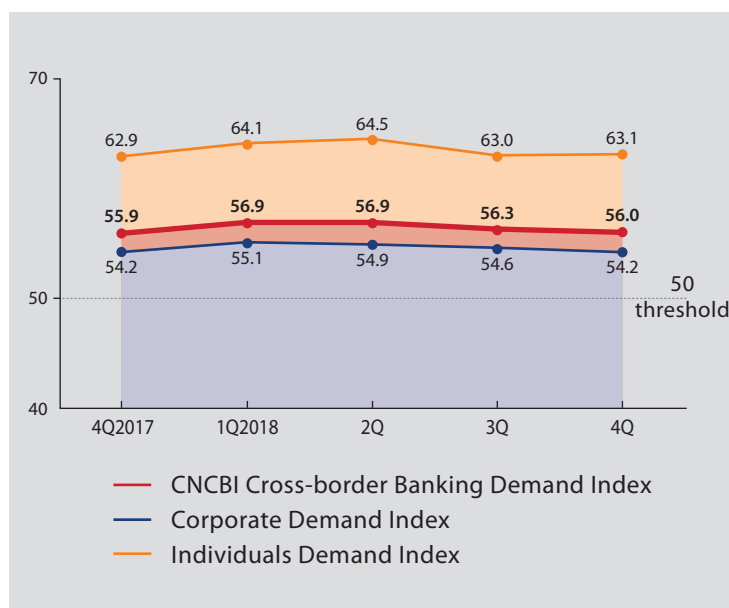


Demand for cross-border banking to soften further

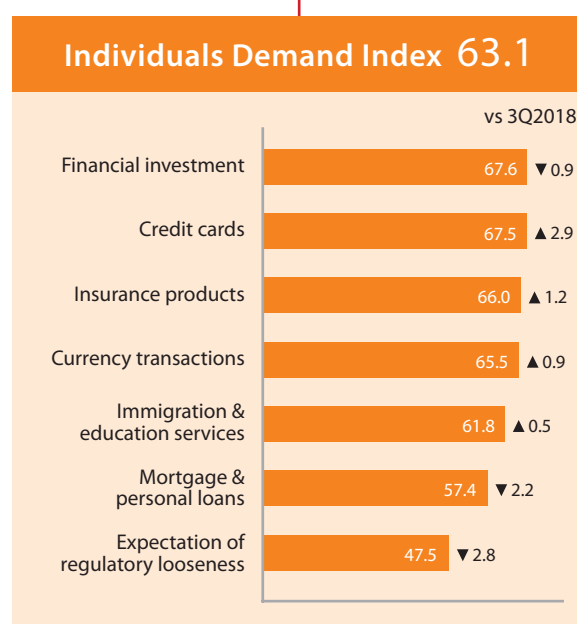
China-US trade spat to dent demand for corporate financing

www.cncbinternational.com/cross-border-index



- Mainland Chinese corporations' demand for Hong Kong banking services is set to continue its downward spiral in 4Q2018, dragging cross-border banking demand index down further
- As regards corporations' cross-border demand, financing-oriented demand for loans, trade finance, structured finance and bond issuance is to soften as the China-US trade row ramps up whereas service-oriented demand is to rebound moderately
- Individuals' cross-border demand is to bounce back slightly, particularly noticeable for credit cards and insurance products although demand for mortgage & personal loans and financial investment is to lose more steam
- Corporations, and individuals in particular, lower their expectation of regulatory looseness

CNCBI Cross-border Banking Demand Index 56.0



1. Key analysis

- 3Q2018 survey results reveal that the 4Q2018 CNCBI Cross-border Banking Demand Index falls 0.3 further from last quarter to 56.0, indicating that mainland China's demand for Hong Kong's banking services is to weaken further after last quarter's softening
- The threat of the China-US trade spat is obvious as Corporate Demand Index weakens further with a steeper fall of 0.4 (vs 3Q2018's 0.3), but Individuals Demand Index regains 0.1 from last quarter's plunge and stabilises

Corporate Demand

– Majority demand to fall further

- Six of the corporate demand sub-indices fall, while two rise and one stays put. Apart from expectation of regulatory looseness and derivative products, all of the falling sub-indices are financing-oriented. These include loans, trade finance, structured finance and bond issuance, which log a decline of 1.0, 0.7, 0.7 and 0.5 respectively. Service-oriented sub-indices of asset management & financial consultancy and settlement & cash management gain 1.6 and 0.1 respectively as currency transactions remains unchanged
- As for the rankings, asset management & financial consultancy rises from the 3rd to the top on its obvious increase as currency transactions falls to the 2nd and settlement & cash management to the 3rd. Loans, trade finance, derivative products, bond issuance and structured finance remain 4th, 5th, 6th, 7th and 8th respectively
- The China-US trade war kicked off as China and the US imposed on each other 25% of additional tariffs on US\$34 billion of export goods on 6 July and a US\$16 billion top-up on 23 August. The latter in September slapped further tariffs on US\$200 billion of Chinese exports, while China retaliated with tariffs on US\$60 billion of US goods. US president Donald Trump even threatened tariffs on all US\$500 billion of Chinese exports, prompting China's tit-for-tat measures. The escalating trade tensions have led mainland corporations to exercise increased caution in foreign investment and financing including acquiring financing from Hong Kong banks. This constitutes the prime reason for the noticeable decline in corporations' demand for cross-border banking services in this quarter. Although the two countries can suffer similar losses in the long run, the market by and large expects the mainland to take a bigger hit in the short- to medium-term. The increased likelihood of further US rate hikes also accelerated RMB depreciation in the third quarter, further dampening Chinese corporations' cross-border investment and financing enthusiasm
- In contrast, service-oriented demand strengthens on Chinese corporations' increased enthusiasm for overseas financial services in the wake of the China-US trade war. Demand for asset management & financial consultancy picks up significant steam as more Chinese corporations look to allocate their assets overseas
- The China-US trade war woes are likely to linger to an extent to which the US will be disadvantaged. In view of this, mainland corporations' demand for cross-border banking services from Hong Kong is most likely to remain on its downward trend in the next quarter as steep as the development of the China-US trade war dictates

Individuals Demand

– Picking up pace from plunge

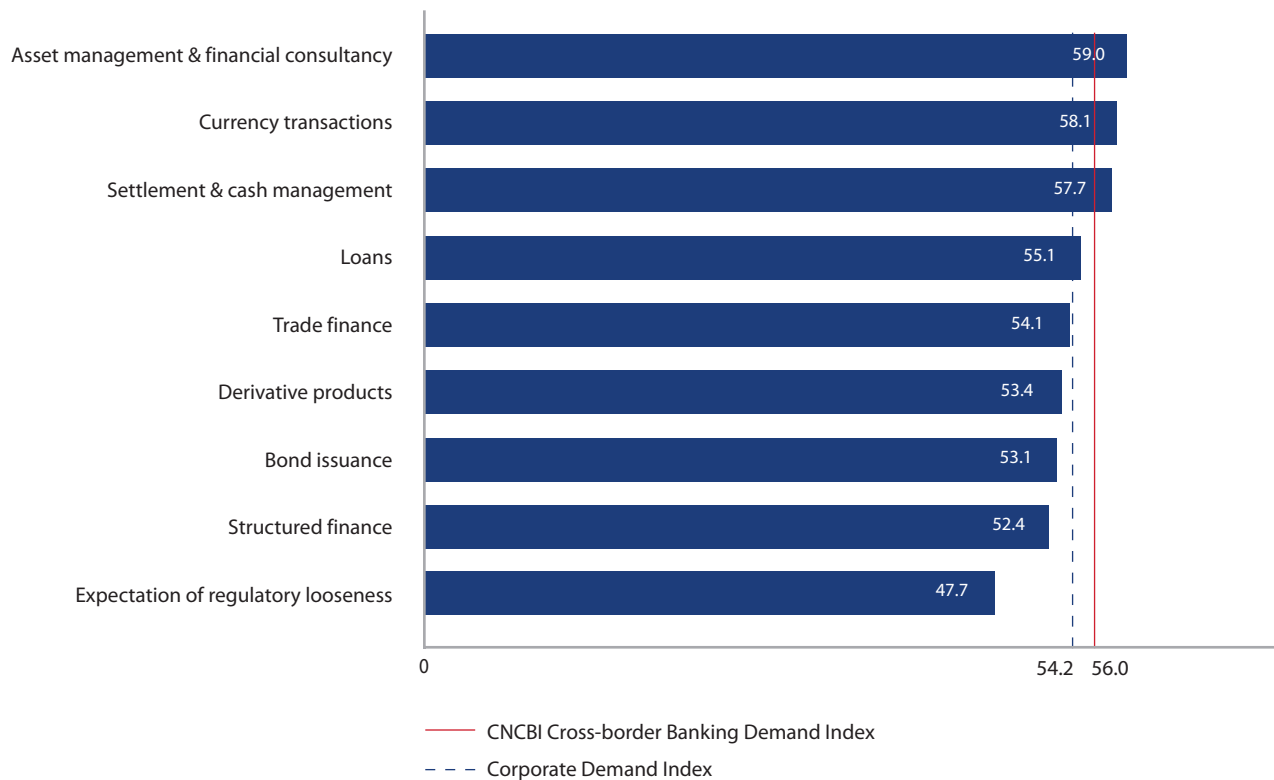
- Most of the individuals demand sub-indices rebound with credit cards posting the biggest leap of 2.9 while insurance products gains 1.2, and currency transactions and immigration & education services 0.9 and 0.5 respectively whereas mortgage & personal loans loses 2.2 and financial investment 0.9
- Regarding the rankings, financial investment holds on to the top spot despite the falling demand growth while credit cards notches up one spot to the 2nd place as insurance products drops to the 3rd and currency transactions, immigration & education services and mortgage & personal loans remain 4th, 5th and 6th respectively
- The slight rebound of individuals' demand this quarter serves as an adjustment to last quarter's plunge which was irrationally steeper than that of corporations as a result of the heated China-US trade dispute and renewed RMB depreciation. As such, demand from individuals adjusts upwards in this quarter regardless of the continued RMB depreciation and escalating trade war. Meanwhile, demand for credit cards soars on the rising volume of mainland tourists and spending. Demand for insurance products also grows as mainlanders tend to seek safe haven in high-yield offshore insurance products as risks in the Chinese stock market rise and real estate investments are restricted. However, demand for financial investment continues to weaken since such investments are more sensitive to external economic deterioration. Demand for mortgage & personal loans also falls significantly due to the firm restrictions on Hong Kong property purchases by mainlanders and the negative forecast on Hong Kong's property market
- As the China-US trade war lingers, the rebound of individuals' cross-border banking demand should be brief. The downward trend is likely to resume in the next quarter, to an extent depending on how the trade war plays out

Expectation of regulatory looseness

– Regulations expected to remain tight

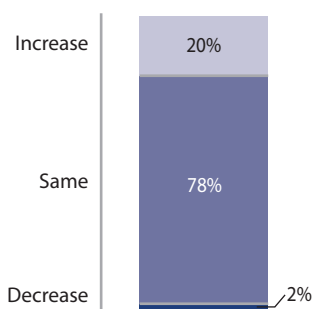
- Mainland corporations' and individuals' expectation of regulatory looseness sub-indices drop 0.4 and 2.8 to 47.7 and 47.5 respectively for 4Q2018
- The beginning of the China-US trade war and continued RMB depreciation have led Chinese corporations and individuals to expect tighter government controls on capital outflows
- Compared to corporations, individuals expect the mainland regulatory environment to be significantly stricter due chiefly to the subjective nature of individuals' responses, which also indicates a high possibility for individuals' cross-border banking demand to soften again

2. Corporate demand sub-indices

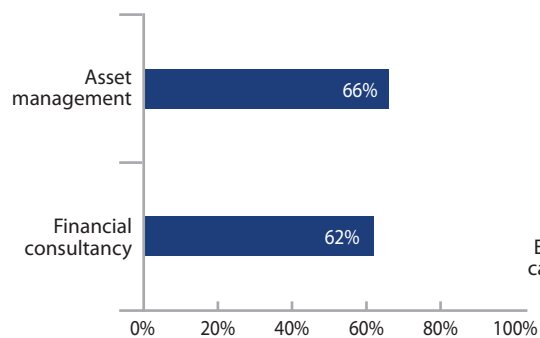


Asset management & financial consultancy (59.0)

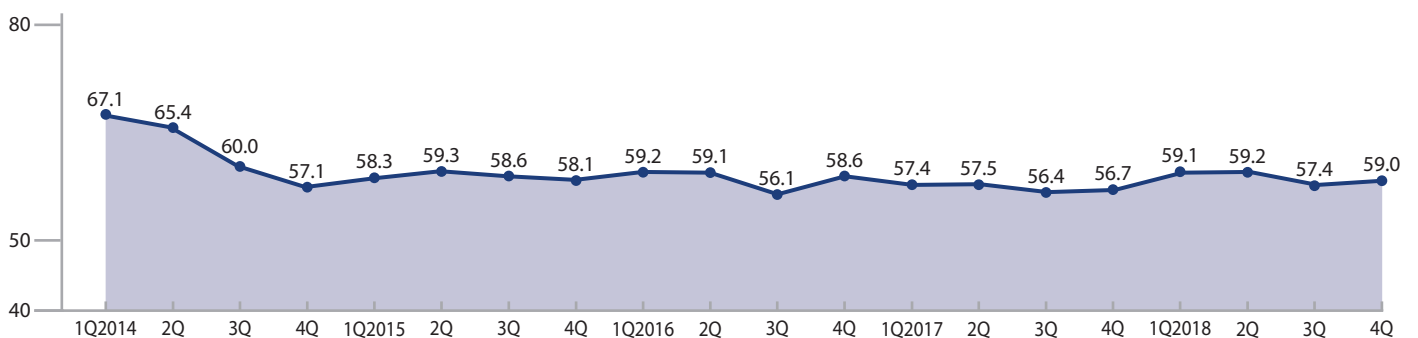
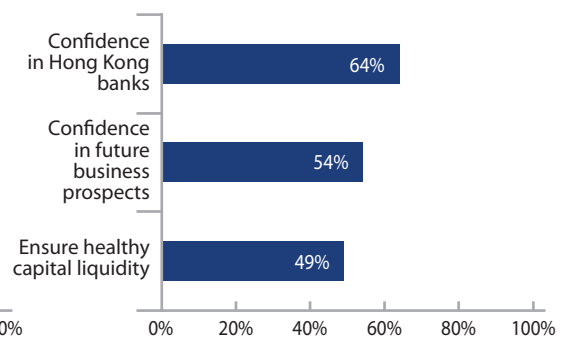
Demand expectation



Choice of products/services

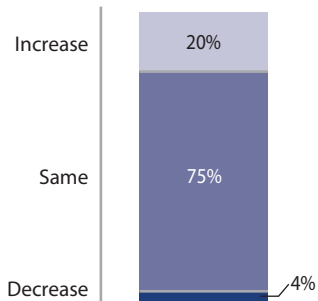


Demand drivers

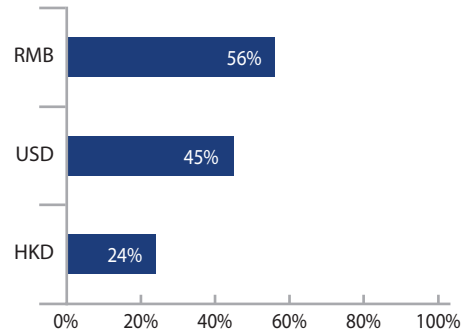


Currency transactions (58.1)

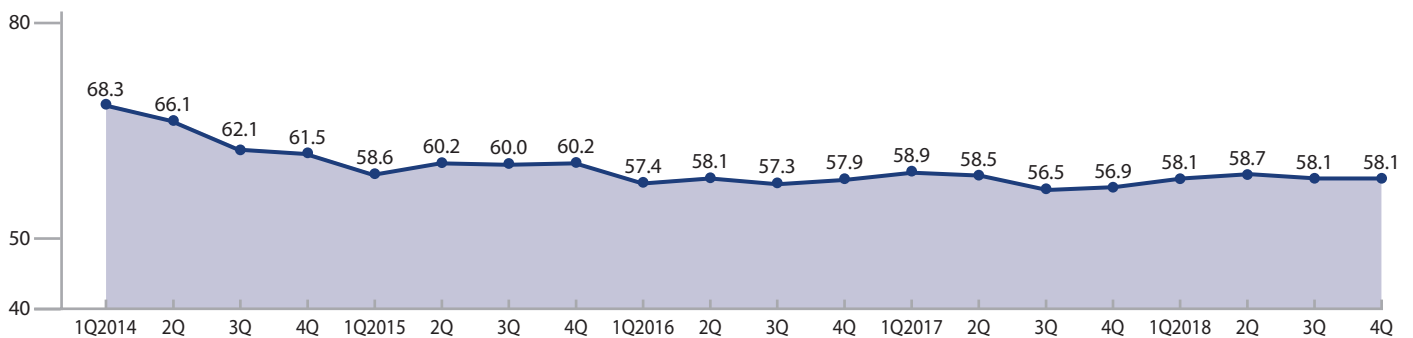
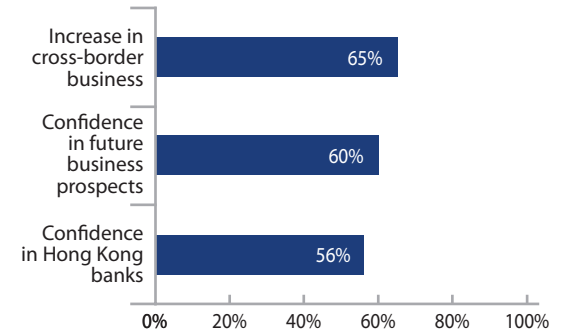
Demand expectation



Choice of Currencies

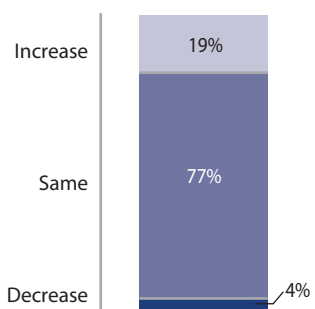


Demand drivers

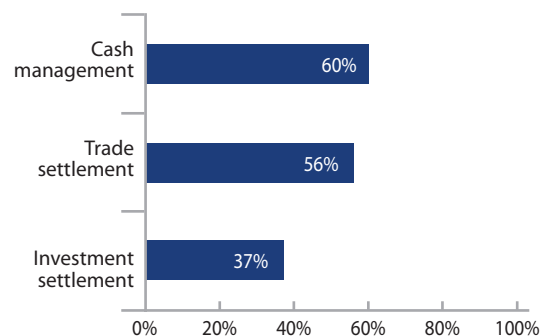


Settlement & cash management (57.7)

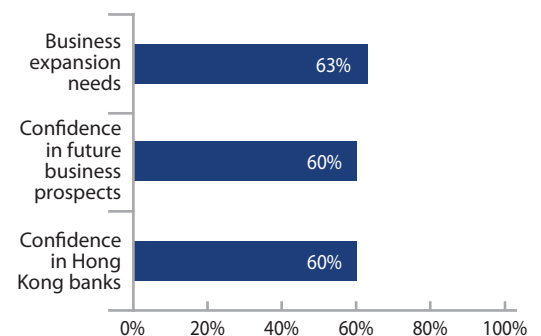
Demand expectation



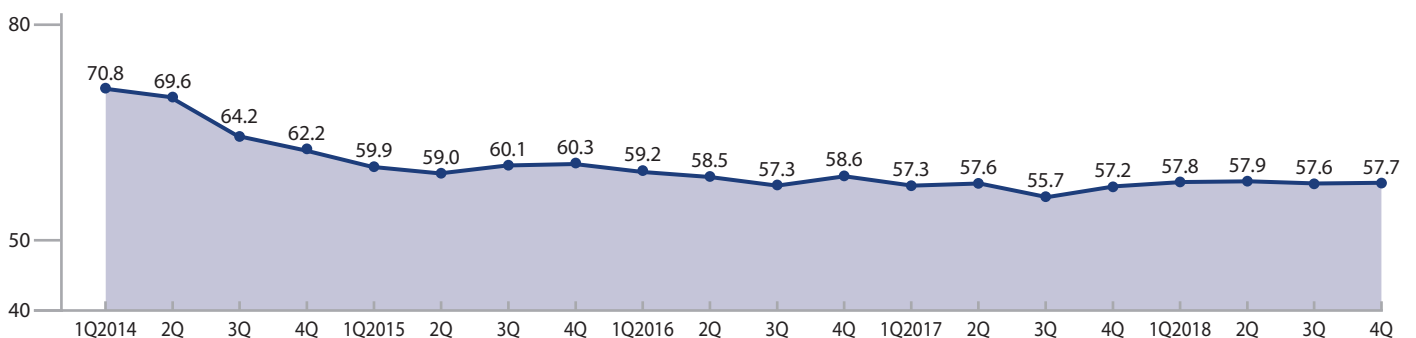
Choice of products/services



Demand drivers

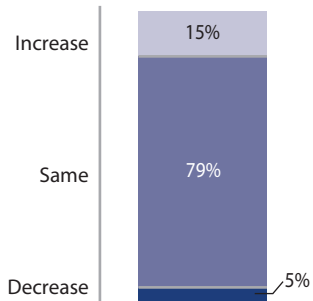


Demand trend

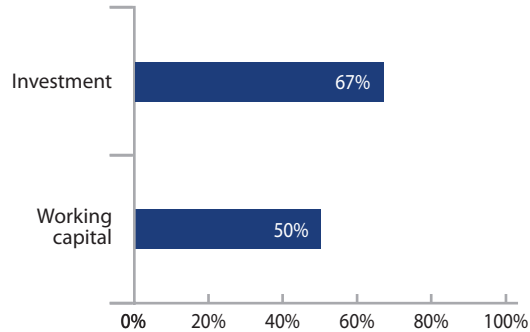


Loans (55.1)

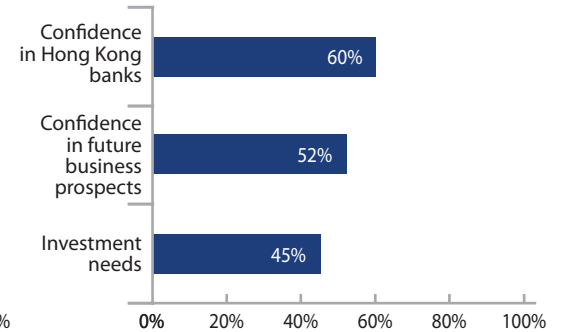
Demand expectation



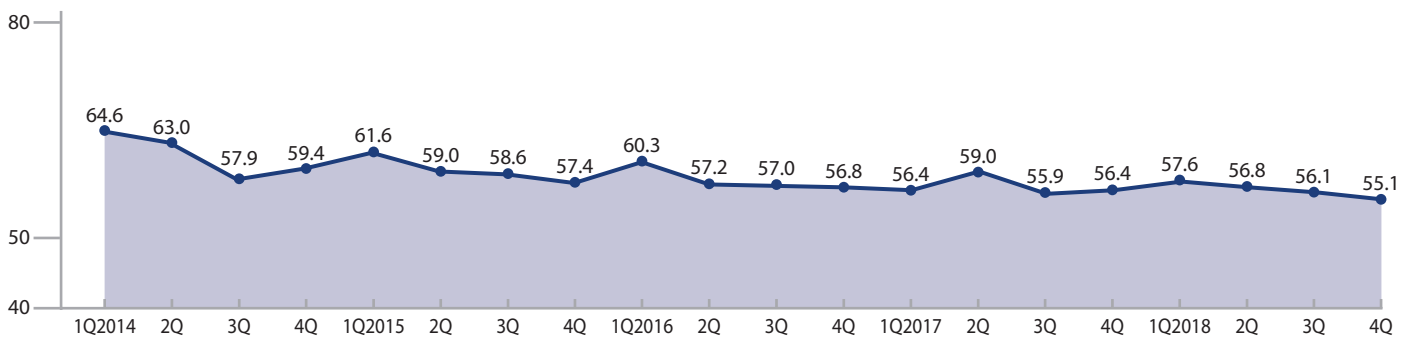
Usage



Demand drivers

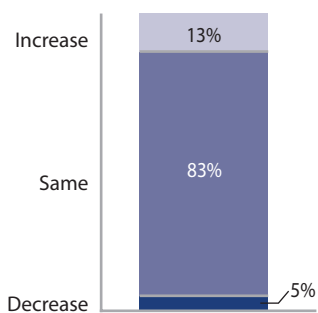


Demand trend

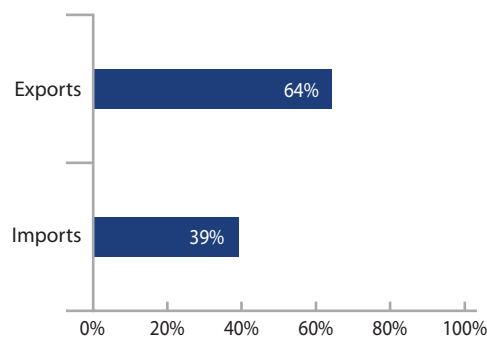


Trade finance (54.1)

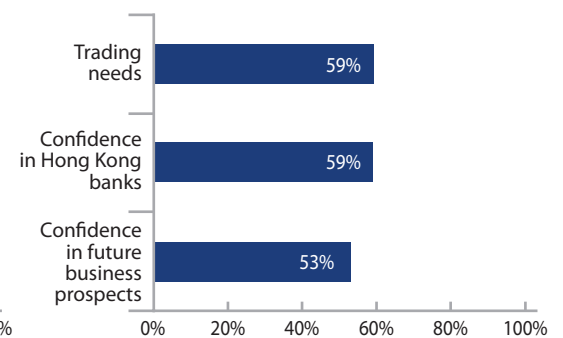
Demand expectation



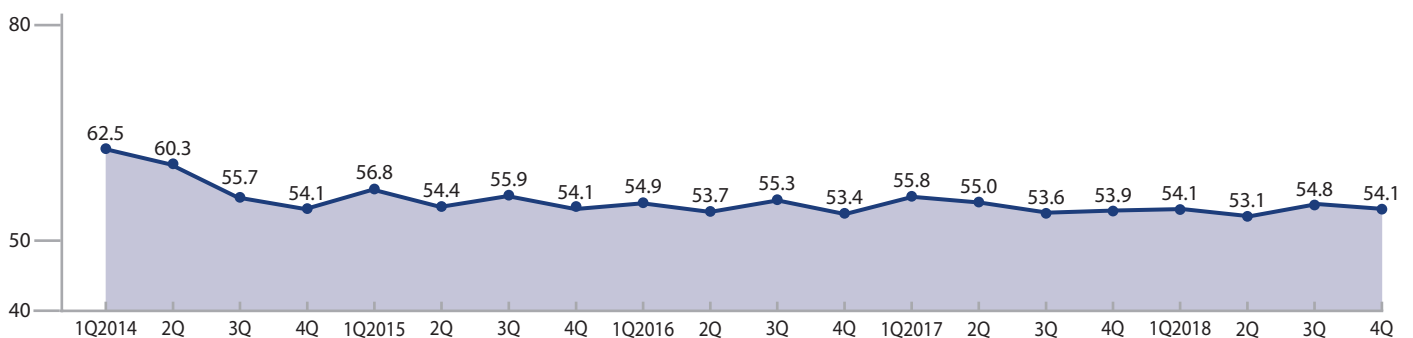
Choice of products/services



Demand drivers

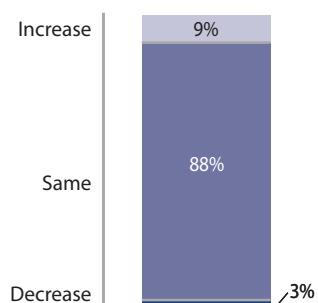


Demand trend

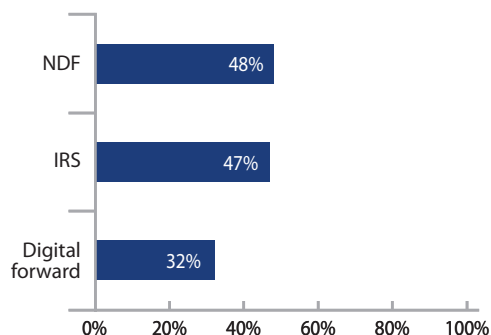


Derivative products (53.4)

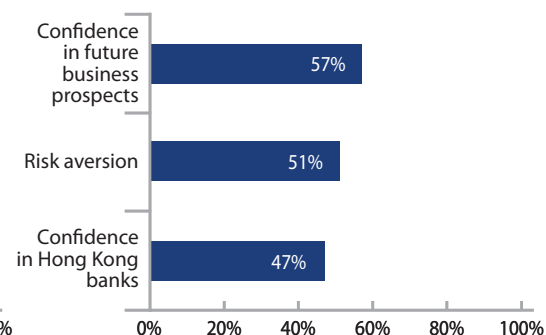
Demand expectation



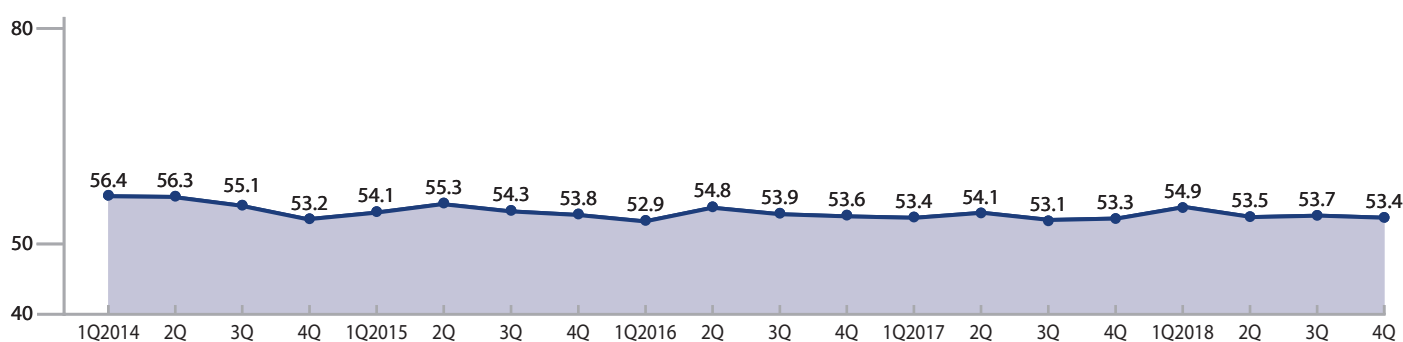
Choice of products/services



Demand drivers

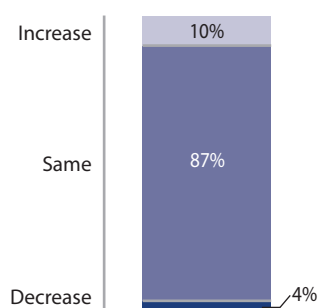


Demand trend

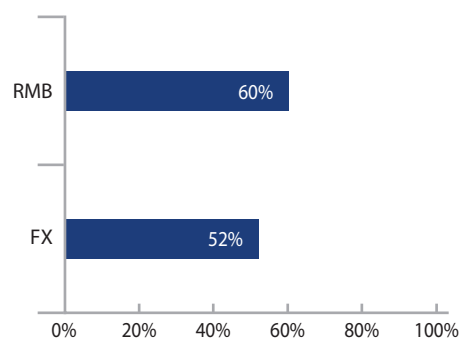


Bond issuance (53.1)

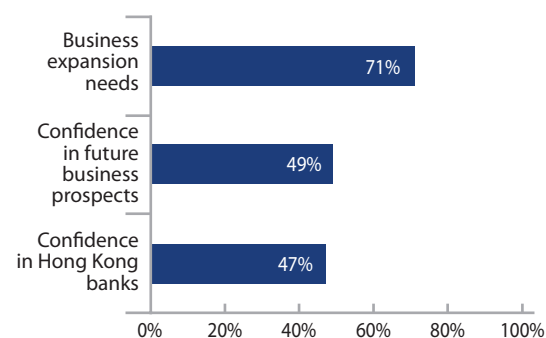
Demand expectation



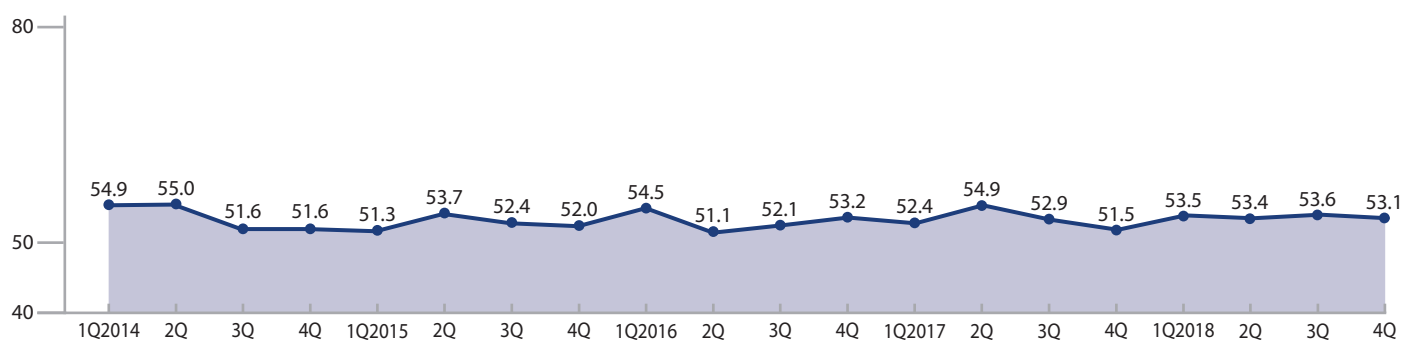
Choice of currencies



Demand drivers

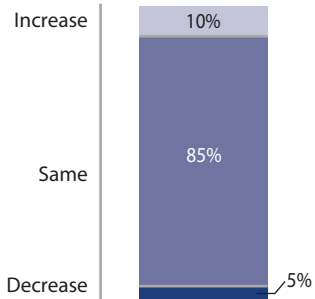


Demand trend

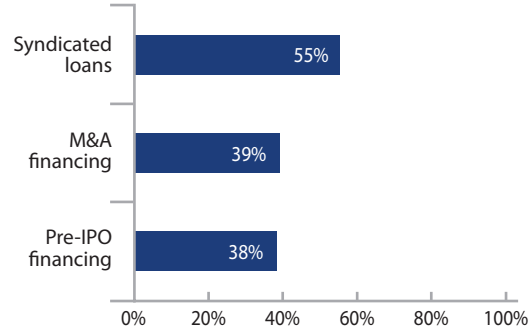


Structured finance (52.4)

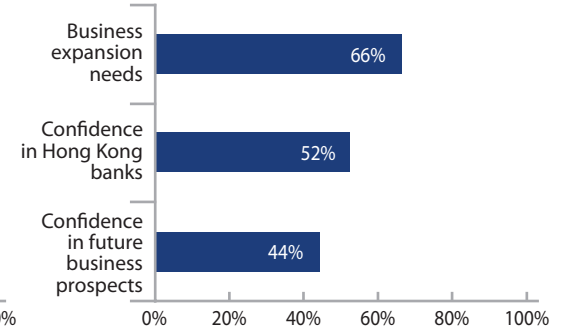
Demand expectation



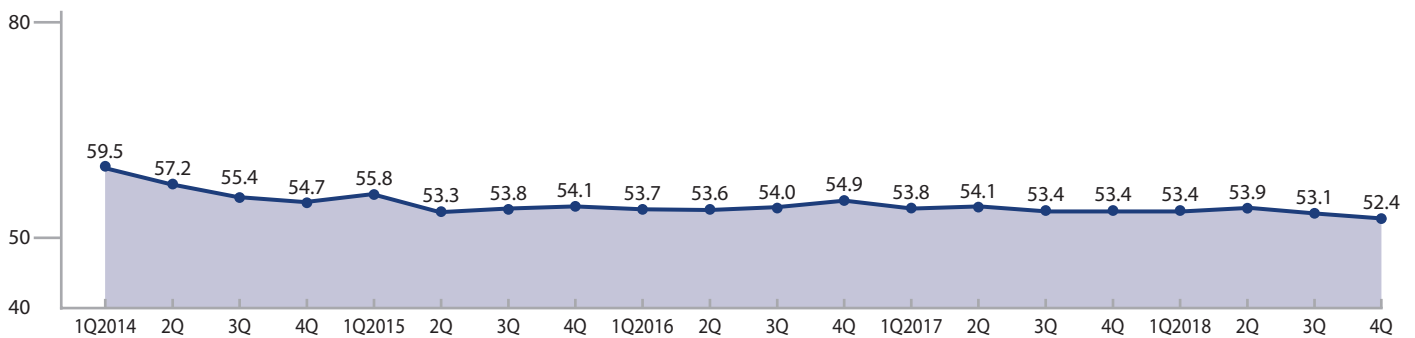
Choice of products/services



Demand drivers

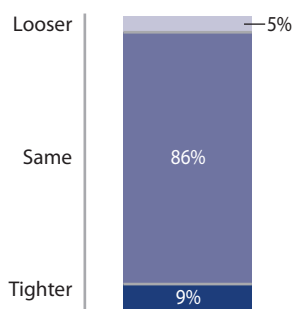


Demand trend

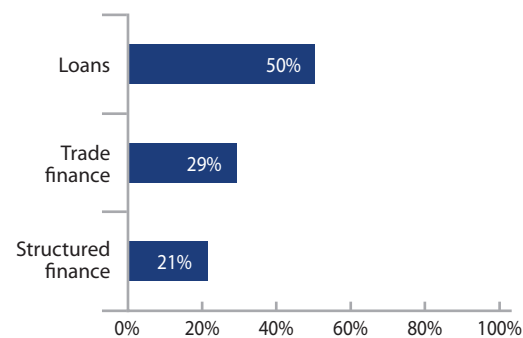


Expectation of regulatory looseness (47.7)

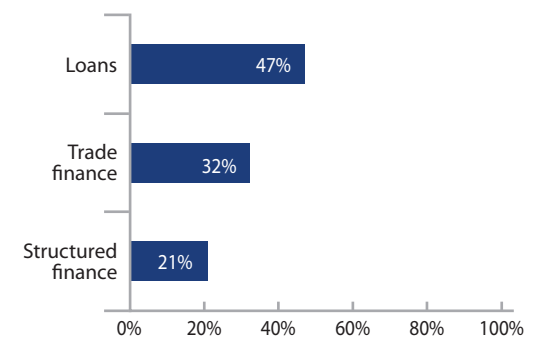
Expectation of laws and regulations



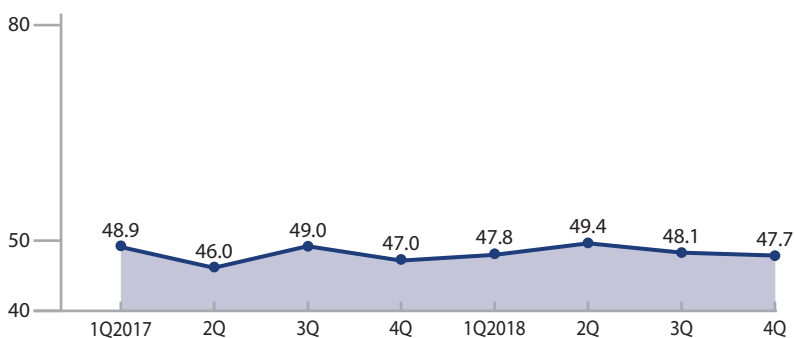
Expected regulatory loosening



Expected regulatory tightening

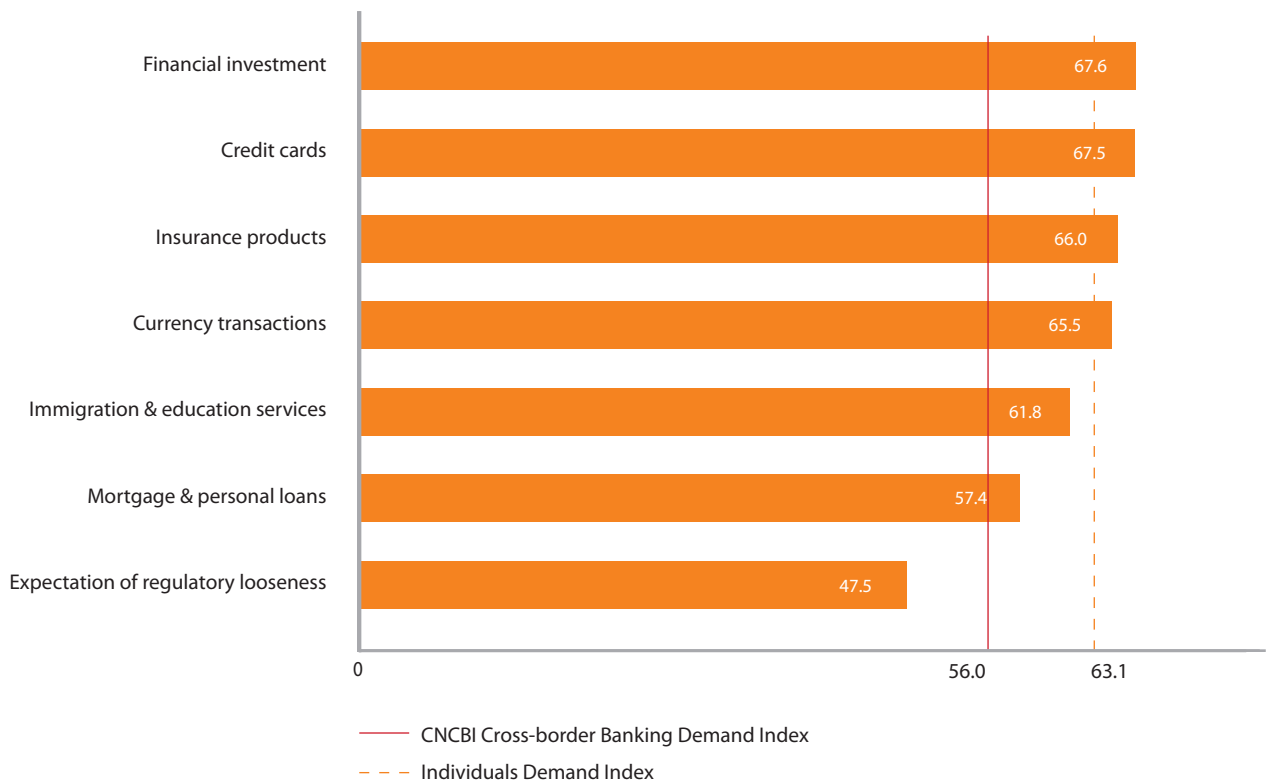


Expectation trend



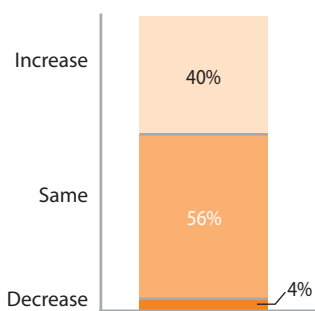
Note: This sub-index was introduced since 1Q2017

3. Individuals demand sub-indices

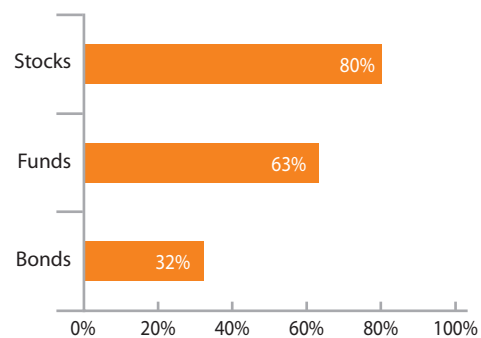


Financial investment (67.6)

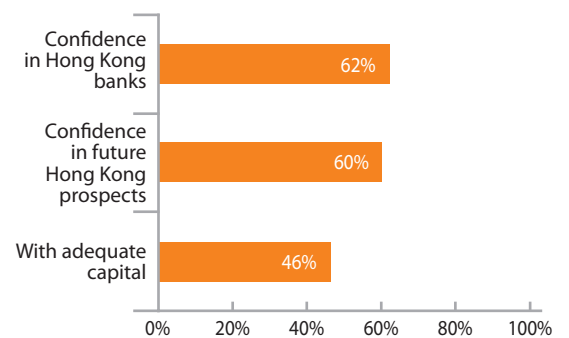
Demand expectation



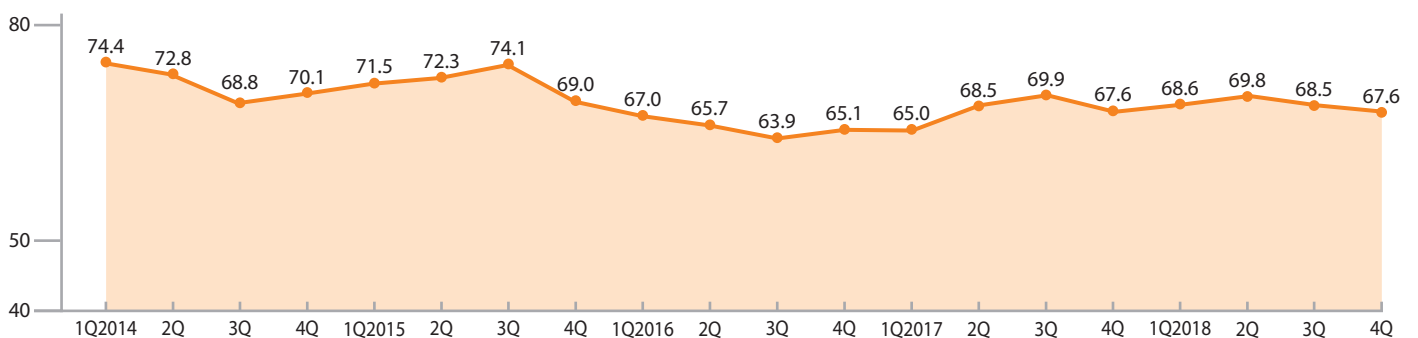
Choice of products/services



Demand drivers

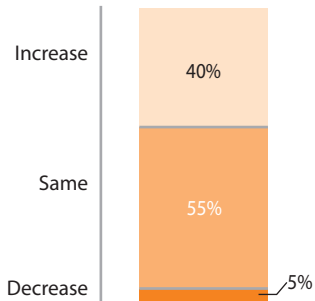


Demand trend

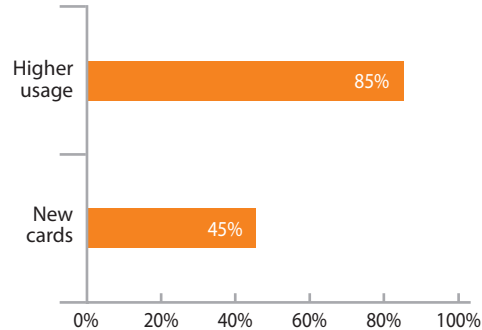


Credit cards (67.5)

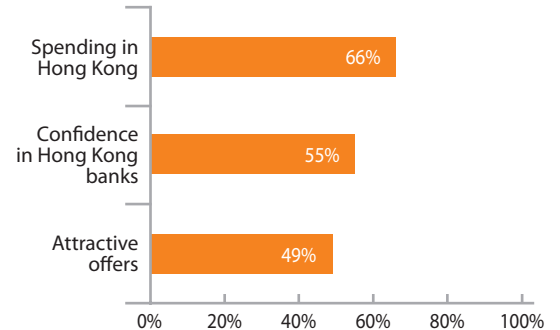
Demand expectation



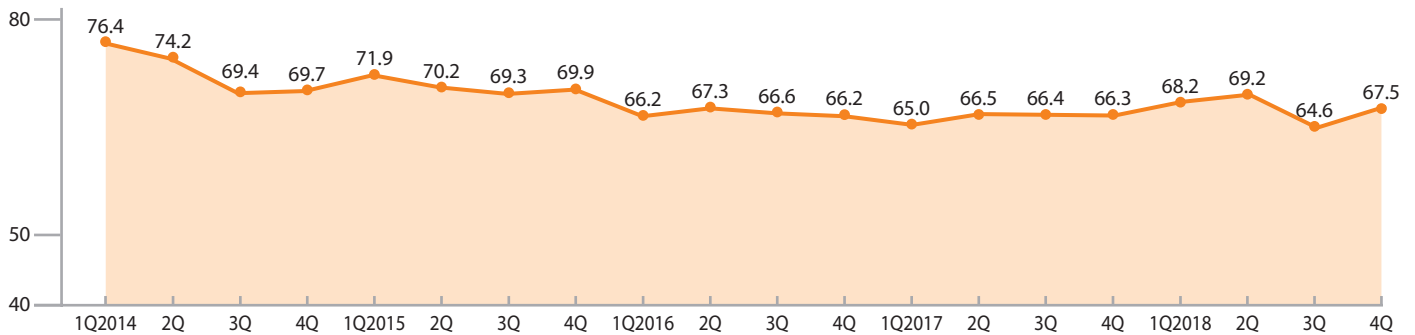
Choice of products/services



Demand drivers

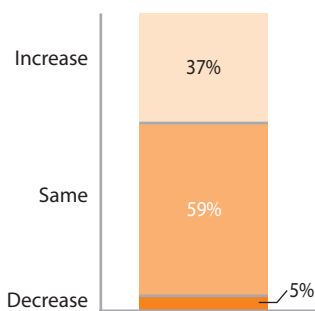


Demand trend

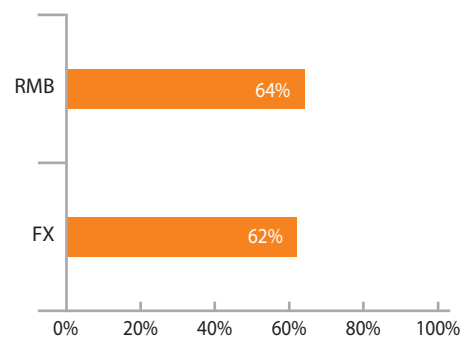


Insurance products (66.0)

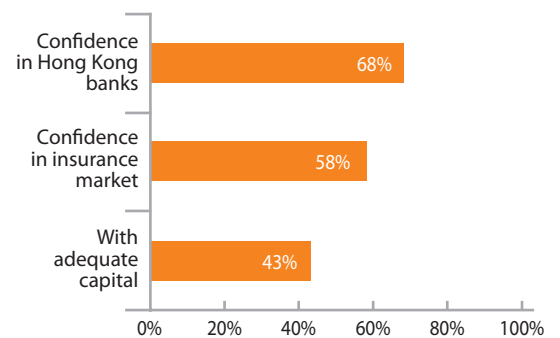
Demand expectation



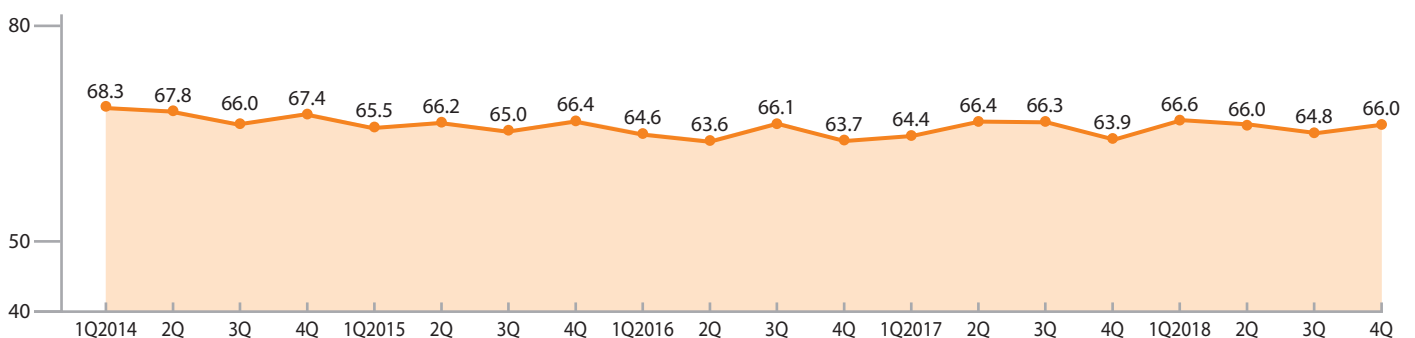
Choice of currencies



Demand drivers

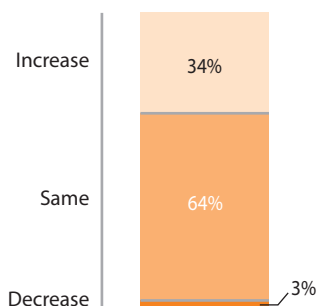


Demand trend

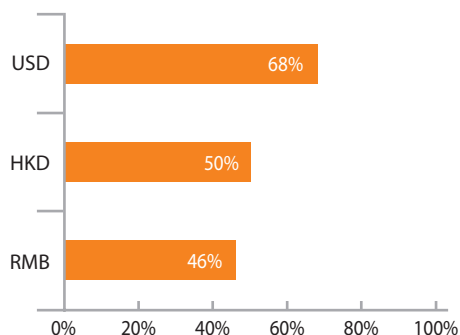


Currency transactions (65.5)

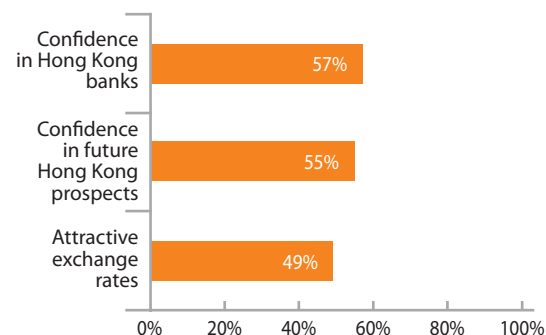
Demand expectation



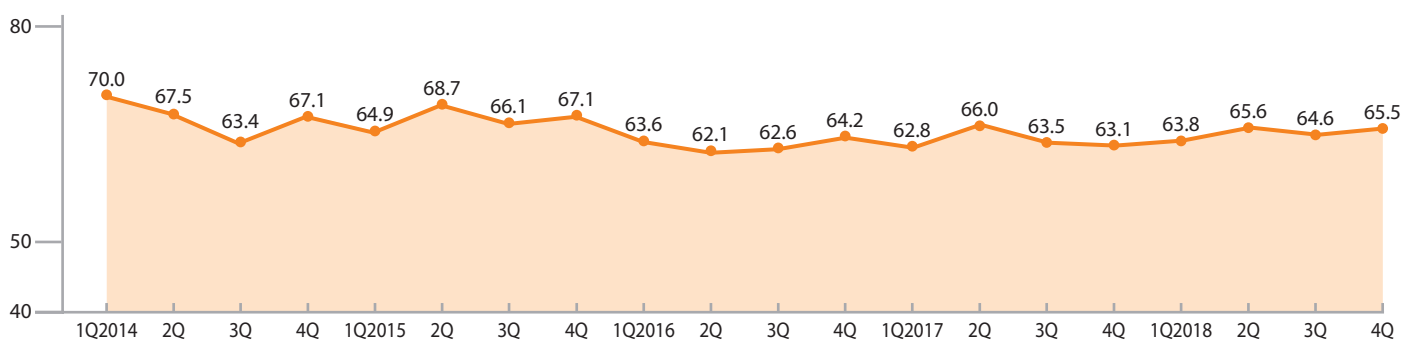
Choice of currencies



Demand drivers

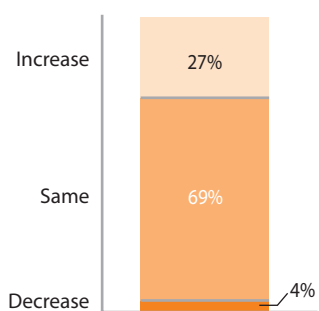


Demand trend

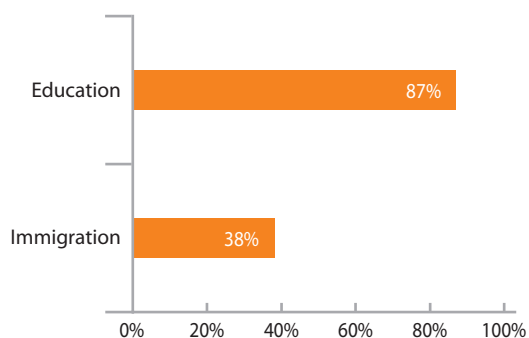


Immigration & education services (61.8)

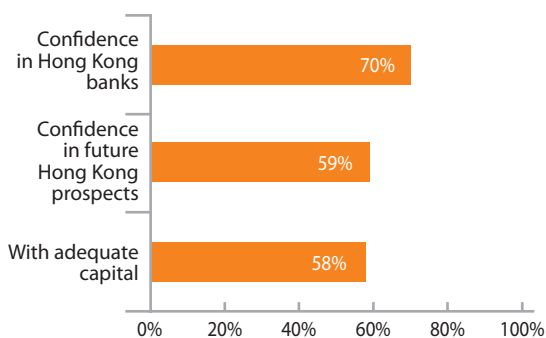
Demand expectation



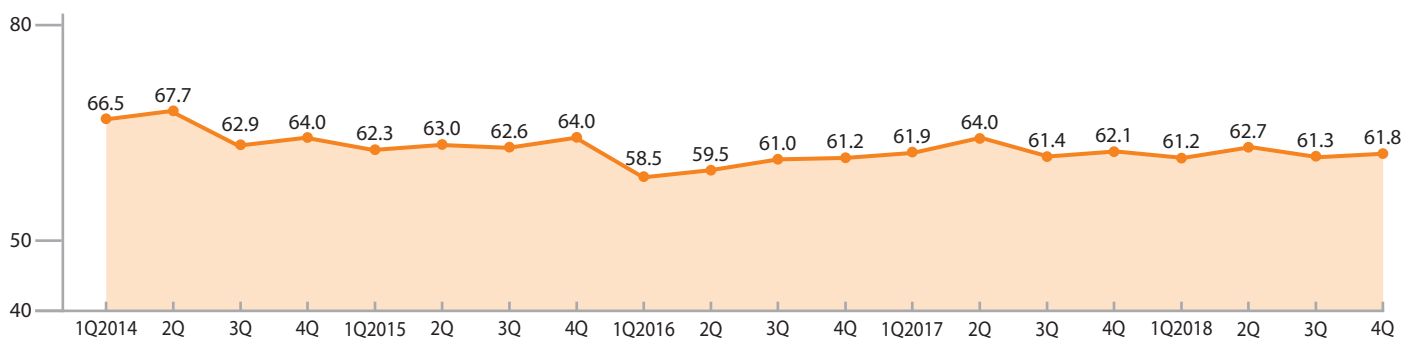
Choice of products/services



Demand drivers

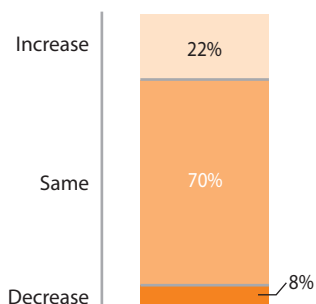


Demand trend

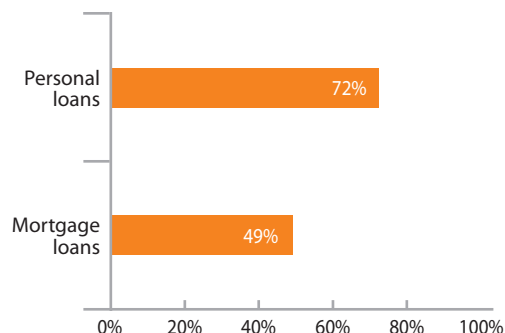


Mortgage & personal loans (57.4)

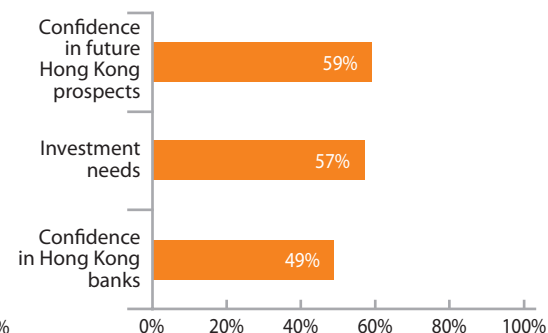
Demand expectation



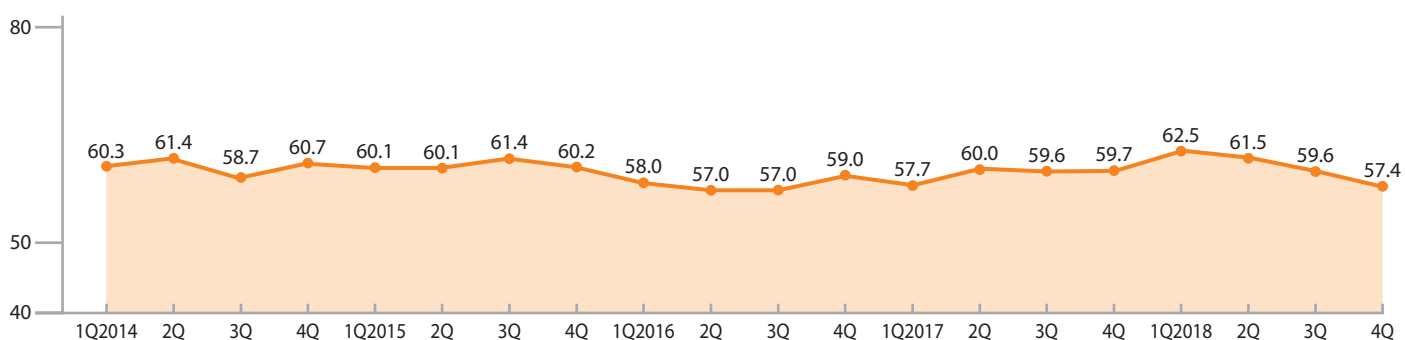
Preferred products/services



Demand drivers

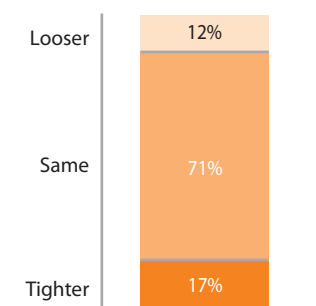


Demand trend

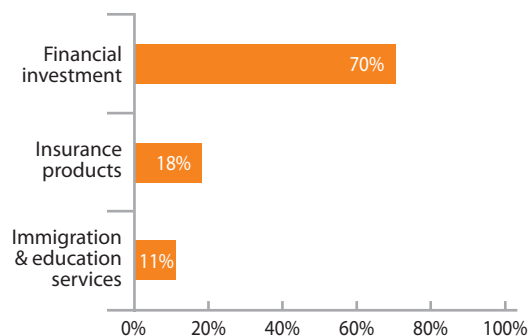


Expectation of regulatory looseness (47.5)

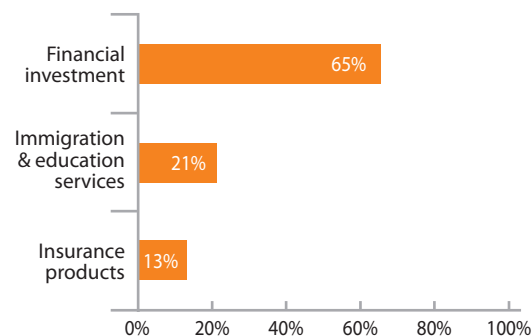
Expectation of laws and regulations



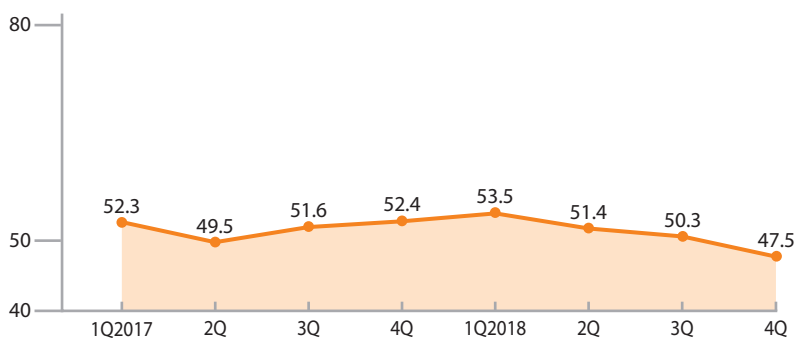
Expected regulatory loosening



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.

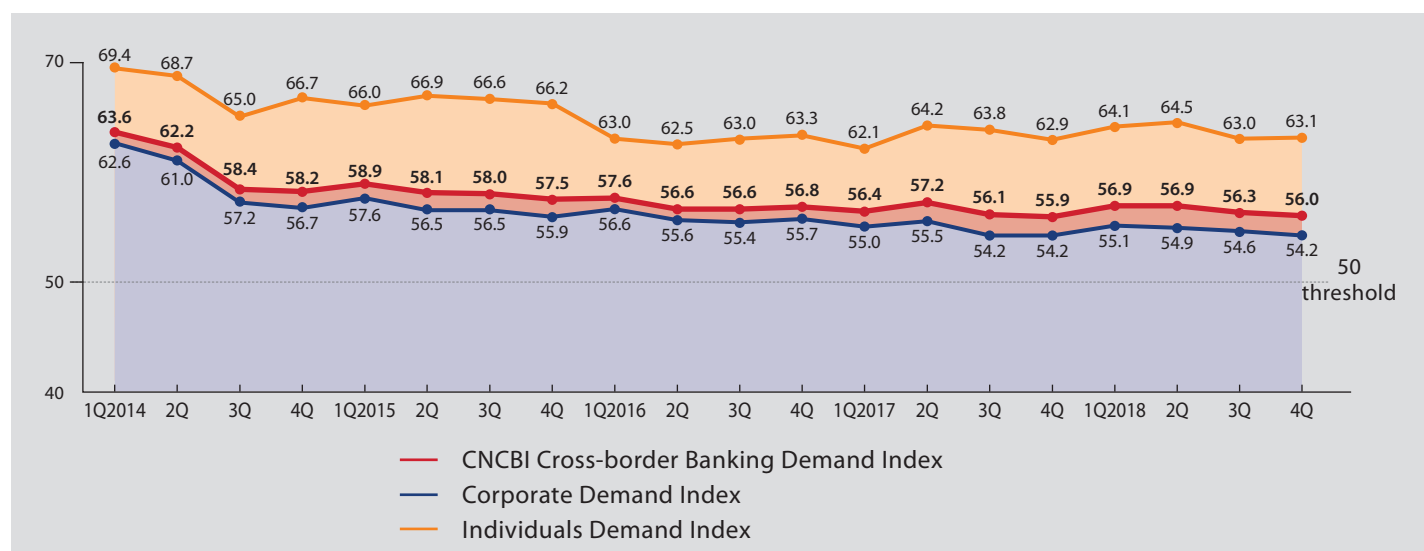
Diffusion indices have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading of above 50 indicates a strengthening of demand, and below 50 a weakening.

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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