



# Banking Executive Index (BEI)

## Newsletter

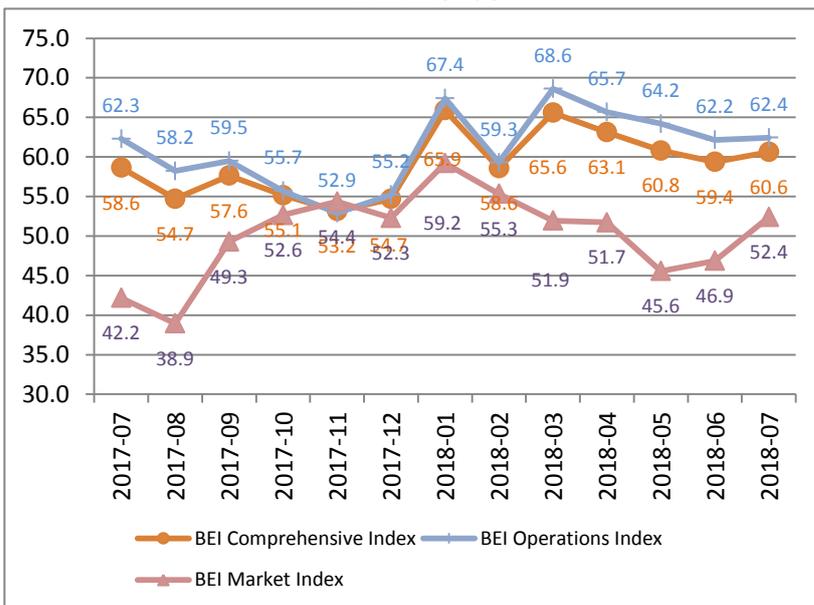
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### July Highlights

- BEI Operations Index unchanged from June; banks paid close attention to credit changes**  
 Predicting that the trade war between US and China would continue into 3Q, banks continued to pay close attention to the business cycle and clients' credit changes. Short-term capital demand increased as a result of dividend issuance. Interbank funding turned conservative, but the overall index remained in an optimistic range.
- BEI Market Index rebounded; stock and FX scores rose; interest rate markets turned negative because of mortgages**  
 Optimism returned to the BEI Market Index in June, spurred by Apple's 3Q product launch. Financial stocks rose steadily, and confidence in the stock market rebounded. The continuing **trade war and depreciation of the RMB have deepened export pressures on Asian countries.** The FX score has rebounded, but views on the TWD remain negative. Because of fierce competition in mortgage markets, the bankers' views on the interest rate market turned conservative. Although mortgage rates fell, the market is now consolidating. Banks still look upon housing conservatively. Because the amount of mortgages whose grace period is expiring this year is 8.05% of all bank mortgages in May, the industry is concerned about follow-up stress tests.
- What senior bankers are paying attention to in July: credit risk from industry changes**  
 The seven major trends uncovered by the BEI Index are: 1. The NDC's June outlook unexpectedly deteriorated to blue/yellow; in the 2<sup>nd</sup> half, banks must **pay close attention to credit risks at home and abroad;** 2. **Chain reactions from the trade war;** 3. **China USD-denominated bond and housing market risks from RMB depreciation;** 4. **Changes in the Trump administration from the midterm elections at the end of the year;** 5. **The course of Brexit negotiations;** 6. **International crude oil trends;** and 7. **Overextension of domestic mortgages and the results of stress tests.**

BEI Trends

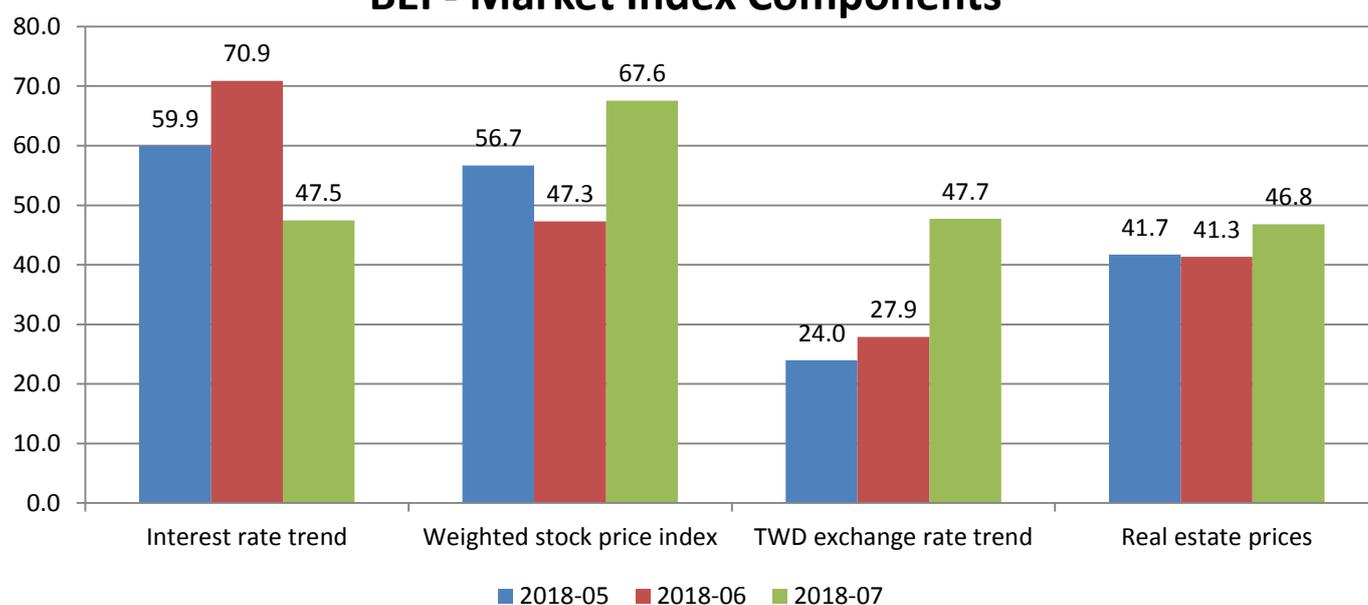


Data source: TABF

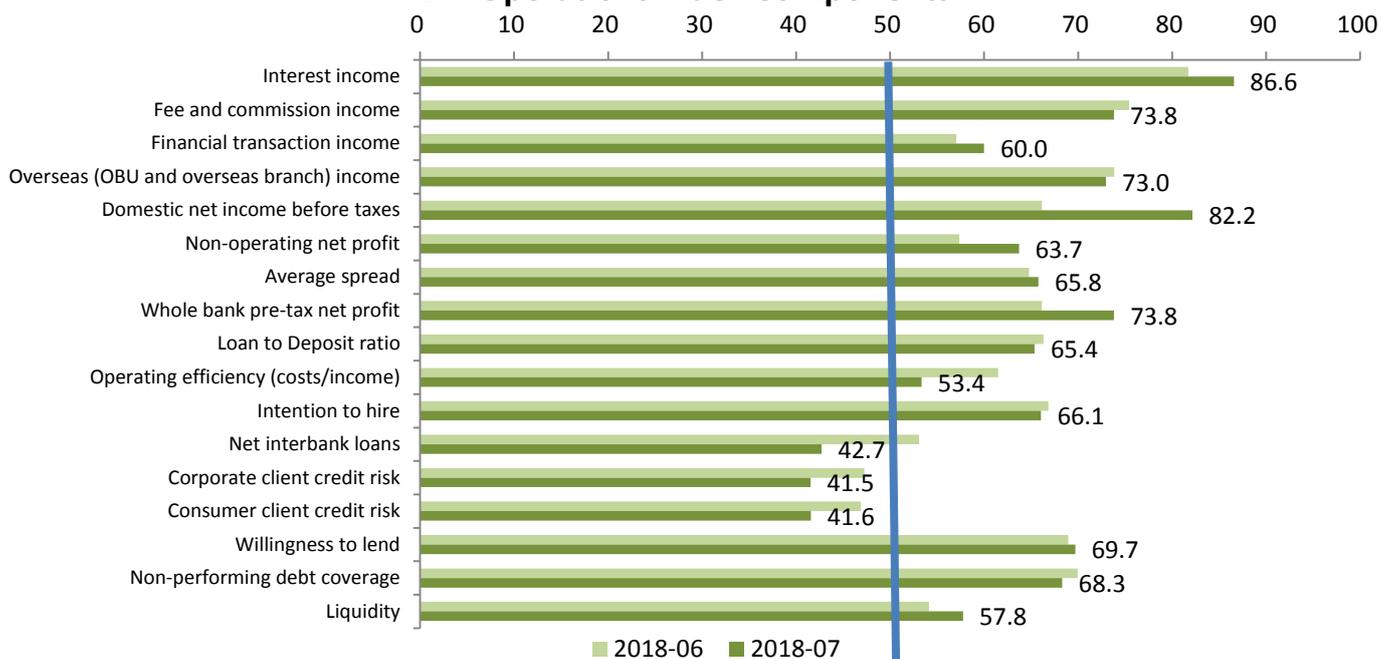
The latest overall BEI Index issued in July was 60.6, 2.02% higher than the 59.4 points in June. The overall view is optimistic. The BEI Operations Index was 62.4, 0.32% higher than the 62.2 in June. For operations, bankers are still optimistic about fee incomes and pre-tax net domestic profit in the next quarter, but they remain conservative about corporate and consumer client risk. In addition, the demand for short-term funding may increase due to dividend payouts. The view on interbank withdrawals turned conservative.

The BEI Market Index was 52.4, 11.73% higher than 46.9, in June, and surpassing the benchmark of 50. In terms of interest rates, bankers have rushed to compete on mortgage rates due to a lack of viable targets. Views turned conservative, falling to 47.5. Stocks related to Apple were favored, after its new 3Q product launch. Views on Taiwan stocks rebounded to 67.6. Views on the TWD exchange rate rose to 47.7, although restrained by the trade war, plus dividend issuance. The housing market remained conservative, at 46.8. The market is still in a trough.

### BEI - Market Index Components



### BEI - Operations Index Components



### Changes since last month

| Rank | Best performing indicators       | Worst performing indicators         |
|------|----------------------------------|-------------------------------------|
| 1    | Domestic net income before taxes | Net interbank loans                 |
| 2    | Whole bank pre-tax net profit    | Operating efficiency (costs/income) |
| 3    | Non-operating net profit         | Corporate client credit risk        |
| 4    | Liquidity                        | Consumer client credit risk         |
| 5    | Interest income                  | Non-performing debt coverage        |

Data source: TABF