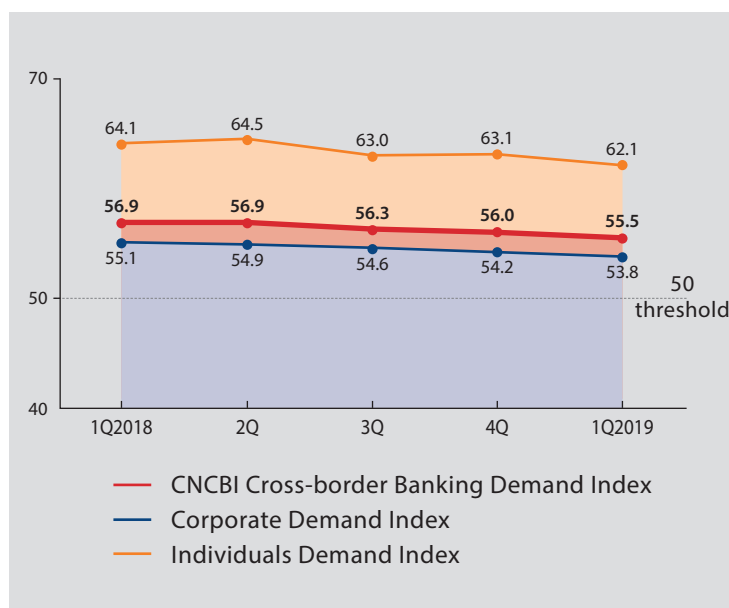


## Growth of cross-border banking demand to decelerate

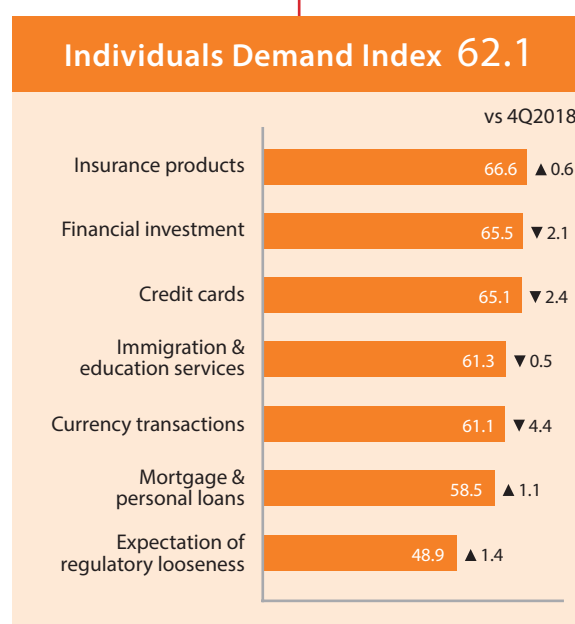
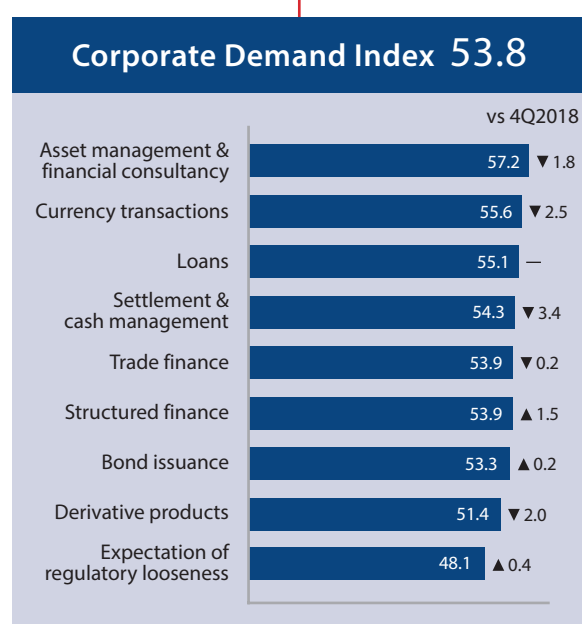
Cross-border demand to drop for 3rd quarter as trade war reality sets in

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



- Weakening demand for Hong Kong's banking services from both corporations and individuals on the mainland to reflect rising impacts of China-US trade war
- Corporations' demand for settlement & cash management, currency transactions, derivative products, and asset management & financial consultancy to turn sluggish, whereas demand for structured finance and bond issuance to bounce back against adverse market conditions
- Demand from individuals for currency transactions, credit cards and financial investment to weaken significantly whereas demand for mortgage & personal loans to rebound moderately while rising insurance products demand to continue
- Expectation of regulatory looseness from both corporations and individuals bounces back with the latter more dramatically

### CNCBI Cross-border Banking Demand Index 55.5



## 1. Key analysis

- 4Q2018 survey results reveal that the 1Q2019 CNCBI Cross-border Banking Demand Index falls 0.5 further from last quarter to 55.5, showing that growth of mainland demand for Hong Kong's banking services is decelerating under the influence of the China-US trade war
- Corporate Demand Index takes another 0.4 fall, which signifies the lingering impact of the China-US trade war; while Individuals Demand Index suffers a trade war spillover and drops a steep 1.0 following a mild recovery in the previous quarter

### Corporate Demand

#### – Service-oriented demand to weaken significantly

- Compared with the previous quarter, five of the corporate demand sub-indices fall, three rise and one remains unchanged. Settlement & cash management, currency transactions, derivative products and asset management & financial consultancy drop significantly by 3.4, 2.5, 2.0 and 1.8 respectively. Trade finance drops slightly by 0.2 whereas structured finance and bond issuance rise by 1.5 and 0.2 as loans remains unchanged
- As for the rankings, asset management & financial consultancy and currency transactions remain 1st and 2nd. Settlement & cash management falls from 3rd to 4th while loans moves up one spot to the 3rd. Meanwhile, structured finance and derivative products swap places to 6th and 8th as trade finance and bond issuance stay put at 5th and 7th
- China-US trade tensions escalated in 4Q2018 with the US slapping tariffs of 10% on US\$200 billion of Chinese goods, in addition to those introduced in 3Q2018 on US\$50 billion of Chinese goods. While the meeting between US President Donald Trump and Chinese President Xi Jinping during the G20 Summit on 1 December 2018 eased some tensions, another round of trade negotiations is being kicked off but the outcome is however difficult to predict. In a situation like this, many Chinese corporations looking to Hong Kong's banking services for "going out" are delaying their plans
- Over the last few quarters, the weakening of financing-oriented demand was rather significant, while that of service-oriented demand was relatively mild. This trend is changing in 1Q2019 – service-oriented demand including settlement & cash management, currency transactions, derivative products and asset management & financial consultancy is to cool down rapidly, while financing-oriented demand including structured finance, bond issuance and loans will rebound or become relatively stable, possibly as a result of the reversal of service-oriented demand's continuous climb and the rebound of financing-oriented demand. Meanwhile, demand for currency transactions weakens markedly following the continuous depreciation of the RMB which will continue to face downward pressure against the USD until another US rate hike. As such, demand for currency transactions in 2019 is likely to continue its weakening trend

- China-US trade uncertainty is expected to drive down demand for corporate cross-border services to an extent depending on the trade war development. Rising trade tensions will cost both China and the US and hamper global economic growth, causing corporate demand for cross-border services to shrink

### Individuals Demand

#### – Plunging after a slight rebound

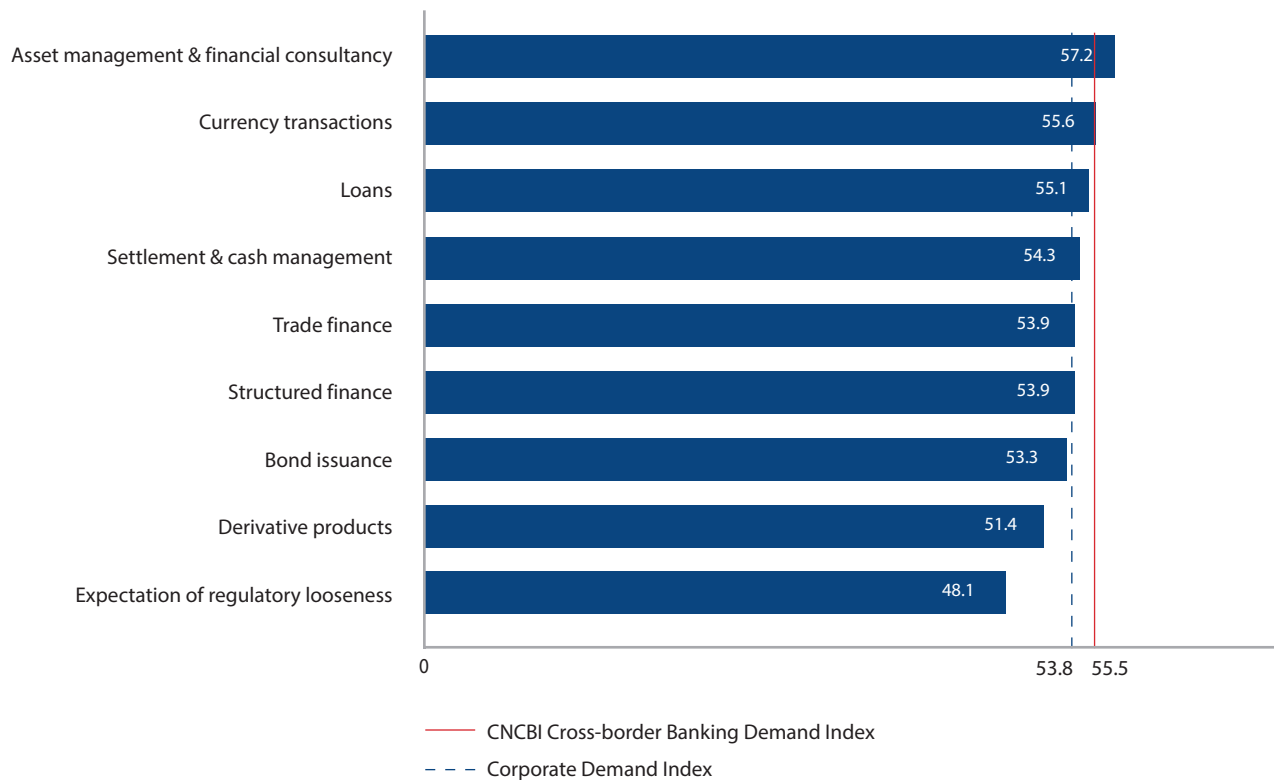
- Of the seven individuals sub-indices, four fall and three rise. Currency transactions, credit cards and financial investment fall dramatically by 4.4, 2.4 and 2.1 respectively. Immigration & education services falls merely 0.5, while mortgage & personal loans and insurance products pick up 1.1 and 0.6 respectively
- As for the rankings, insurance products takes the top spot from the 3rd, while financial investment and credit cards drop one spot from 1st and 2nd respectively. At the same time, immigration & education services and currency transactions swap places, resting at 4th and 5th. Despite an increase in demand, the mortgage & personal loans sub-index remains 6th
- After last quarter's slight recovery, individuals' demand for cross-border banking services takes a plunge, indicating a continuous downward trend overall. Compared to corporate demand, individuals' demand is more sensitive to the external environment. China-US trade uncertainty is causing many mainland individuals to put their "going out" plans on hold and stay on the side-lines. In addition, the impact of RMB depreciation also contributes to the weakening demand, particularly that for cross-border financial investment, credit cards, and currency transactions which is also the most vulnerable among all the others and compared with the same demand from corporations. Demand for insurance products continues to pick up steam. Whether mainland individuals are using Hong Kong's insurance products to hedge against the worsening economic and investment climate shall remain a question. In the meantime, demand for mortgage & personal loans rises surprisingly, in view of the recent adjustment in Hong Kong's property market. This may be a correction to last quarter's marked weakening. Also possible is that some mainland residents eye the opportunity to purchase properties in anticipation of a recovery

### Expectation of regulatory looseness

#### – Knee-jerk rebound from corporations and individuals

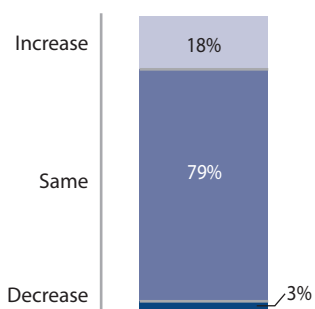
- The 1Q2019 expectation of regulatory looseness from both corporations and individuals rise 0.4 and 1.4 to 48.1 and 48.9 respectively
- This may be due to a correction to the continuous drop in the previous quarters and a consequence of the Chinese government's tighter capital controls on the one hand and liberal economic policies launched in response to the trade war on the other
- China-US trade relations will remain instrumental to the expectation of the regulatory environment

## 2. Corporate demand sub-indices

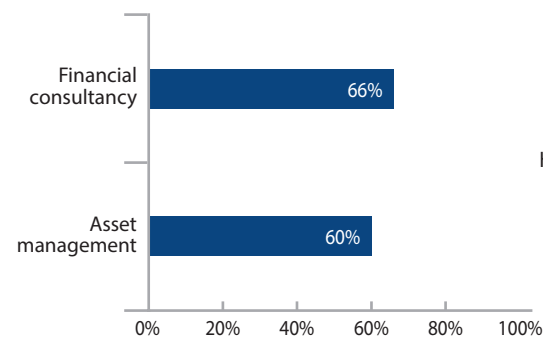


### Asset management & financial consultancy (57.2)

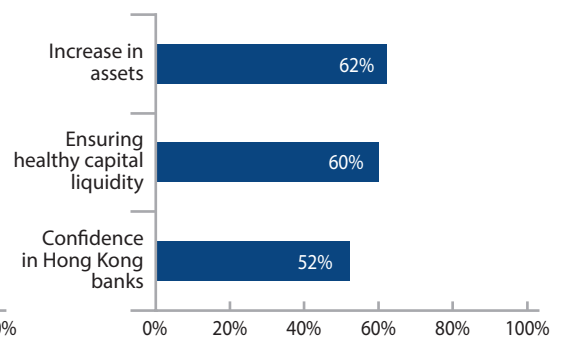
#### Demand expectation



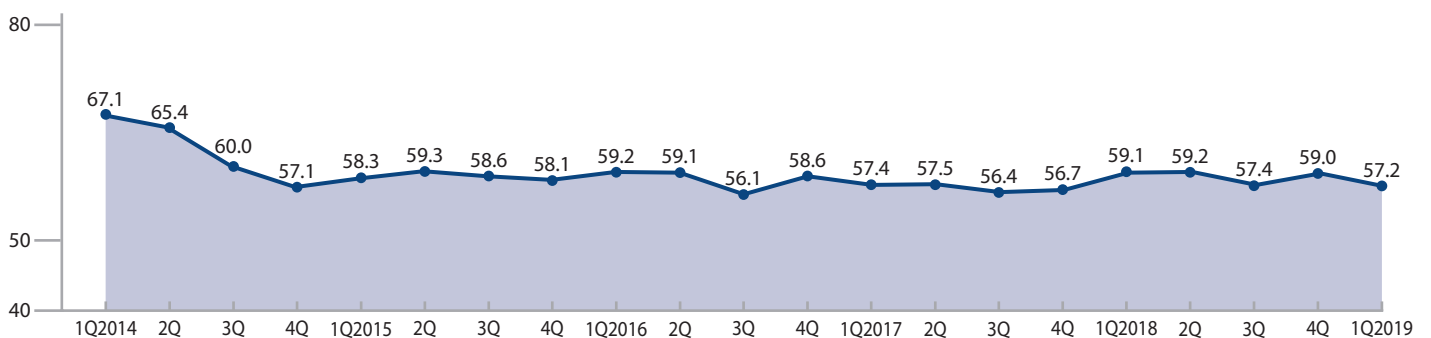
#### Choice of products/services



#### Demand drivers

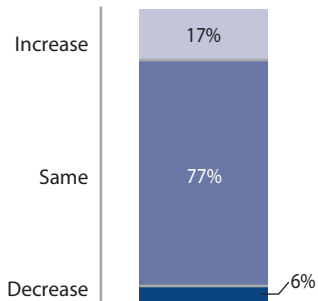


#### Demand trend

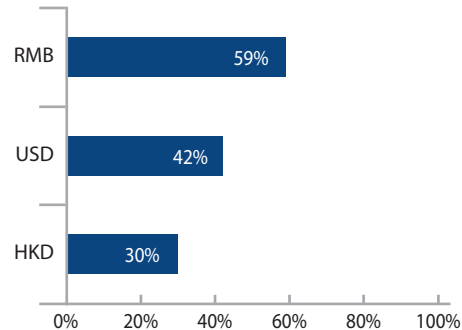


## Currency transactions (55.6)

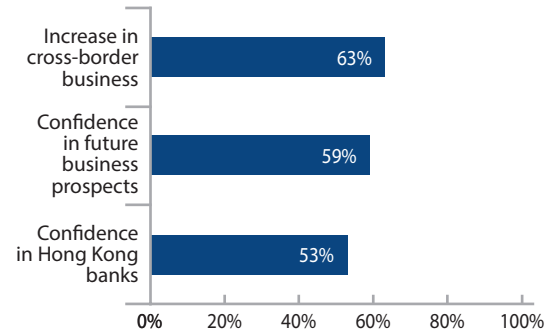
### Demand expectation



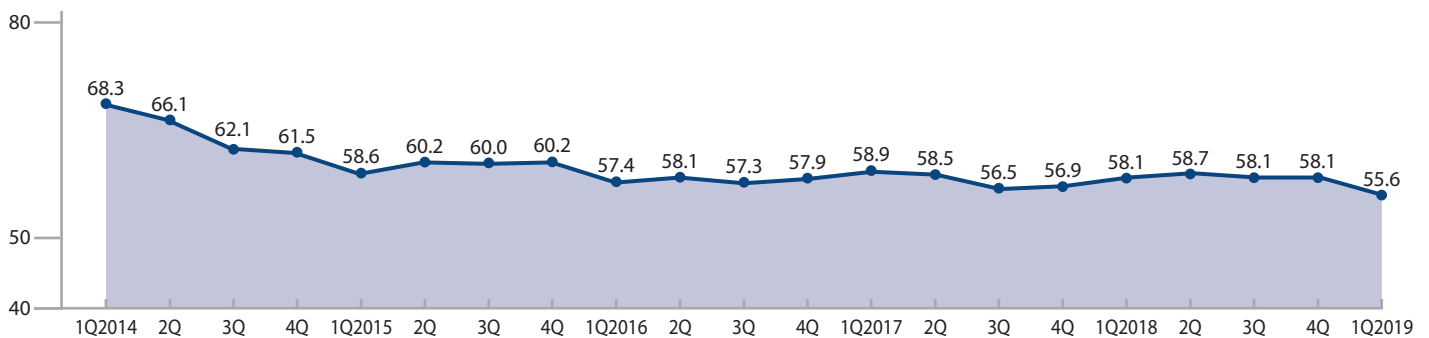
### Choice of Currencies



### Demand drivers

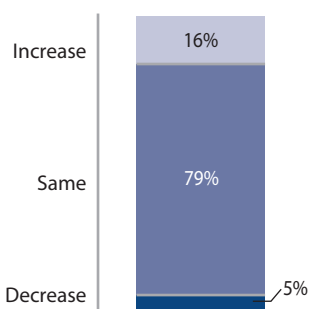


### Demand trend

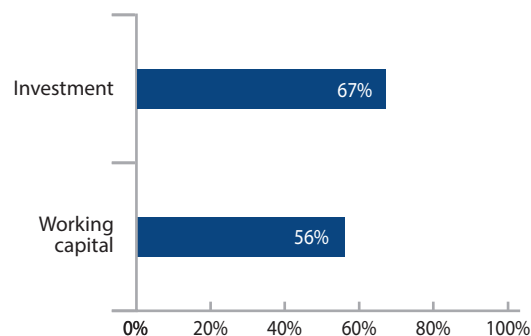


## Loans (55.1)

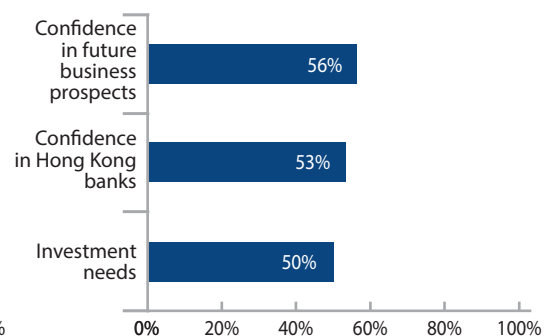
### Demand expectation



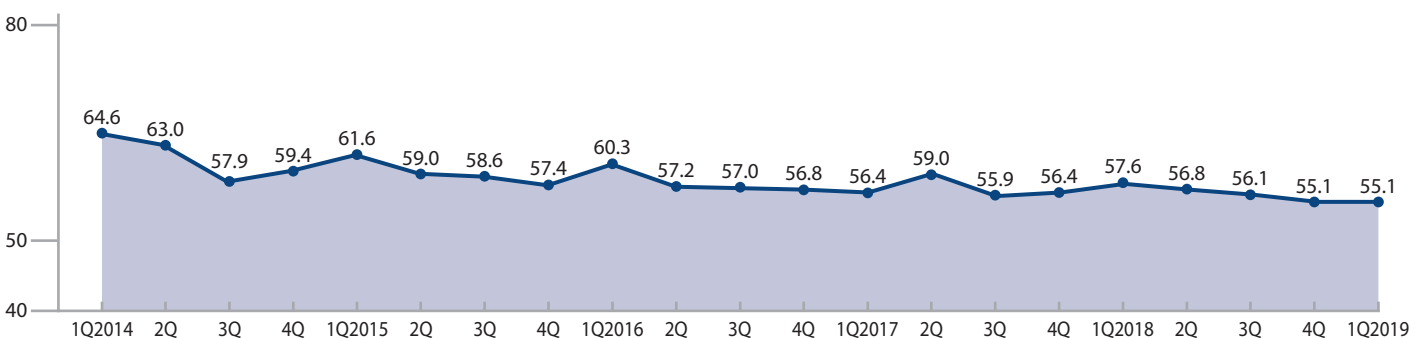
### Usage



### Demand drivers

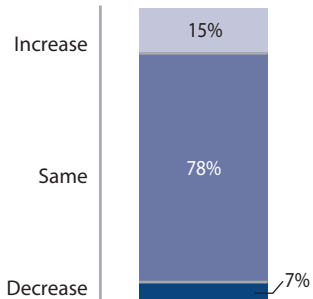


### Demand trend

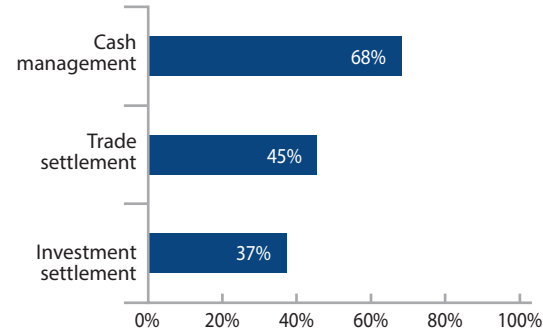


## Settlement & cash management (54.3)

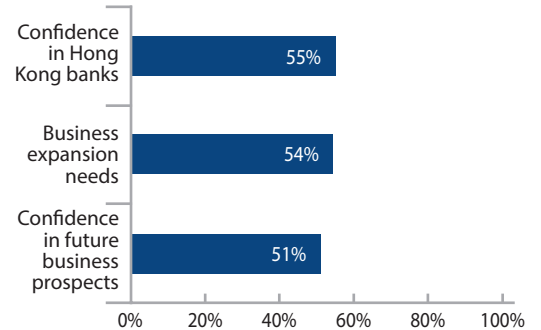
### Demand expectation



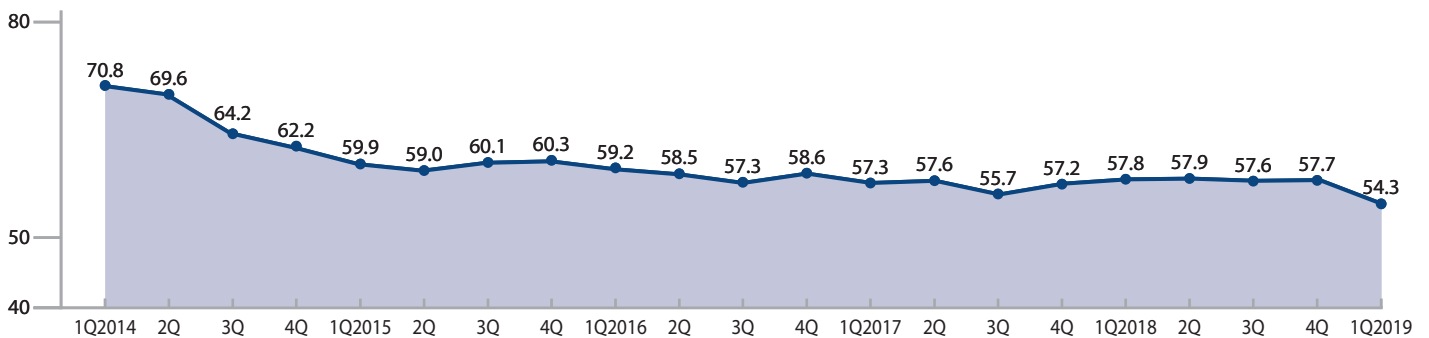
### Choice of products/services



### Demand drivers

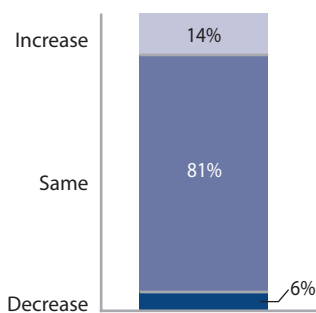


### Demand trend

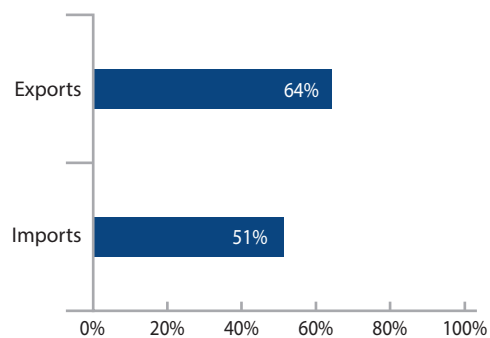


## Trade finance (53.9)

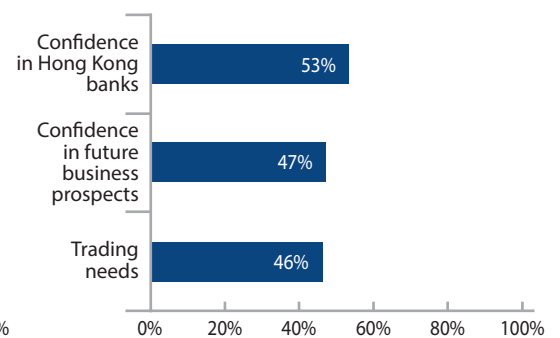
### Demand expectation



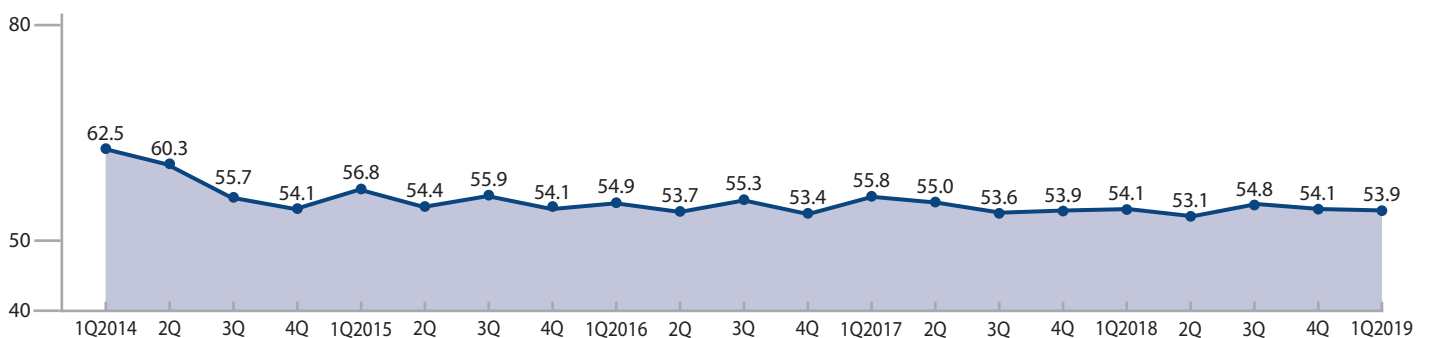
### Choice of products/services



### Demand drivers

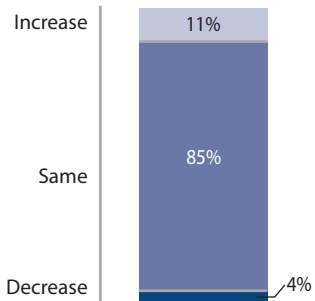


### Demand trend

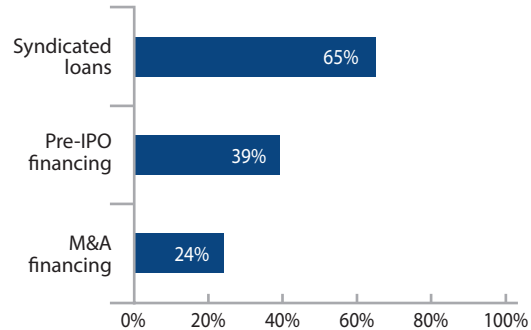


## Structured finance (53.9)

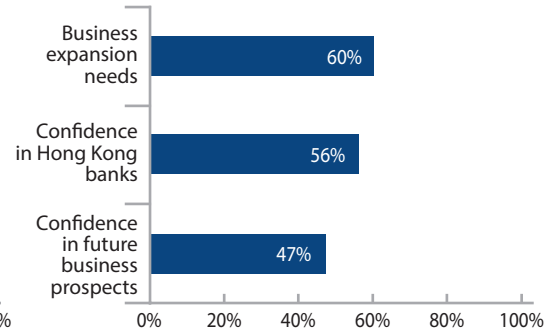
### Demand expectation



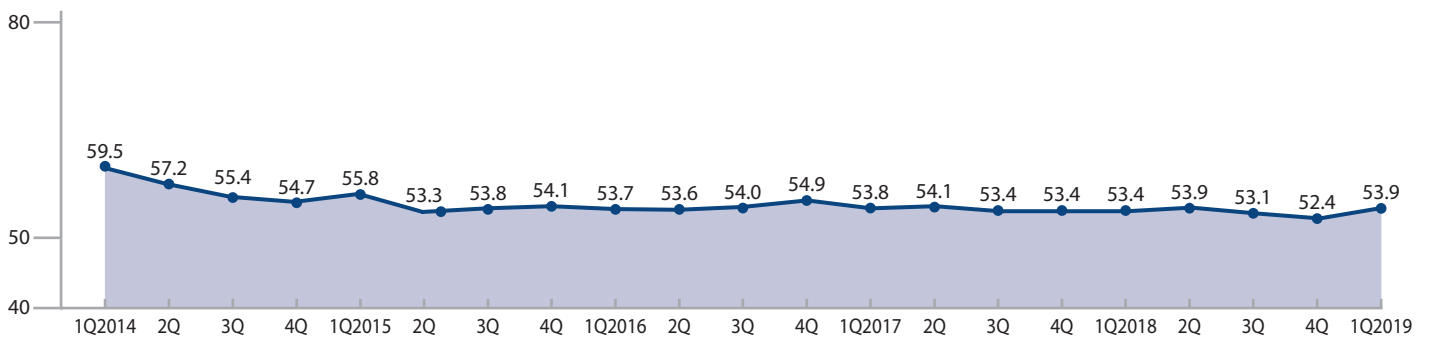
### Choice of products/services



### Demand drivers

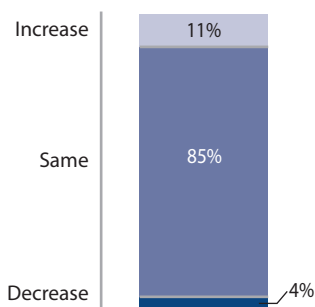


### Demand trend

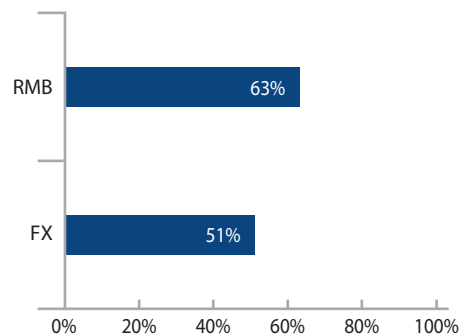


## Bond issuance (53.3)

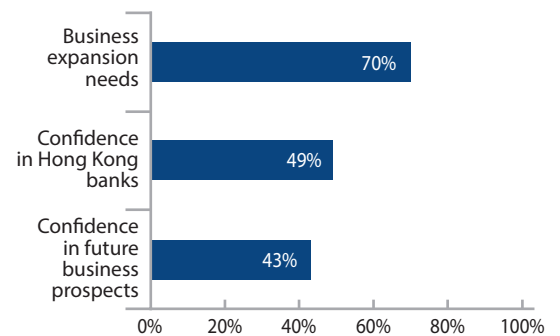
### Demand expectation



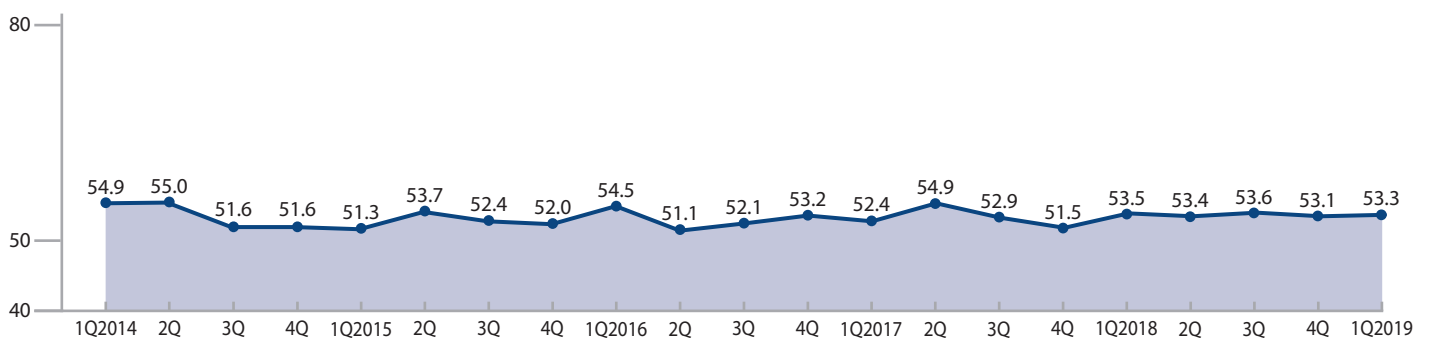
### Choice of currencies



### Demand drivers

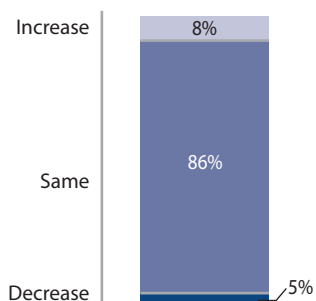


### Demand trend

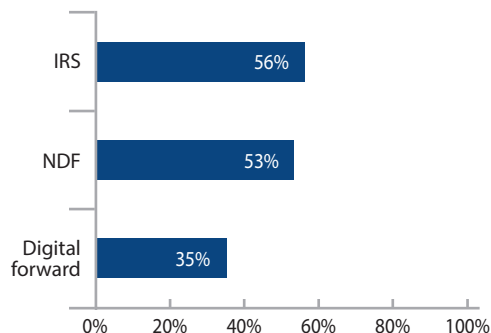


## Derivative products (51.4)

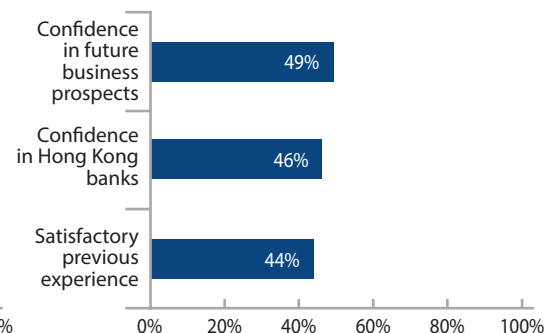
### Demand expectation



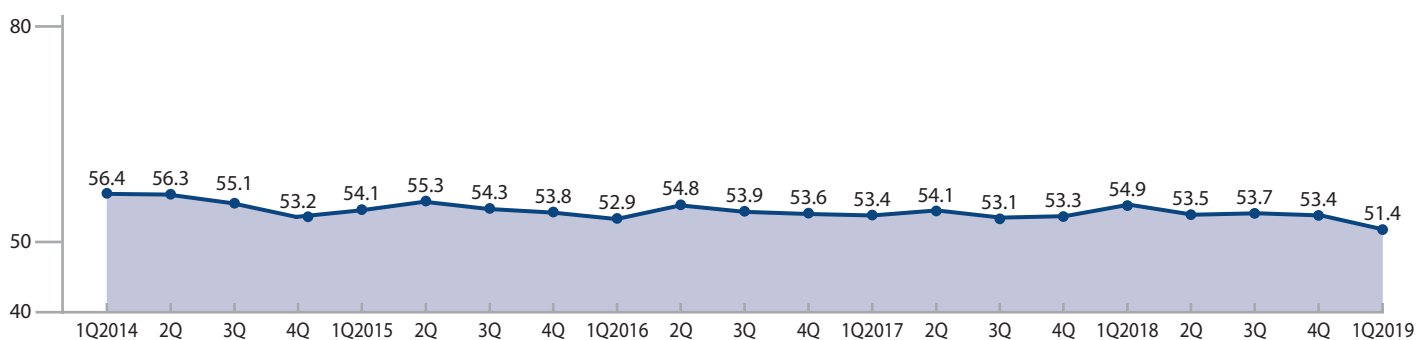
### Choice of products/services



### Demand drivers

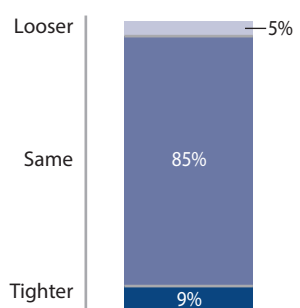


### Demand trend

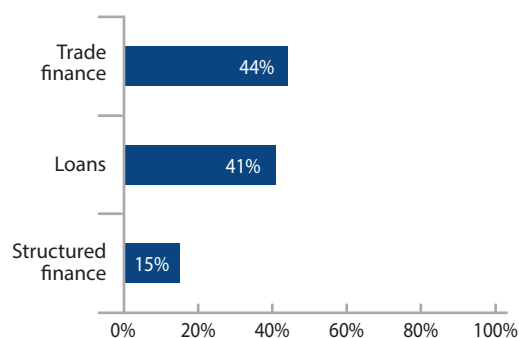


## Expectation of regulatory looseness (48.1)

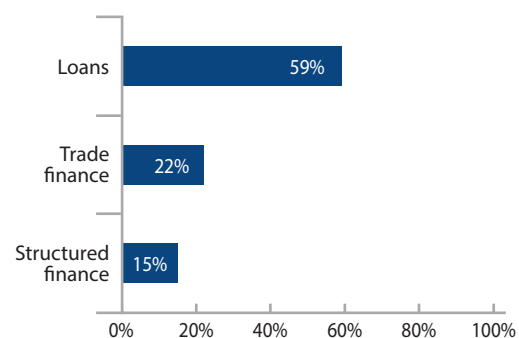
### Expectation of laws and regulations



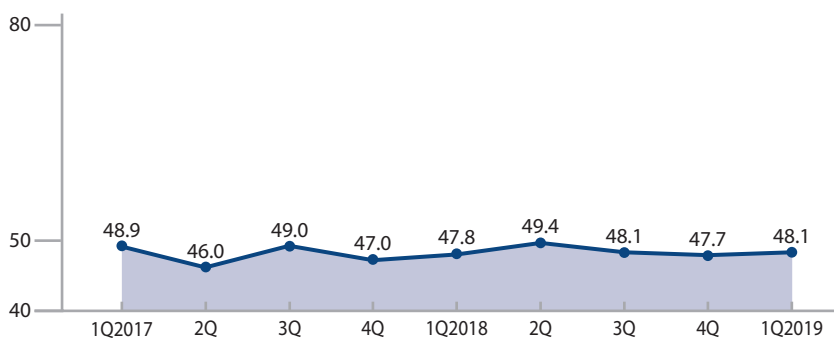
### Expected regulatory loosening



### Expected regulatory tightening

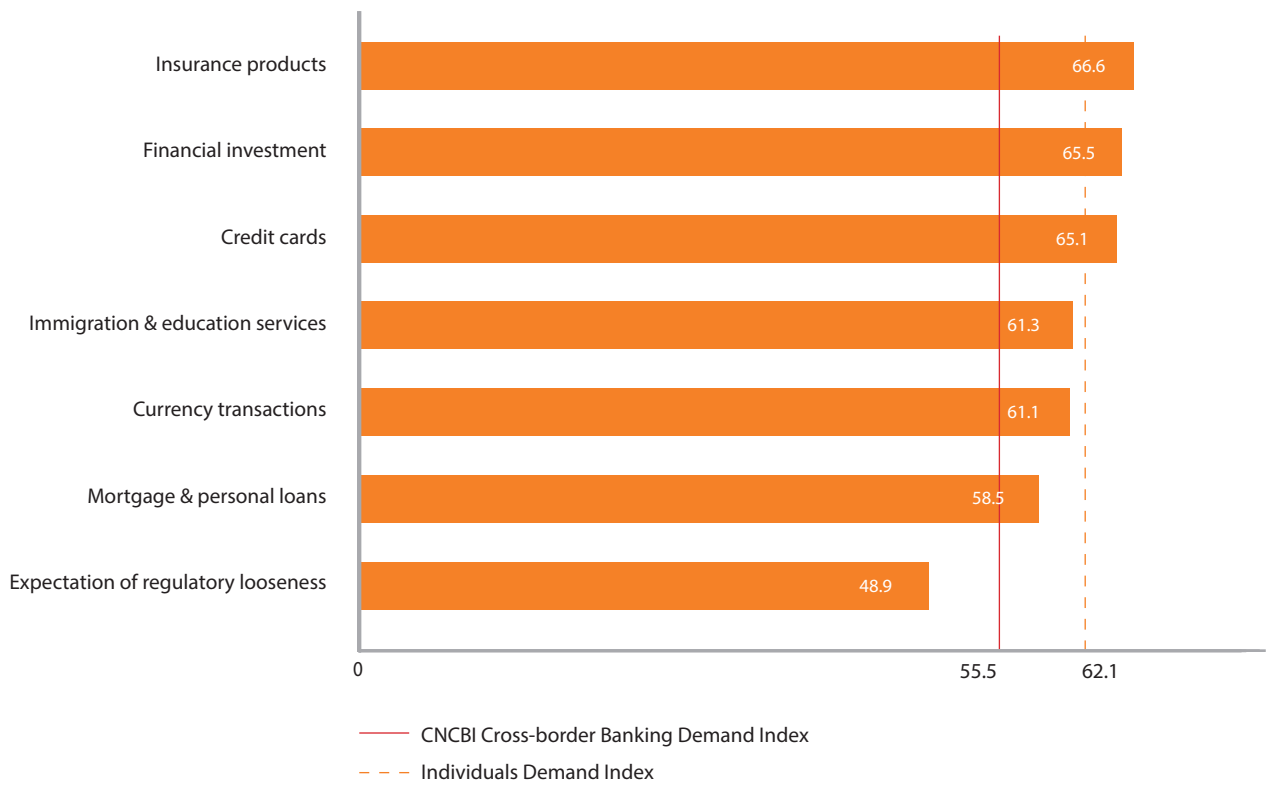


### Expectation trend



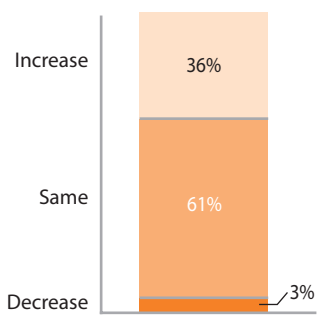
Note: This sub-index was introduced since 1Q2017

### 3. Individuals demand sub-indices

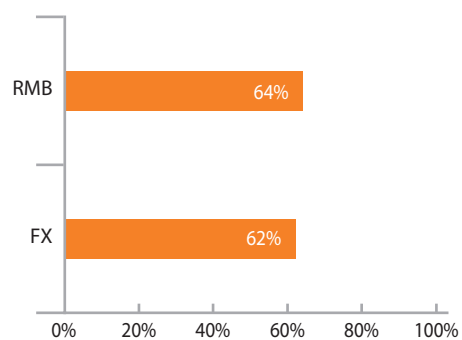


#### Insurance products (66.6)

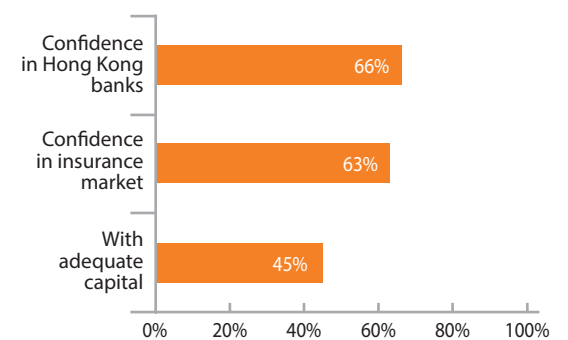
##### Demand expectation



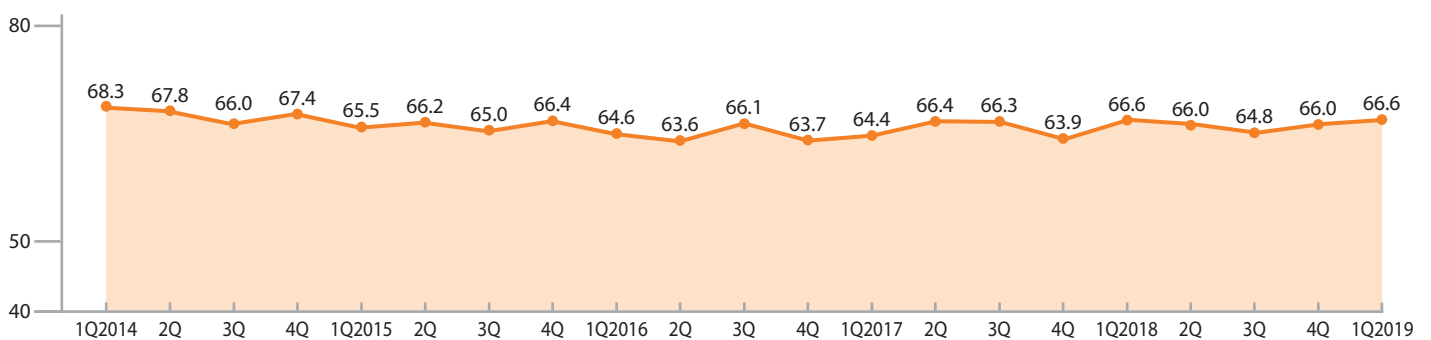
##### Choice of currencies



##### Demand drivers



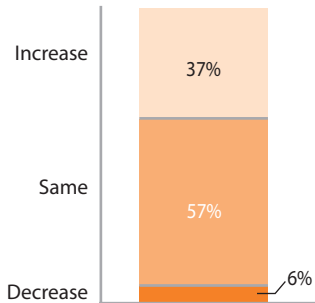
##### Demand trend



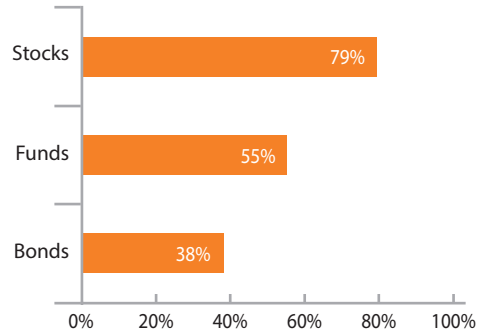


## Financial investment (65.5)

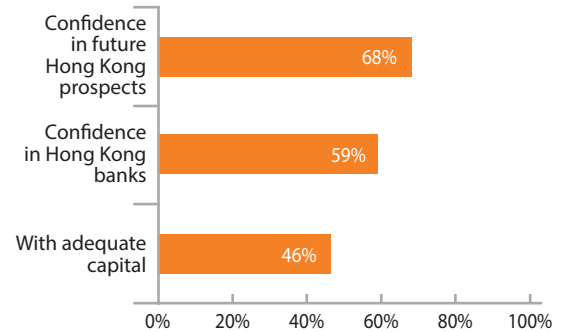
### Demand expectation



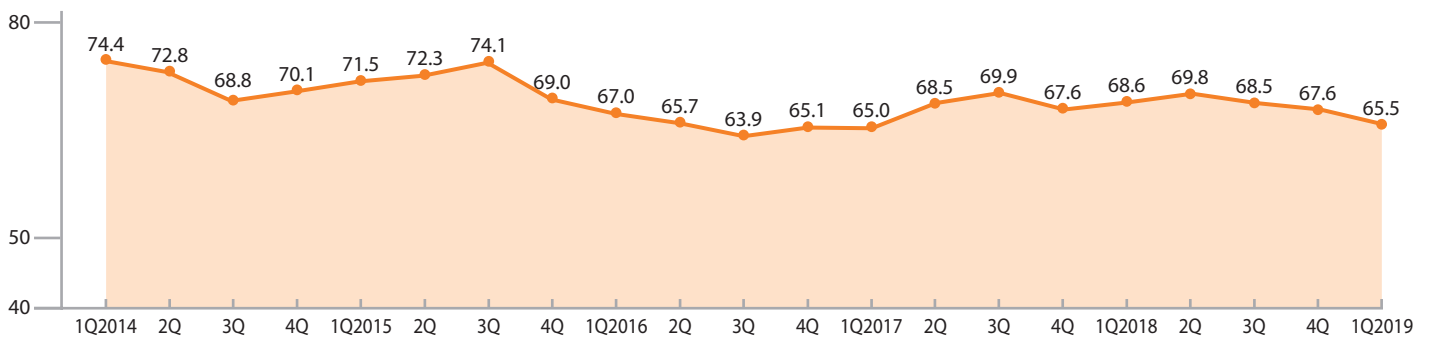
### Choice of products/services



### Demand drivers

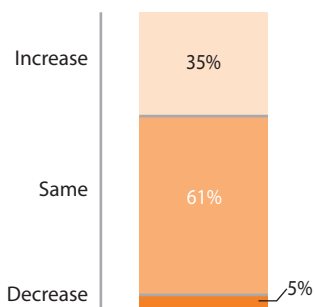


### Demand trend

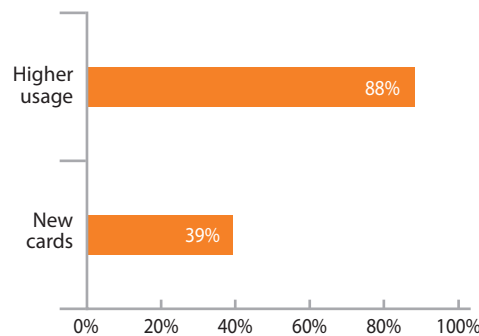


## Credit cards (65.1)

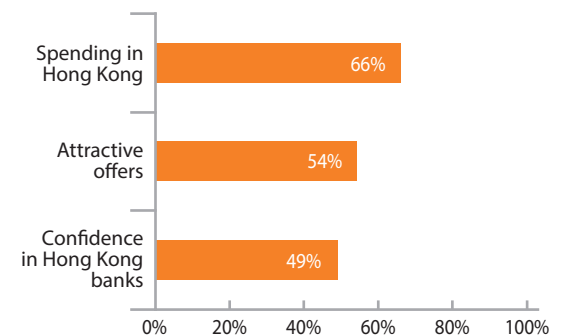
### Demand expectation



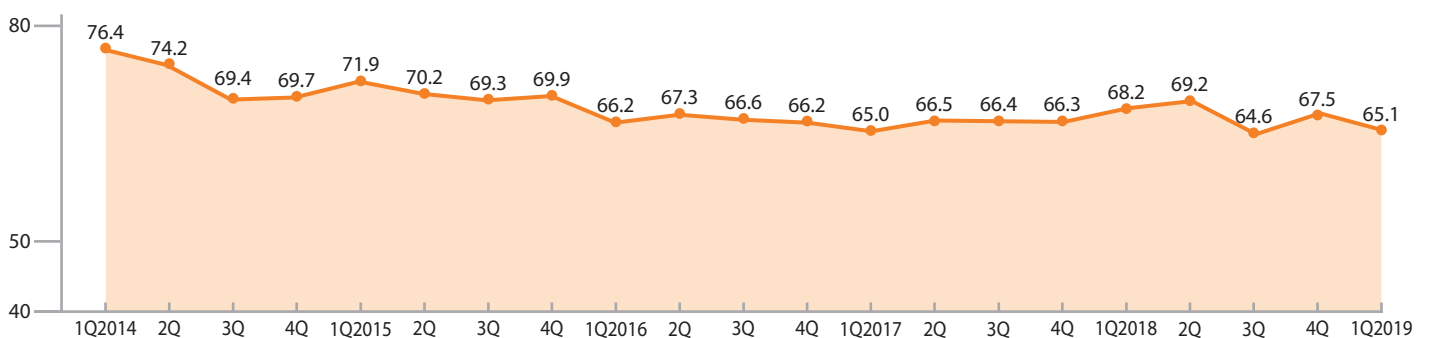
### Choice of products/services



### Demand drivers

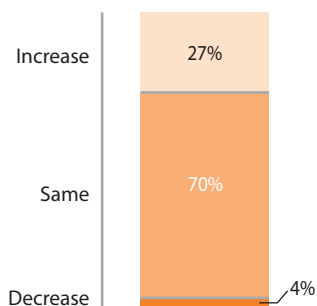


### Demand trend

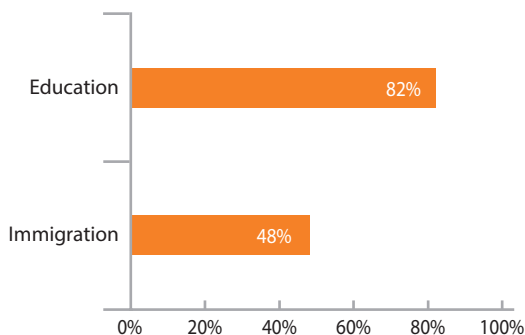


## Immigration & education services (61.3)

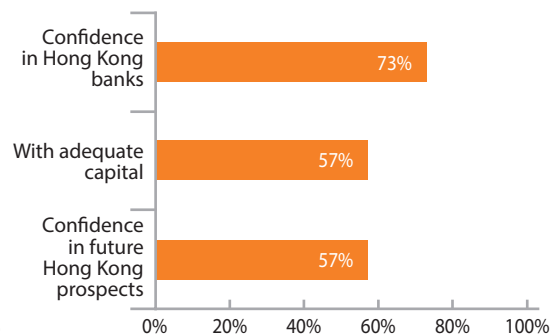
### Demand expectation



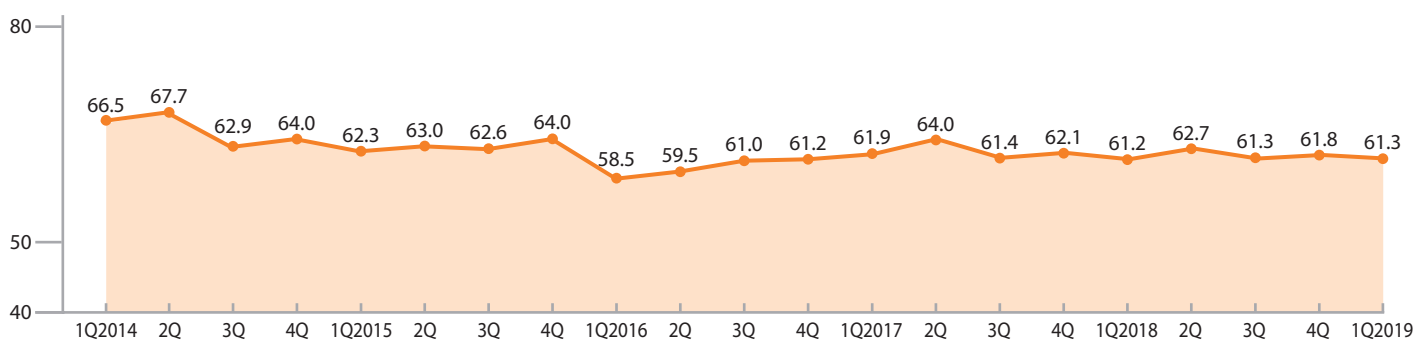
### Choice of products/services



### Demand drivers

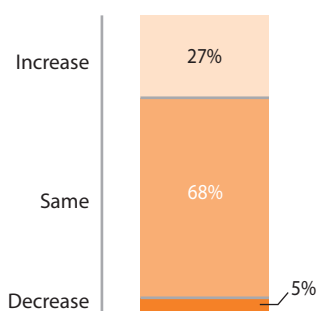


### Demand trend

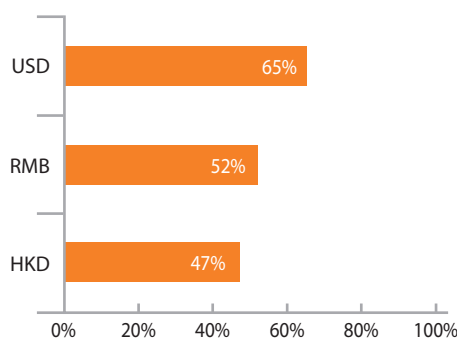


## Currency transactions (61.1)

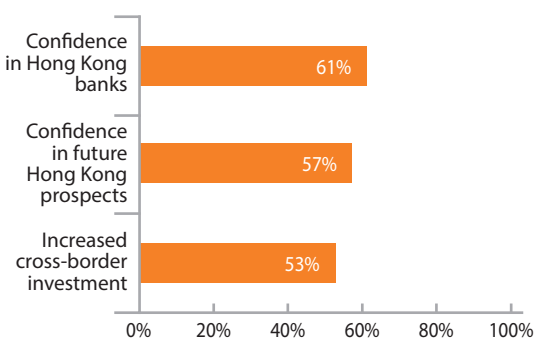
### Demand expectation



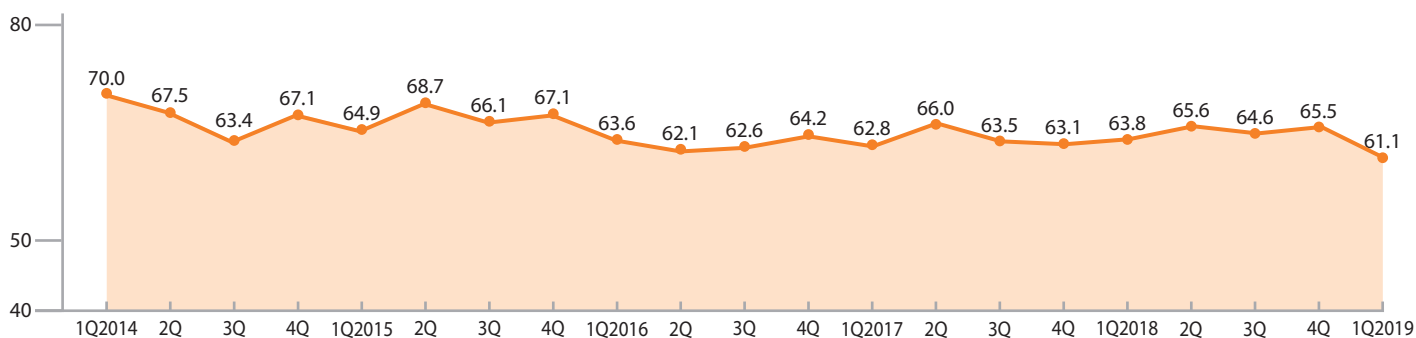
### Choice of currencies



### Demand drivers

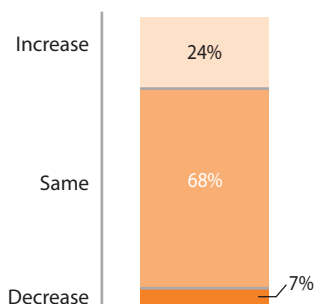


### Demand trend

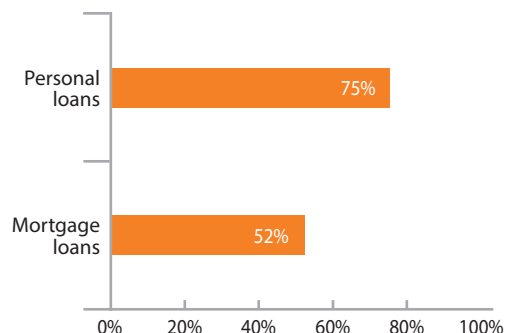


## Mortgage & personal loans (58.5)

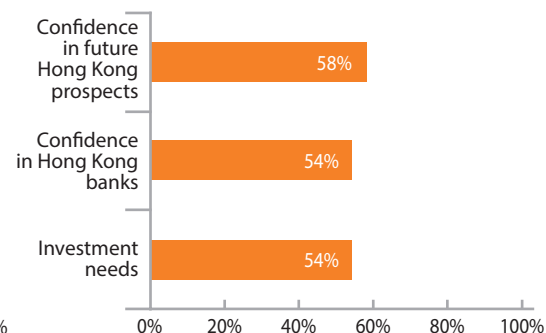
### Demand expectation



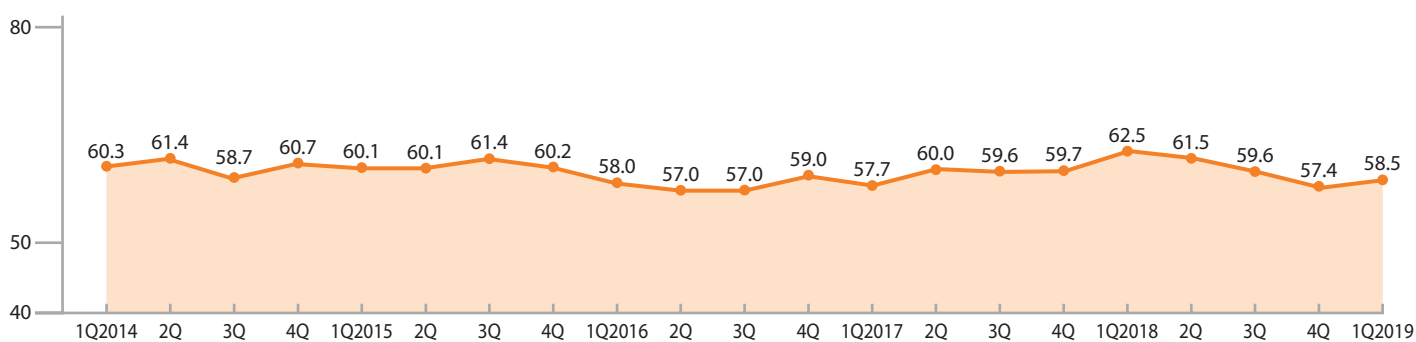
### Preferred products/services



### Demand drivers

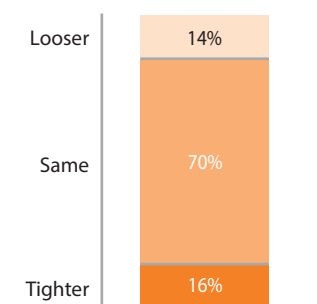


### Demand trend

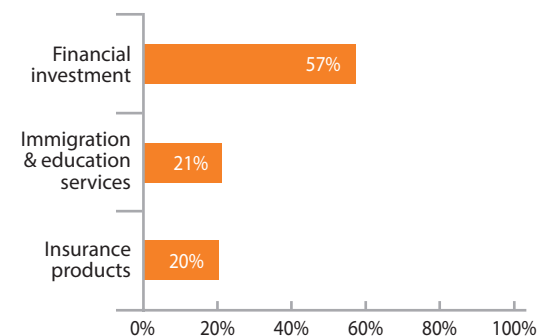


## Expectation of regulatory looseness (48.9)

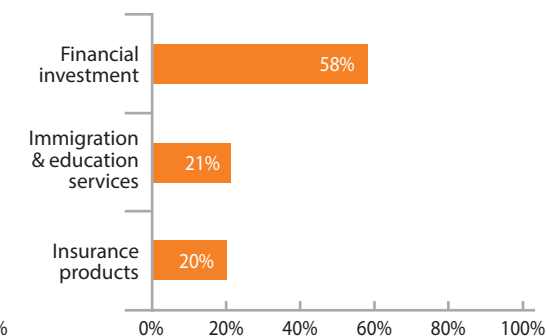
### Expectation of laws and regulations



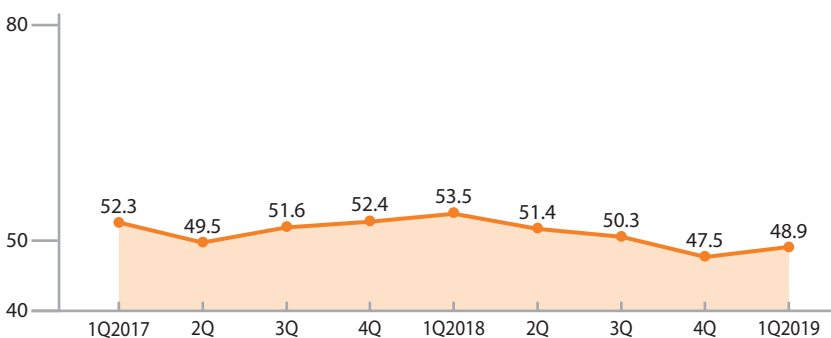
### Expected regulatory loosening



### 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.

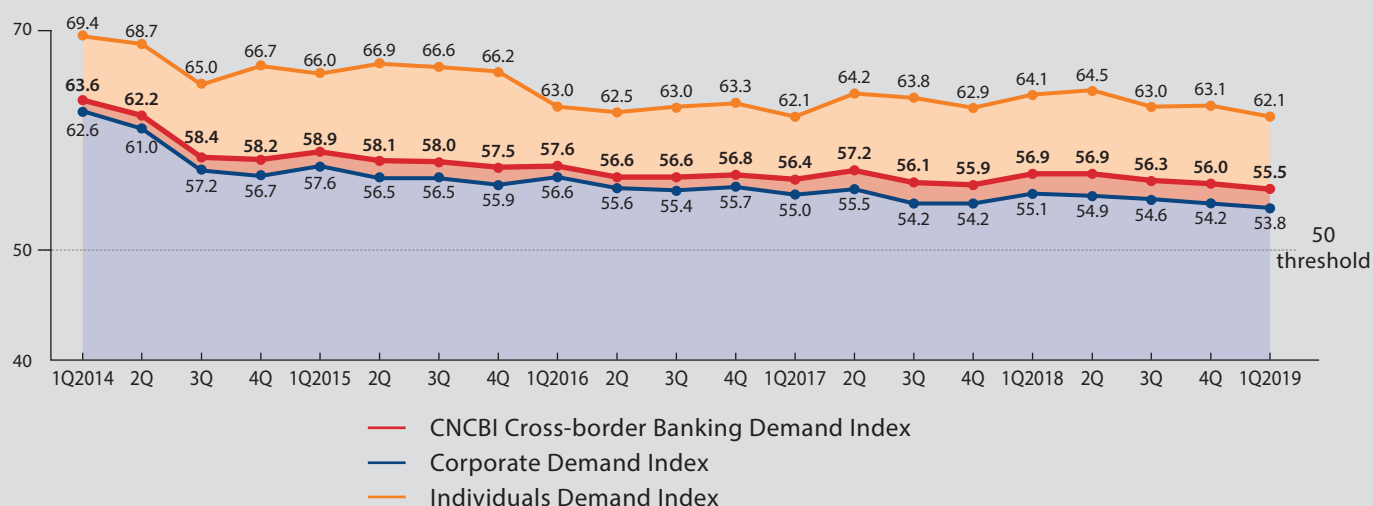
Diffusion indices have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading of above 50 indicates a strengthening of demand, and below 50 a weakening.

### 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



Disclaimer:

The information contained in this document is provided for general information purposes only and is subject to change at any time without notice and at the sole discretion of China CITIC Bank International Limited ("CNCBI" or the "Bank"). The information has been taken from sources believed to be reliable, but the Bank makes no warranties or representations as to the accuracy, correctness, reliability or otherwise with respect to such information, and assumes no liability or responsibility for any omissions or errors in the content of this document. This document may contain statements, estimates or projections which are inherently speculative and are prepared based on currently available information and projections about future events and trends. Such statement, estimates and projections are subject to numerous risks and uncertainties and the actual results may differ from the Bank's expectations or projections. The information in this document herein is not to be construed as an offer or a solicitation of an offer to buy or sell any products or services. Investors should obtain appropriate professional advice when necessary. The Bank accepts no liability for any direct, special, indirect, consequential, incidental damages or any other loss or damages of any kind arising from any use of the information herein.

Copyright © 2019 China CITIC Bank International Limited. All rights reserved.