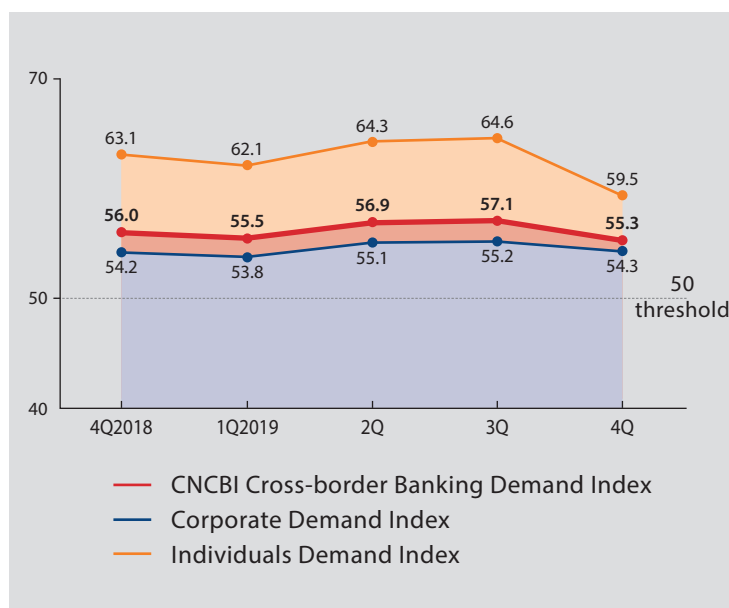


Cross-border banking demand slows to a new low

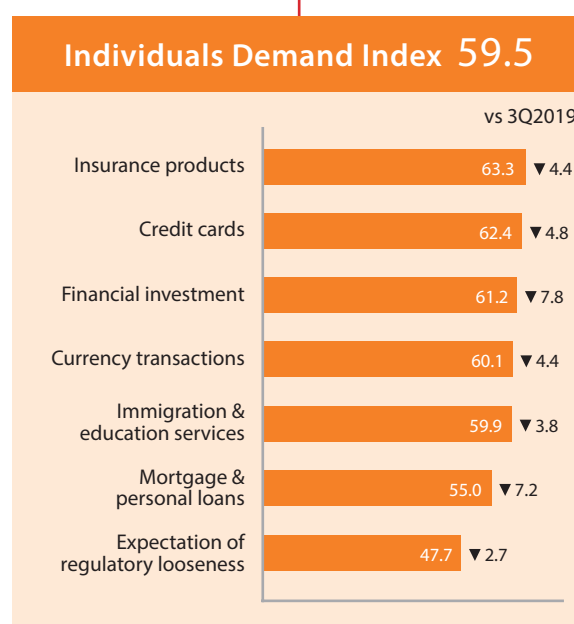
Escalating China-US trade war to blunt corporations' and individuals' "going out" aspiration

www.cncbinternational.com/cross-border-index



- Under the China-US trade war shadow, 4Q2019 demand for Hong Kong's cross-border banking services from mainland China slows significantly to a record low since the launch of the index
- Corporate demand weakens almost across the board with the plunge of asset management & financial consultancy and loans demand most conspicuous whereas demand for structured finance and settlement & cash management slides relatively moderately
- Individuals' demand slackens more severely with an unprecedented scale as seen particularly in financial investment demand
- Individuals' expectation of regulatory looseness as regards cross-border banking services declines noticeably whereas corporations lower theirs moderately

CNCBI Cross-border Banking Demand Index 55.3



1. Key analysis

- The 4Q2019 CNCBI Cross-border Banking Demand Index stands at a record low of 55.3 since the launch of the index, logging the second biggest quarter-on-quarter decline of 1.8, underscoring the brunt of the escalating China-US trade war on the mainland's demand for Hong Kong's cross-border banking services
- The Corporate Demand Index falls 0.9 to 54.3 on the quarter, indicating a marked decline of mainland corporations' "going out" aspiration after the escalation of the China-US trade war at August's dawn. Meanwhile, the Individuals Demand Index breaks the 60 mark for the first time with a sharp fall of 5.1 to 59.5, implying that mainland individuals' "going out" aspiration is dampened even more significantly by the double blow of the trade war escalation and Hong Kong's social issues

Corporate Demand

– Weakening almost across the board

- Except for derivative products, all the corporate demand sub-indices fall on the quarter. The asset management & financial consultancy and loans sub-indices show the sharpest dip of more than 2.0. The currency transactions and bond issuance sub-indices also log a rather significant fall of between 1.0 and 2.0. The structured finance, settlement & cash management and trade finance sub-indices post a relatively softer slide of less than 1.0 whereas the derivative products sub-index rises 2.1
- As for the rankings, the currency transactions, settlement & cash management and derivative products sub-indices rise to the 1st, 2nd and 5th places from last quarter's 2nd, 4th and 8th. Owing to the weightier fall, asset management & financial consultancy, loans, trade finance and bond issuance slide to the 3rd, 4th, 7th and 8th from last quarter's 1st, 3rd, 5th and 7th while structured finance stays put at 6th
- The escalation of the China-US trade war has the biggest impact on the 3Q2019 mainland and global economies. Just as the market assumed a China-US trade deal was becoming a reality, US President Donald Trump announced in early August an additional 10% tariff on US\$300 billion of Chinese imports and later that month topped that up with an extra 5% after China's tariff retaliation, in addition to yet another 5% on top of the existing 25% tariff on an added US\$250 billion of Chinese imports. The trade war escalation not only adds pressure to China's exports and economic growth but also leads the market to grow increasingly bearish on the global trade and economic prospects. The situation deals another heavy blow to mainland corporations' "going out" aspiration, causing cross-border banking demand to weaken almost across the board. Demand for loans dwindles considerably while demand for other financing-oriented services slows down in varying degrees, underscoring mainland corporations' prudent approach to cross-border financing in the current situation. Demand for asset management & financial consultancy falls the most as demand for currency transactions loses steam rapidly, demonstrating that service-oriented cross-border demand also weakens evidently. Surprisingly, demand for derivative products gains strength, while whether this is due to mainland corporations' stronger drive to hedge against fluctuations in foreign markets as a result of the growing uncertainties in global trade and economy remains to be observed

- But then of course the escalating trade war may not grow full-blown. Trump is still looking to move ahead towards a trade deal in a bid to create favourable conditions for his re-election next year. The chance for a partial, provisional trade truce between China and the US by the end of this year remains possible. Should that happen, the "going out" aspiration of mainland corporations and demand for cross-border banking services would recover. Otherwise, further deterioration may be inevitable

Individuals Demand

– Slackening more severely

- Of the sub-indices apart from the expectation of regulatory looseness sub-index, all plunge by more than 3.8 from the previous quarter with the financial investment sub-index seeing the most dramatic decline of 7.8, followed by mortgage & personal loans' 7.2 and the remaining four's between 3.8 and 4.8
- As for the rankings, insurance products and credit cards move up one place to the 1st and 2nd respectively whereas financial investment loses its top spot and ranks 3rd. Currency transactions, immigration & education services and mortgage & personal loans stay put at the 4th, 5th and 6th respectively
- Individuals' demand slows down more drastically than that of mainland corporations, demonstrating that mainland individuals' "going out" preference is more sensitive to changes in the external environment than mainland corporations. After all, individuals are less mindful of the external environment than corporations while being more prudent about capital allocation. Demand for high-risk cross-border financial investment, in particular, dwindles under the shadow of the trade war escalation. Demand for mortgage & personal loans also plummets. In addition to the escalating trade war, the social issues in Hong Kong since June are another factor. With the dual severe blow, a marked slowdown is seen in the related sub-indices such as credit cards, currency transactions and immigration & education services, etc. Demand for insurance products may have been affected by the further tightening of cross-border insurance sales policy by the mainland regulatory authorities amid the escalating trade war
- Looking ahead, the stability of demand from individuals hinges on the easing of the China-US trade war on the one hand and the upshot of Hong Kong's social issues on the other hand

Expectation of regulatory looseness

– Individuals and corporations expect tighter grip, especially the former

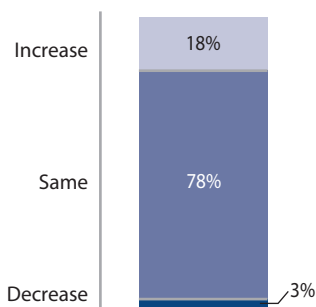
- The individuals and corporate sub-indices fall by 2.7 and 0.5 respectively on the quarter
- Amid the escalating trade war, both corporations and individuals expect that the central government will tighten cross-border regulations in an effort to control capital outflows
- Regarding "going out" preferences, individuals are more sensitive to changes in the external environment and therefore expect tighter regulations
- A partial and provisional trade truce between China and the US by the end of the year could loosen regulations. Otherwise, the regulatory environment would tighten further

2. Corporate demand sub-indices

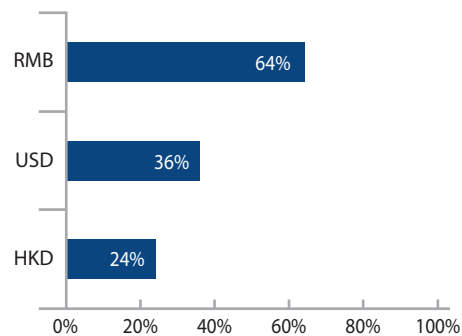


Currency transactions (57.5)

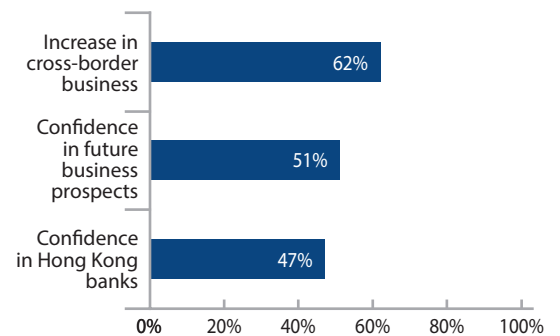
Demand expectation



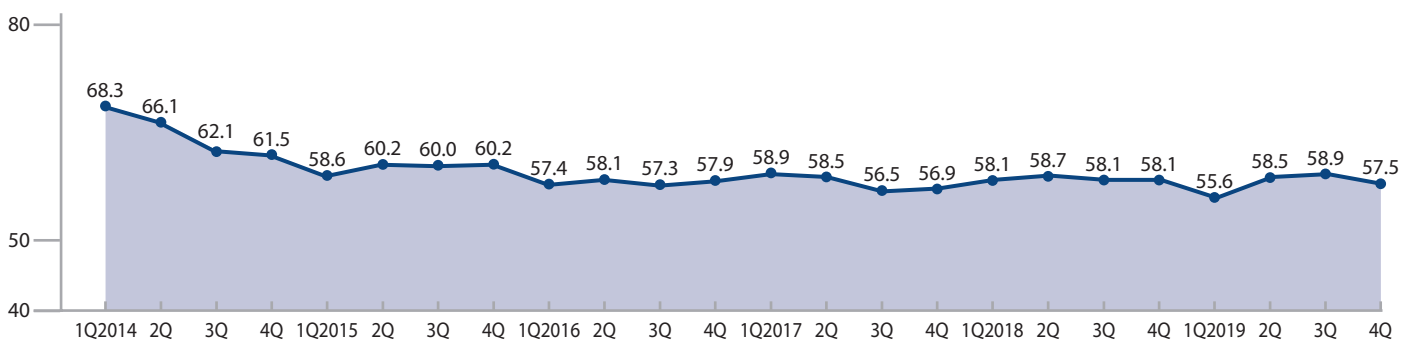
Choice of Currencies



Demand drivers

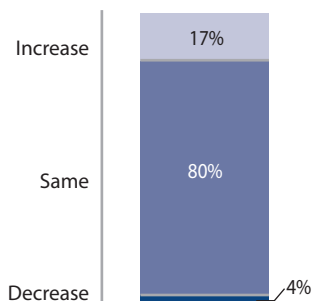


Demand trend

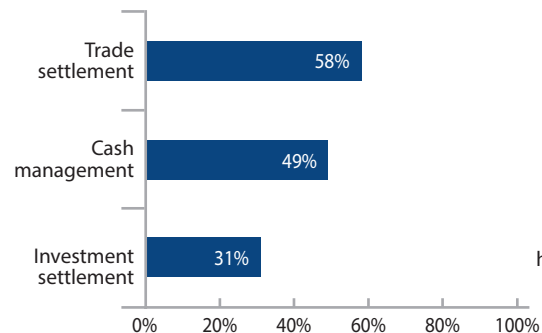


Settlement & cash management (56.4)

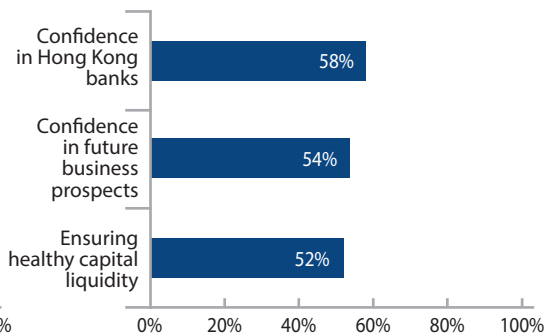
Demand expectation



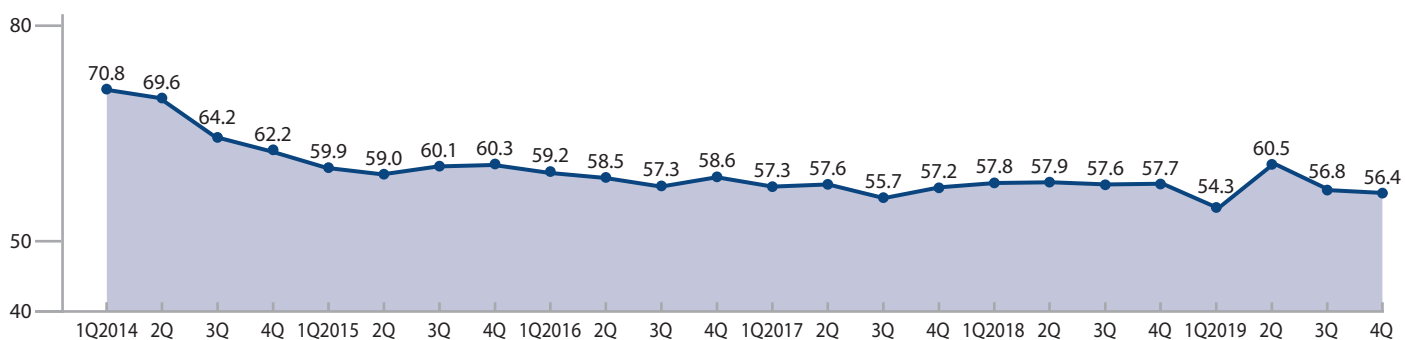
Choice of products/services



Demand drivers

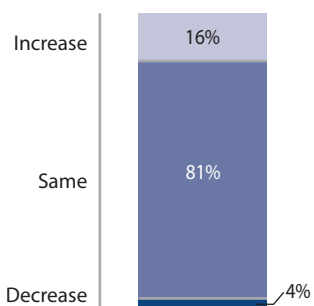


Demand trend

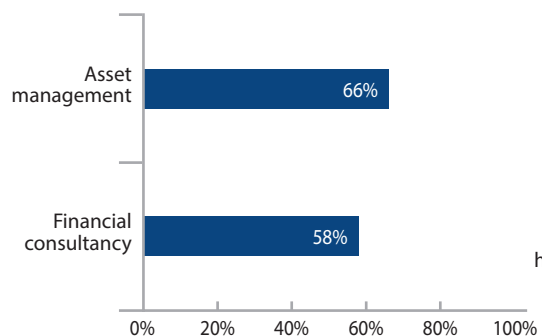


Asset management & financial consultancy (56.0)

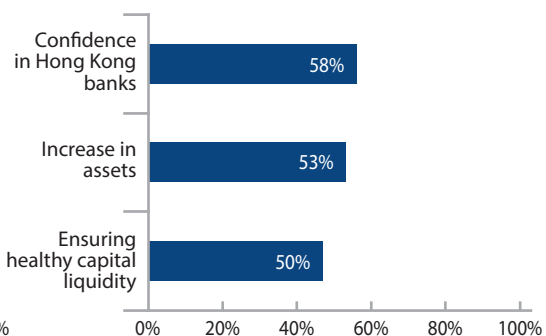
Demand expectation



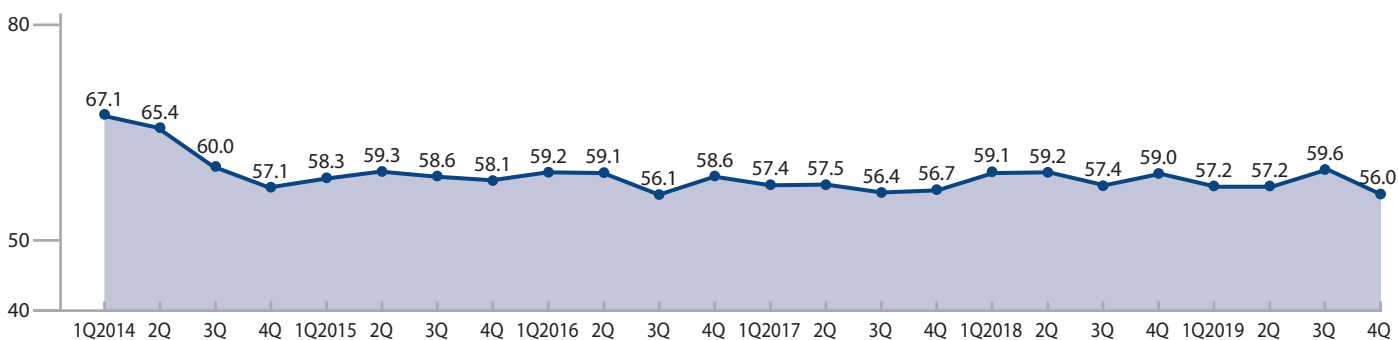
Choice of products/services



Demand drivers

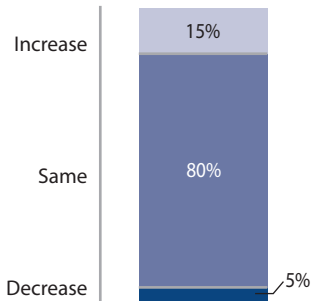


Demand trend

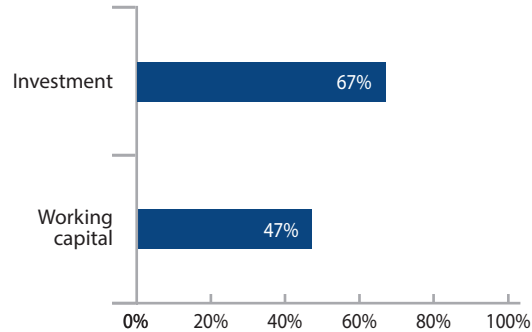


Loans (55.0)

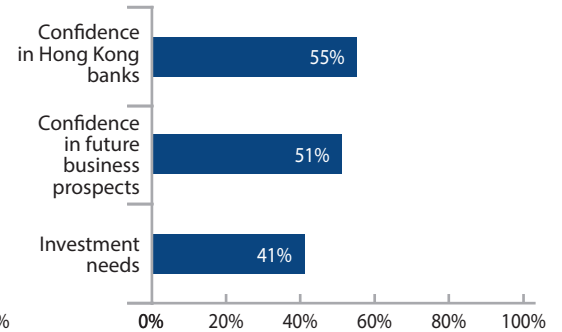
Demand expectation



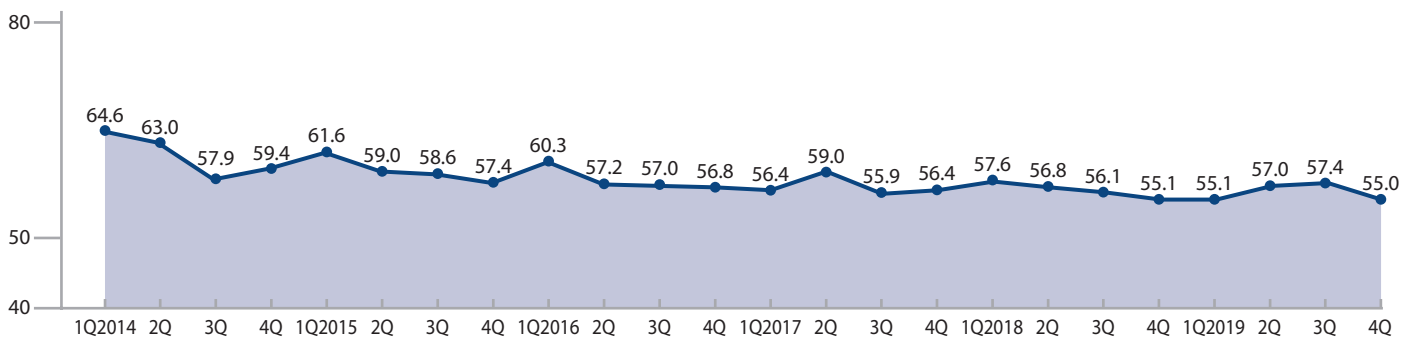
Usage



Demand drivers

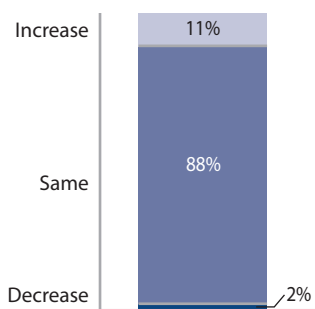


Demand trend

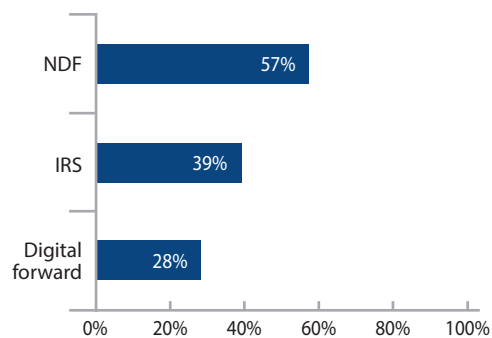


Derivative products (54.5)

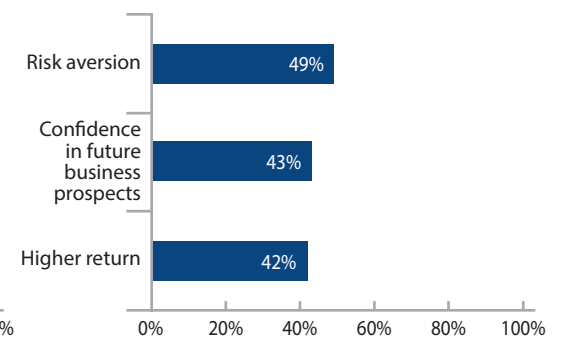
Demand expectation



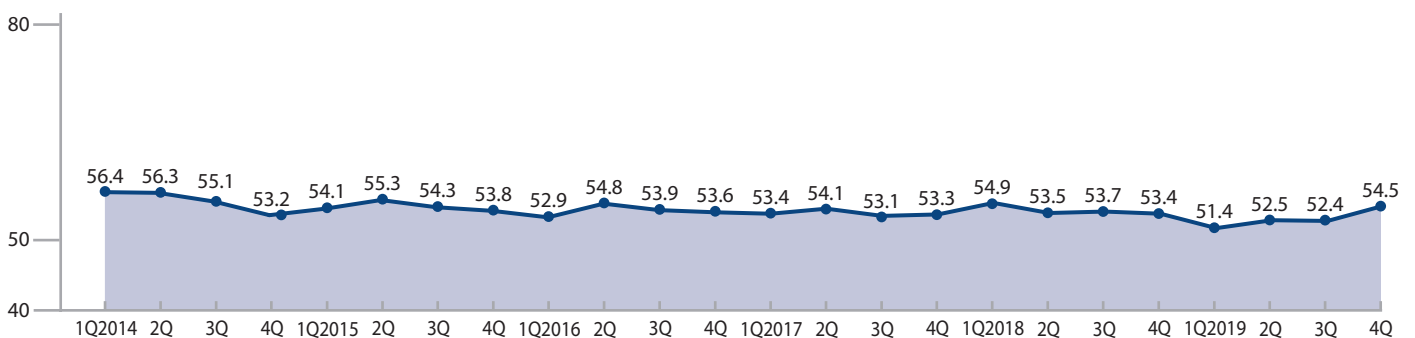
Choice of products/services



Demand drivers

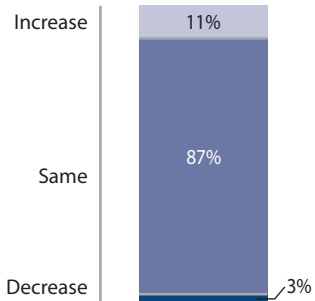


Demand trend

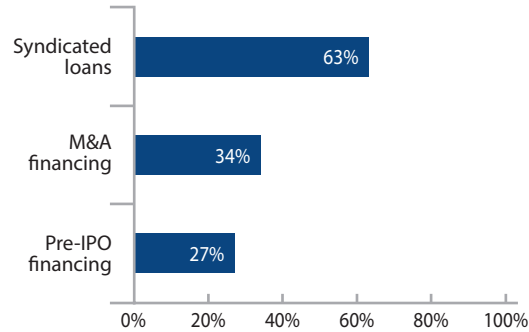


Structured finance (54.1)

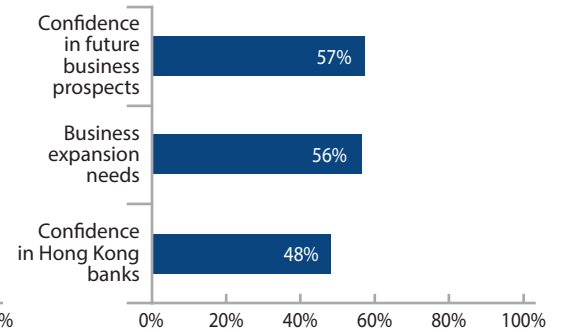
Demand expectation



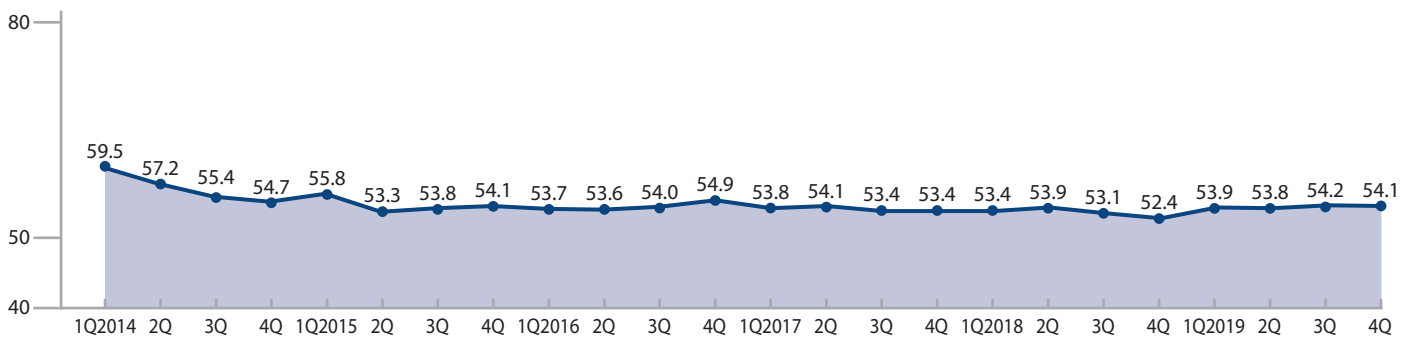
Choice of products/services



Demand drivers

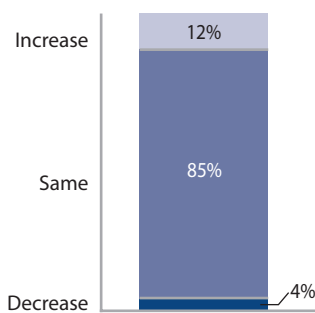


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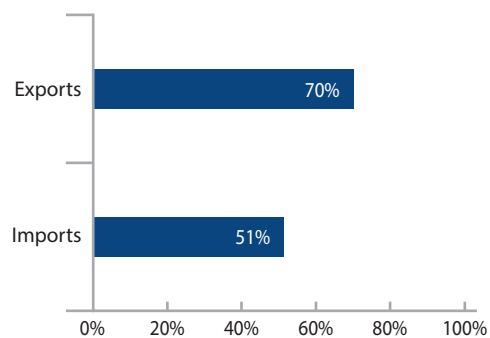


Trade finance (54.0)

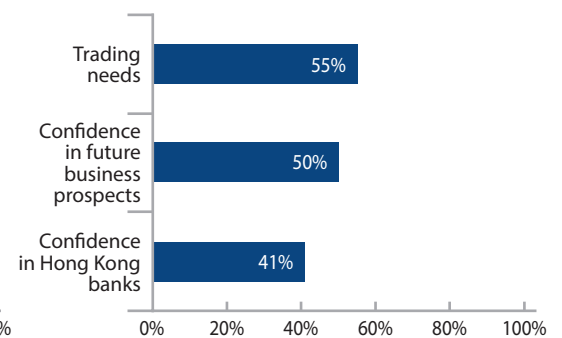
Demand expectation



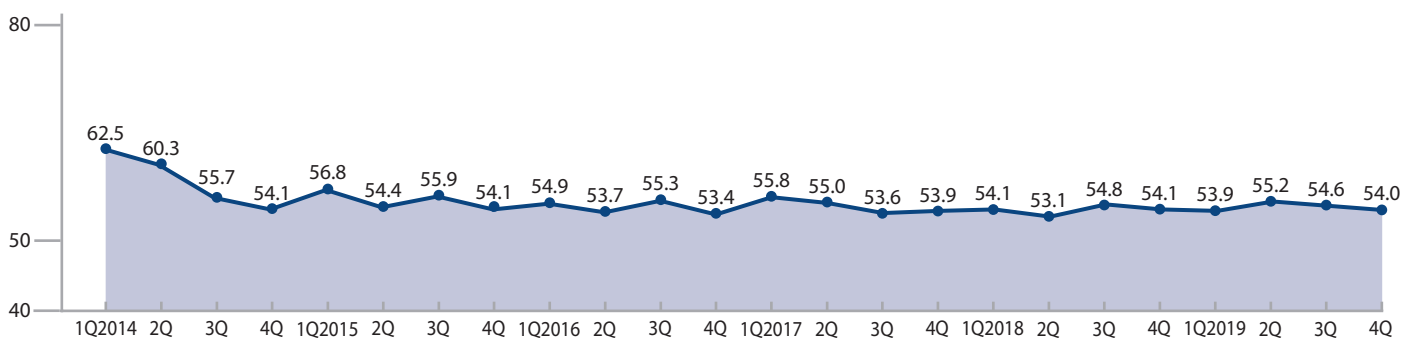
Choice of products/services



Demand drivers

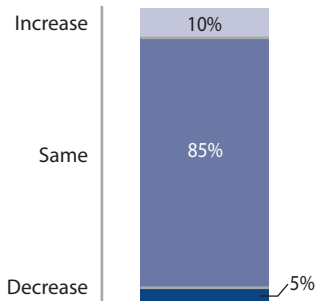


Demand trend

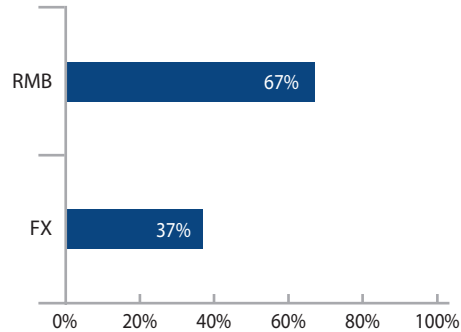


Bond issuance (52.4)

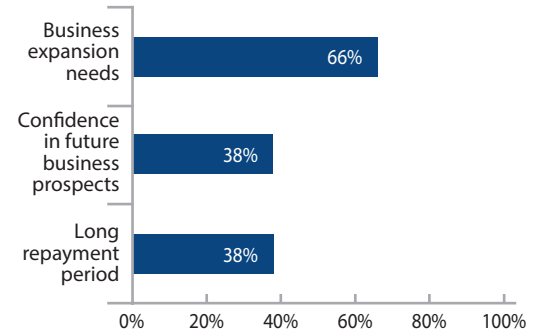
Demand expectation



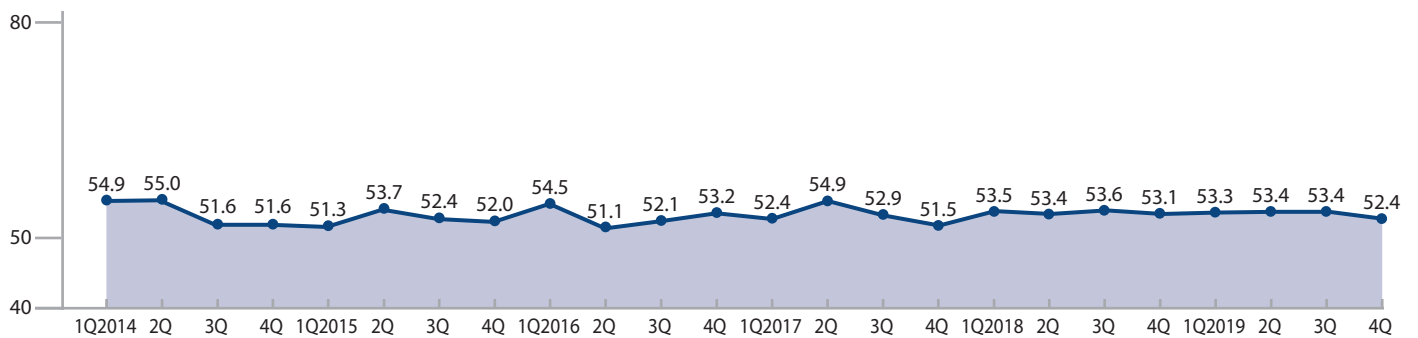
Choice of currencies



Demand drivers

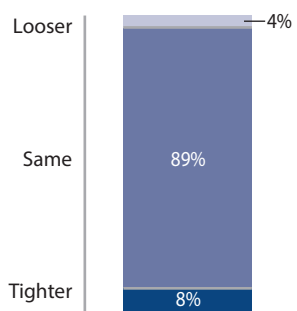


Demand trend

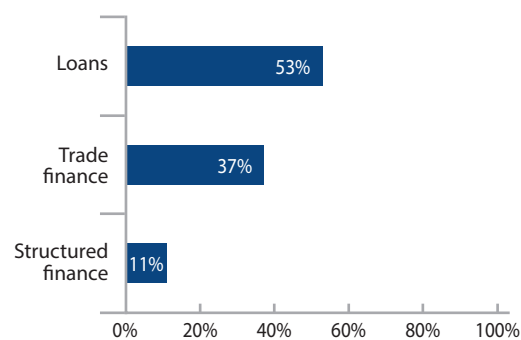


Expectation of regulatory looseness (48.1)

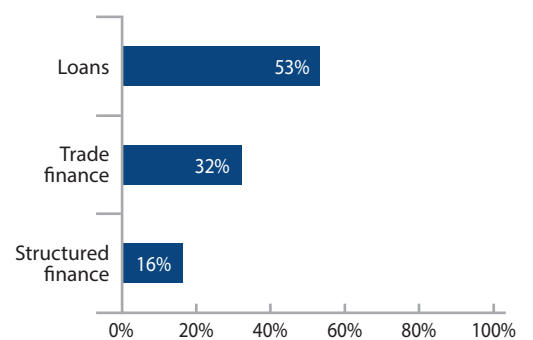
Expectation of laws and regulations



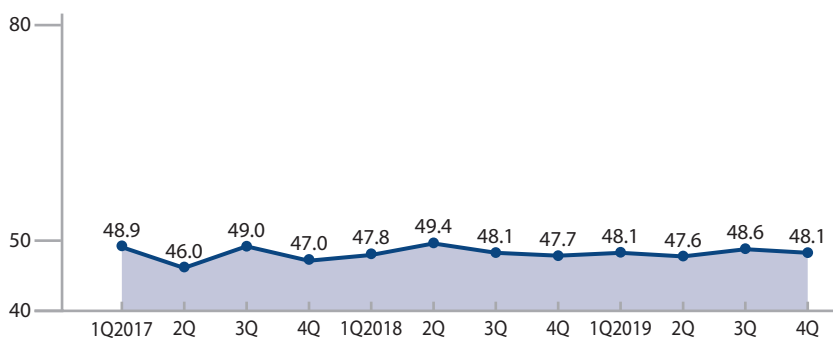
Expected regulatory loosening



Expected regulatory tightening

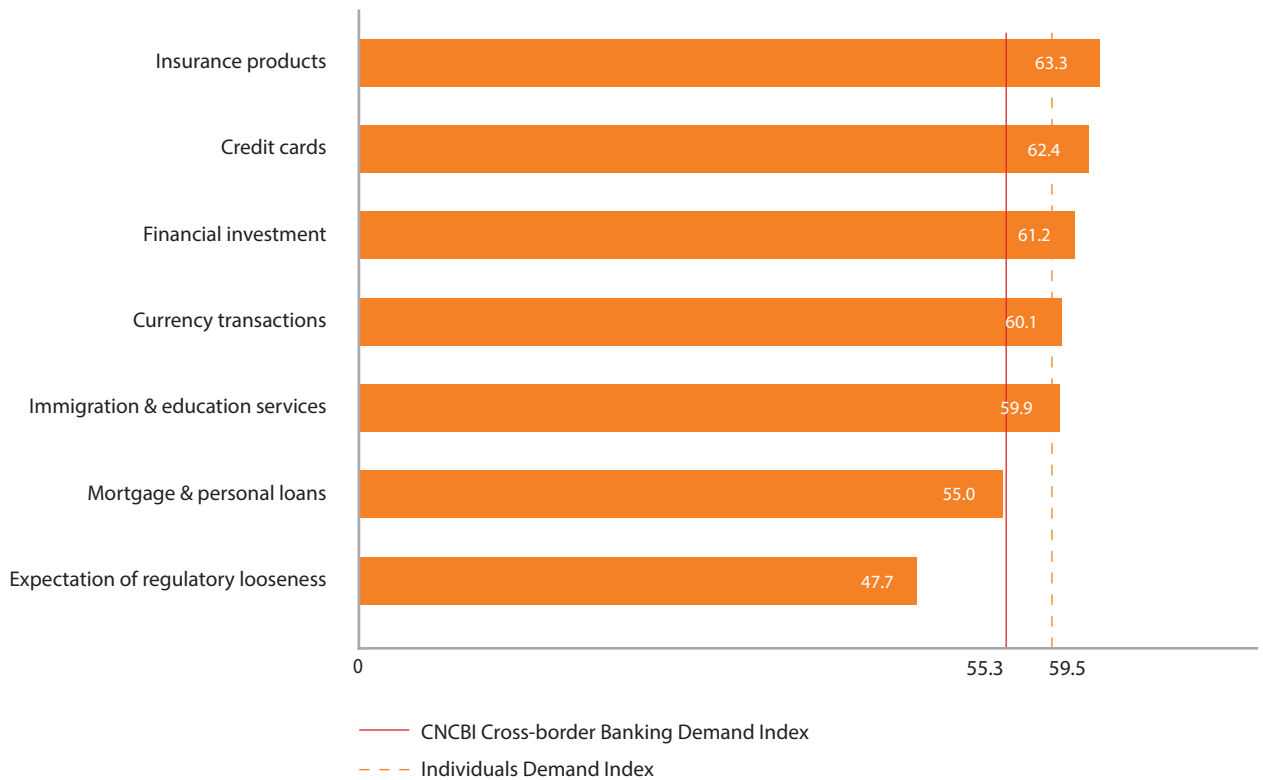


Expectation trend



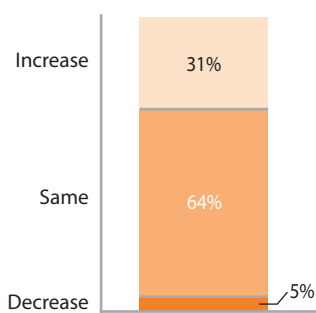
Note: This sub-index was introduced since 1Q2017

3. Individuals demand sub-indices

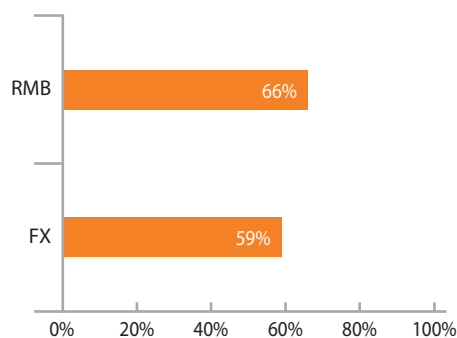


Insurance products (63.3)

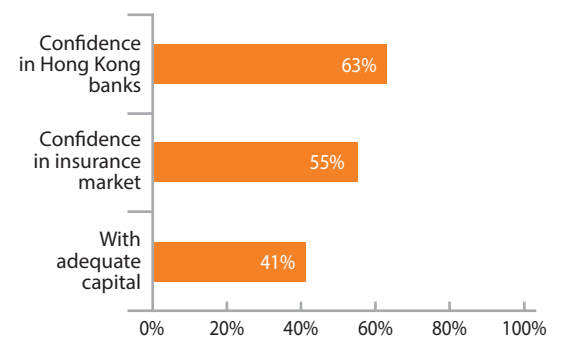
Demand expectation



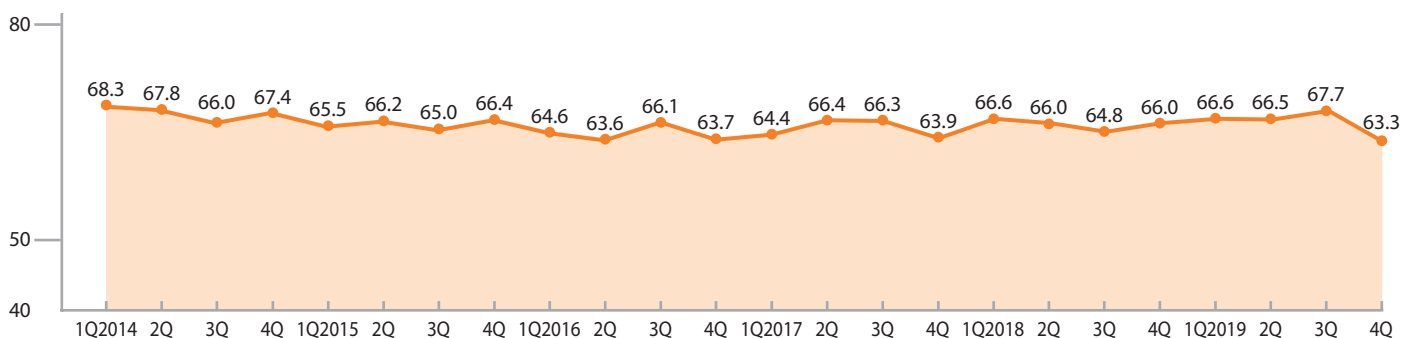
Choice of currencies



Demand drivers

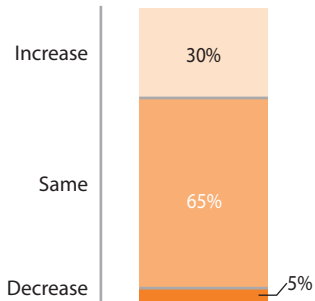


Demand trend

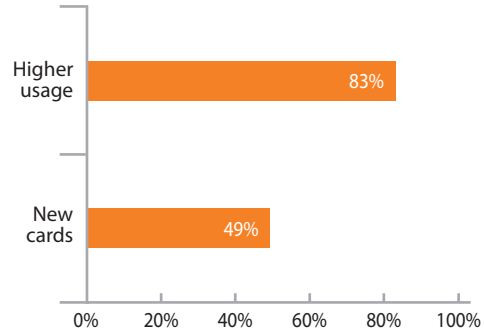


Credit cards (62.4)

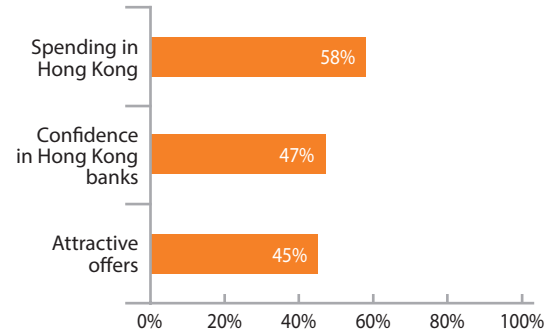
Demand expectation



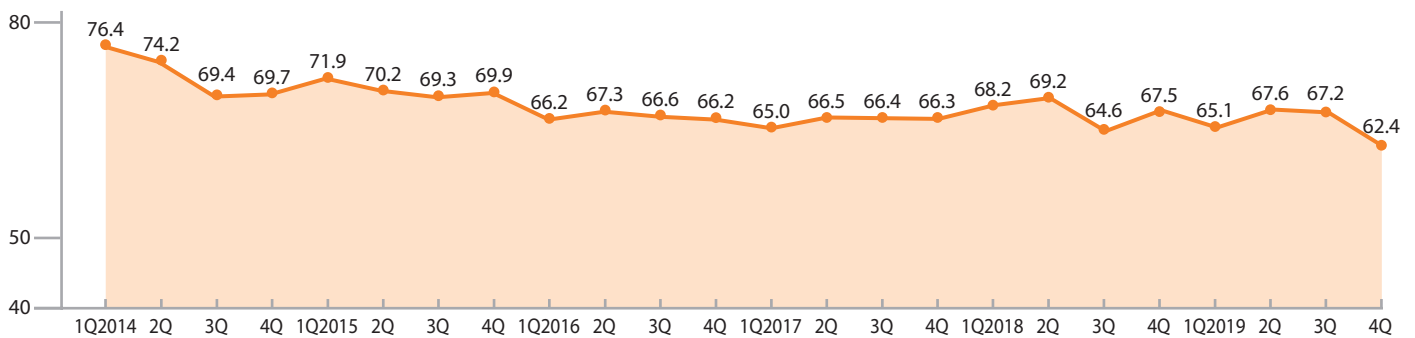
Choice of products/services



Demand drivers

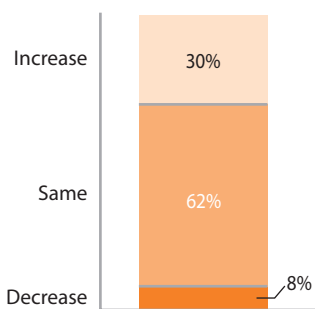


Demand trend

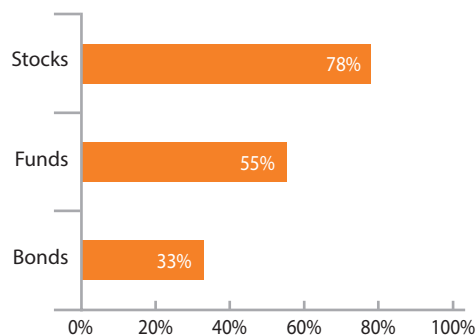


Financial investment (61.2)

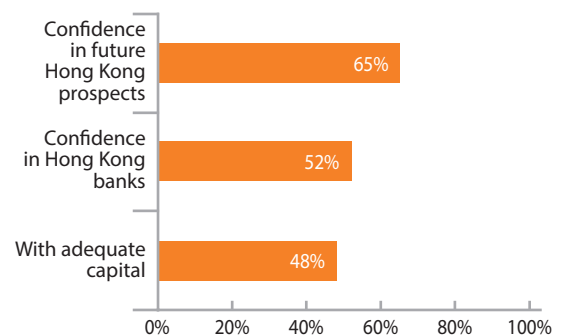
Demand expectation



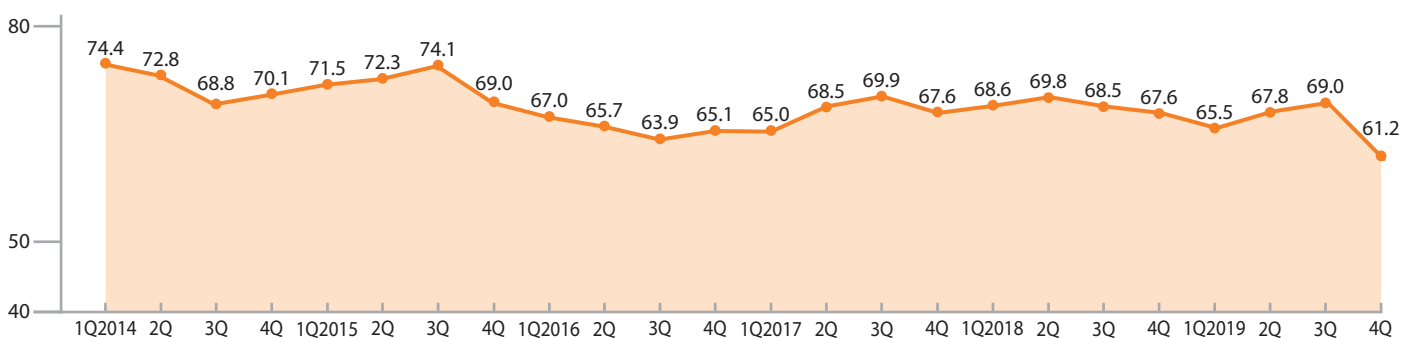
Choice of products/services



Demand drivers

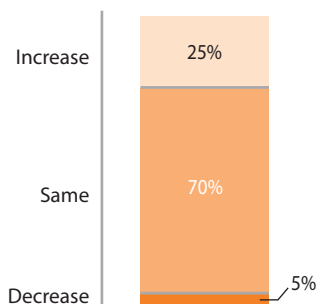


Demand trend

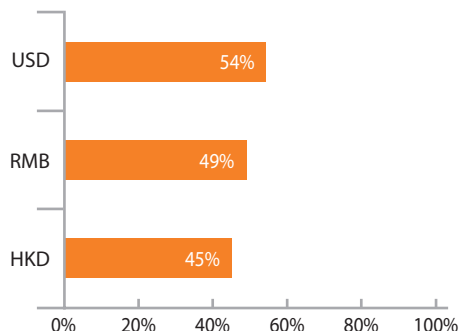


Currency transactions (60.1)

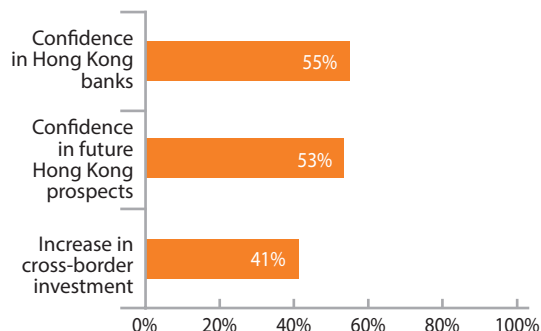
Demand expectation



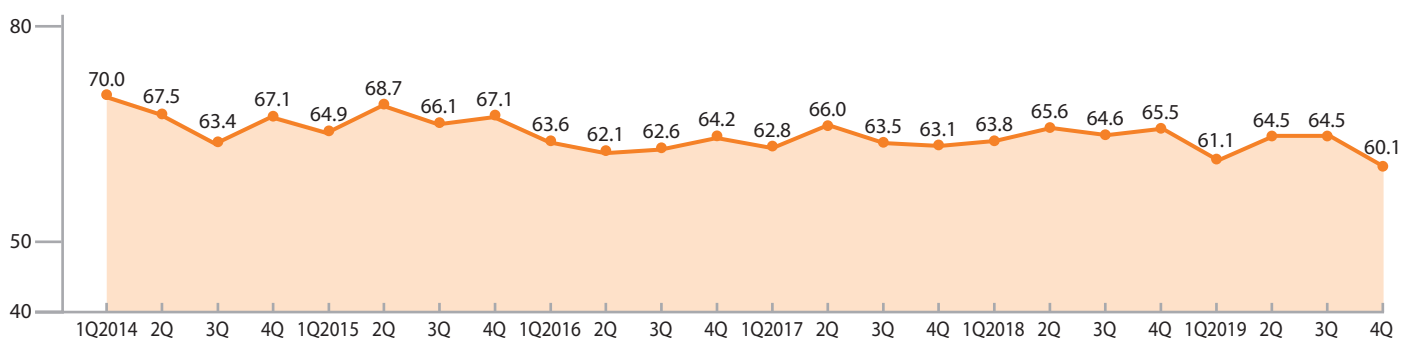
Choice of currencies



Demand drivers

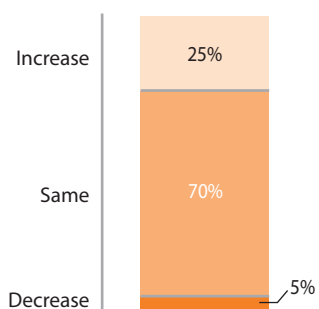


Demand trend

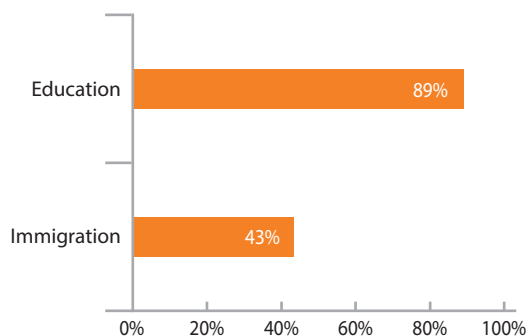


Immigration & education services (59.9)

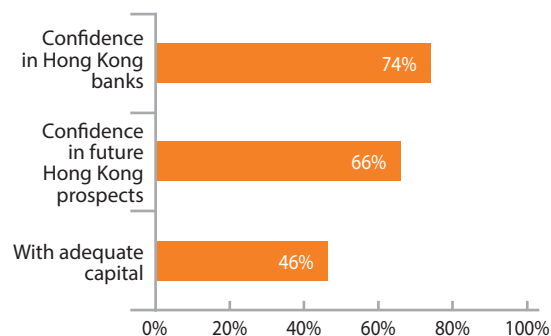
Demand expectation



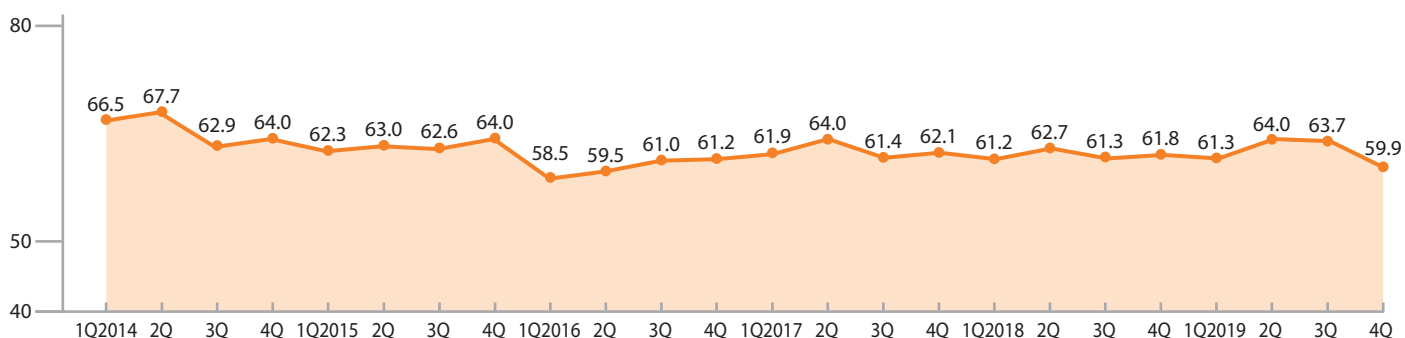
Choice of products/services



Demand drivers

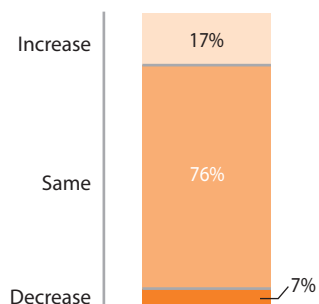


Demand trend

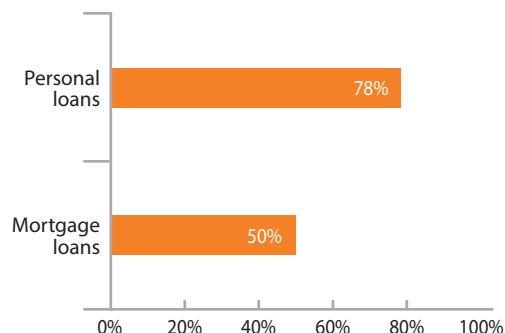


Mortgage & personal loans (55.0)

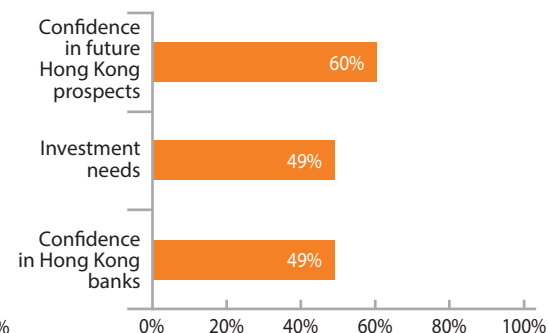
Demand expectation



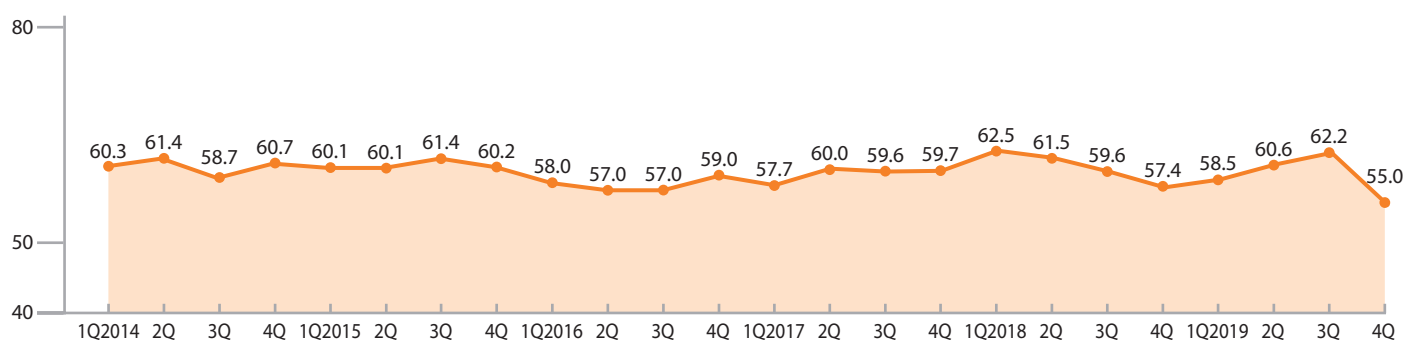
Preferred products/services



Demand drivers

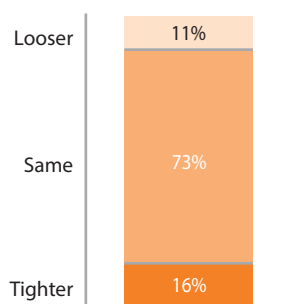


Demand trend

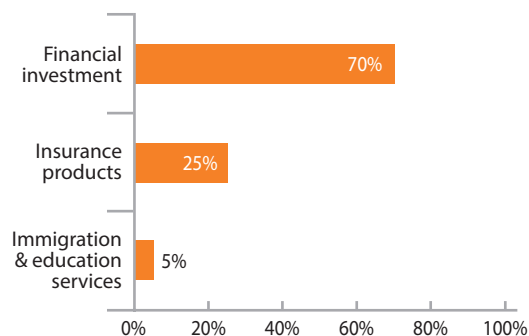


Expectation of regulatory looseness (47.7)

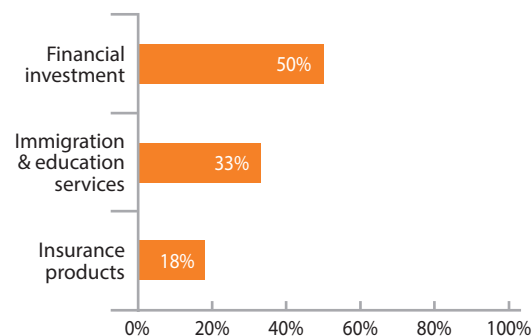
Expectation of laws and regulations



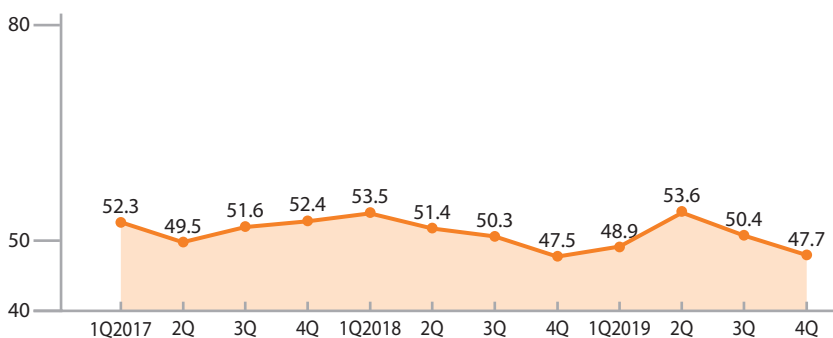
Expected regulatory loosening



Expected regulatory tightening



Expectation trend



Note: This sub-index was introduced since 1Q2017

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.

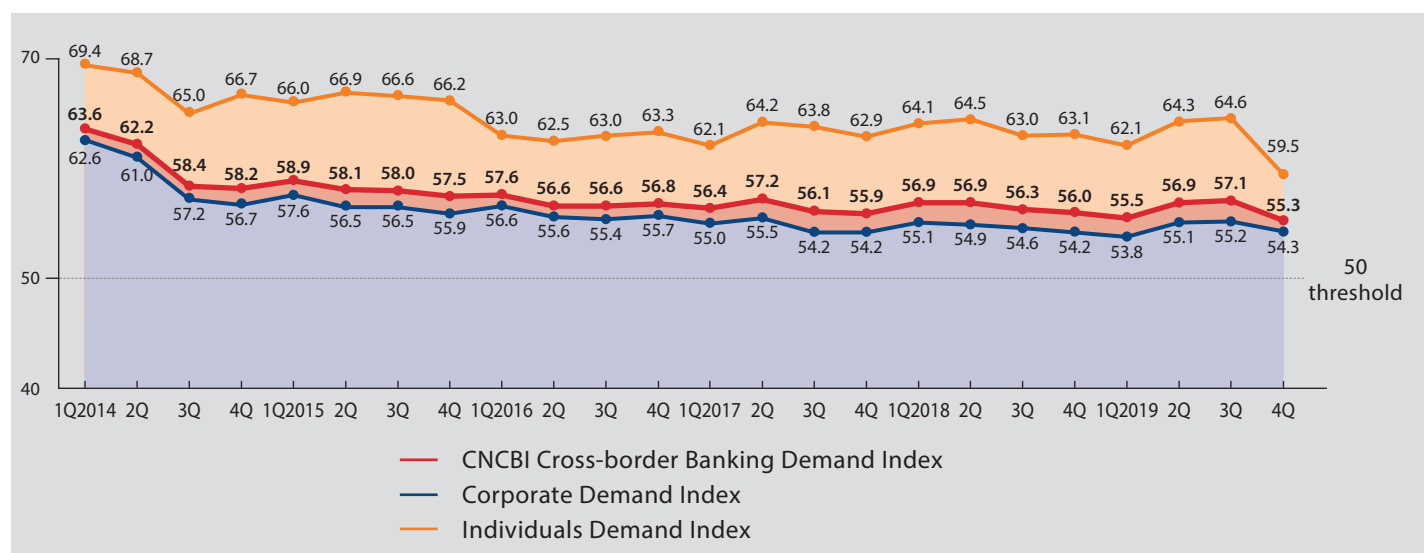
Diffusion indices have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading of above 50 indicates a strengthening of demand, and below 50 a weakening.

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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