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)

January Highlights

- **Rebound in the BEI Market Index, dovish Fed, 9-year high in mortgages, and improved stock market outlook**

  The BEI market index rebounded over last month past the 50-point mark. For interest rates, the US economy has slowed due to the long government shutdown, and the market anticipates that the Feb is considering ending interest rate hikes and early contraction, so industry views turned conservative. With Apple's weak financial forecasts and Spring Festival market closings, views on the Taiwanese stocks remained conservative, though slightly better than last month. With the short-term weakening of the US dollar and export of foreign exchange for Spring Festival, large domestic banks expect a rebound for the NTD in the next quarter. For housing, mortgages and new constructions reached a 9-year high in December. The market expects increased intention to buy and capital inflows, giving a slight bump to real estate. Overall views on real estate have rebounded slightly from last month, but bankers remain hesitant.

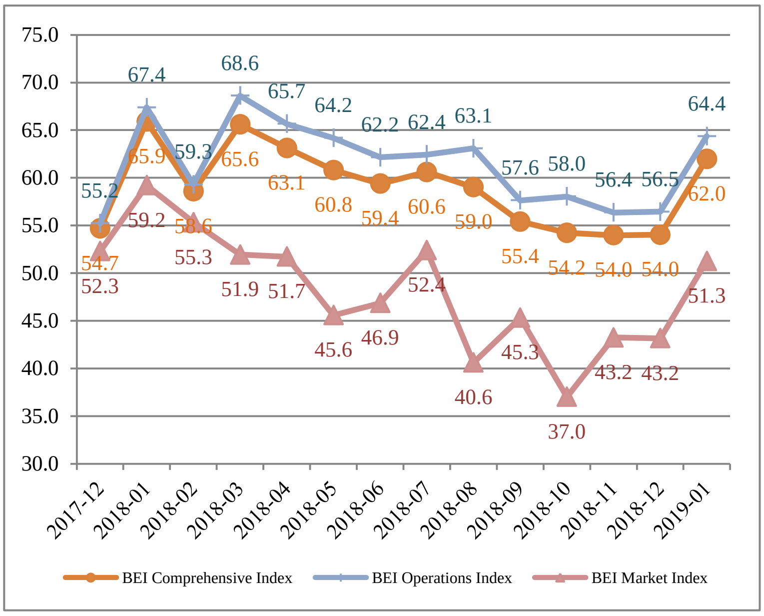
- **Increased willingness to lend and optimism about interest and fee income in the next quarter**

  The US and China restarted trade war negotiations at the end of January. Both sides sent positive signals, and preliminary results are expected, increasing willingness to lend. With record high bank profits last year, plus capital backflows, banks are optimistic about income and lending for the next quarter – including both interest and fee income – yet remain conservative about corporate and consumer clients, non-performing loans, and non-operating profit.

- **Economic and business issues of concern to the surveyed banking executives over the next 3 months:**

  1. The 90-day trade war truce; 2. Uncertainty with Brexit; 3. The economic situation in China; 4. The Fed's rate hikes and balance sheet contraction; 5. The effects of capital backflows; 6. Online-only banking licenses.

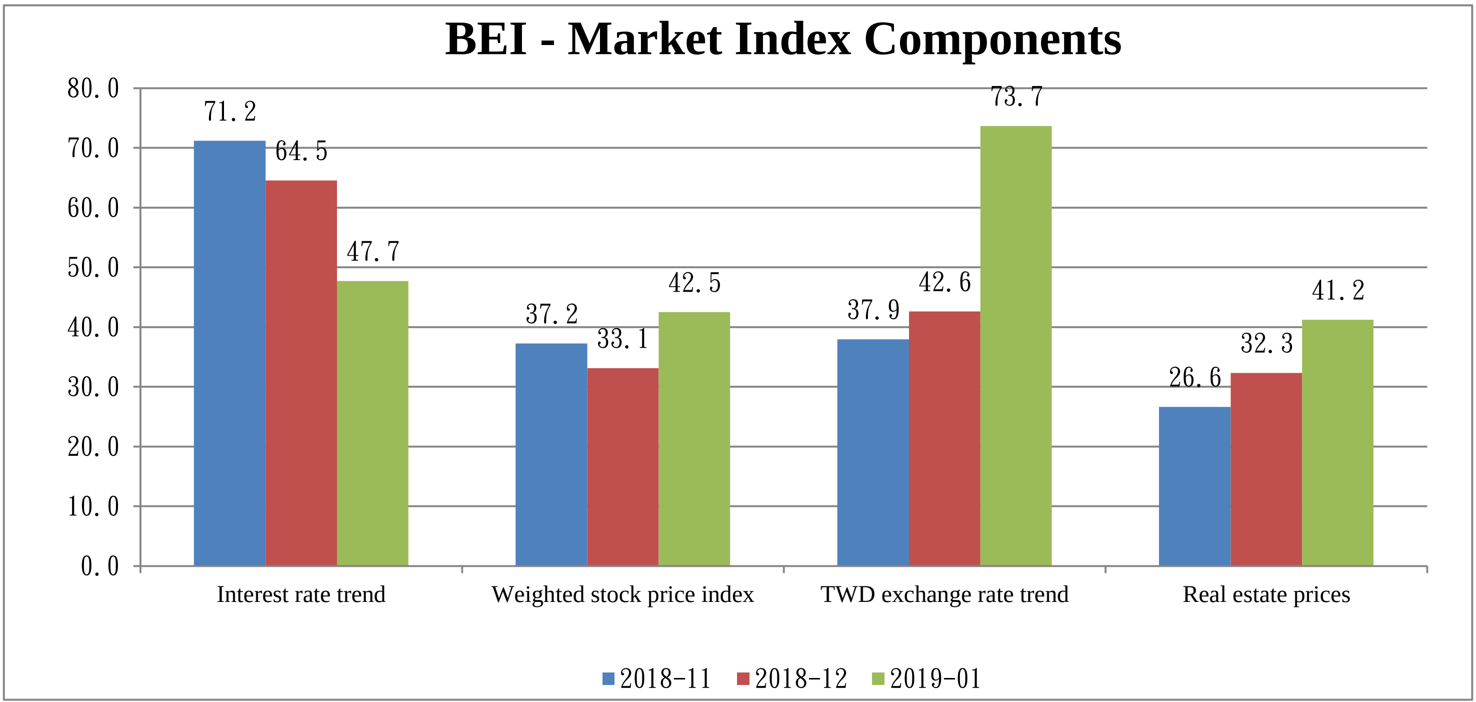
BEI Trends

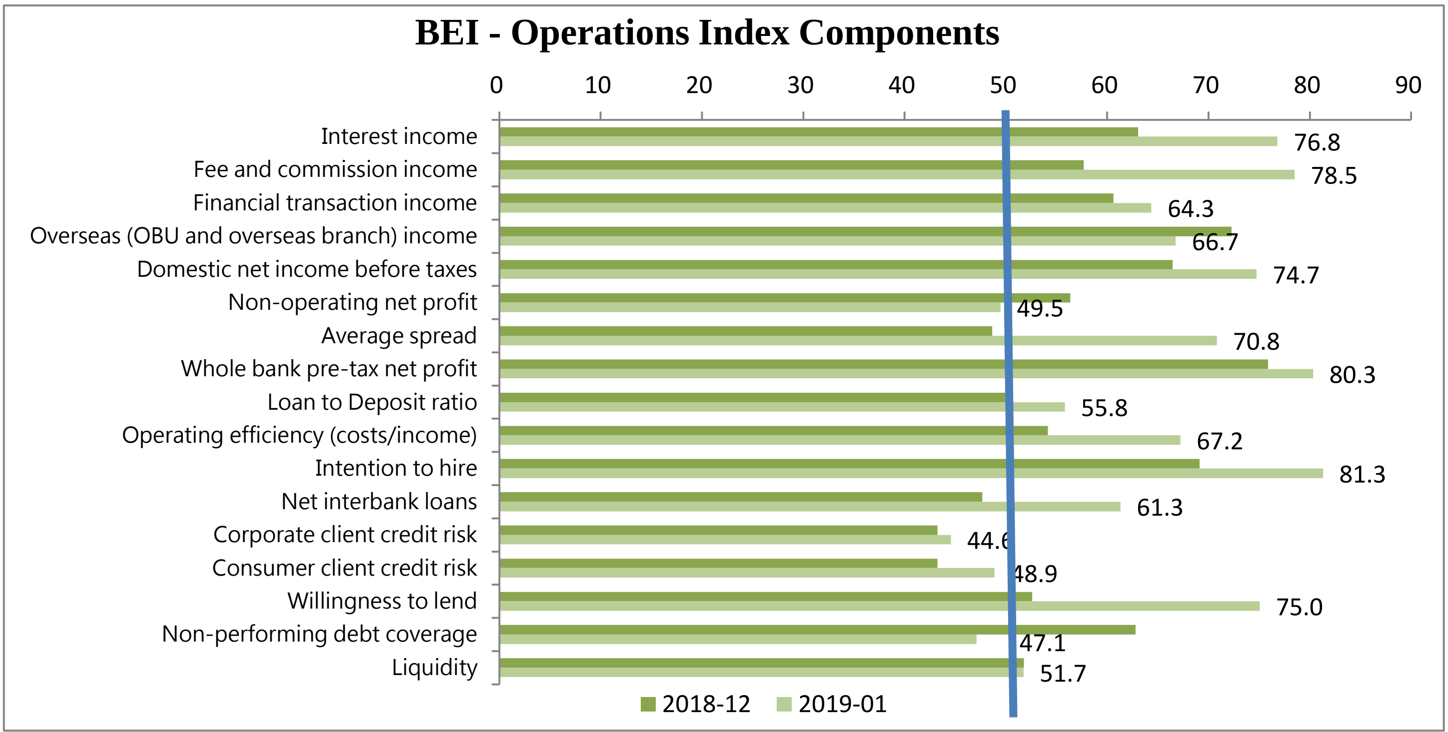


Data source: TABF

The January 2019 BEI Comprehensive Index was 62.0, 14.81% higher than 54.0 in December, a high since May last year. With progress in the trade war and capital backflows, the BEI Operations Index reached 64.4, 13.98% higher than 56.5 in December. Banks earned record profits last year. Operating profit, interest spread, and willingness to lend rose. Credit risk for corporate and consumer clients rebounded slightly, but remained conservative. Non-operating net profit and debt coverage declined.

The BEI Market Index was 51.3, up 18.75% from December's 43.2. Views on interest rates came to 47.7. As the US economy begins to slow, the Fed may suspend hikes and balance sheet contraction. Views on the stock market reached 42.5 despite Apple's poor forecasts due to Spring Festival closures. Due to the Spring Festival and exporters' remittances, views on the NTD reached 73.7. For housing, mortgages and new constructions reached a new high last December. Capital backflows led to a real estate boom. Views on real estate rebounded from last month to 41.2, but the outlook remains conservative.





Changes since last month		
Rank	Best performing indicators	Worst performing indicators
1	Average spread	Non-performing debt coverage
2	Willingness to lend	Non-operating net profit
3	Fee and commission income	Overseas (OBU and overseas branch) income
4	Net interbank loans	Liquidity
5	Operating efficiency (costs/income)	Corporate client credit risk

Data source: TABF