



Banking Executive Index (BEI) Newsletter

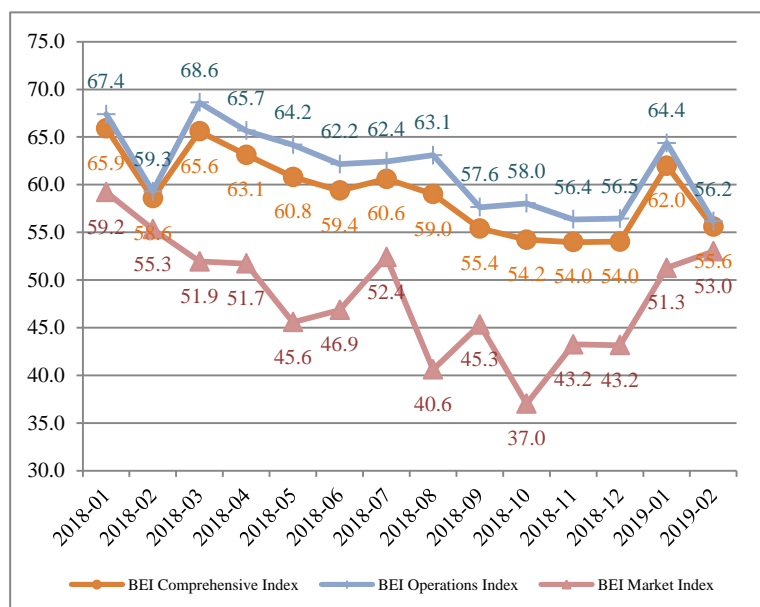
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February Highlights

- The Fed moderated its stance, trade war negotiations are looking positive, and Taiwanese stocks are doing well**
 Although the Fed has turned dovish, it will still watch the data to determine subsequent rate hikes. Bankers expect interest rate moderation in addition to balance sheet shrinkage. Trade war negotiations are developing positively, causing confidence in domestic stocks to return in February. Taiwan's weight has been increased in three MSCI indices, and bankers' views have turned optimistic. Geopolitical and economic uncertainties including trading commitments and concessions in the trade war, and a possible postponement of Brexit, have decreased optimism towards the NTD in the next quarter. Bankers are still adopting a wait-and-see attitude for housing.
- BEI Operating Index reaches a 14-month low; slowing economy causes caution on interest income and profits**
 According to central bank statistics, the weighted average interest rates in 3Q last year was only 1.34%, an eight-year low. 4Q was 1.35%. Although banks remain willing to lend, global economic challenges abound in 2019, which may spill over to Taiwan. Companies have cut capital expenditures, reducing demand for loans. Bankers expect corporate credit growth to fall short of last year's. Views on interest income and overall profitability for the next quarter are distinctly cautious, and spreads are also facing price competition, causing a 14-month low in the BEI Operating Index.
- International and domestic economic and financial focus points for bank executives in February:**
1. Trade war cease-fire negotiations; 2. Brexit uncertainties; 3. A Chinese economic slowdown and debt problems ; 4. Fed rate hikes balance sheet contraction; 5. Online-only banking review results; 6. Strong competition and low interest rates affecting spreads and profits.

BEI Trends

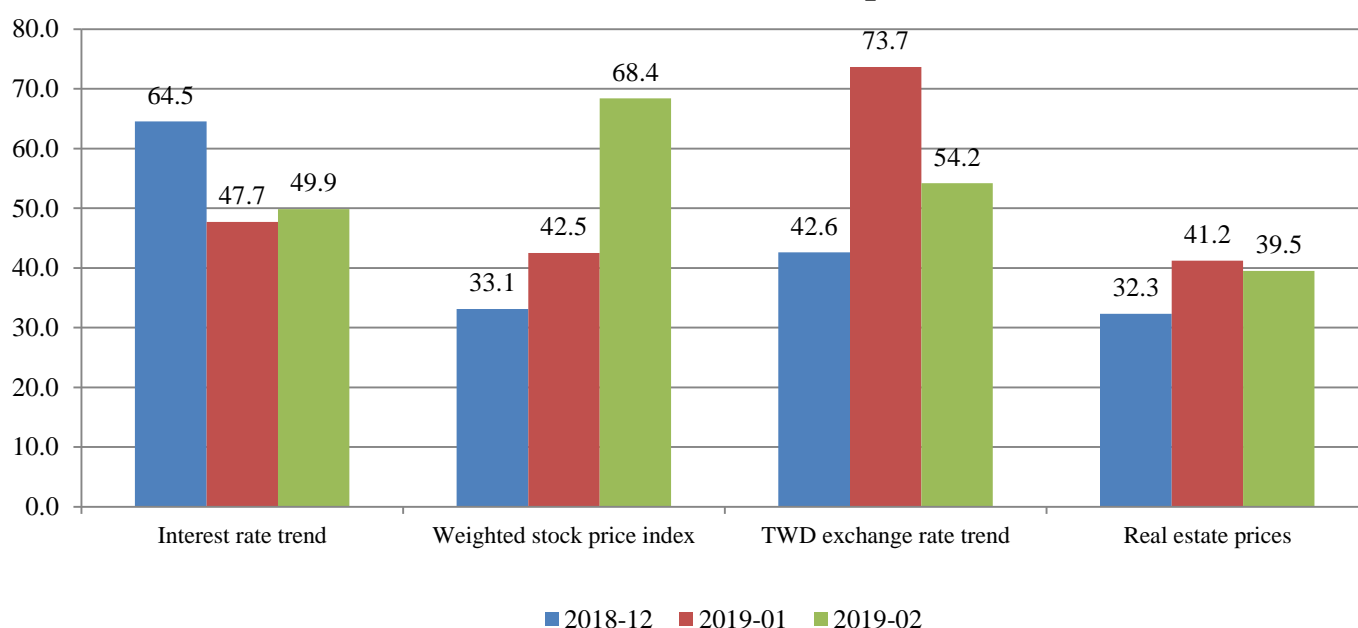


Data source: TABF

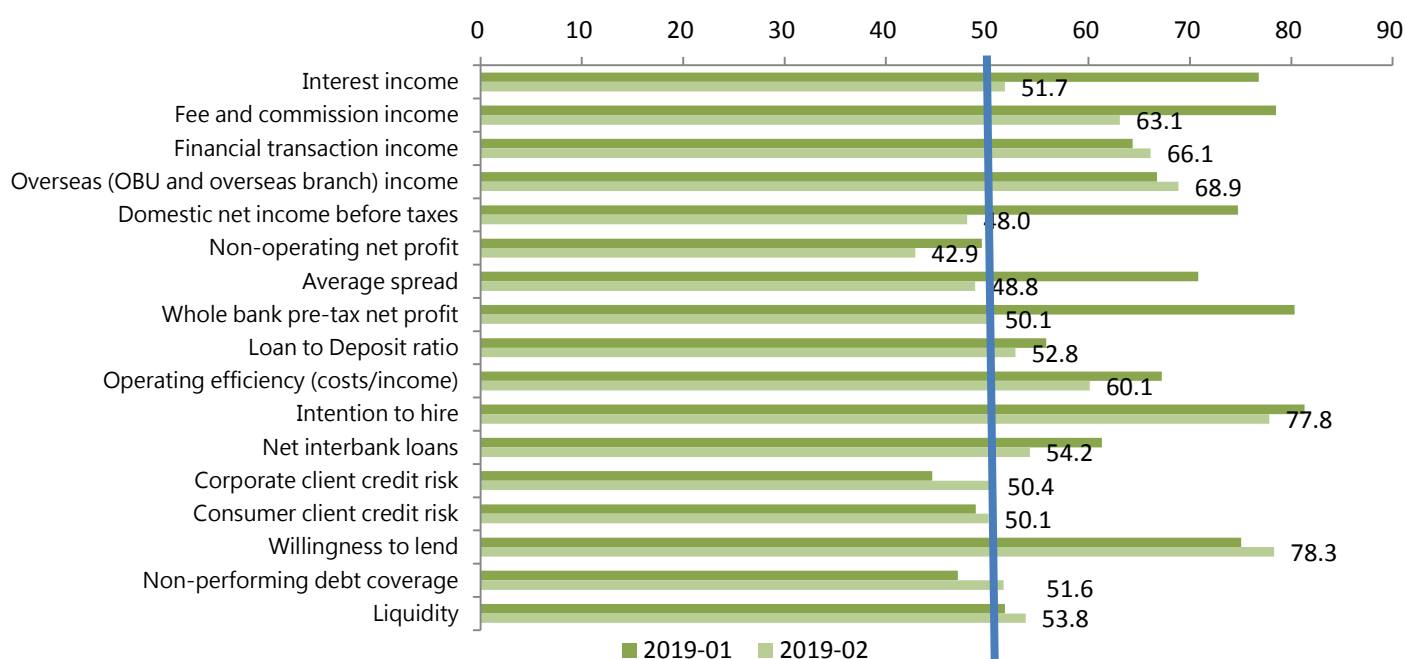
The BEI Comprehensive Index reached 55.6 in February, 10.32% lower than 62.0 in January. The Operations Index reached 56.2, 12.73% lower than 64.4 last month. The global economic climate slowed Taiwan's economy, reducing corporate capital expenditures, and thereby banks' corporate lending. Views on interest income, whole-bank profitability, domestic pre-tax net profits, and spreads for the next quarter turned down.

The BEI Market Index score was 53.0, 3.31% higher than 51.3 in January. For interest rates, the US Fed took a dovish stance, but subsequent decisions to raise interest rates will depend on economic data. Banks maintain a conservative view on interest hikes, and executives' views on interest rates came to 49.9. Positive developments are expected in the trade war, and Taiwanese stocks will be weighted higher in three MSCI indices, increasing views on stocks to 68.4. Many uncertainties remain in the global economy, causing views on the NTD to decline slightly to 54.2. The housing market score was 39.5, anticipating consolidation in the next quarter and further uncertainty.

BEI - Market Index Components



BEI - Operations Index Components



Changes since last month

Rank	Best performing indicators	Worst performing indicators
1	Corporate client credit risk	Whole bank pre-tax net profit
2	Non-performing debt coverage	Domestic net income before taxes
3	Willingness to lend	Interest income
4	Liquidity	Average spread
5	Overseas (OBU and overseas branch) income	Fee and commission income

Data source: TABF