

4Q2019 CNCBI Cross-border Banking Demand Index slows to a new low

Escalating China-US trade war to blunt “going out” aspiration

(Hong Kong: 10 October 2019) China CITIC Bank International Limited (the “Bank” or “CNCBI”) today releases the latest CNCBI Cross-border Banking Demand Index. 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 while the Individuals Demand Index breaks the 60 threshold for the first time with a sharp fall of 5.1 to 59.5.

Corporate Demand weakens 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, while 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.

Dr Liao Qun, Chief Economist, CNCBI, says that the escalation of the China-US trade war has the biggest impact on the 3Q2019 mainland and global economies. 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 crossborder 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.

Dr Liao points out that the escalating trade war may not grow fullblown. 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 slackens more severely

Of the six 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.

Dr Liao notes that 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. Demand for high-risk cross-border financial investment, in particular, dwindles in 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. 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, Dr Liao believes that 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.

Individuals and corporations expect tighter regulatory grip

In 4Q2019, the individuals and corporate sub-indices regarding their expectation of regulatory looseness fall by 2.7 and 0.5 respectively on the quarter. Dr Liao states that both corporations and individuals expect the central government to tighten cross-border regulations in an effort to control capital outflows amid the escalating trade war. Turning to their "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.

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 nine service-specific corporate demand sub-indices, the latter is of seven 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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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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