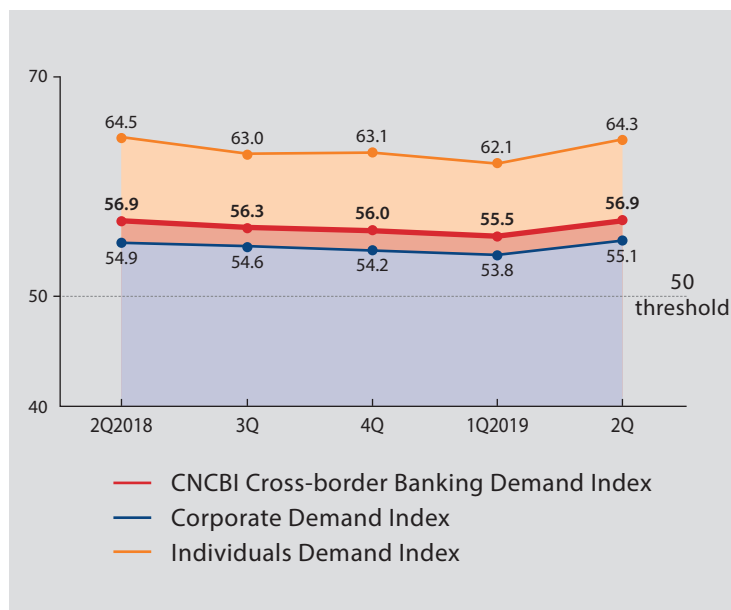


Cross-border demand to bounce back noticeably

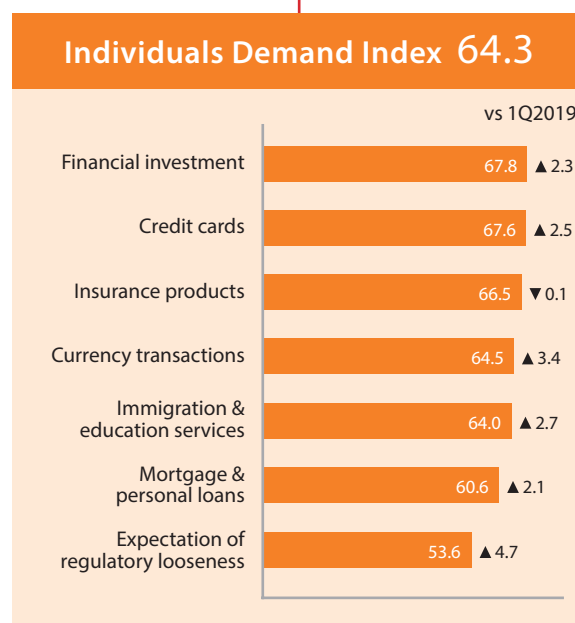
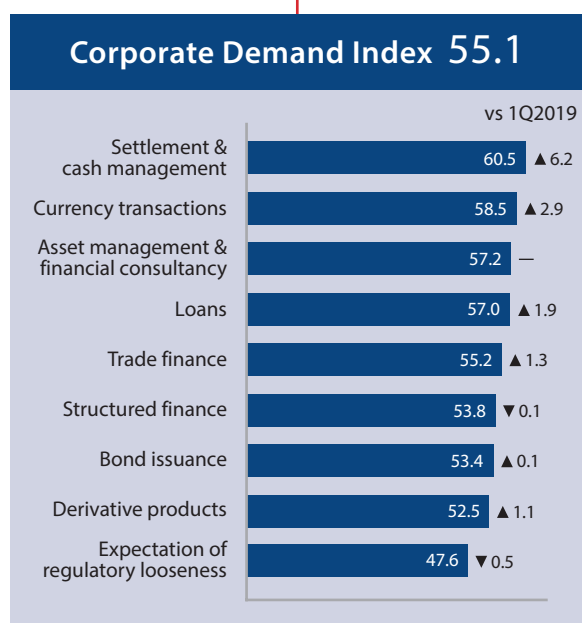
Easing trade spat to fuel rebound of “going out” intention among mainland corporations and individuals

www.cncbinternational.com/cross-border-index



- Demand for Hong Kong’s banking services from mainland corporations and individuals bounces back noticeably in 2Q2019, indicating a rebound of “going out” intention among mainland corporations and individuals as the China-US trade spat eases
- Corporate demand regains considerable strength with demand for settlement & cash management logging the most obvious rise, followed by currency transactions, loans, trade finance and derivative products
- The rebound of individuals’ demand is even more significant with all the sub-indices registering remarkable increases especially that of currency transactions despite waning demand for insurance products
- Meanwhile, individuals’ expectation of regulatory looseness continues to rise as corporations expect stricter regulations

CNCBI Cross-border Banking Demand Index 56.9



1. Key analysis

- 1Q2019 survey results reveal that the 2Q2019 CNCBI Cross-Border Banking Demand Index stands at 56.9 on a record quarterly rise of 1.4, demonstrating that mainland corporations' and individuals' demand for cross-border banking services from Hong Kong is picking up speed after three meagre quarters
- With an increase of 1.3 from the last quarter, the Corporate Demand Index bounces back from 53.8 to 55.1, suggesting that the easing China-US trade spat is obviously reinvigorating the "going out" confidence of mainland corporations. The Individuals Demand Index rise from 62.1 to 64.3 on a rebound of 2.2, which is evident of the sensitivity to the easing trade spat of individuals who are quick to regain the "going out" pace

Corporate Demand

– Service-oriented demand rebounds vigorously whereas financing-oriented demand warms

- Compared with the previous quarter, five of the eight corporate demand sub-indices apart from the expectation of regulatory looseness sub-index, post a significant recovery. Settlement & cash management logs the biggest increase of 6.2 while currency transactions gains 2.9 as loans, trade finance and derivative products pick up 1.9, 1.3 and 1.1 respectively. Bond issuance edges up slightly while asset management & financial consultancy stays put and structured finance slides slightly
- As for the rankings, settlement & cash management rises from 4th to the top while currency transactions remains 2nd as a result of the increased demand, overtaking asset management & financial consultancy which slides from the top to 3rd for its stagnant demand. Loans drops one place to 4th despite its increased demand while trade finance, structured finance, bond issuance and derivative products remain 5th, 6th, 7th and 8th respectively
- During 1Q2019, the most positive development in the Chinese and global economies was the gradual easing of China-US trade tensions which peaked in October and November and started to ease after the meeting between Chinese President Xi Jinping and US President Donald Trump on 1 December and subsequent trade talks between the two countries. Signs of easing accumulated and were growingly obvious during 1Q2019 with progress in tow. The 1 March deadline for trade talks was extended to 1 May and later pushed off. In view of the current situation and a recent trade deal between the two countries, the chance of a trade truce has prompted a rebound of market confidence in the Chinese and global economies as well as trade and investment prospects. Against this backdrop, mainland corporations' intention of "going out" and enlisting cross-border banking services bounces back swiftly
- Service-oriented demand rebounds significantly, particularly for settlement & cash management and currency transactions, as a consequence of a ricochet effect from last quarter's plunge. This also implies that corporations feel more inclined to seek lower-risk services as the China-US trade war lingers. Demand for certain financing-oriented services warms. The strength of rebound as seen in loans and trade finance demand has been remarkable whereas stagnant demand for structured finance and bond issuance reveals that corporations have remained watchful as regards cross-border structured and bond financing
- Prospects of a China-US trade truce are expected to become clearer half way through the year with more obvious signs of economic stability in mainland China and favourable prospects of the Guangdong-Hong Kong-Macao Greater Bay Area. It is

believed that cross-border financing-oriented demand will follow the rise of service-oriented demand with more vigorous growth

Individuals Demand

– Picking up speed after dramatic softening

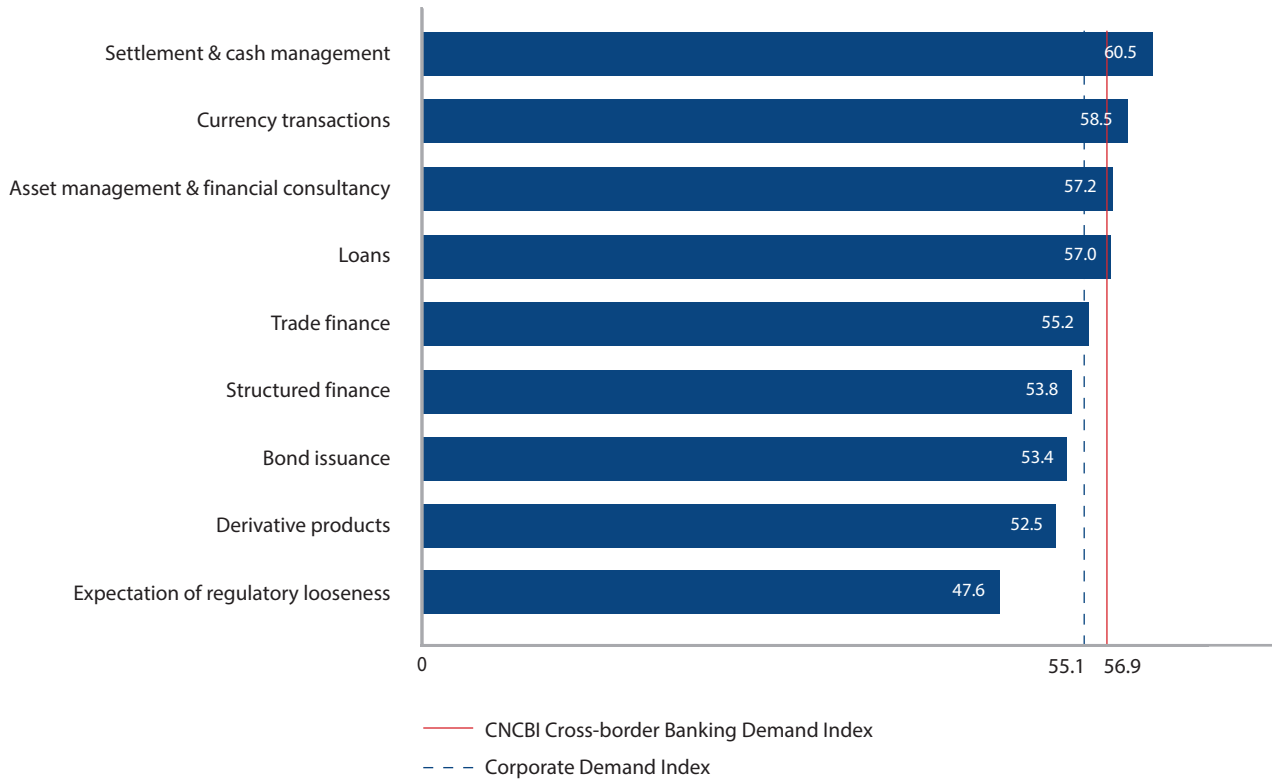
- Of the six sub-indices apart from the expectation of regulatory looseness sub-index, insurance products drops 0.1 while all the others post significant growth with currency transactions rising most impressively 3.4, followed by immigration & education services' 2.7, credit cards' 2.5, financial investment' 2.3 and mortgage & personal loans' 2.1
- As for the rankings, insurance products falls from 1st to 3rd as a result of the slight decline in demand whereas financial investment and credit cards take a step up to claim 1st and 2nd places. Currency transactions and immigration & education services swap places and rank 4th and 5th respectively for the former's superior rise in demand while mortgage & personal loans stays put at 6th
- Rebounding demand from individuals for cross-border banking services can be attributed in part to a ricochet effect, although the main driver has been the easing China-US trade tensions. In fact, mainland individuals are more sensitive than corporations to changes in the external environment especially China-US trade war developments. Clearer signs of easing of the trade tensions between the US and China reignite the trade-spat suppressed "going out" demand from mainland individuals. Demand for currency transactions and immigration & education services has been the most sensitive and therefore the first to bounce back. Demand for credit cards, financial investment and mortgage & personal loans also restores as market sentiment turns around. Demand for mortgage & personal loans has been rising for the second consecutive quarter, although it remains to be seen whether this is caused by the recent correction in the Hong Kong property market. Conversely, demand for insurance products slides slightly as a result possibly of a correction following two consecutive quarters' growth
- Owing to the easing trade tensions between the US and China, in addition to the improving outlook for the Chinese economy and the Greater Bay Area being widely promoted, the recovery in individuals' demand for cross-border banking services is expected to continue in the next quarter

Expectation of regulatory looseness

– individuals' expectation of regulatory looseness soars whereas corporations' falls moderately

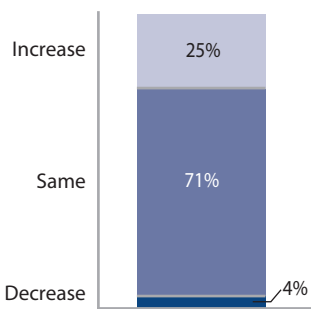
- In 2Q2019, the expectation of regulatory looseness sub-index falls 0.5 on the corporate side whereas a 4.7 increase is seen in individuals
- This divergence demonstrates that mainland individuals and corporations have different expectations of the loosening pace of cross-border regulations as the China-US trade tensions ease. While the former may expect the easing trade war to prompt the Central Government to loosen its regulatory grip, the latter may expect the Central Government to remain cautious for the short term
- Should the China-US trade truce become a reality, next quarter's expectation of regulatory looseness would likely be higher on both corporations and individuals sides

2. Corporate demand sub-indices

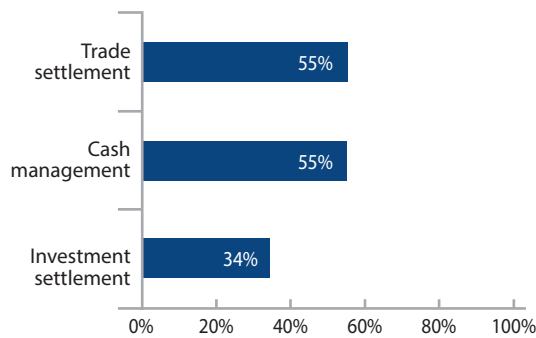


Settlement & cash management (60.5)

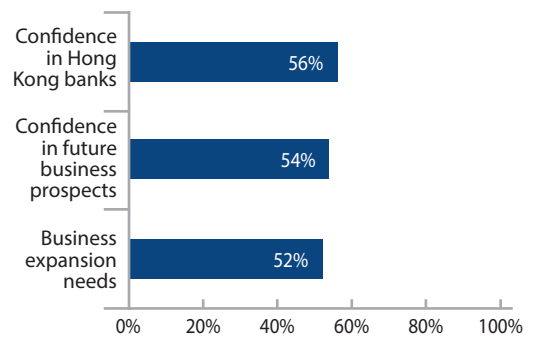
Demand expectation



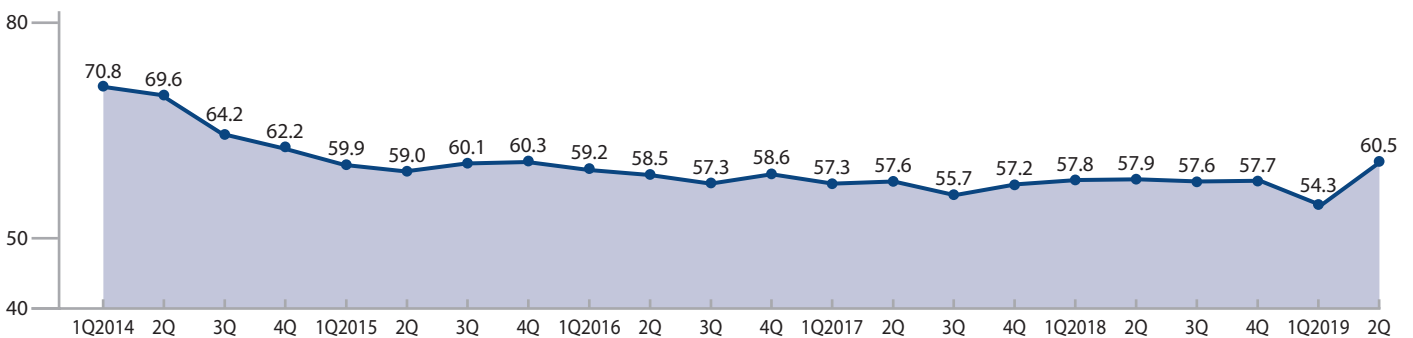
Choice of products/services



Demand drivers

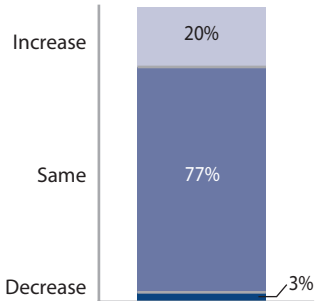


Demand trend

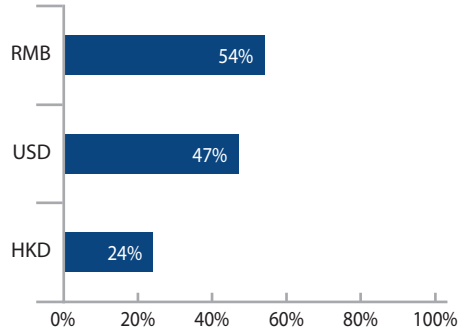


Currency transactions (58.5)

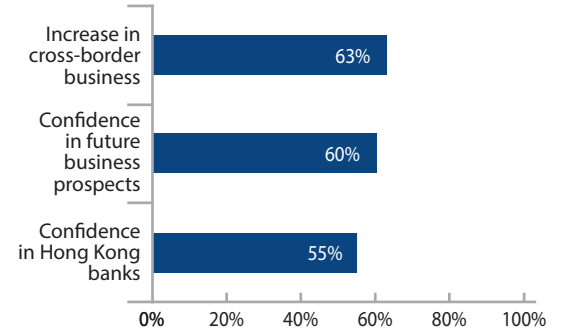
Demand expectation



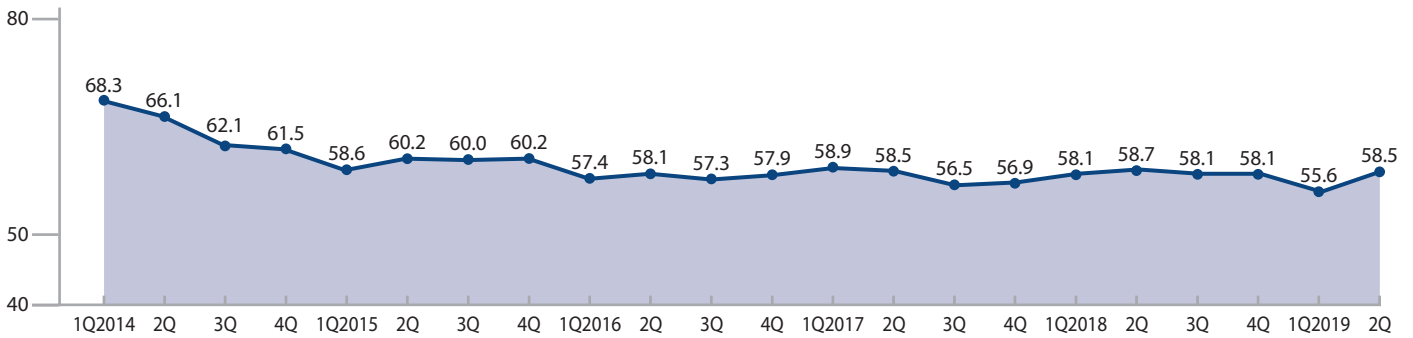
Choice of Currencies



Demand drivers

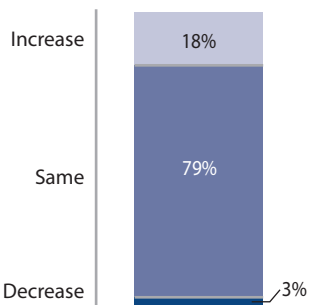


Demand trend

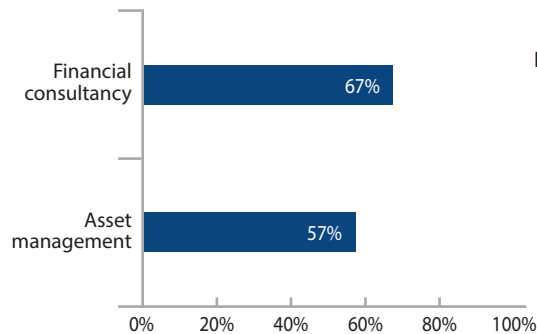


Asset management & financial consultancy (57.2)

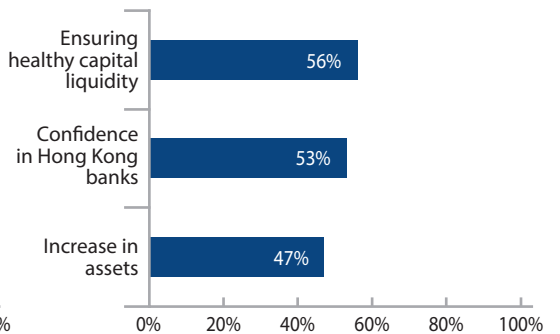
Demand expectation



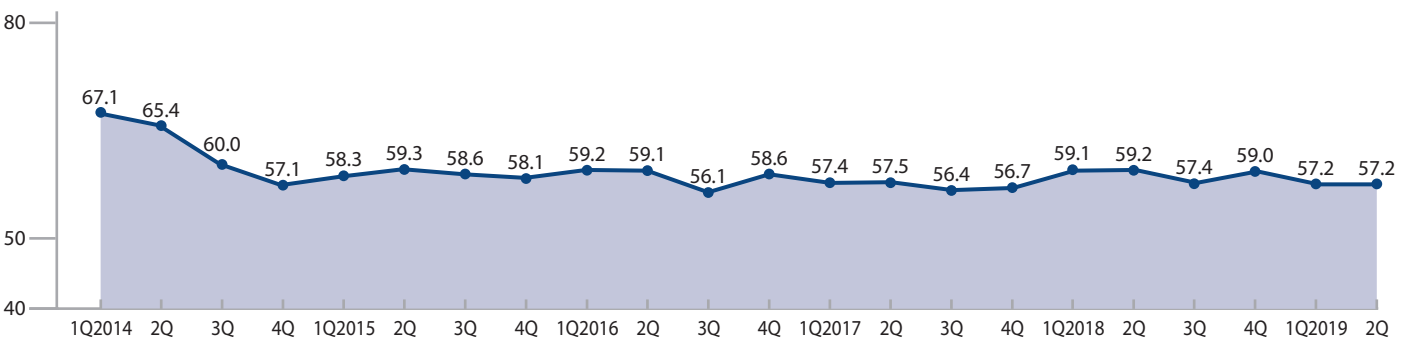
Choice of products/services



Demand drivers

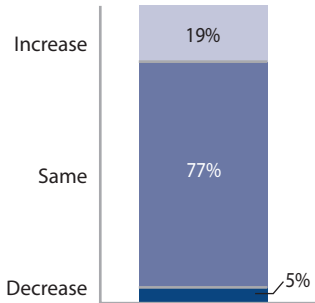


Demand trend

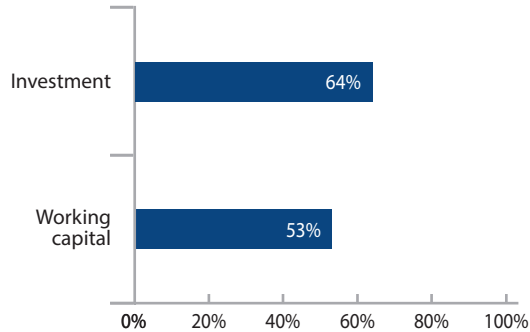


Loans (57.0)

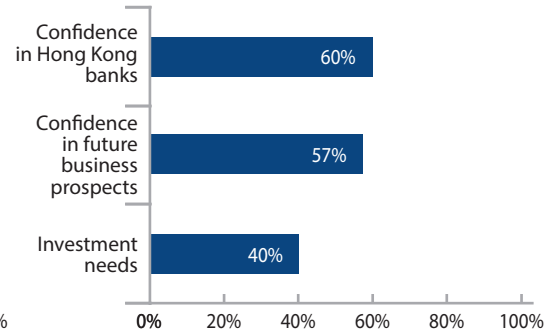
Demand expectation



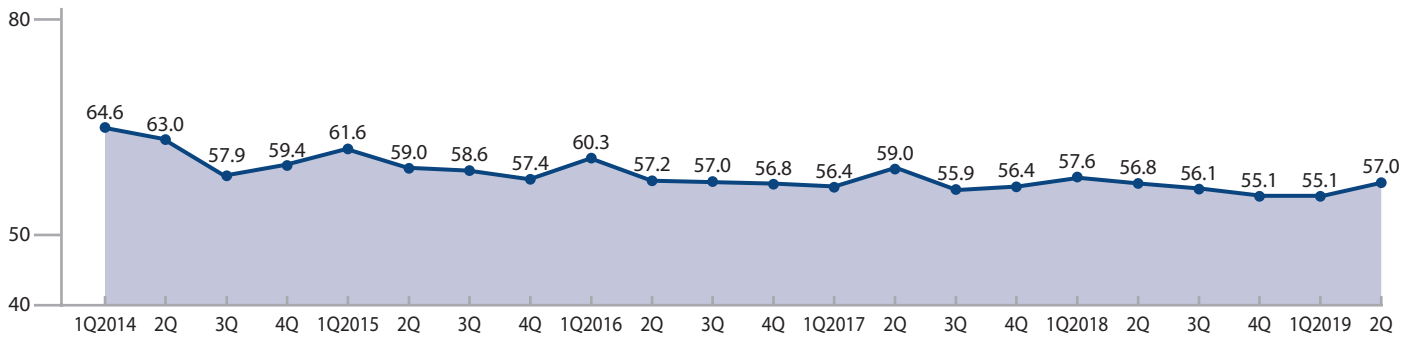
Usage



Demand drivers

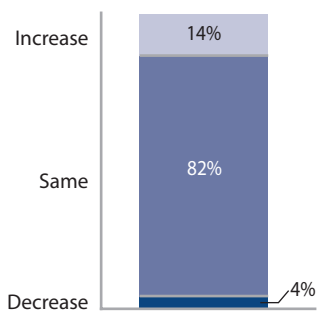


Demand trend

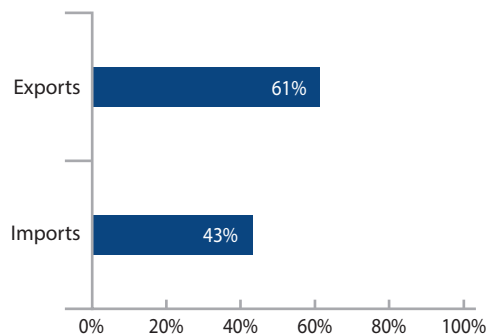


Trade finance (55.2)

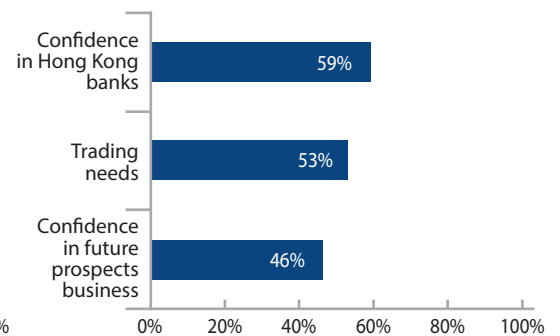
Demand expectation



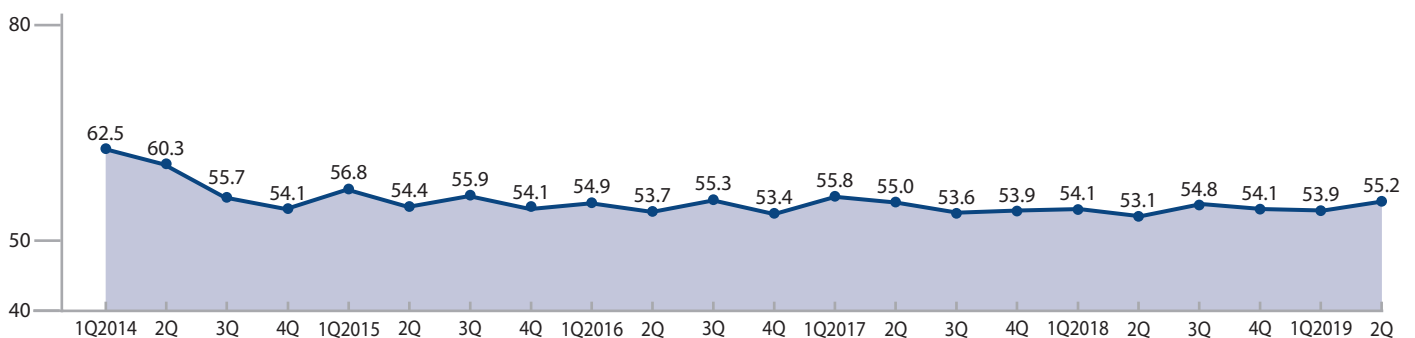
Choice of products/services



Demand drivers

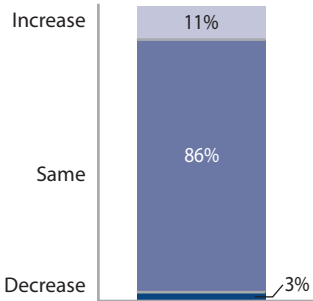


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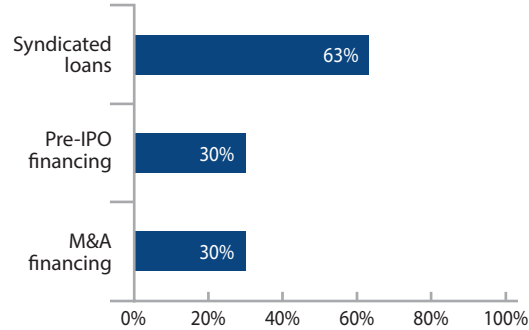


Structured finance (53.8)

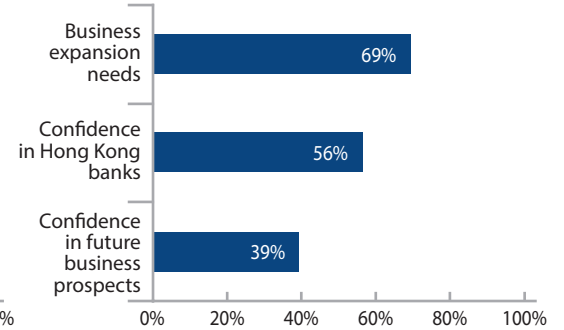
Demand expectation



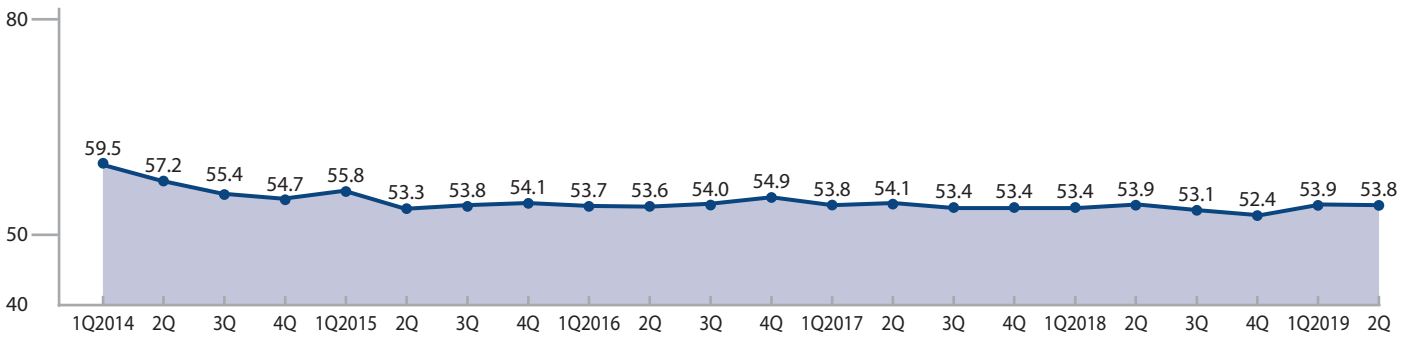
Choice of products/services



Demand drivers

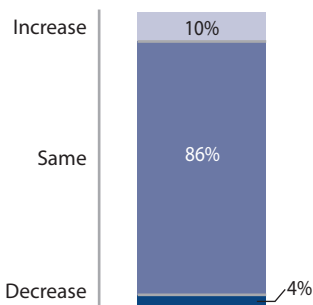


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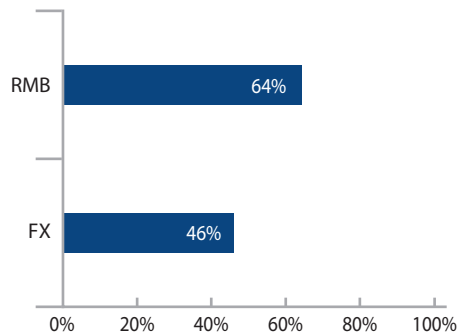


Bond issuance (53.4)

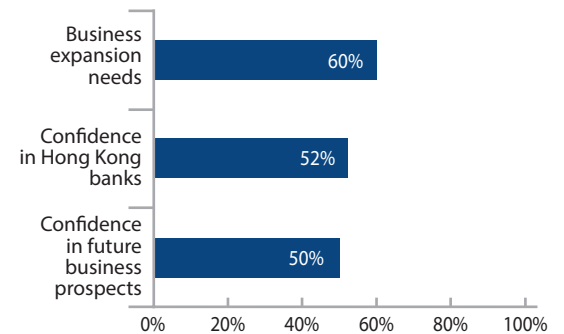
Demand expectation



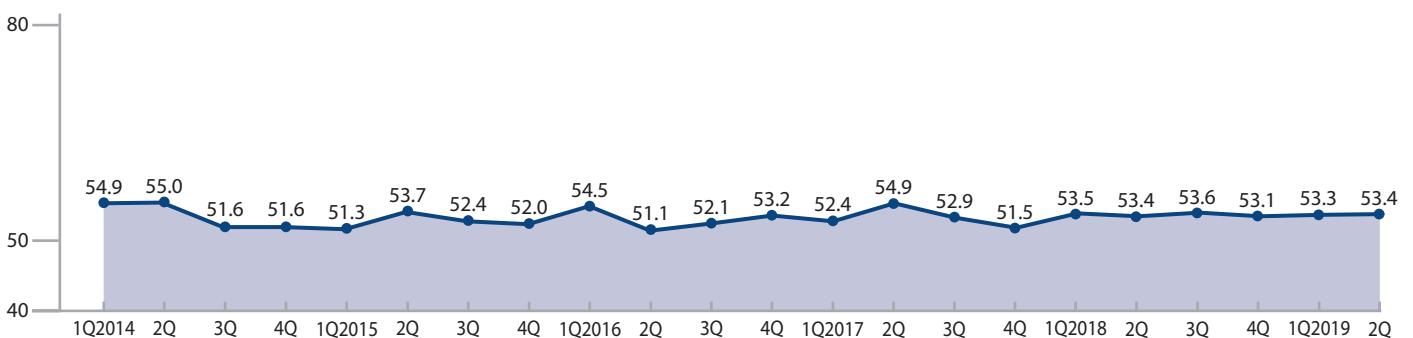
Choice of currencies



Demand drivers

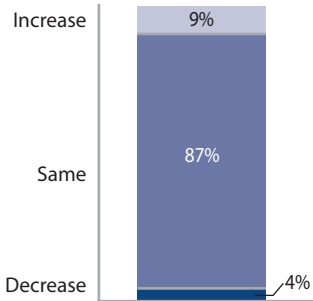


Demand trend

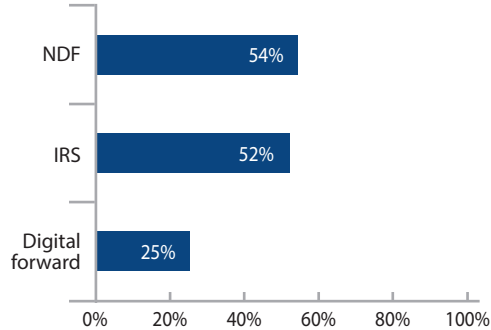


Derivative products (52.5)

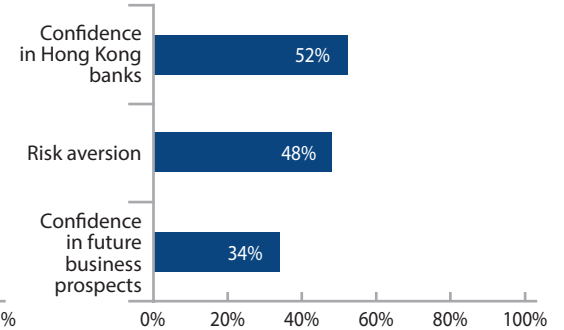
Demand expectation



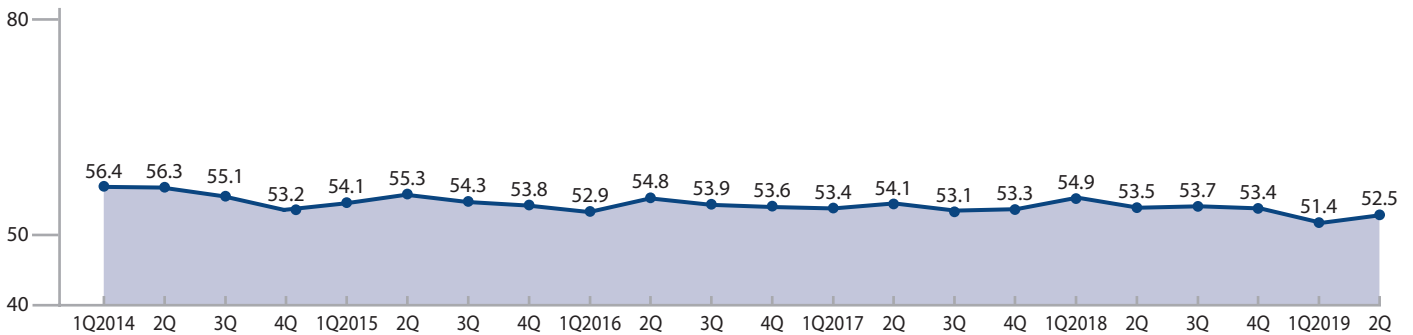
Choice of products/services



Demand drivers

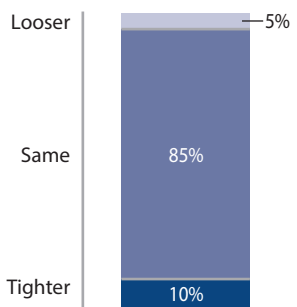


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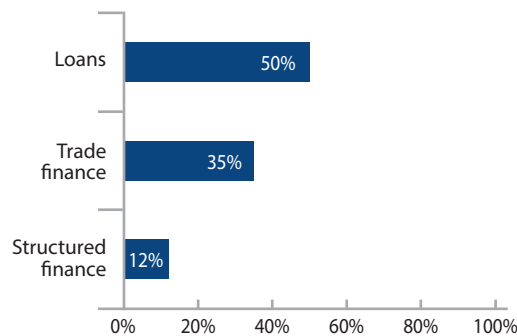


Expectation of regulatory looseness (47.6)

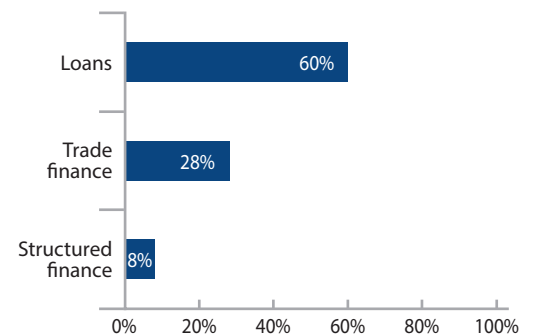
Expectation of laws and regulations



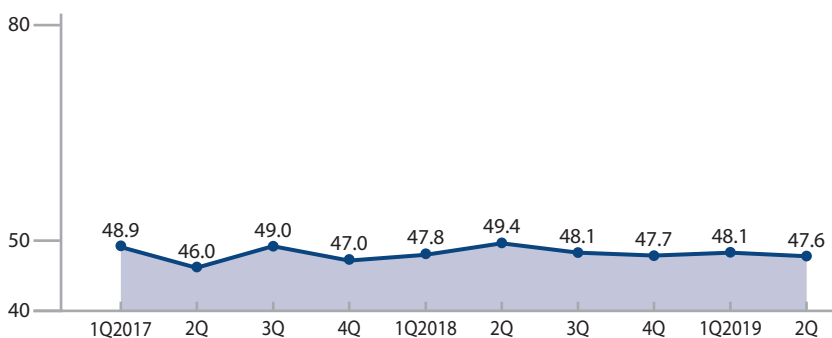
Expected regulatory loosening



Expected regulatory tightening

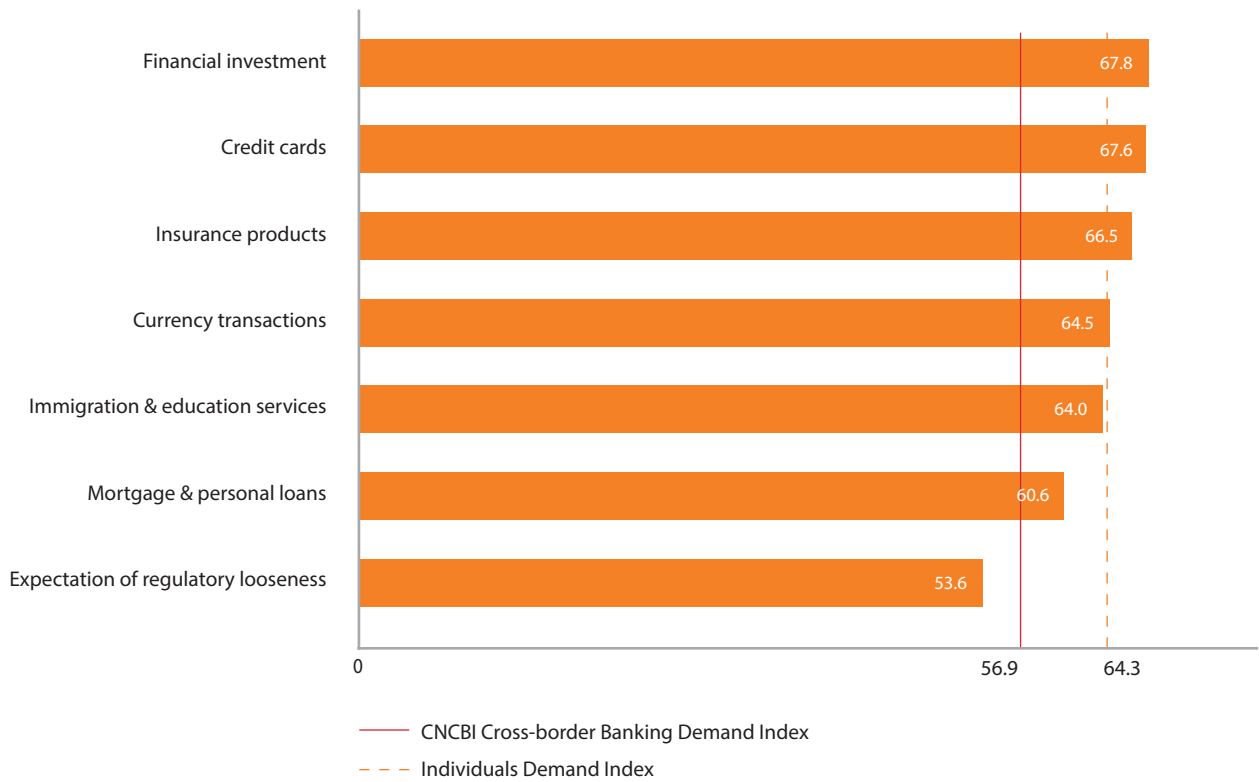


Expectation trend



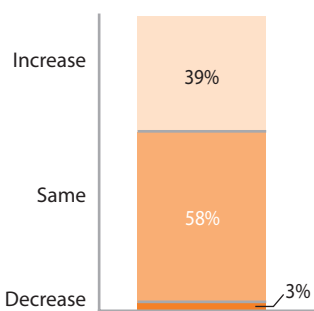
Note: This sub-index was introduced since 1Q2017

3. Individuals demand sub-indices

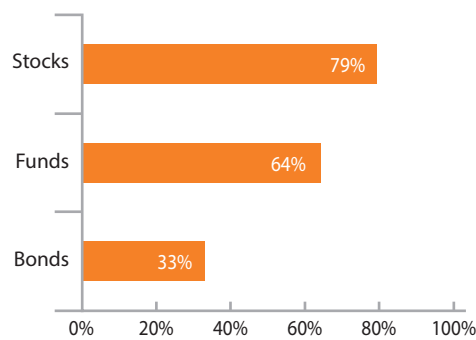


Financial investment (67.8)

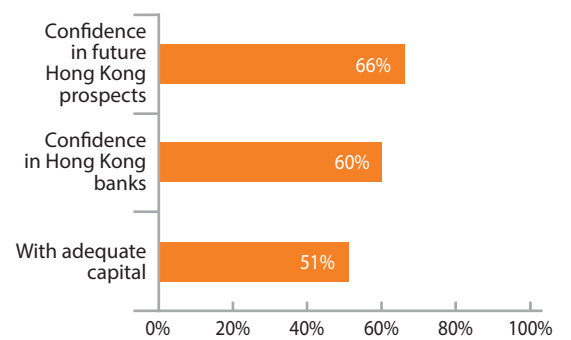
Demand expectation



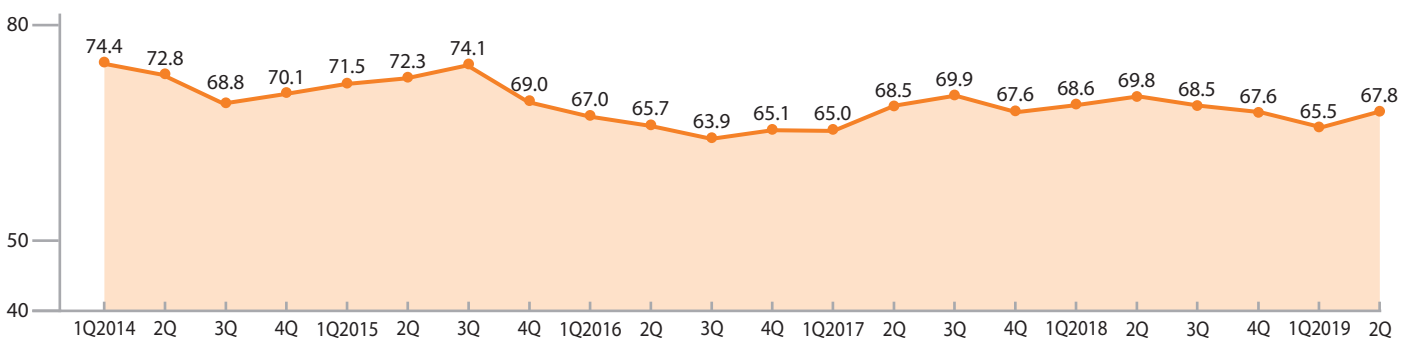
Choice of products/services



Demand drivers

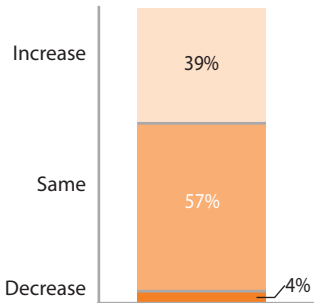


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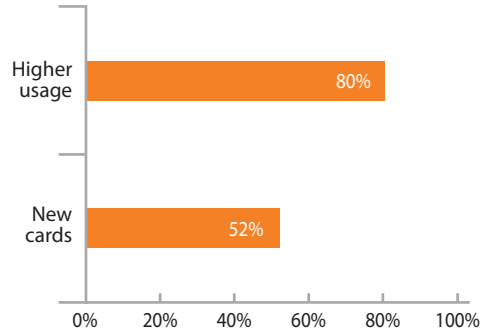


Credit cards (67.6)

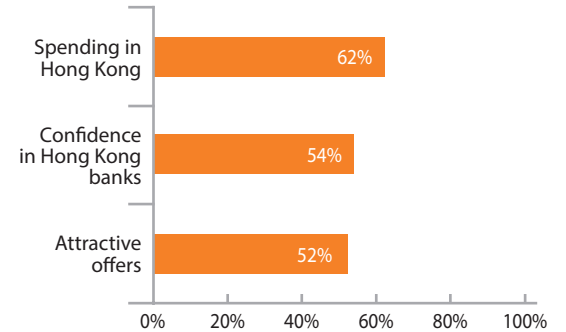
Demand expectation



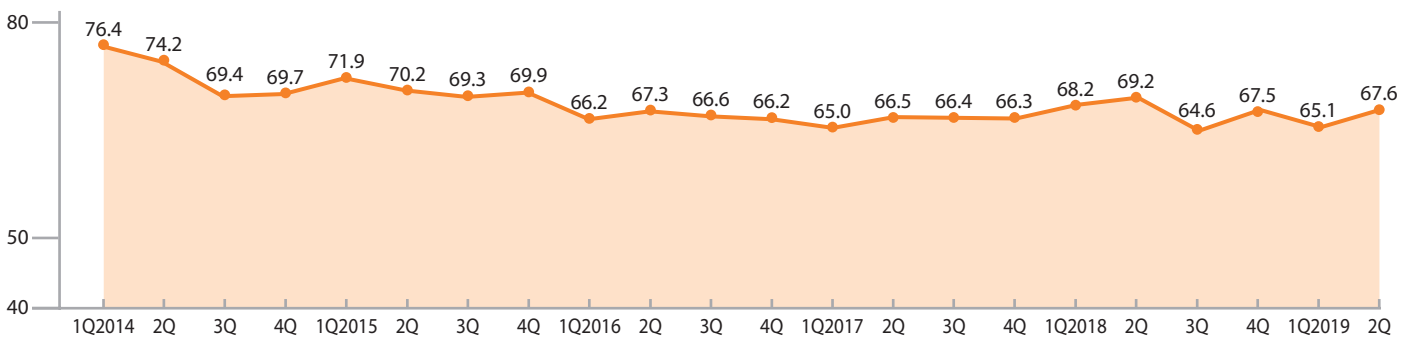
Choice of products/services



Demand drivers

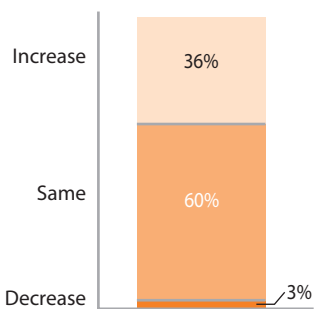


Demand trend

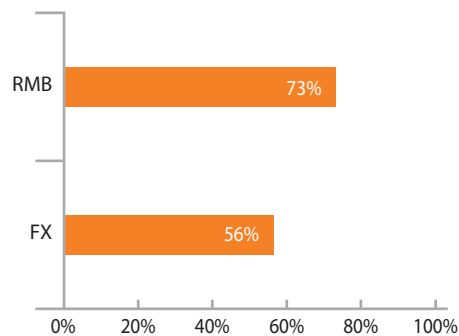


Insurance products (66.5)

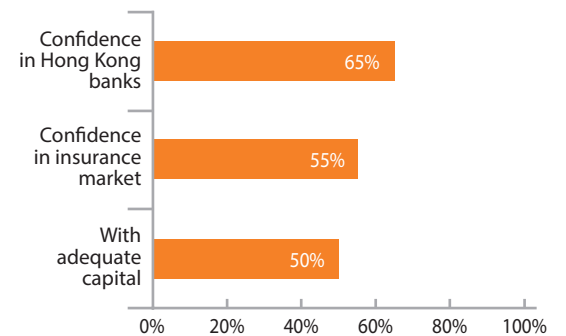
Demand expectation



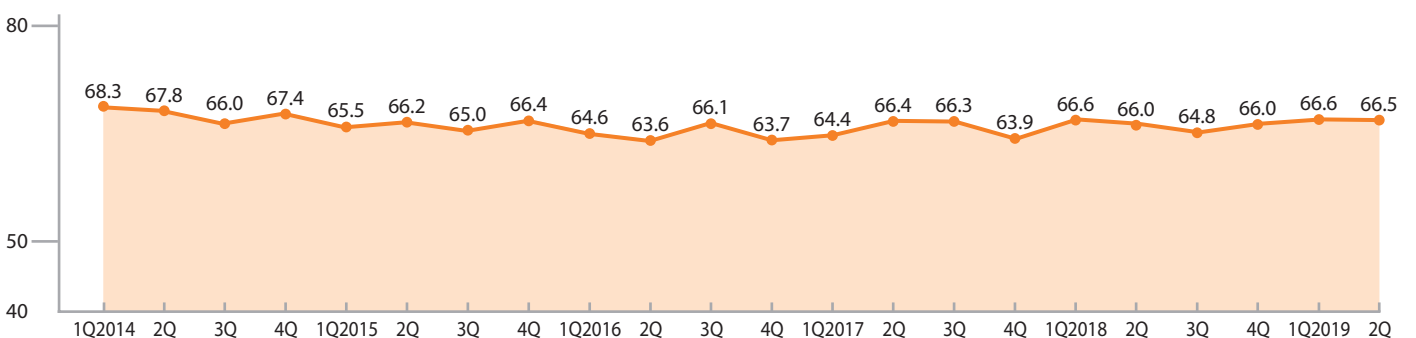
Choice of currencies



Demand drivers

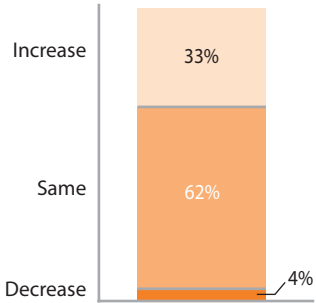


Demand trend

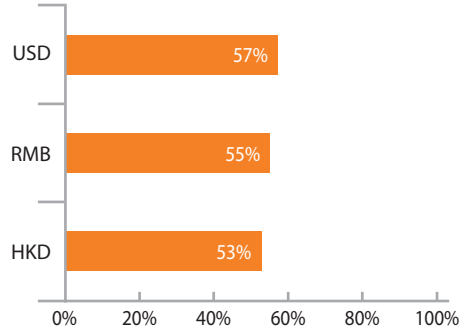


Currency transactions (64.5)

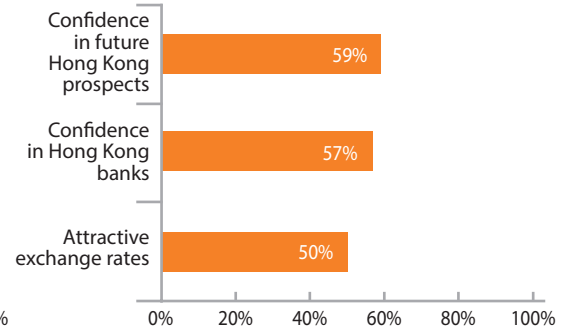
Demand expectation



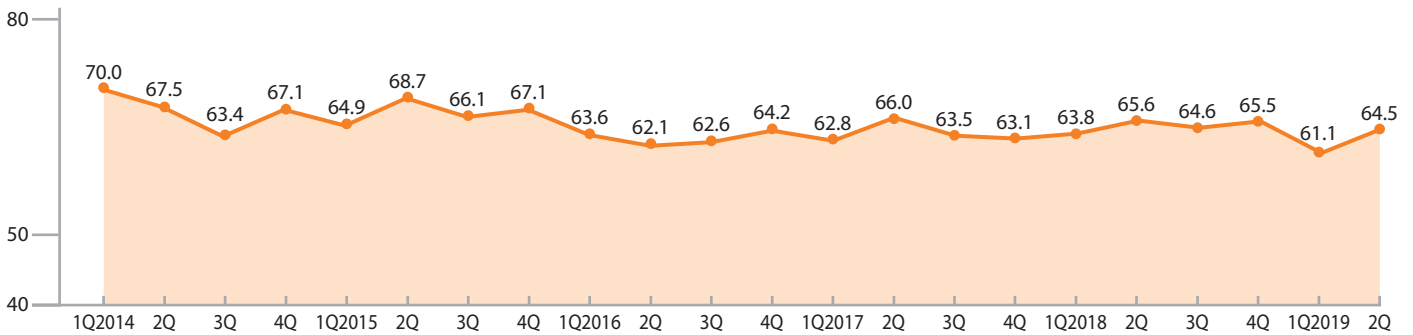
Choice of currencies



Demand drivers

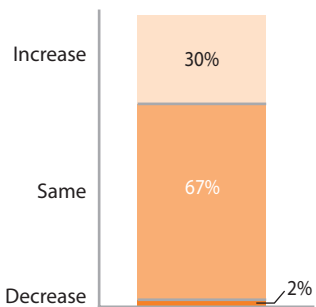


Demand trend

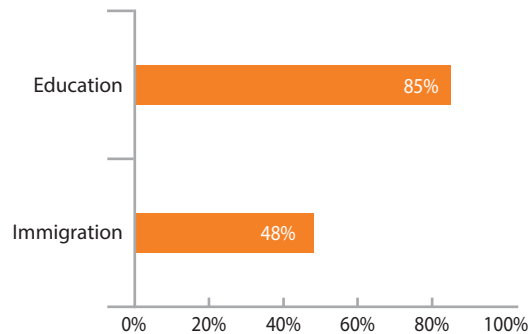


Immigration & education services (64.0)

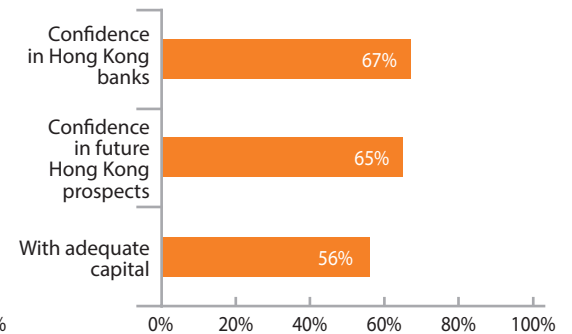
Demand expectation



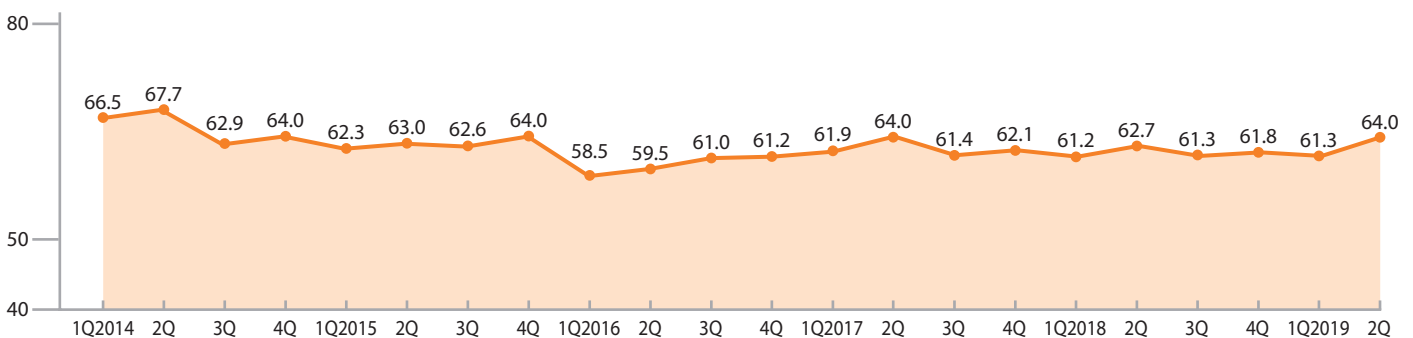
Choice of products/services



Demand drivers

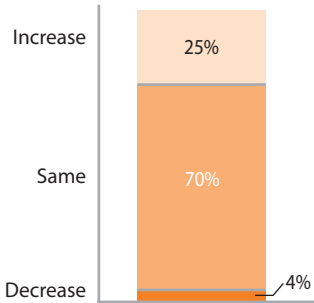


Demand trend

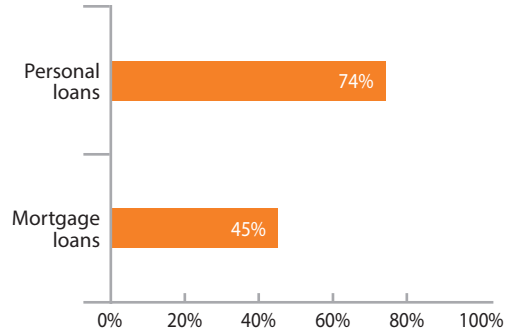


Mortgage & personal loans (60.6)

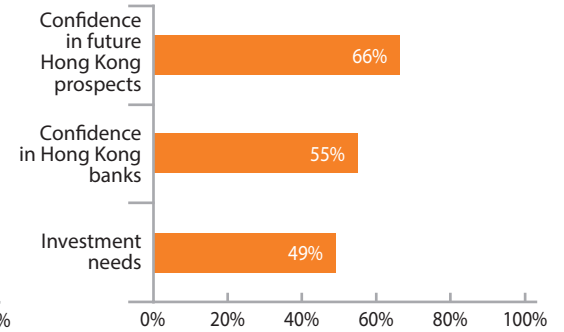
Demand expectation



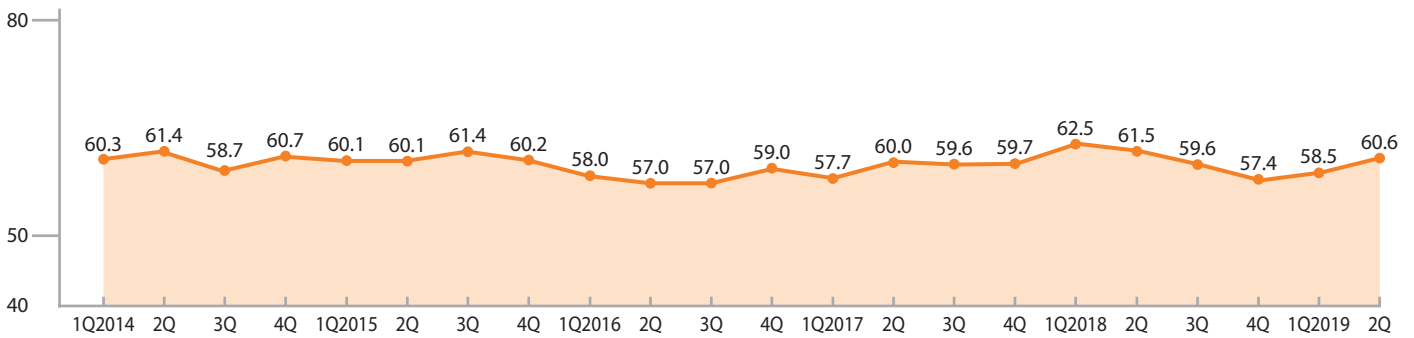
Preferred products/services



Demand drivers

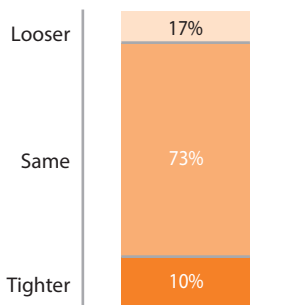


Demand trend

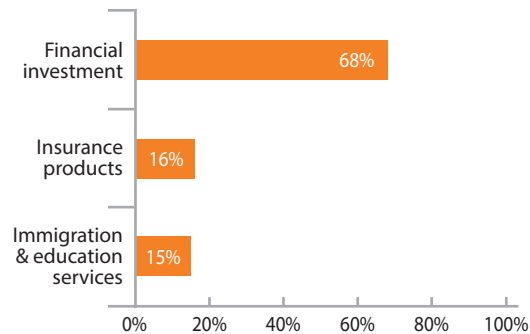


Expectation of regulatory looseness (53.6)

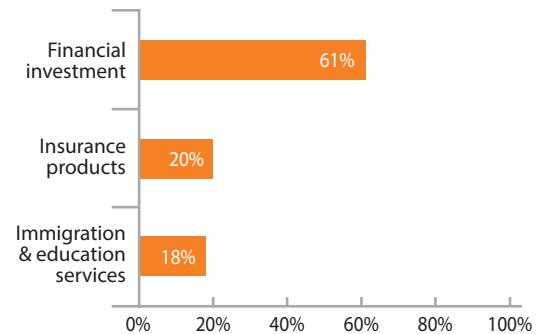
Expectation of laws and regulations



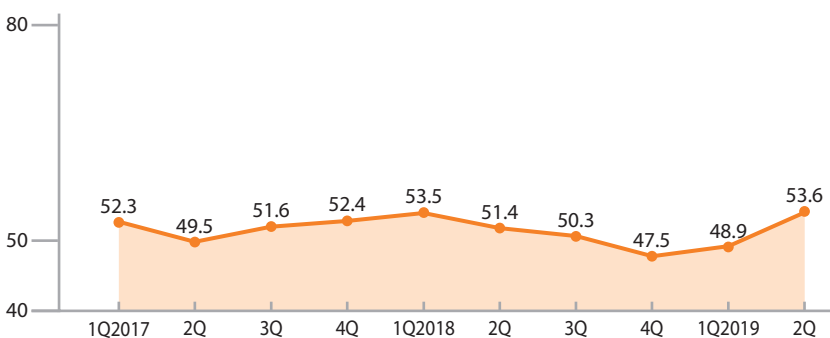
Expected regulatory loosening



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.

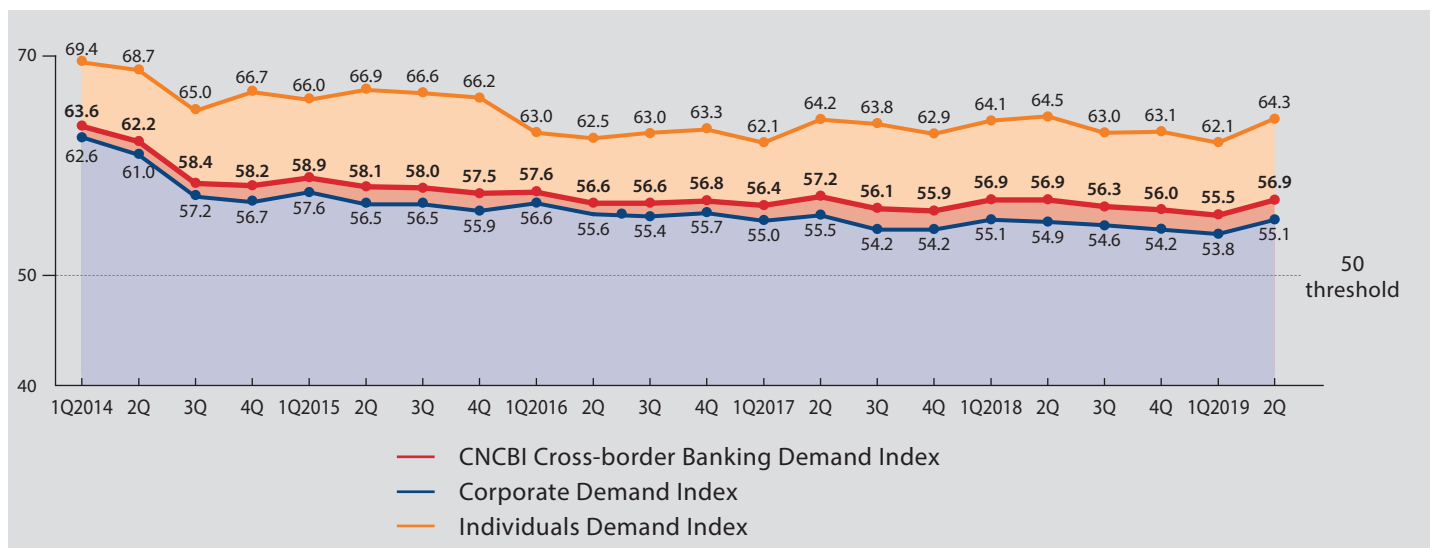
Diffusion indices have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading of above 50 indicates a strengthening of demand, and below 50 a weakening.

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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