

2Q2019 CNCBI Cross-border Banking Demand Index bounce back to 56.9

Easing trade war to reignite “going out” aspirations

(Hong Kong: 10 April 2019) China CITIC Bank International Limited (the “Bank” or “CNCBI”) today releases the latest CNCBI Cross-border Banking Demand Index. The 2Q2019 CNCBI Cross-border Banking Demand Index stands at 56.9 on a record quarterly rise of 1.4, demonstrating that demand for cross-border banking services is picking up speed after three quarters of softening. Corporate Demand Index bounces back from 53.8 to 55.1 while Individuals Demand Index achieves a significant rebound of 2.2 to 64.3.

Dr Liao Qun, Chief Economist, CNCBI, says that 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.

Dr Liao points out that the most positive development in the Chinese and global economies during 1Q2019 was the gradual easing of China-US trade tensions. 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.

Looking ahead, Dr Liao expects that China-US trade truce should 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.

Regrading individuals’ demand, 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.

Dr Liao notes that 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.

Corporations and individuals expect differently of regulatory looseness

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, Dr Liao notes, 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.

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 30 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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