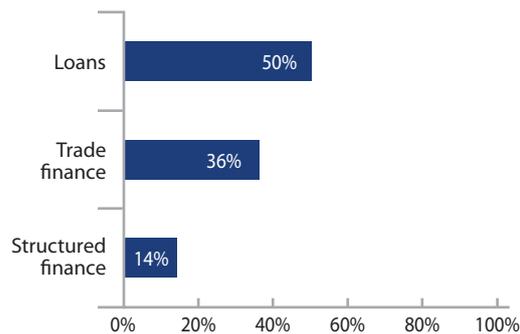


## Expectation of regulatory looseness (49.4)

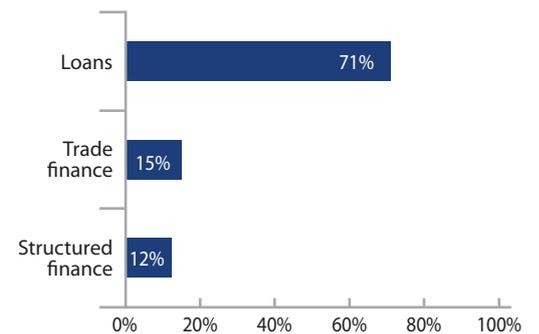
### Expectation of laws and regulations



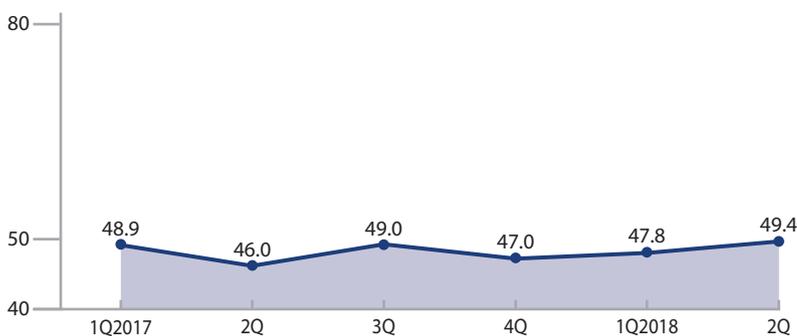
### Expected regulatory loosening



### Expected regulatory tightening

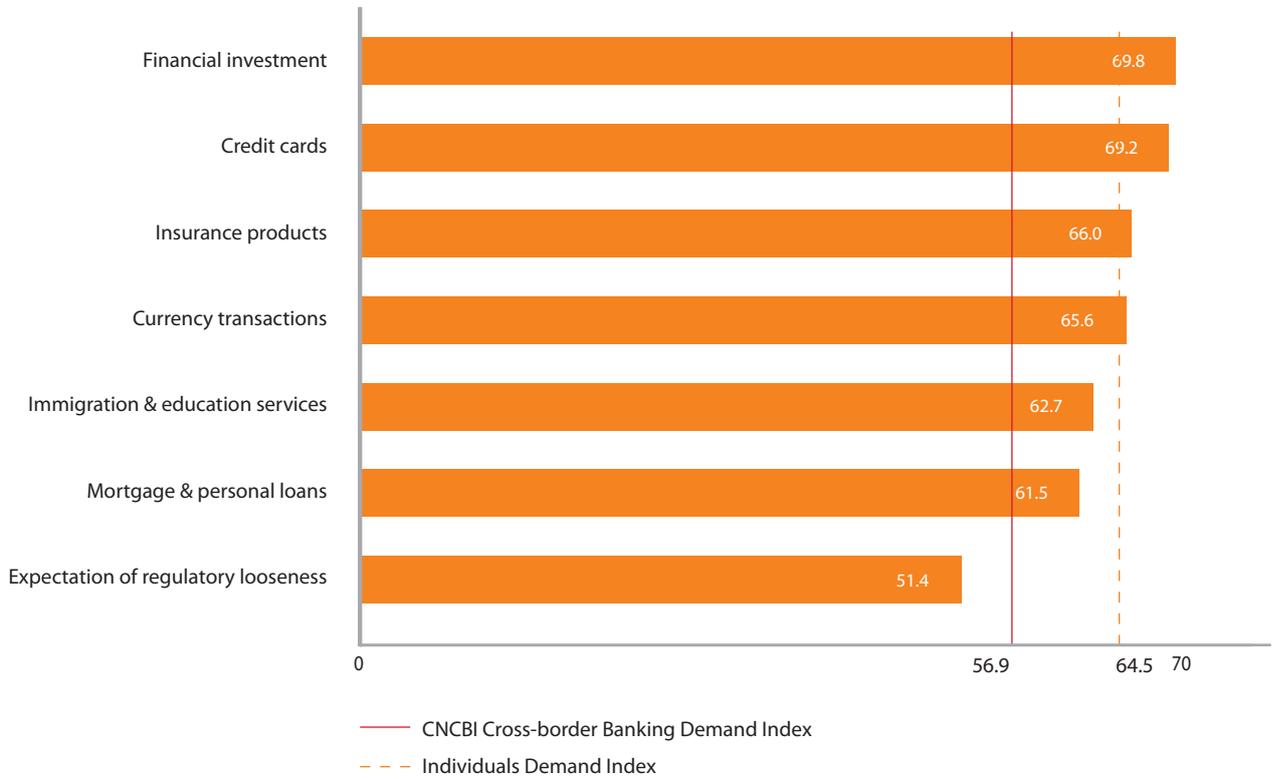


### Expectation trend



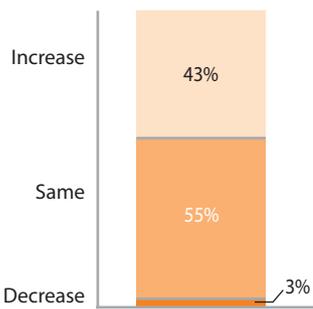
Note: This sub-index is introduced since 1Q2017

### 3. Individuals demand sub-indices

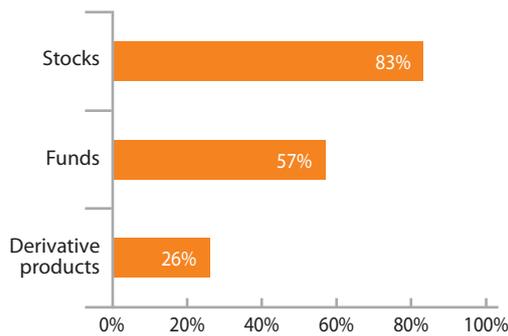


### Financial investment (69.8)

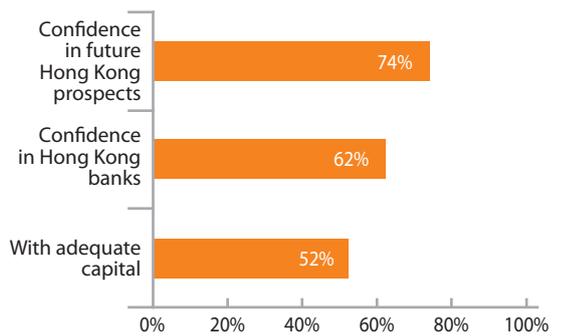
#### Demand expectation



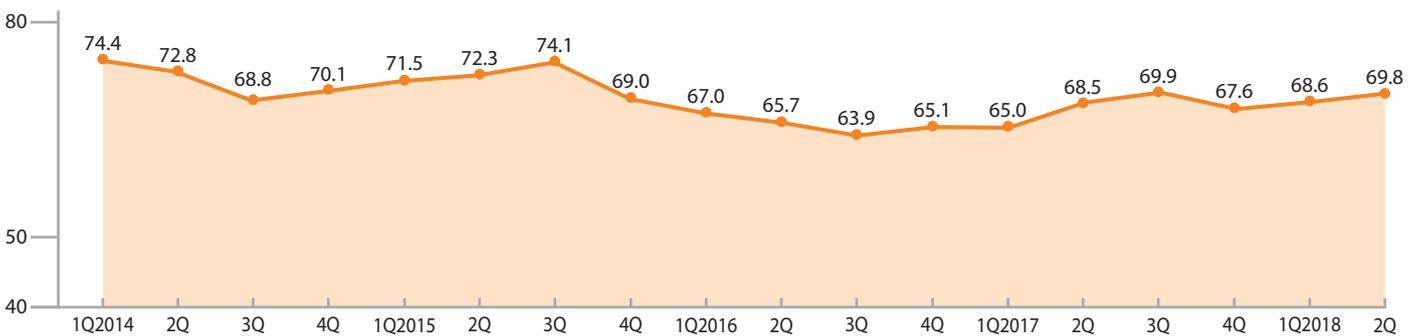
#### Choice of products/services



#### Demand drivers

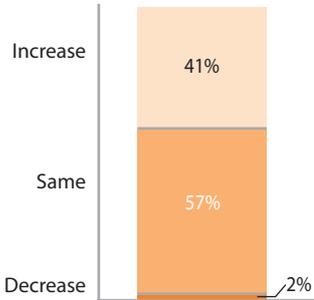


#### Demand trend

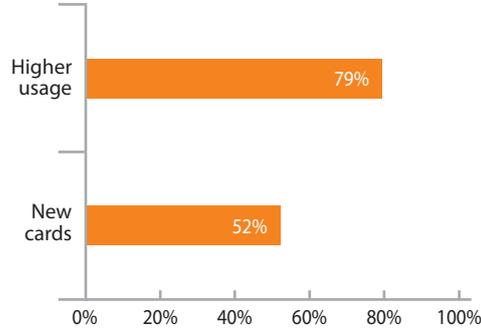


## Credit cards (69.2)

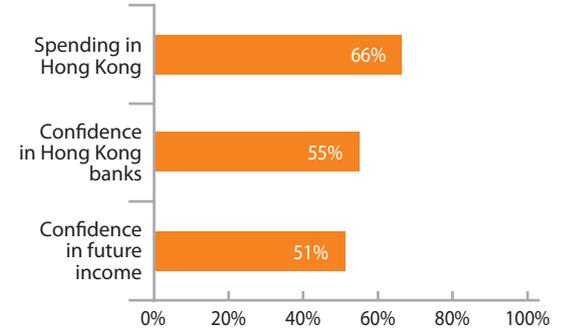
### Demand expectation



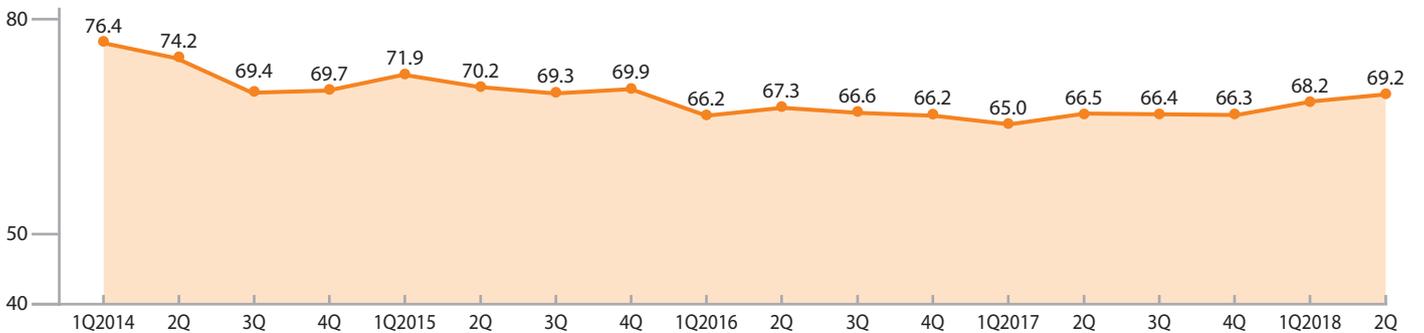
### Choice of products/services



### Demand drivers

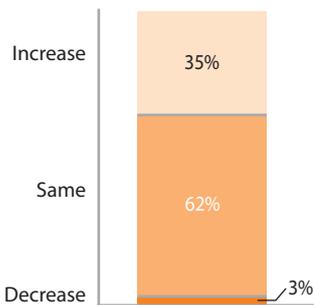


### Demand trend

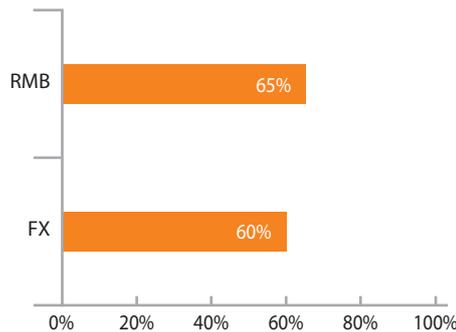


## Insurance products (66.0)

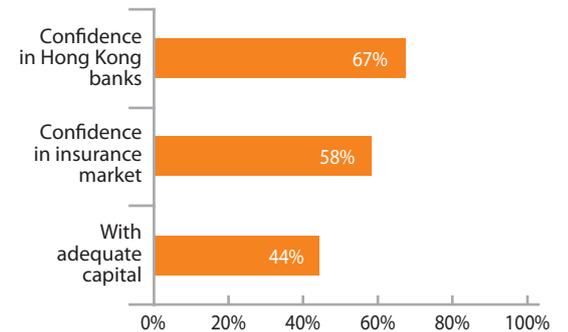
### Demand expectation



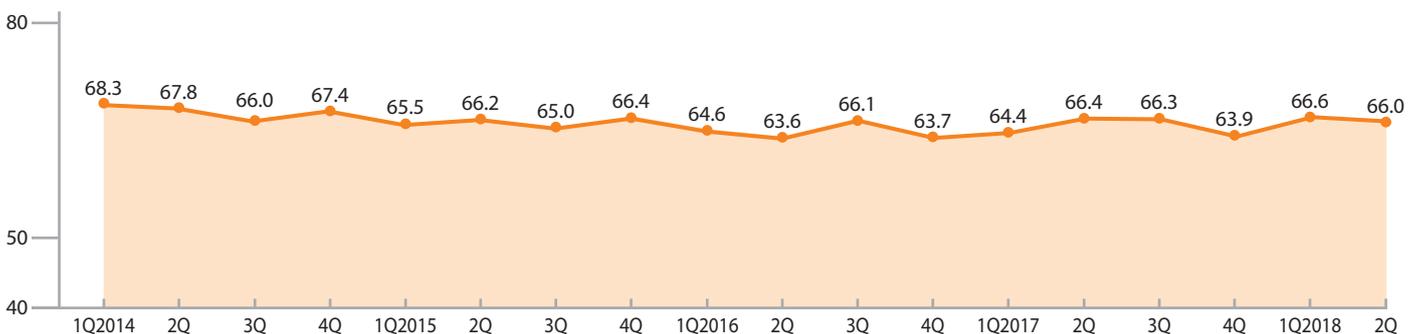
### Choice of currencies



### Demand drivers

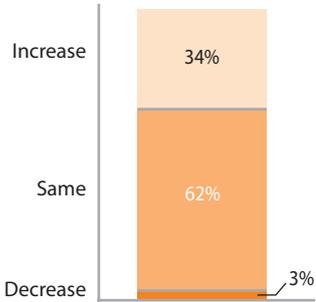


### Demand trend

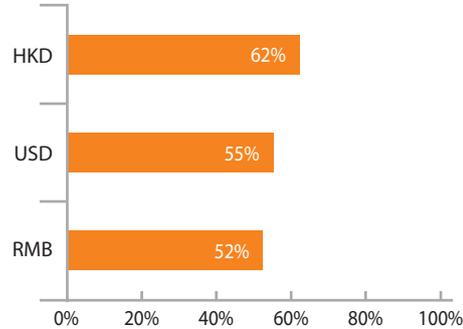


## Currency transactions (65.6)

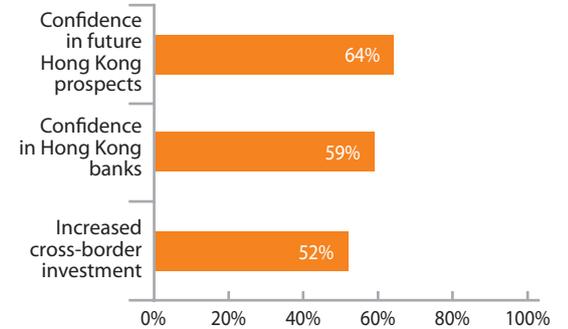
### Demand expectation



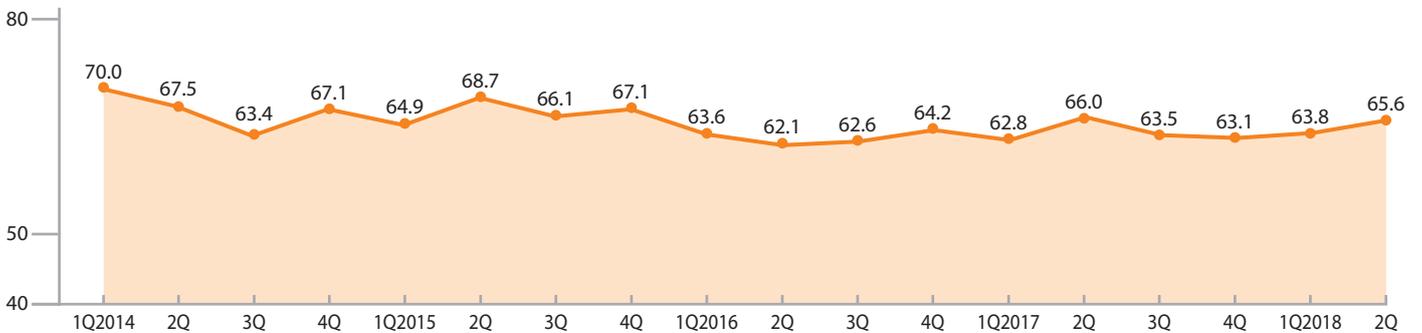
### Choice of currencies



### Demand drivers

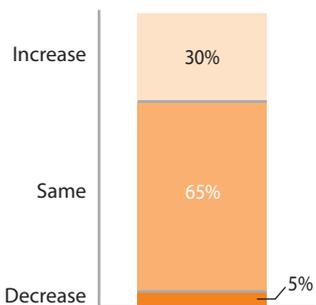


### Demand trend

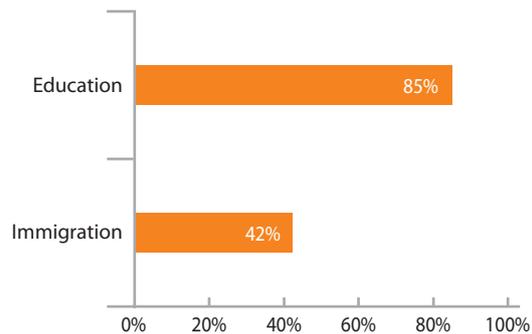


## Immigration & education services (62.7)

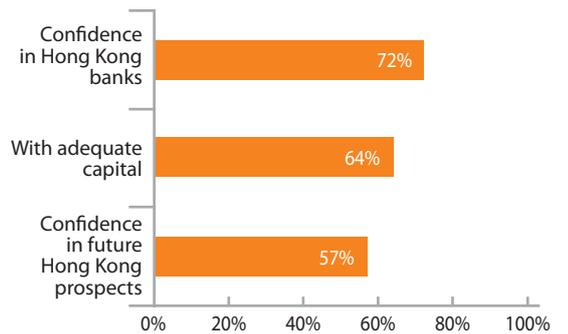
### Demand expectation



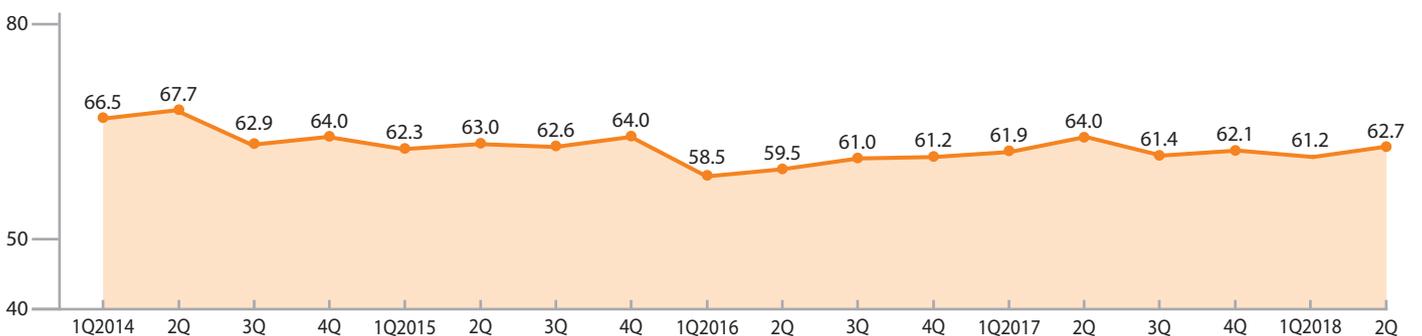
### Choice of products/services



### Demand drivers

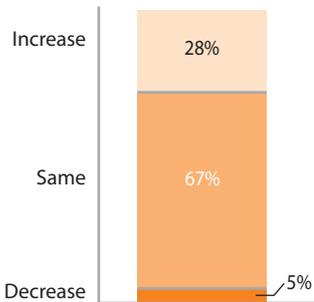


### Demand trend

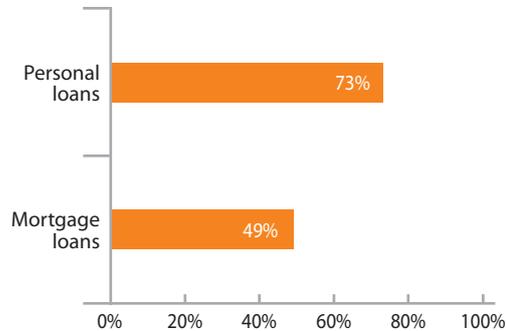


## Mortgage & personal loans (61.5)

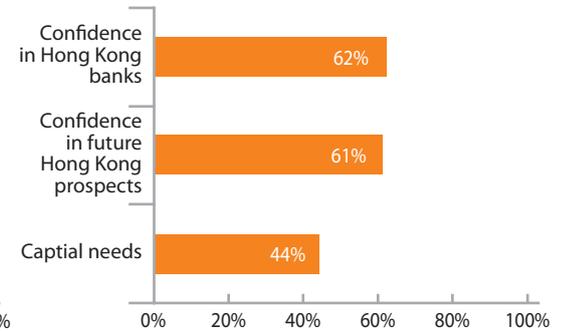
### Demand expectation



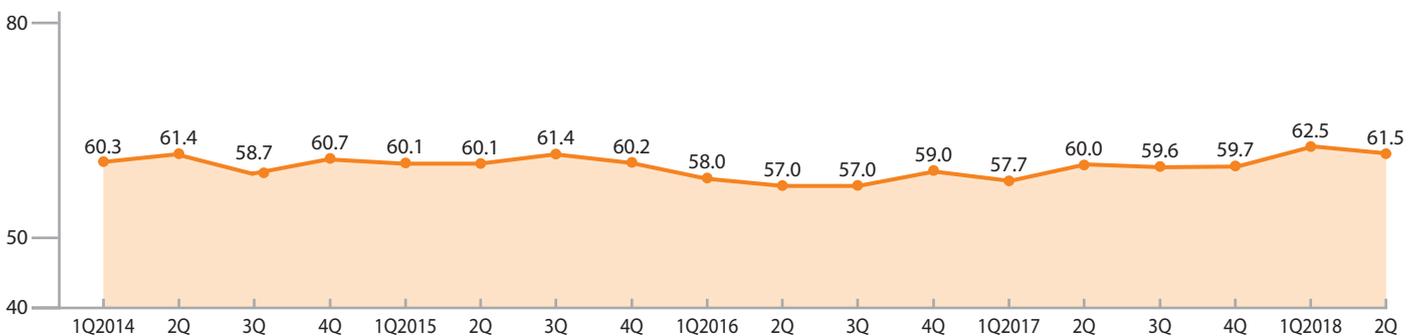
### Preferred products/services



### Demand drivers

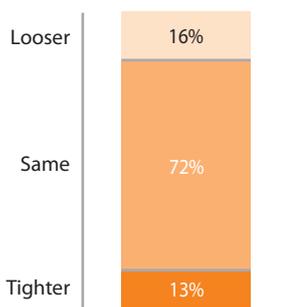


### Demand trend

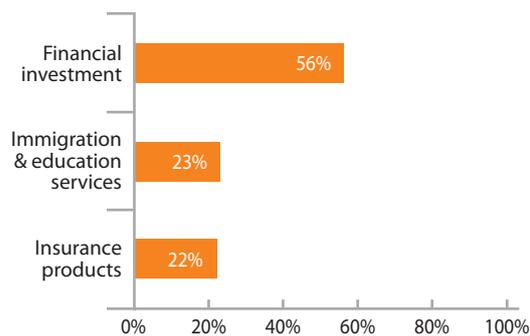


## Expectation of regulatory looseness (51.4)

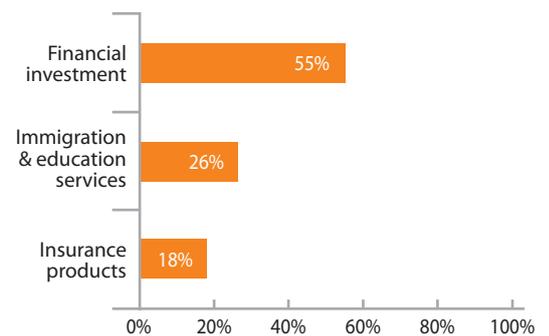
### Expectation of laws and regulations



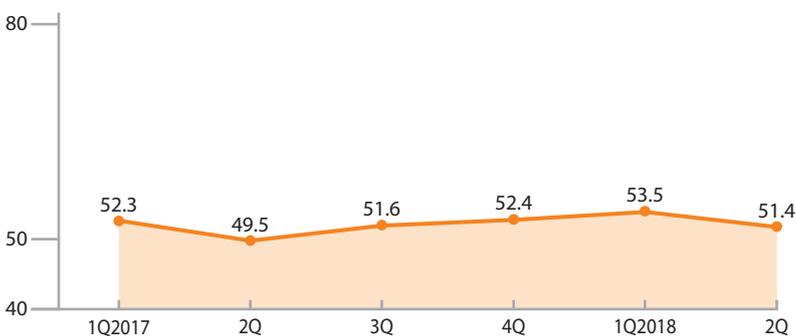
### Expected regulatory loosening



### 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.

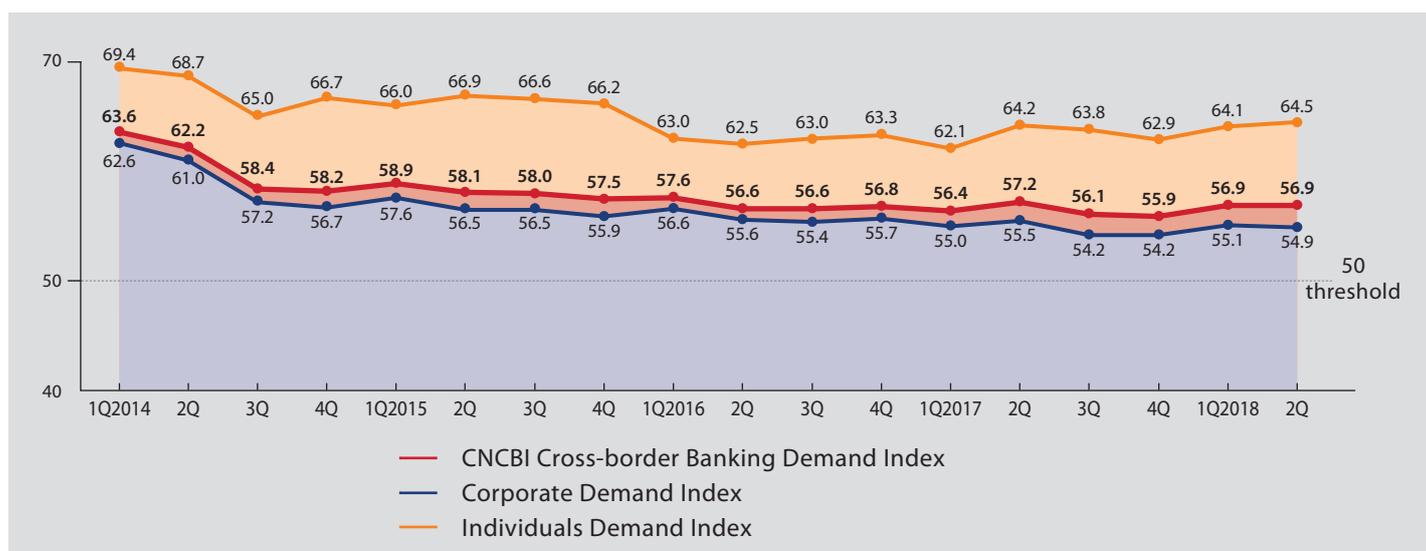
Diffusion indices have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading of above 50 indicates a strengthening of demand, and below 50 a weakening.

### 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



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