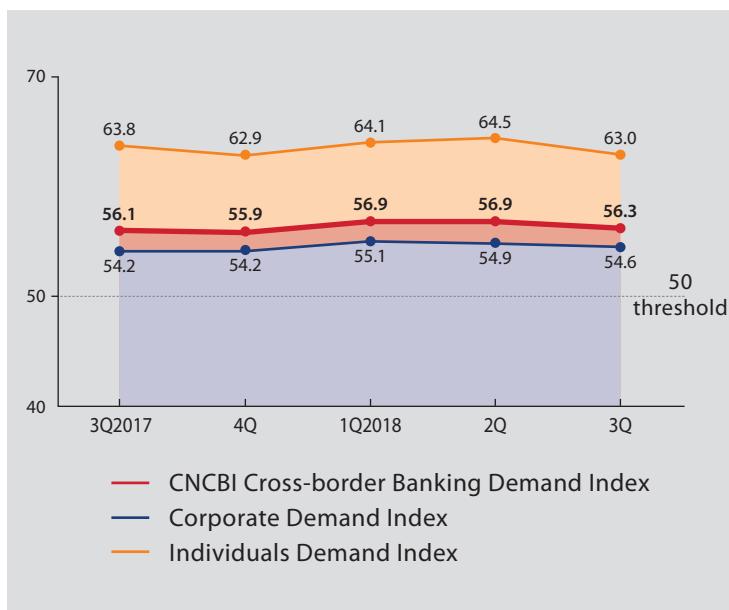


# Cross-border banking demand to soften from highs

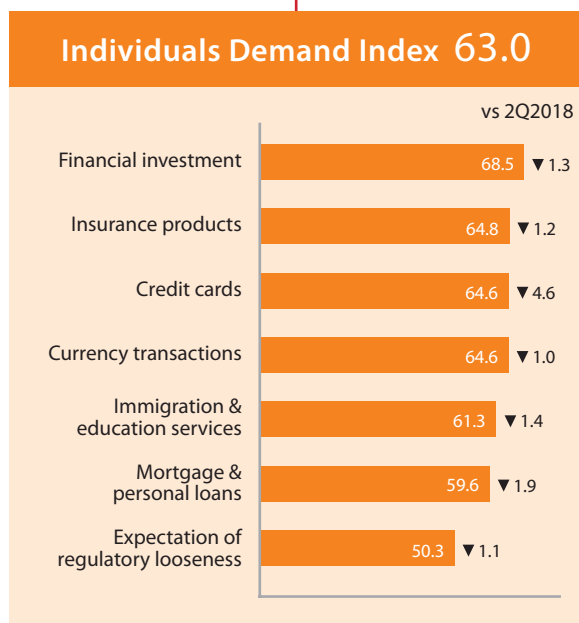
China-US trade tensions and RMB depreciation to tarnish “going out” confidence

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



- Demand for Hong Kong’s banking services from mainland China softens from last quarter’s high with heated China-US trade tensions and the reversal of RMB appreciation denting the “going out” confidence of mainland corporations and individuals
- Growth of corporate demand slows further as demand for loans, currency transactions, asset management & financial consultancy, settlement & cash management and structured finance softens despite rising demand for trade finance, derivative products and bond issuance
- Demand from individuals decelerates remarkably as demonstrated by the significant weakening of the six sub-indices of which credit cards and mortgage & personal loans post the biggest decline
- Corporations’ expectation of regulatory looseness falls from last quarter’s rebound while individuals’ continues downward

## CNCBI Cross-border Banking Demand Index 56.3



# 1. Key analysis

- 2Q2018 survey results show that the 3Q2018 CNCBI Cross-border Banking Demand Index falls 0.6 from the previous quarter to 56.3 under the influence of the blazing China-US trade tensions and reversal of RMB appreciation
- Following a 0.2 drop in the previous quarter, Corporate Demand Index falls 0.3 further to 54.6 while Individuals Demand Index falls 1.5 to 63.0 after a two-quarter rise, representing a marked slowdown in cross-border demand growth

## Corporate Demand

### Majority of demand to soften further

- Five of the eight service- or product-related corporate demand sub-indices fall as the remaining sub-indices rise. While asset management & financial consultancy logs the biggest decline of 1.8, currency transactions, settlement & cash management, loans and structured finance drop by a smaller margin of less than 1.0. Of the three rising sub-indices, trade finance posts the biggest leap of 1.7 while derivative products and bond issuance rise by only 0.2
- Regarding the rankings, asset management & financial consultancy falls from the top to the 3rd as a result of its significant decline. Currency transactions claims the top spot from the second place albeit its moderate fall in demand. Trade finance, meanwhile, swaps places with structured finance and rises to the 5th from the bottom. Settlement & cash management takes a notch up to the 2nd while loans, derivative products and bond issuance stay put at 4th, 6th and 7th respectively
- Although the global economy continues to recuperate and the mainland economy further stabilises in addition to clearer policies on the opening up of China's market and the country's capital outflow controls, escalating China-US trade tensions inevitably fuelled market uncertainty. Meanwhile, the RMB depreciated again against the US dollar. These two factors have curbed mainland corporations' confidence in using Hong Kong's cross-border banking services. Corporations are holding back plans for their next business moves including cross-border expansion and financing. As a result, corporate demand for the majority of financing or service-oriented cross-border banking softens at various degrees. Demand for asset management & financial consultancy softens the most as a consequence of their big rebound over the last two quarters
- Demand for trade finance soars surprisingly. Export trade is expected to be hit the hardest and most directly by the China-US trade tensions with demand for trade finance declining in tow. The unexpected increase is first probably due to the fact that China-US trade tensions have yet to impact China's second-quarter volume of foreign trade and bilateral trade with Hong Kong, which continues to gain steam. Also, it may be a result of last quarter's marked decline in trade finance demand which would fall in the next quarter should the trade tensions escalate. The moderate increase in the derivative products sub-index should be a result of last quarter's dramatic drop. The slight rebound in the bond issuance sub-index, in turn, is evidence of the steady recovery of Hong Kong's dim sum bond market

## Individuals Demand

### Weakening from highs

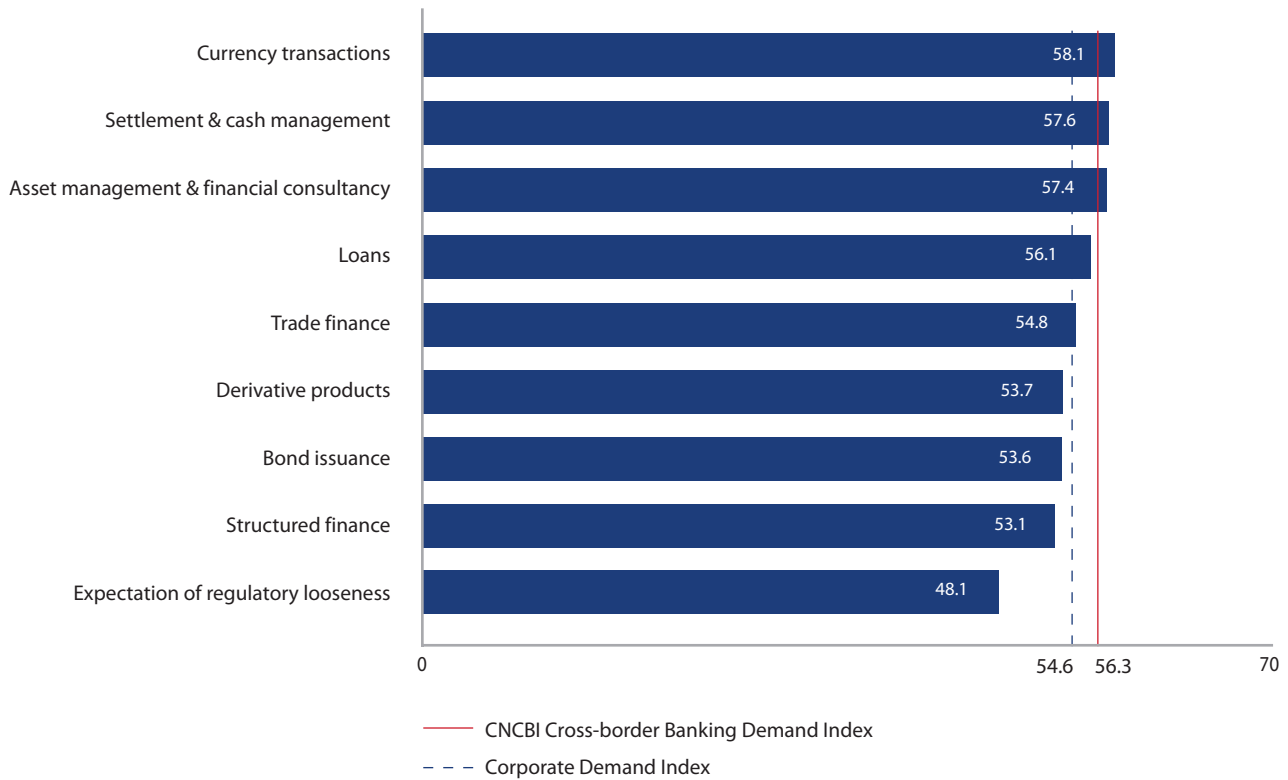
- The six service- or product-related sub-indices drop significantly with credit cards showing the biggest decline of 4.6 while mortgage & personal loans also drops 1.9 as financial investment, insurance products, currency transactions, and immigration & education services, drop by a margin of 1.0 to 1.4
- As for the rankings, insurance products and credit cards swap places and rank 2nd and 3rd respectively for the latter's more dramatic fall in this quarter. The other four sub-indices, namely financial investment, currency transactions, immigration & education services and mortgage & personal loans stay 1st, 4th, 5th and 6th respectively
- Weakening demand for cross-border services from individuals can also be attributed to the escalating China-US trade tensions and the renewed depreciation of the RMB in the second quarter. Demand from individuals appears to be more susceptible to these two factors. After all, individuals tend to be more careful with their wealth since "going out" requires good observation and responsiveness to changes in the external environment. Negative events can always trigger increased caution towards investment- and consumption-related cross-border activities especially financial investment and credit card consumption. However, the slide of the credit cards sub-index is unexpected. Apart from the aforementioned reasons, this can also be attributable to the second-quarter launch of Alipay service in Hong Kong and the increasing number of mainland consumers using Alipay for their Hong Kong purchases. The mortgage & personal loans sub-index continues to fall, demonstrating a slowing pace of Hong Kong property investment which is a result of the restrictions placed on mainland homebuyers and soaring home prices

## Expectation of regulatory looseness

### Tighter regulations expected by corporations and individuals

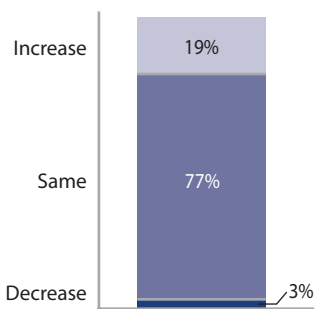
- In 3Q2018, the expectation of regulatory looseness sub-indices on both the corporate and individuals sides drop 1.3 and 1.1 respectively to 48.1 and 50.3
- On the corporate side, the sub-index retreats from last quarter's rise of 1.6 as a result of the escalating China-US trade tensions and the depreciating RMB as corporations expect the central government to tighten its control over capital outflows. These two factors accelerate capital outflows, and corporations therefore find tighter capital controls reasonable
- In the case for mainland individuals, the sub-index drops further due also to the abovementioned factors
- Should these two factors intensify, particularly if the China-US trade war escalates this sub-index on both the corporate and individuals sides would deteriorate further

## 2. Corporate demand sub-indices

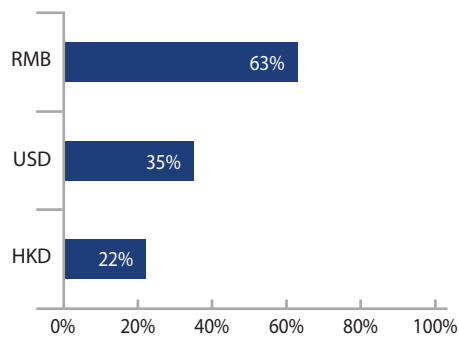


### Currency transactions (58.1)

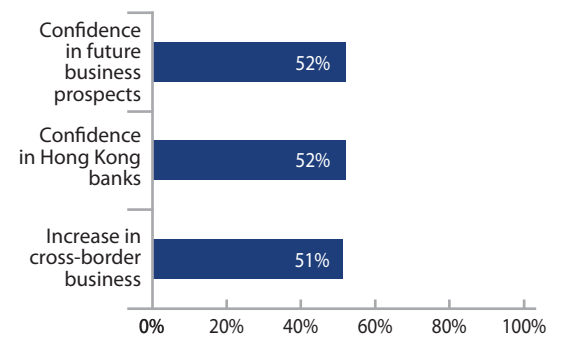
#### Demand expectation



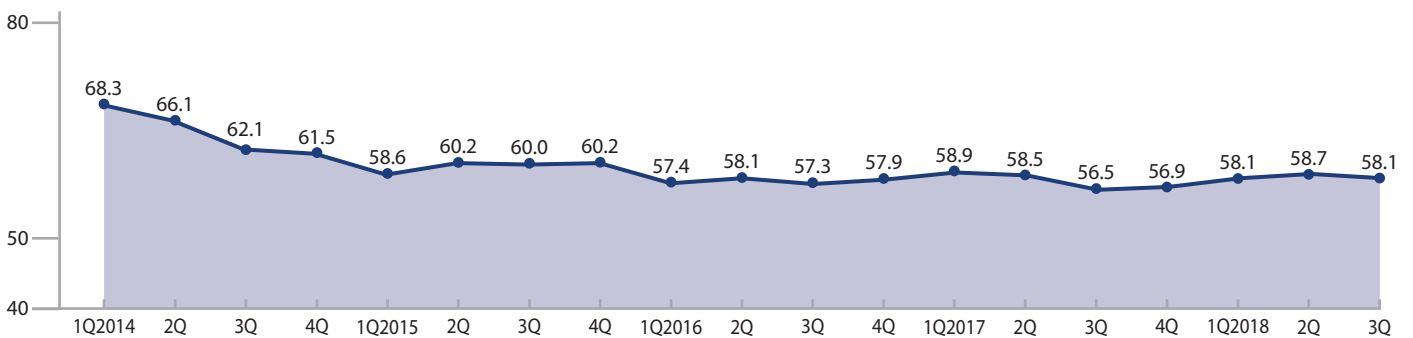
#### Choice of Currencies



#### Demand drivers

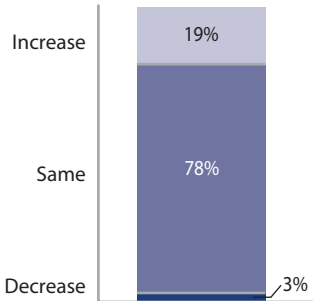


#### Demand trend

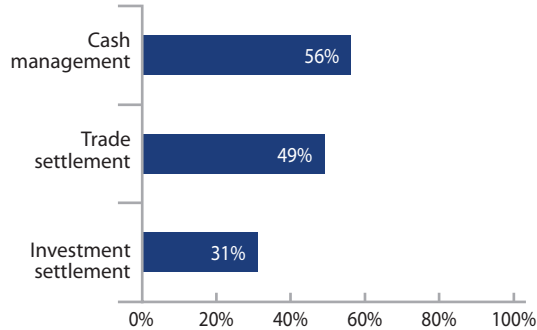


## Settlement & cash management (57.6)

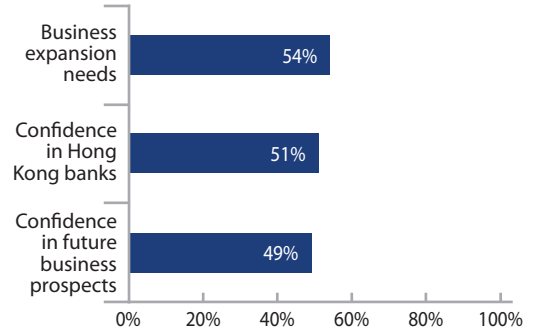
### Demand expectation



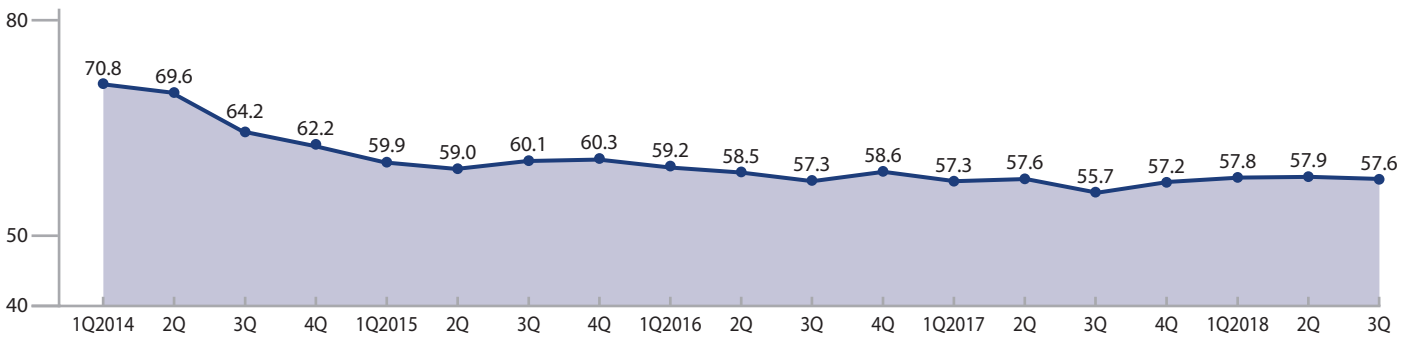
### Choice of products/services



### Demand drivers

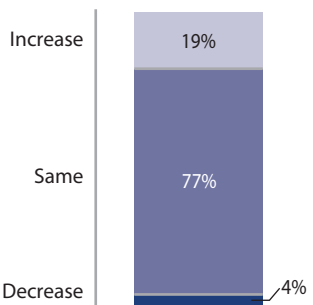


### Demand trend

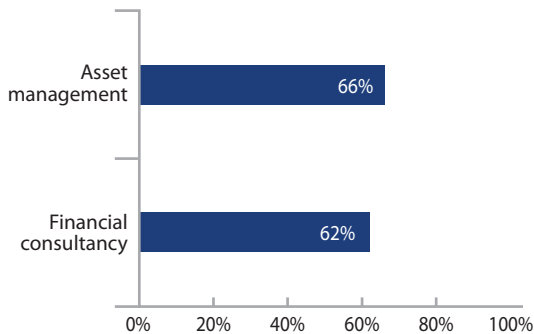


## Asset management & financial consultancy (57.4)

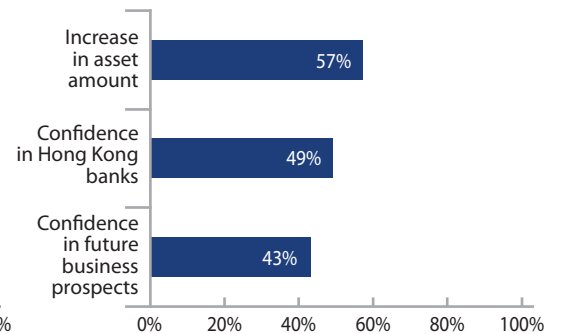
### Demand expectation



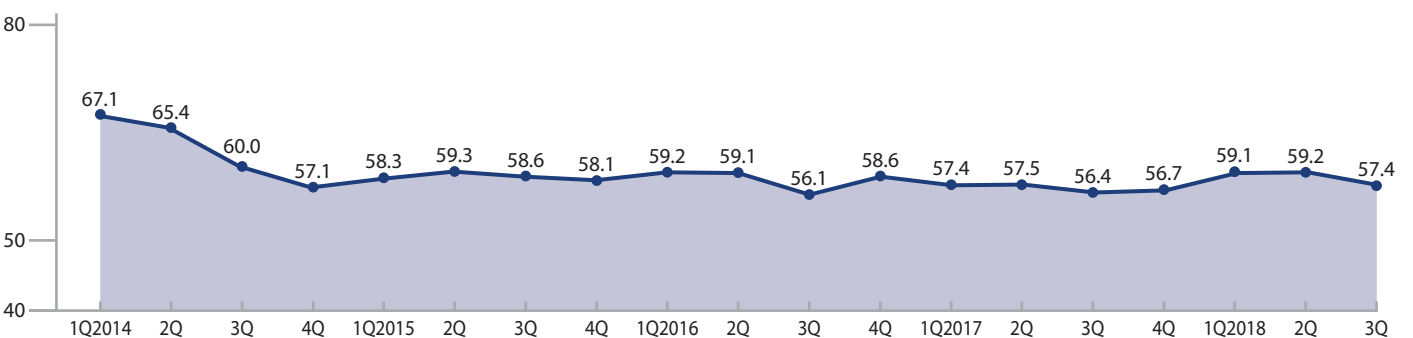
### Choice of products/services



### Demand drivers

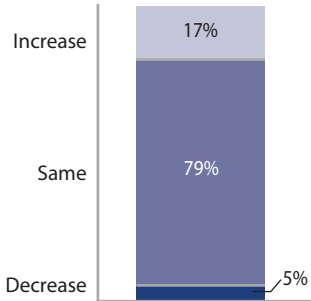


### Demand trend

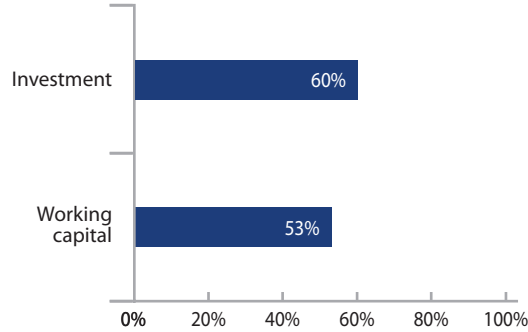


## Loans (56.1)

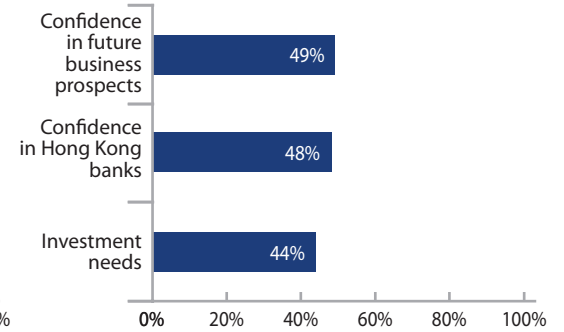
### Demand expectation



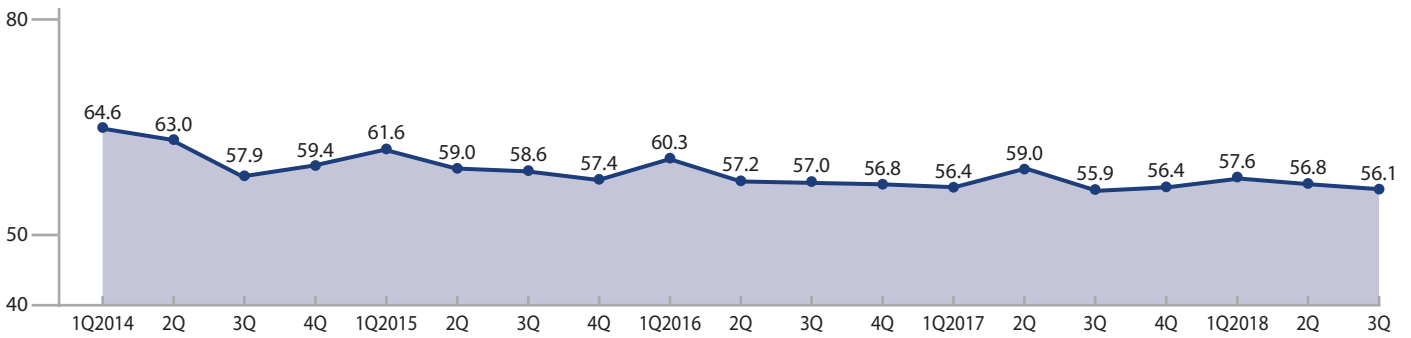
### Usage



### Demand drivers

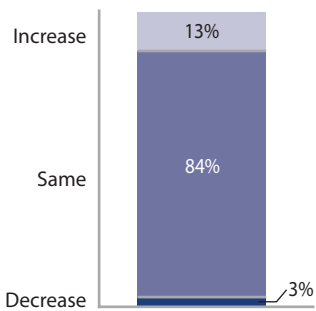


### Demand trend

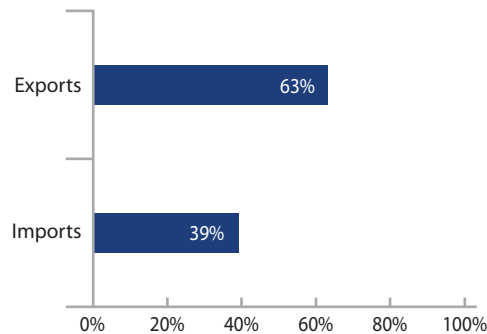


## Trade finance (54.8)

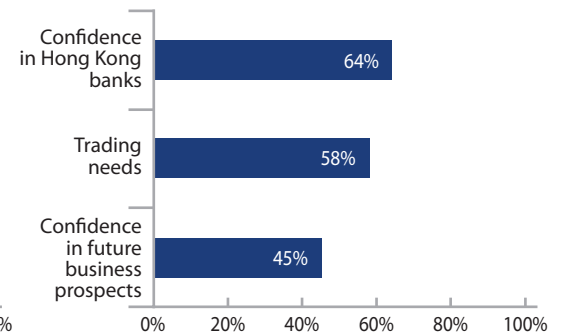
### Demand expectation



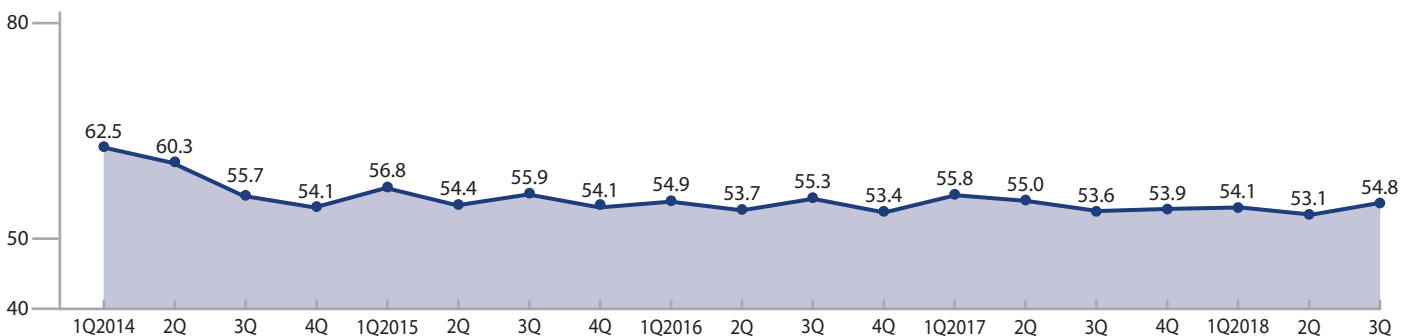
### Choice of products/services



### Demand drivers

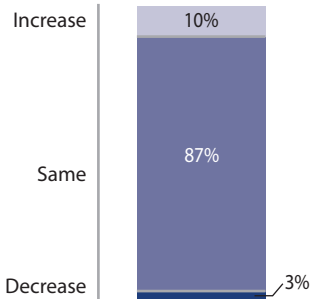


### Demand trend

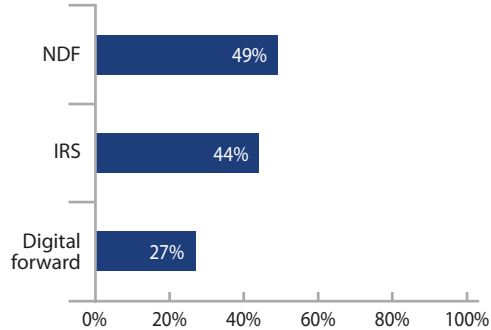


## Derivative products (53.7)

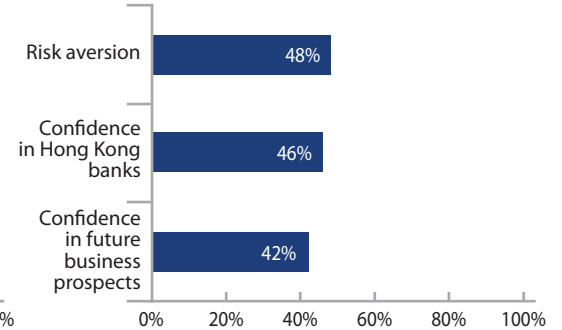
### Demand expectation



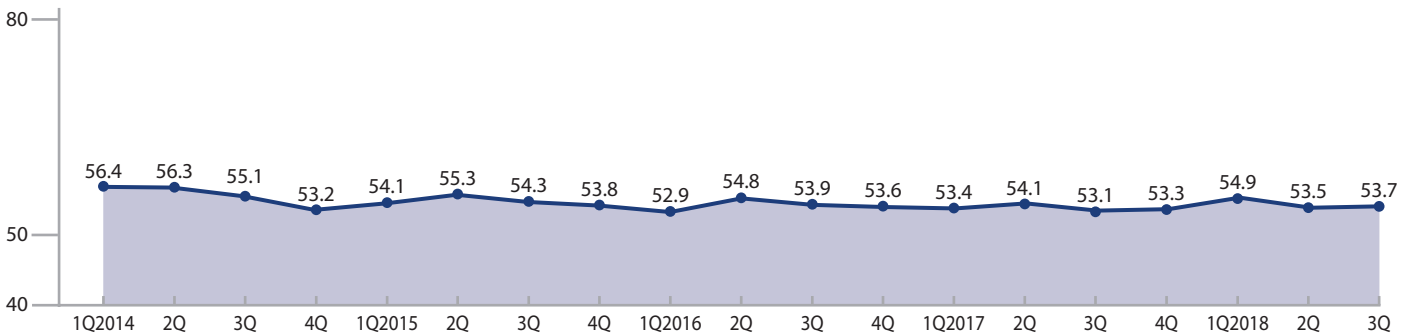
### Choice of products/services



### Demand drivers

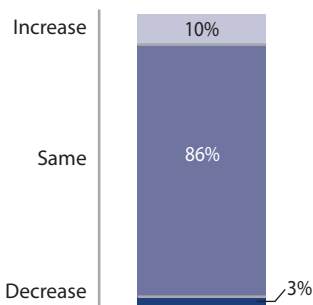


### Demand trend

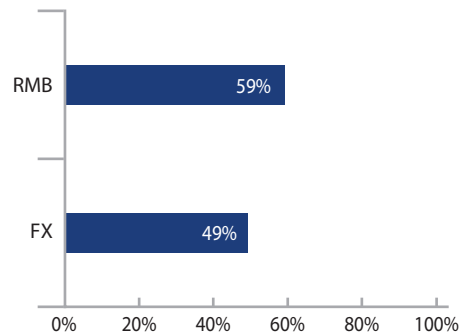


## Bond issuance (53.6)

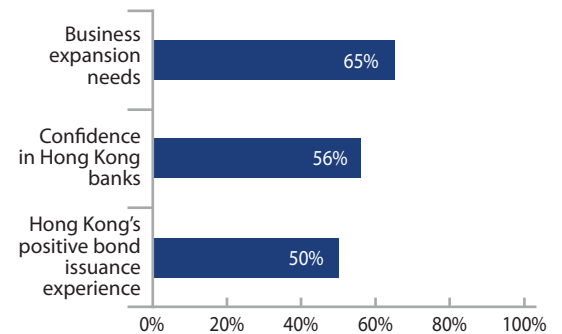
### Demand expectation



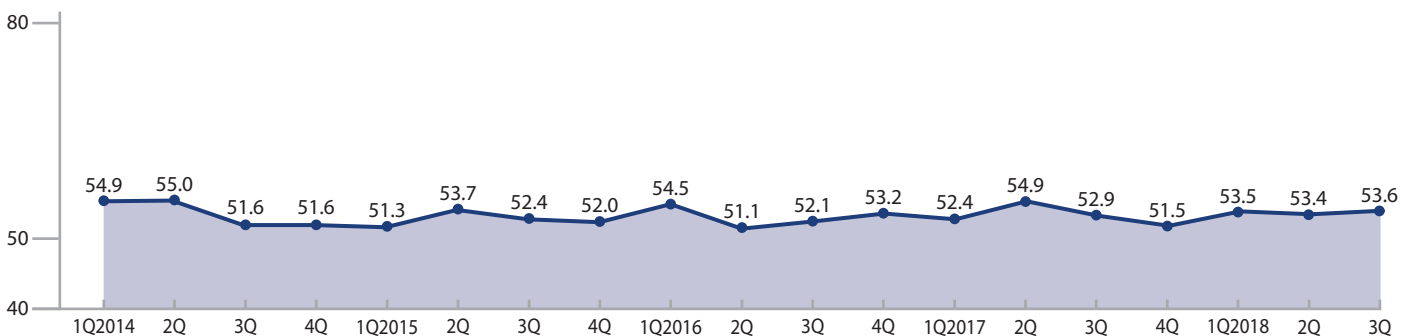
### Choice of currencies



### Demand drivers

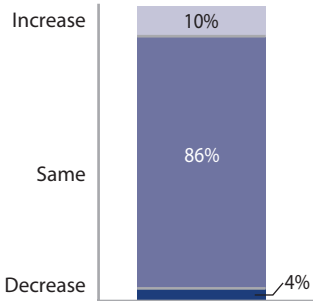


### Demand trend

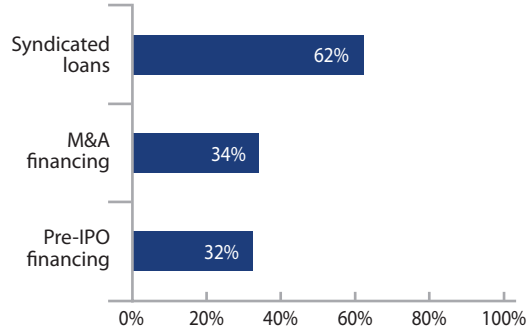


## Structured finance (53.1)

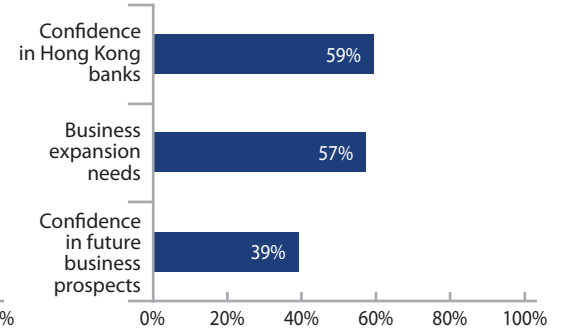
### Demand expectation



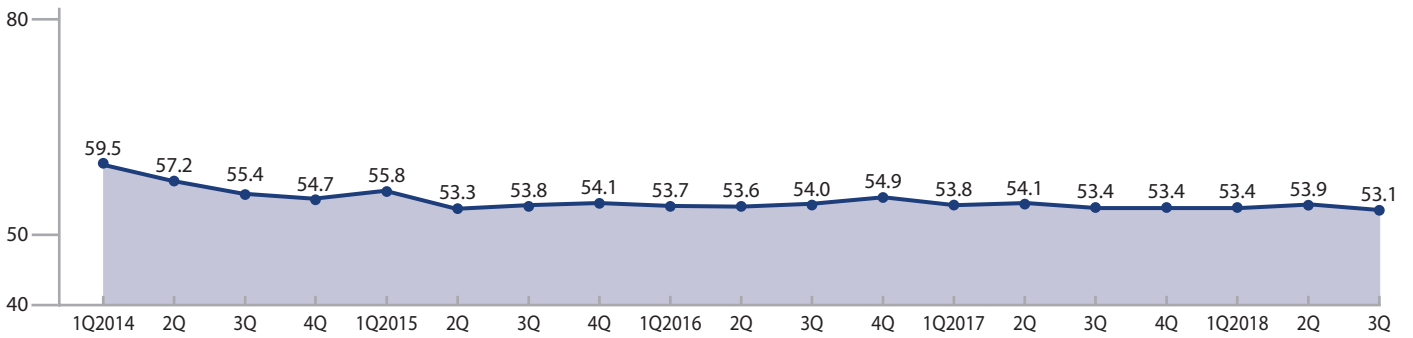
### Choice of products/services



### Demand drivers

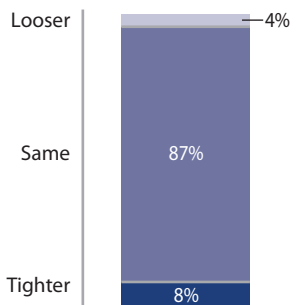


### Demand trend

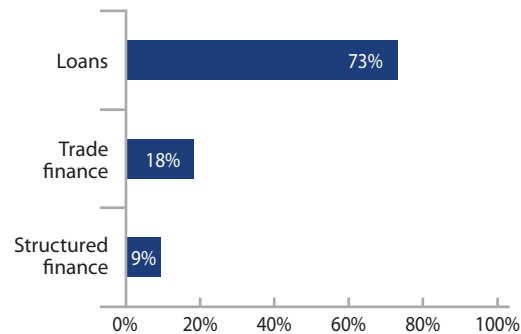


## Expectation of regulatory looseness (48.1)

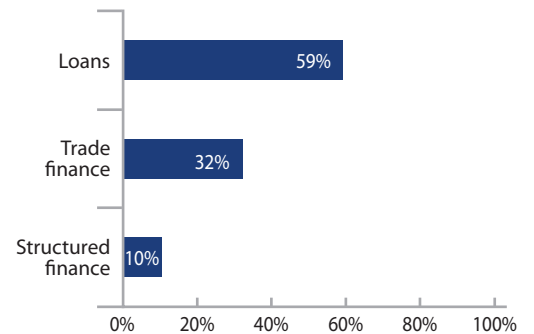
### Expectation of laws and regulations



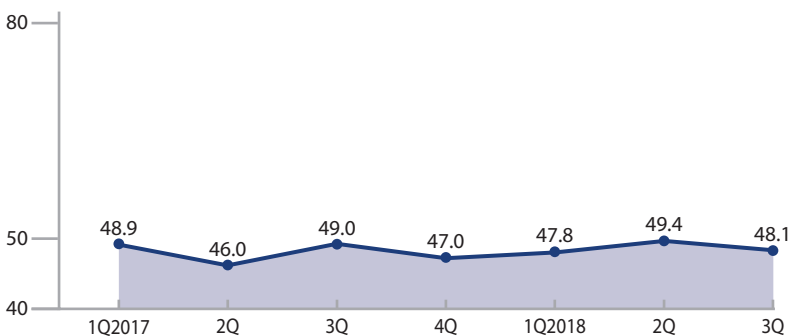
### Expected regulatory loosening



### Expected regulatory tightening

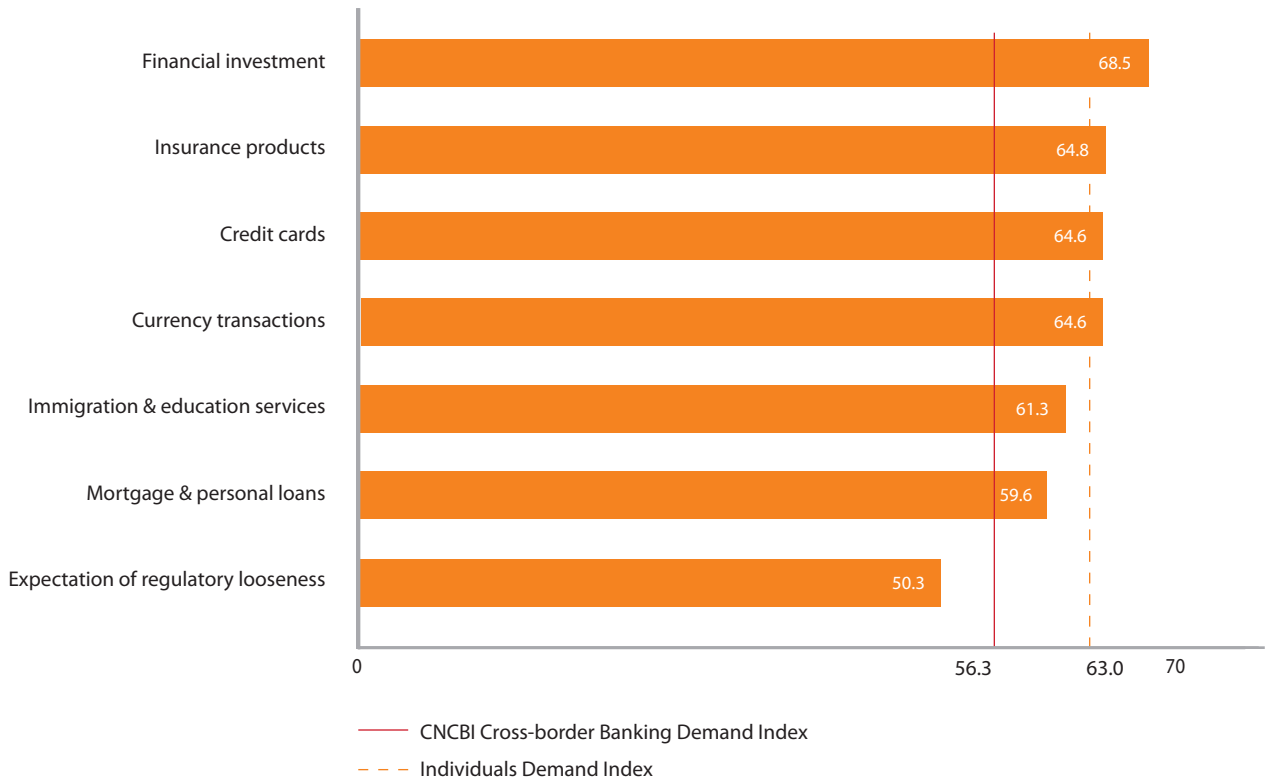


### Expectation trend



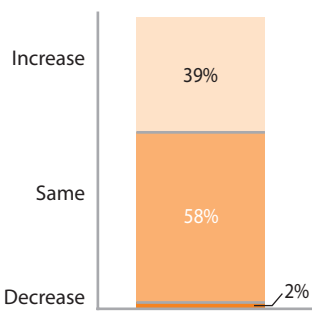
Note: This sub-index was introduced since 1Q2017

### 3. Individuals demand sub-indices

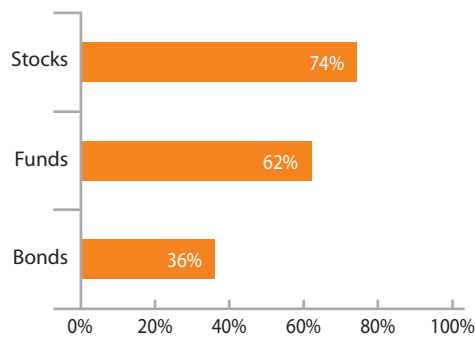


### Financial investment (68.5)

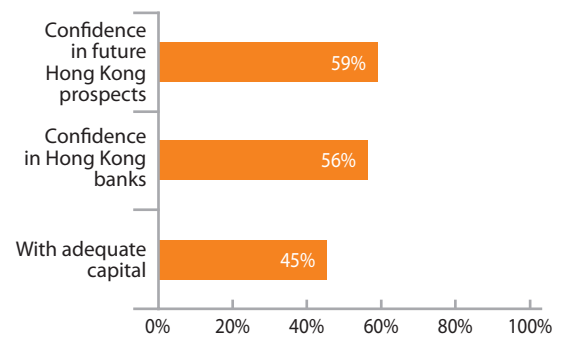
#### Demand expectation



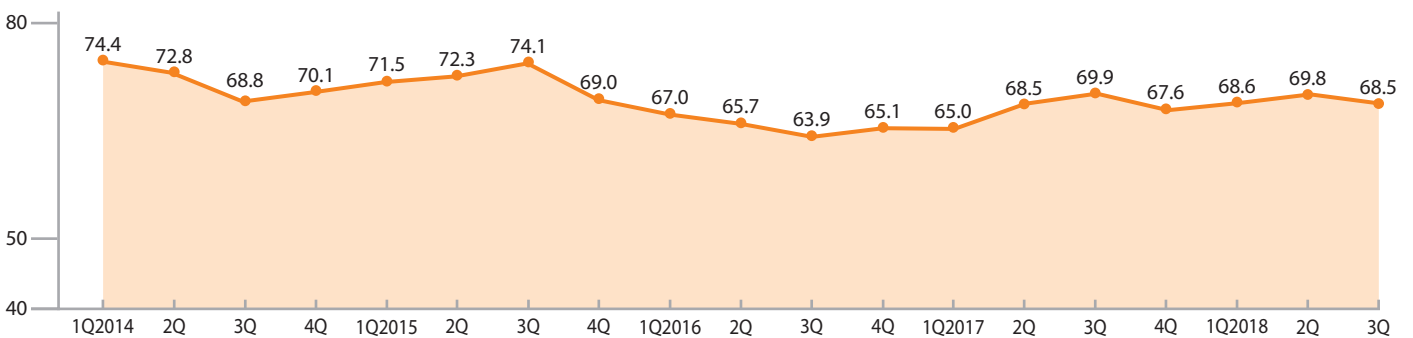
#### Choice of products/services



#### Demand drivers



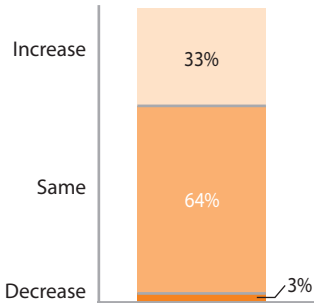
#### Demand trend



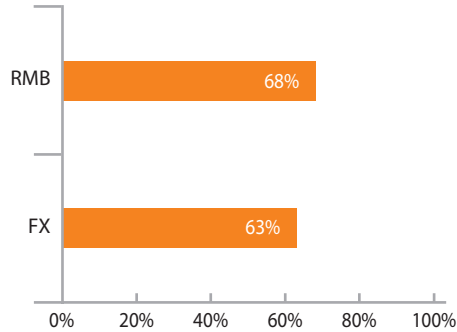


## Insurance products (64.8)

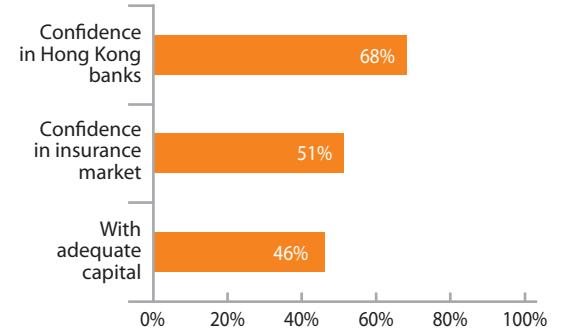
### Demand expectation



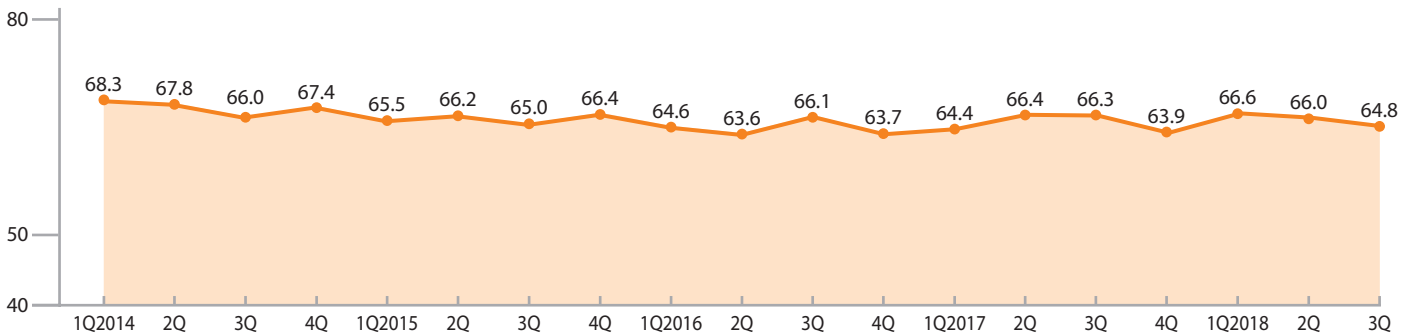
### Choice of currencies



### Demand drivers

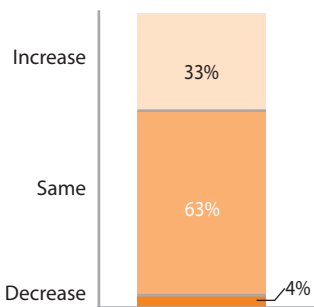


### Demand trend

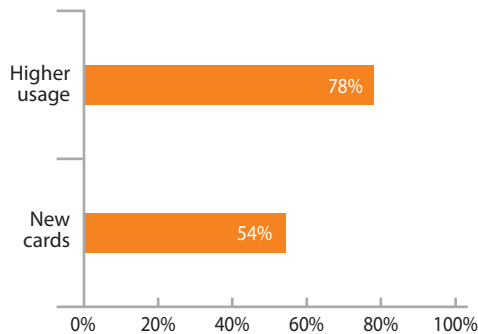


## Credit cards (64.6)

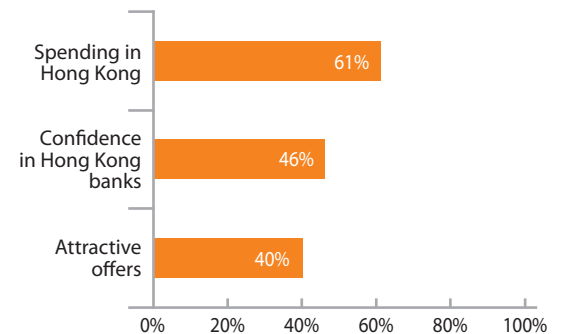
### Demand expectation



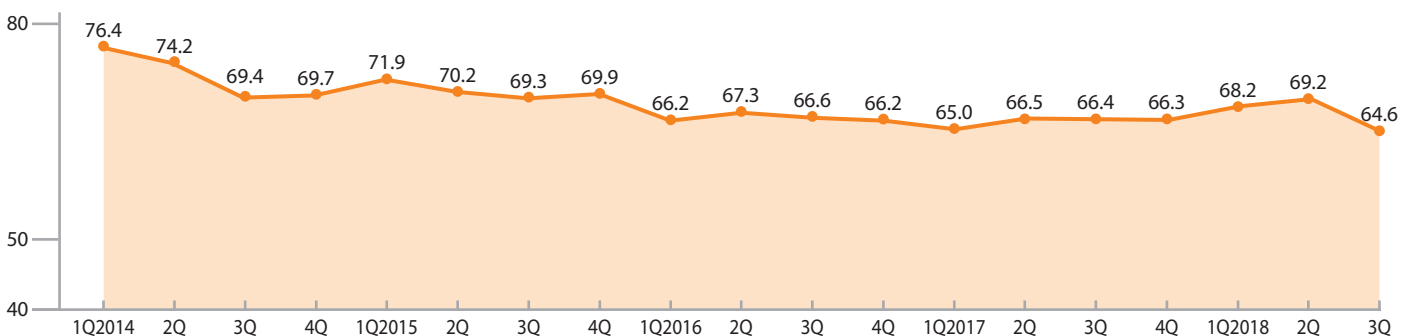
### Choice of products/services



### Demand drivers

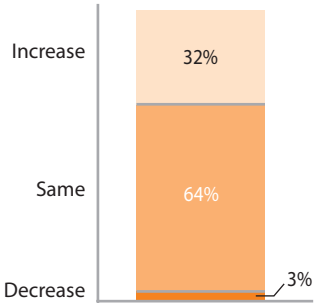


### Demand trend

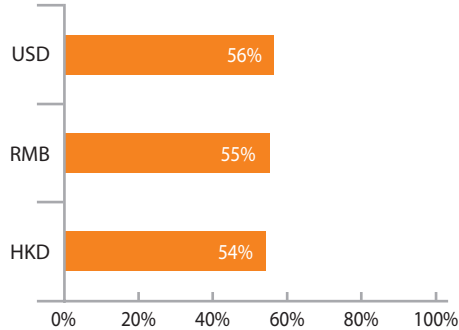


## Currency transactions (64.6)

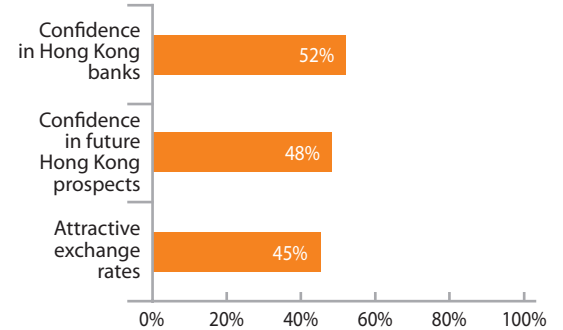
### Demand expectation



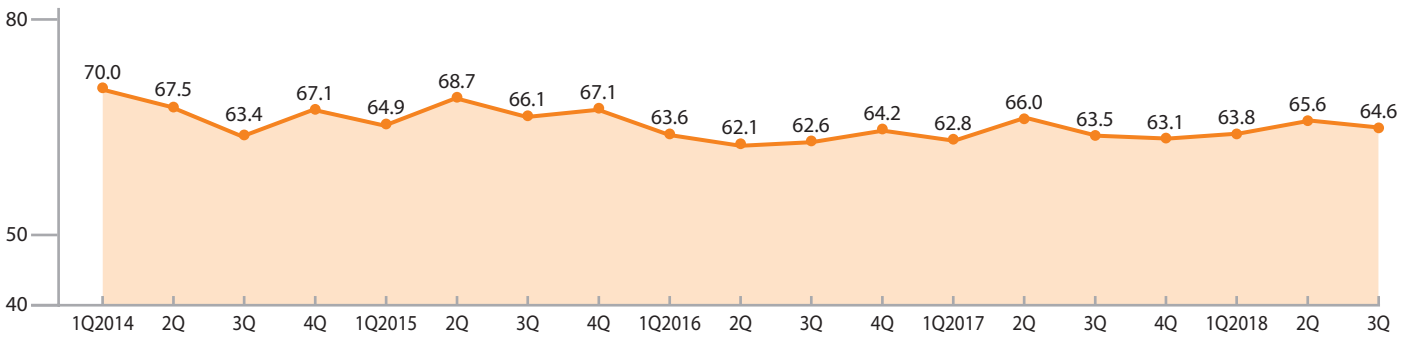
### Choice of currencies



### Demand drivers

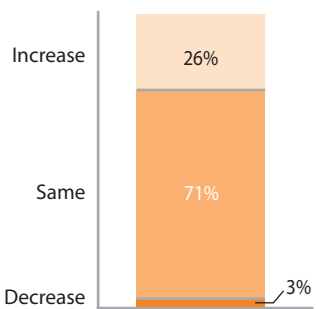


### Demand trend

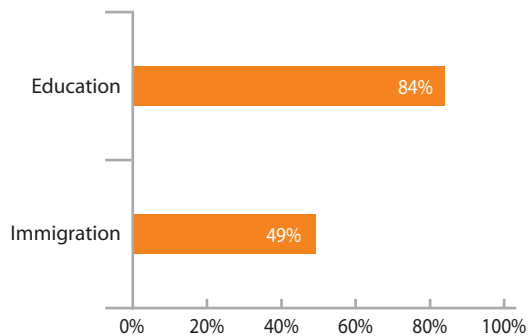


## Immigration & education services (61.3)

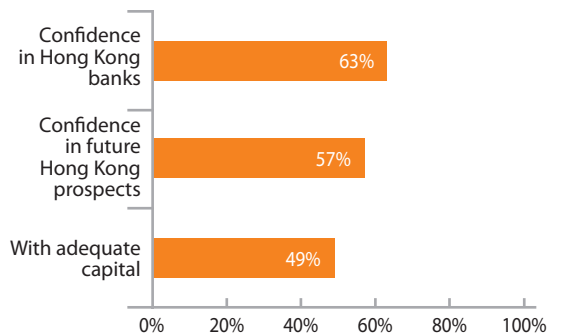
### Demand expectation



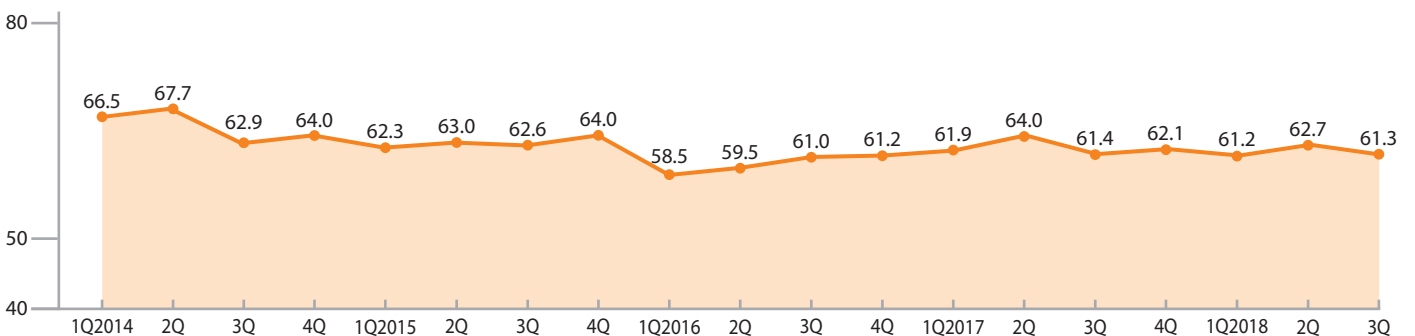
### Choice of products/services



### Demand drivers

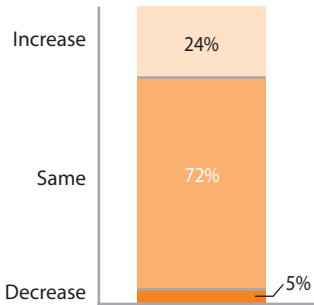


### Demand trend

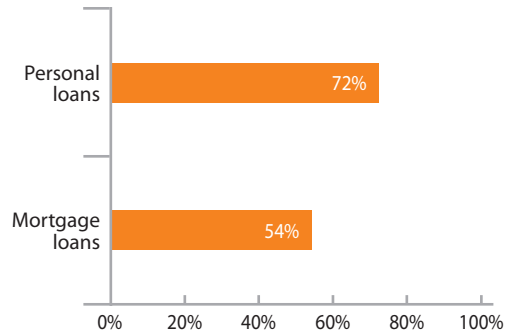


## Mortgage & personal loans (59.6)

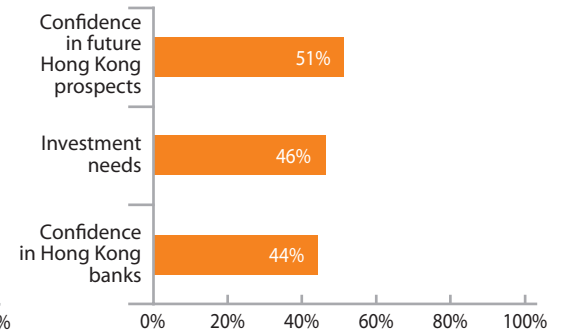
### Demand expectation



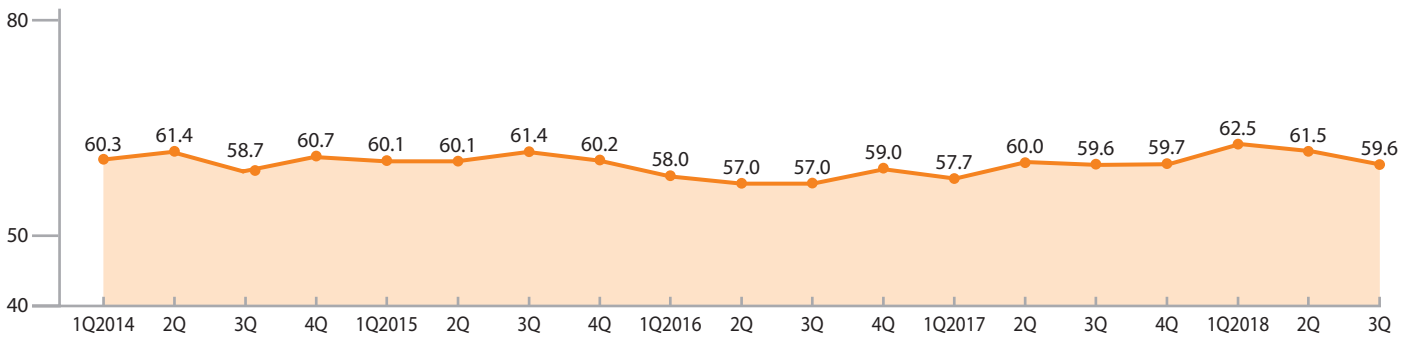
### Preferred products/services



### Demand drivers

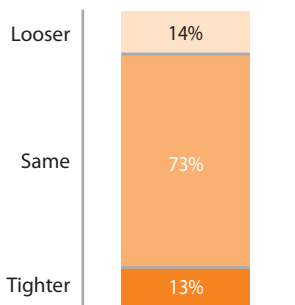


### Demand trend

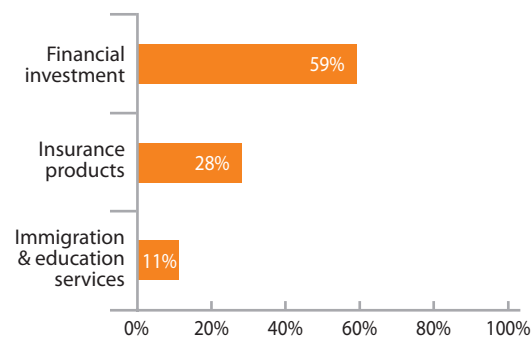


## Expectation of regulatory looseness (50.3)

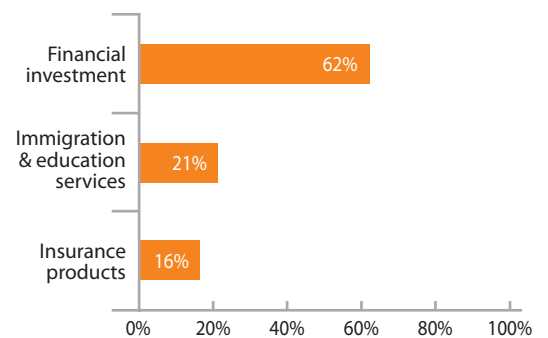
### Expectation of laws and regulations



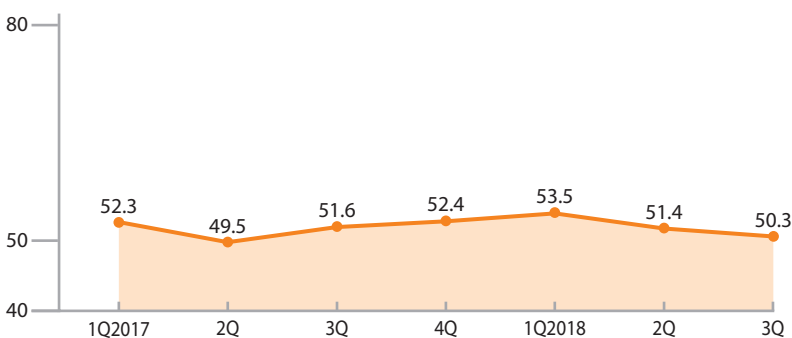
### Expected regulatory loosening



### Expected regulatory tightening



### Expectation trend



Note: This sub-index was 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.

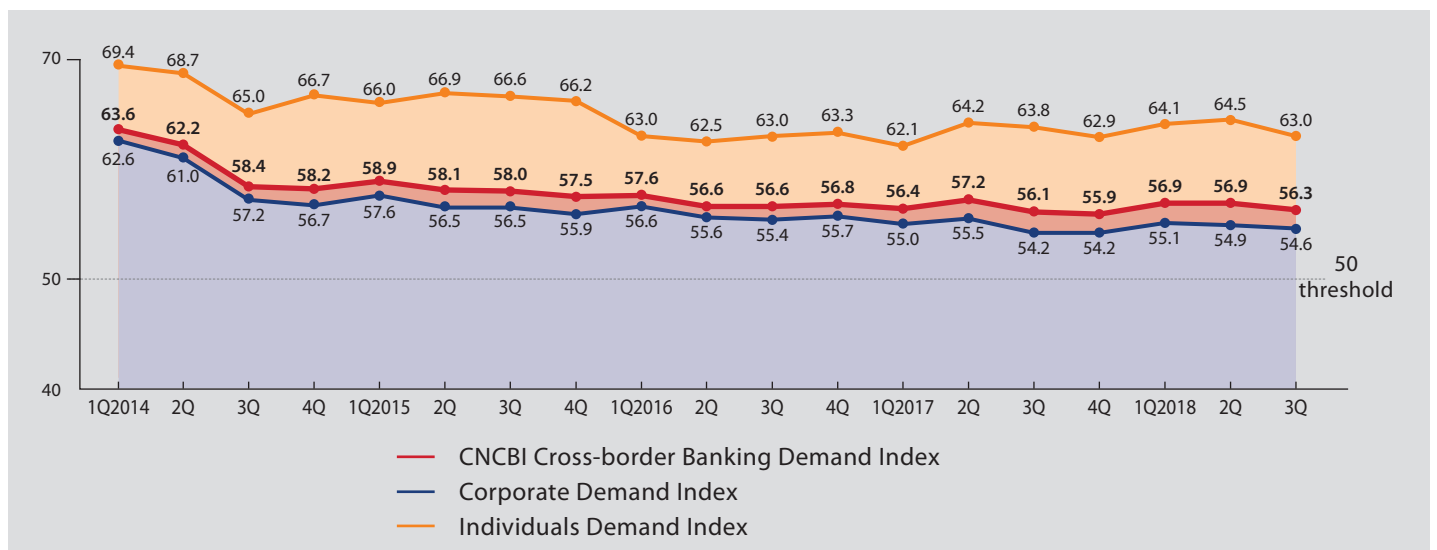
Diffusion indices have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading of above 50 indicates a strengthening of demand, and below 50 a weakening.

### 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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