4Q2018 CNCBI Cross-border Banking Demand Index drop to 56.0

China-US trade spat to dent demand for corporate financing

(Hong Kong: 10 October 2018) China CITIC Bank International Limited (the "Bank" or "CNCBI") today releases the latest CNCBI Cross-border Banking Demand Index. The 4Q2018 CNCBI Cross-border Banking Demand Index falls 0.3 further to 56.0. Under the impact of the China-US trade war, the Corporate Demand Index weakens further with a steeper fall of 0.4 (vs 3Q2018's 0.3) whereas the Individuals Demand Index bounces back from last quarter's plunge and stabilises at 63.1.

Dr Liao Qun, Chief Economist, CNCBI, says that six of the nine corporate demand sub-indices fall, while two rise and one stays put. Apart from expectation of regulatory looseness and derivative products, all of the six 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 while currency transactions remains unchanged.

Dr Liao points out that the escalating trade war between China and the US has 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.

Regarding individuals' cross-border demand, most of the 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.

Dr Liao notes that 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 for 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.

Dr Liao predicts that 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 in in the next quarter is most likely to remain on its downward trend and individuals' cross-border banking demand is likely to fall from its brief rebound, depending on the development of the China-US trade war.

Both corporations and individuals expect regulatory looseness sub-indices to fall further

In 4Q2018, mainland corporations' and individuals' expectation of regulatory looseness sub-indices drop 0.4 and 2.8 to 47.7 and 47.5 respectively.

Dr Liao notes that 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

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

Photo:

Dr Liao Qun, Chief Economist, CNCBI, says that the escalating trade war between China and the US has led mainland corporations to exercise increased caution in foreign investment and financing including acquiring financing from Hong Kong banks

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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