

3Q2018 CNCBI Cross-border Banking Demand Index stands at 56.3

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

(Hong Kong: 10 July 2018) China CITIC Bank International Limited (the “Bank” or “CNCBI”) today releases the latest *CNCBI Cross-border Banking Demand Index Report*. The 3Q2018 CNCBI Cross-border Banking Demand Index drops 0.6 on the quarter to 56.3. Under the impact of the blazing China-US trade tensions and reversal of RMB appreciation, mainland corporations and individuals’ going out confidence was dampened and resultantly overall cross-border demand softens. The Corporate Demand Index falls 0.3 further to last quarter’s decline of 0.2, standing at 54.6. The Individuals Demand Index, meanwhile, drops 1.5 to 63.0 after a two-quarter rise.

Dr Liao Qun, Chief Economist and General Manager of Research Department, CNCBI, says that five of the eight service- or product-related corporate demand sub-indices fall as the remaining sub-indices rise. While asset management & financial consultancy logs the biggest decline of 1.8, currency transactions, settlement & cash management, loans and structured finance drop by a smaller margin of less than 1.0. Of the three rising sub-indices, trade finance posts the biggest leap of 1.7 while derivative products and bond issuance rise by only 0.2.

Dr Liao points out that although the second quarter sees the global economy continue to recuperate and the mainland economy further stabilise in addition to clearer policies on the opening up of China’s market and the country’s capital outflow controls, escalating China-US trade tensions inevitably fuelled market uncertainty. Meanwhile, the RMB depreciated again against the US dollar. These two factors have curbed mainland corporations’ confidence in using Hong Kong’s cross-border banking services. Corporations are holding back plans for their next business moves including cross-border expansion and financing. As a result, corporate demand for the majority of financing or service-oriented cross-border banking softens at various degrees.

Demand for trade finance soars surprisingly. Export trade is expected to be hit the hardest and most directly by the China-US trade tensions with demand for trade finance declining in tow. The unexpected increase is first probably due to the fact that China-US trade tensions have yet to impact China’s second-quarter volume of foreign trade and bilateral trade with Hong Kong, which continues to gain steam. Also, it may be a result of last quarter’s marked decline in trade finance demand which would fall in the next quarter as the trade war unfolds. The moderate increase in the derivative products sub-index should be a result of last quarter’s dramatic drop. The slight rebound in the bond issuance sub-index, in turn, is evidence of the steady recovery of Hong Kong’s dim sum bond market.

Regarding individuals' cross-border demand, the six service- or product-related sub-indices drop significantly with credit cards showing the biggest decline of 4.6 while mortgage & personal loans also drops 1.9 as financial investment, insurance products, currency transactions, and immigration & education services, drop by a margin of 1.0 to 1.4.

Dr Liao notes that weakening demand for cross-border services from individuals can also be attributed to the escalating China-US trade tensions and the renewed depreciation of the RMB in the second quarter. Demand from individuals appears to be more susceptible to these two factors. After all, individuals tend to be more careful with their wealth since "going out" requires better observation and responsiveness to changes in the external environment. Negative events can always trigger increased caution towards investment- and consumption-related cross-border activities especially financial investment and credit card consumption. However, the slide of the credit cards sub-index is unexpected. Apart from the aforementioned reasons, this can also be attributable to the second-quarter launch of Alipay service in Hong Kong and the increasing number of mainland consumers using Alipay for their Hong Kong purchases. The mortgage & personal loans sub-index continues to fall, demonstrating a slowing pace of Hong Kong property investment which is a result of the restrictions placed on mainland homebuyers and soaring home prices.

Both the corporations' and individuals' expectation of regulatory looseness fall

In 3Q2018, the expectation of regulatory looseness sub-indices on both the corporate and individuals sides drop 1.3 and 1.1 respectively to 48.1 and 50.3.

On the corporate side, the sub-index retreats from last quarter's rise of 1.6 as a result of the escalating China-US trade tensions and the depreciating RMB as corporations expect the central government to tighten its control over capital outflows. These two factors accelerate capital outflows, and corporations therefore find tighter capital controls reasonable.

In the case for mainland individuals, the sub-index drops further due also to the abovementioned factors. Should these two factors intensify, particularly if the China-US trade war escalates, Dr. Liao expects that both the corporate and individuals sides would deteriorate further.

To view the detailed *CNCBI Cross-border Banking Demand Index Report*, please log on to: www.cncbinternational.com/cross-border-index.

Editor's notes:

CNCBI Cross-border Banking Demand Index

The CNCBI Cross-border Banking Demand Index, launched in the first quarter in 2014, is the first quarterly leading index in Hong Kong to reveal changes in cross-border demand for Hong Kong banking services. The findings are based on the results of a quarterly survey over mainland corporate and individuals.

The Index is a weighted average of the Corporate Demand Index and the Individuals Demand Index. While the former is a weighted average of 9 service-specific corporate demand sub-indices, the latter is of 7 service-specific individuals demand sub-indices.

Each of the sub-indices is a diffusion index and is calculated from the replies of survey respondents to the question: Do you expect the cross-border demand of your/your company's demand for cross-border banking service (as specified) to increase, decrease or be unchanged 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 a half of those responding "Unchanged" in percentage terms.

The survey for the Index was conducted by international market research firm Ipsos and it covered 15 cities across the Pearl River Delta, Yangtze River Delta, Pan-Bohai and Central & Western areas of China. The quarterly survey involved 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.

China CITIC Bank International Limited

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By providing value-creating financial solutions to define and exceed both wealth management and international business objectives of Greater China and overseas customers, CNCBI aspires to be “the best overseas integrated financial services institution”, with the highest international standards and capabilities.

CNCBI’s footprint in Greater China includes 32 branches in Hong Kong, as well as branches and presence in Beijing, Shanghai, Shenzhen and Macau. CNCBI also has overseas branches in New York, Los Angeles and Singapore. More information about CNCBI can be found on its website at www.cncbinternational.com.

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