Banking Executive Index (BEI) Newsletter

Issued by: Taiwan Academy of Banking and Finance (TABF) Director Jerry Lin
Contact: (02) 3365–3584 / (02) 3365–3574 (C/O Analyst Yuan Te Huang)
Email: jerrylin@tabf.org.tw; yuante@tabf.org.tw
Translated by: David Stinson (Project Editor), An-Yu Shih (Associate Research Fellow)

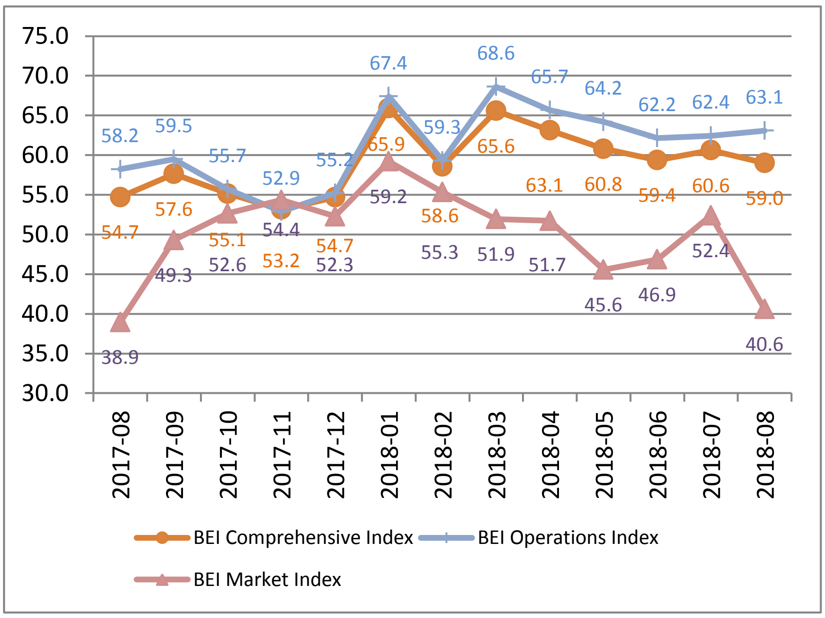
August Highlights

- **The BEI Operations Index rebounded from July; banks closely watched corporate and consumer credit**
  It is anticipated that the trade war between US and China will continue and heat up in 3Q. Bankers are paying continuing attention to the impact on industrial sentiment and creditworthiness. Domestic pre-tax profits, overseas income, and interest income declined slightly; due to dividend distribution, banks' short-term capital needs increased, and interbank funding remained conservative. Sentiment in July turned "green," and electronic components demand will peak in 2H, strengthening exports. Overall the index remains optimistic.

- **The BEI Market Index reversed course; stocks and FX markets turned down**
  With Turkish devaluation causing deeper turmoil in emerging stocks and FX markets and a lack of progress in the trade war, the BEI Market Index turned sharply negative from July. FX markets continue to show higher risk aversion and conservative views on the TWD. Although mortgage rates have been falling for three years, the real estate market is now in consolidation, and banks remain pessimistic. Despite the 2nd-lowest rate, overdue mortgages are increasing. The FSC may consider measures to raise provisions for banks with NPL ratios over 1% which fail stress tests.

- **Bankers focused on the trade war, emerging markets, the RMB, Chinese debt, and security risks.**
  Seven major points for the next three months: 1. The trade war shows no signs of letting up. The latest negotiations have made no substantial progress, and global trade and growth face downside risks; 2. Risks of subsequent industrial changes; 3. Volatility in Chinese stocks and the RMB, affecting RMB deposit holders; 4. A possible financial crisis arising from Chinese debt; 5. Subsequent changes in emerging financial markets; 6. International crude prices; and 7. The TSMC virus incident has reminded the financial industry to insure for security incidents and strengthen information protection architectures.

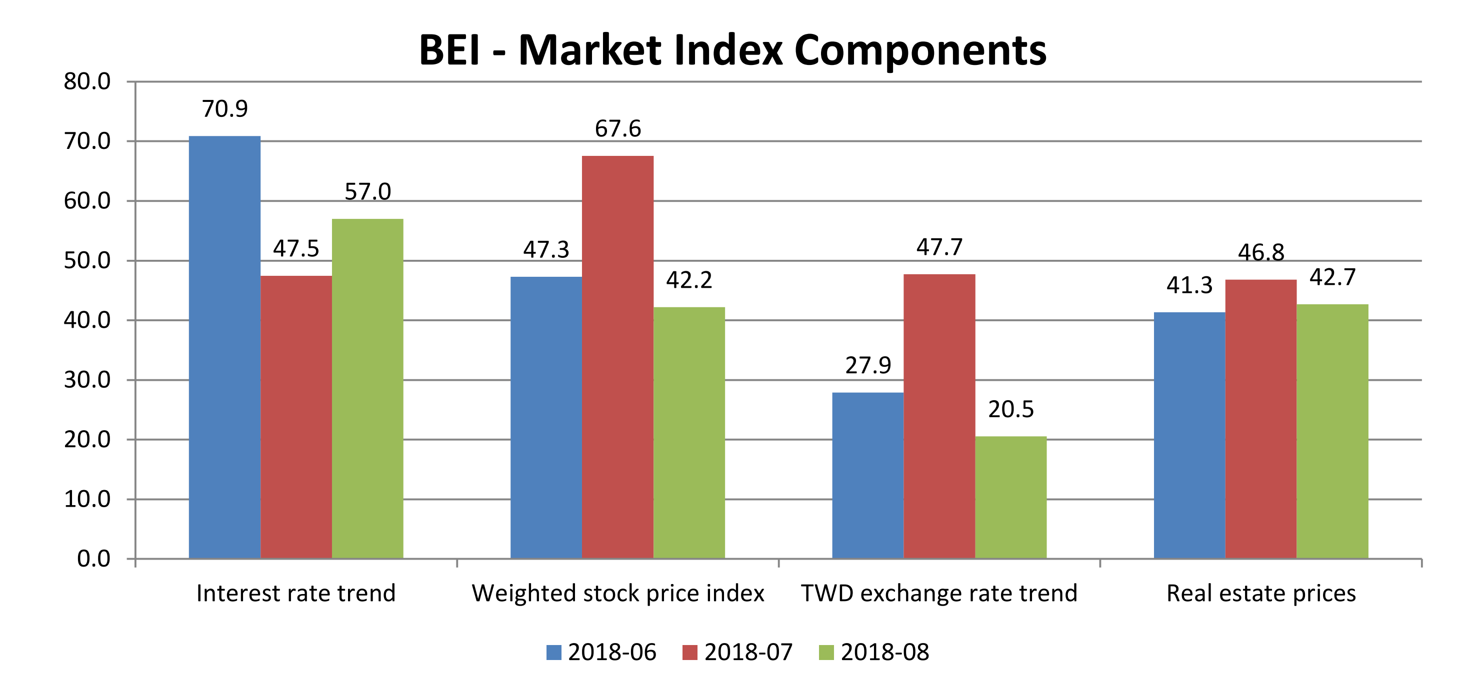
BEI Trends

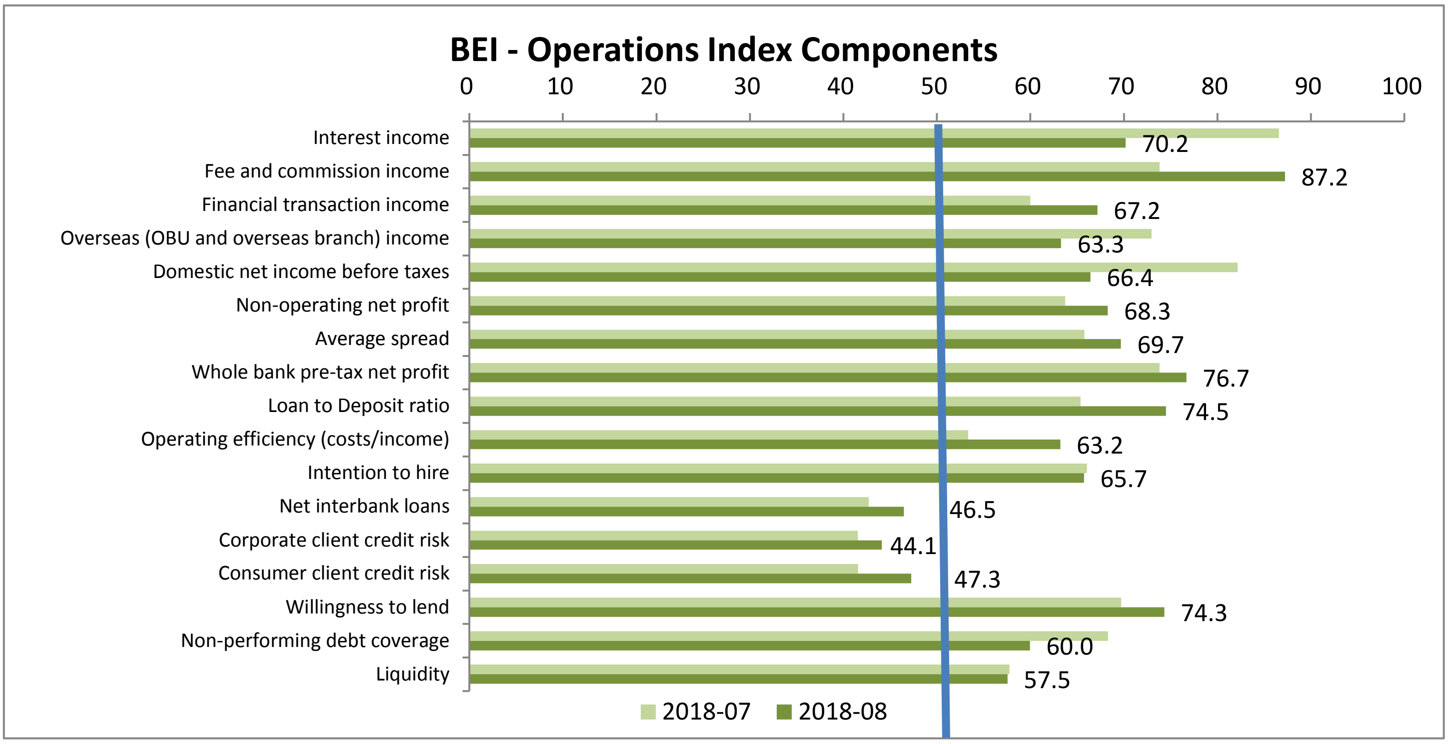


Data source: TABF

The latest August 2018 BEI Comprehensive Index was 59.0, down 2.64 from 60.6 in July, still confident overall. The Operating Index was at 63.1, up 1.12 from 62.4 in July: domestic pre-tax profit, overseas income, and interest income declined slightly. Bankers are still optimistic about the next quarter, but their views on corporate and consumer risk and net interbank withdrawals have turned negative.

The BEI Market Index was 40.6, down 22.52 from 52.4 in July, mainly from stocks and foreign exchange. Bankers' views on interest rates rebounded to 57.0. The trade war between US and China and collapse of the Turkish lira caused global market volatility. Views on Taiwanese stocks fell to 42.2. The above factors also increased market risk aversion, bringing the USD index to a one-year high, and depreciation sentiment to the TWD. Conservative views persisted in mortgage markets at 42.7; mortgage rates have reached the 2nd lowest in history, but bankers are still waiting for a real estate market rebound.





Changes since last month		
Rank	**Best performing indicators**	**Worst performing indicators**
1	Operating efficiency (costs/income)	Domestic net income before taxes
2	Fee and commission income	Interest income
3	Loan to Deposit ratio	Overseas (OBU and overseas branch) income
4	Consumer client credit risk	Non-performing debt coverage
5	Financial transaction income	Intention to hire

Data source: TABF