



Banking Executive Index (BEI) Newsletter

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May Highlights

- **Trade War Flares Up Again; Huawei Blacklisted; Views on Stocks turn Negative**

In May, the US Fed held rates steady; members said that only a further weakening in domestic inflation would justify a decline. Bankers surveyed by the BEI did not change their views towards interest rates. China withdrew its acceptance of the trade agreement, and the US increased tariffs on US\$ 200 billion worth of products from 10% to 25%, and did not rule out imposing tariffs on all other imports from China. Furthermore, it blacklisted Huawei, affecting global financial markets, causing fire sales in related electronics stocks, and causing hot money to withdraw from Asian markets to avoid risk. Asian currencies trended towards depreciation, and banks turned negative on domestic stocks, and particularly the NTD. Meanwhile, due to the trade war, Taiwanese capital repatriation continued, banks became more optimistic about housing markets, and the BEI housing price index remained above 50.

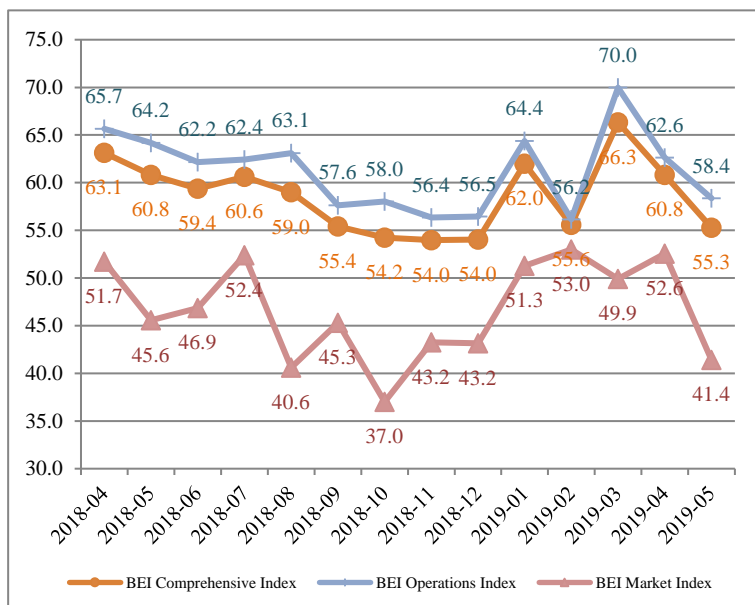
- **The Trade War Resurgence Affects Global Markets**

Further tensions in the trade war this month, plus the US blacklisting of Huawei, affected market confidence, particularly for electronics. Bankers had negative expectations towards financial transaction income, reflected in the BEI Operating Index. Slightly negative views towards corporate and consumer credit risks persisted. Domestic operational and profit indices including interest and commission income slid from last month, but views on the overall economy remained in the positive range.

- **Market Movers in May:**

Banks' paid attention to: 1. The breakdown in trade negotiations; 2. Brexit developments; 3. The results of the European parliamentary election; 4. The Fed's decision to hold steady and watch inflation; and 5. The capital repatriation situation.

BEI Trends

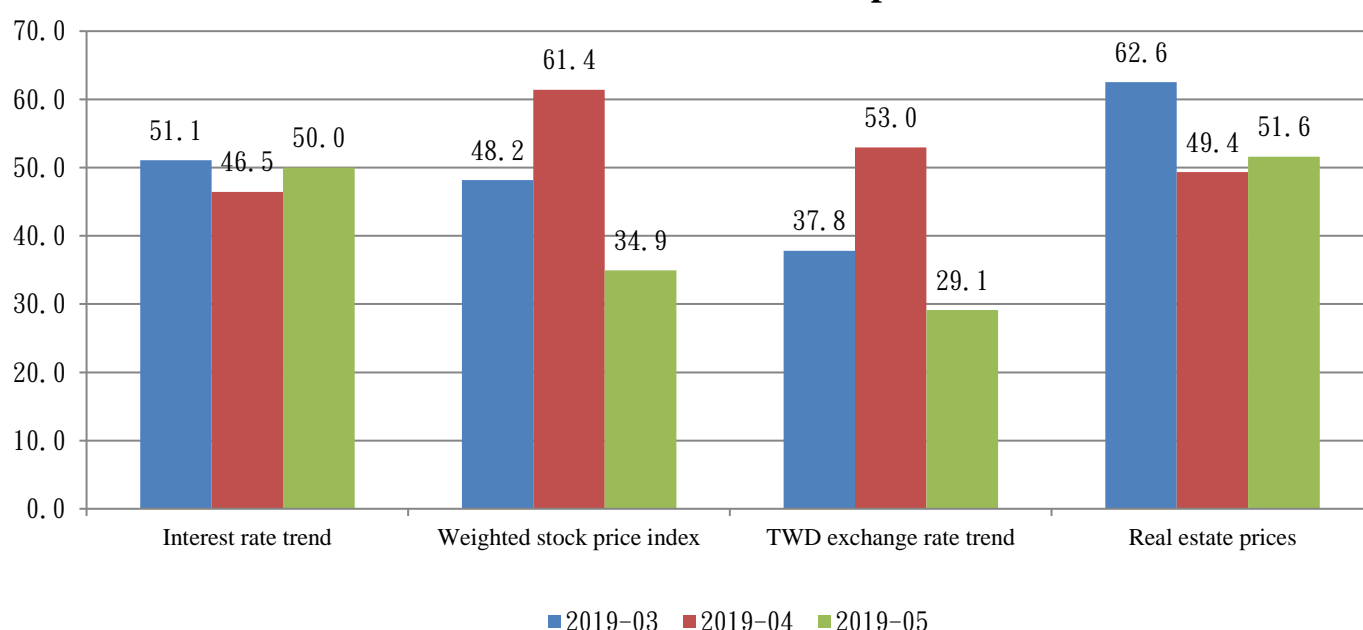


Data source: TABF

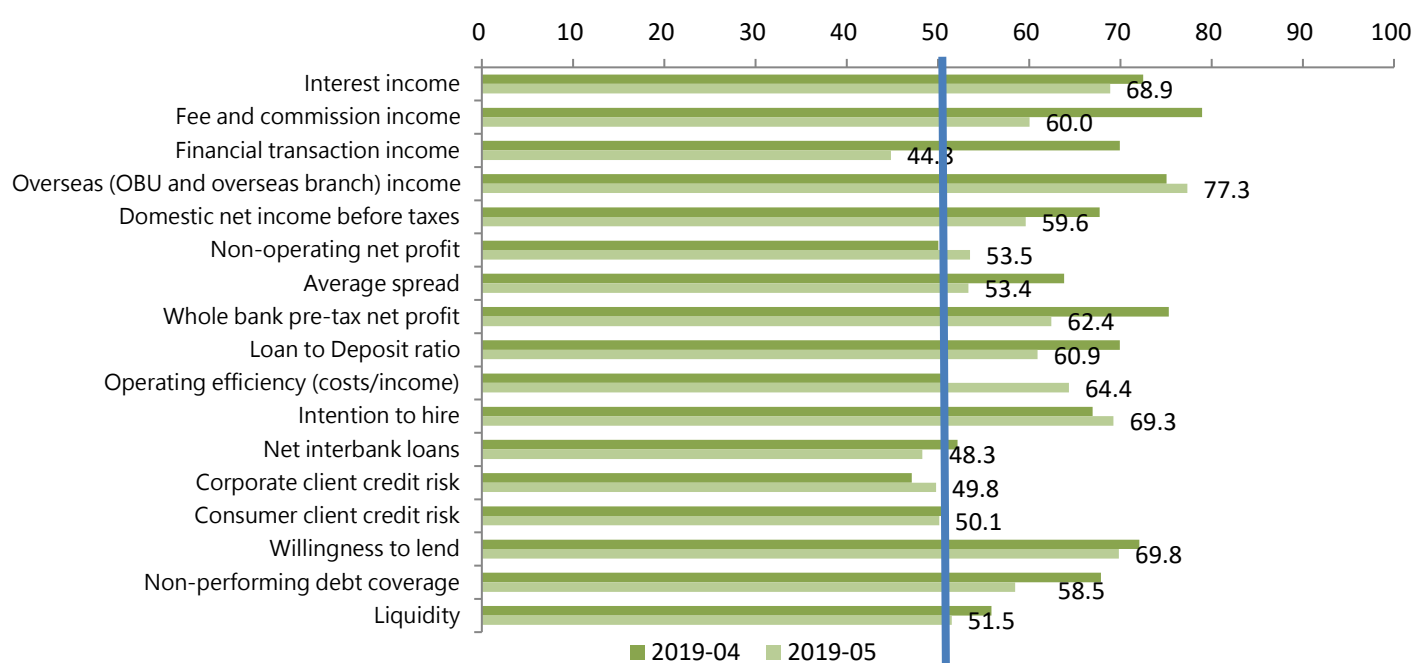
The BEI Comprehensive Index reached 55.3 in May 2019, 9.05% lower than the 60.8 points in April. The BEI Operations Index reached 58.4, 6.71% lower than the 62.6 points in April. Domestic income and profit indicators such as interest rates and transaction fees all slid this month, but views on the overall economy remained positive. The further escalation in the trade war, and the US blacklisting of Huawei and related enterprises, hurt market confidence, particularly for electronics. Bankers were pessimistic about financial transaction income, and neutral to negative on corporate and consumer customer credit risk.

The BEI Market Index reached 41.4, 21.29% lower than the 52.6 points in April. The US Fed held rates steady in May, and said that it would not discuss reductions without further weakness in inflation, but bankers maintained neutral on rates. China rejected its previously agreed trade agreement, and the US increased tariffs on US\$ 200 billion of goods to 25%, and did not rule out tariffs on all other Chinese products; Huawei's blacklisting caused financial funds to withdraw from Asia in search of safety. Asian currencies depreciated overall, and views on Taiwanese stocks dropped to 34.9, and on the NTD to 29.1. The trade war has caused a sustained return of Taiwanese capital, and views on real estate held steady at 51.6 points.

BEI - Market Index Components



BEI - Operations Index Components



Changes since last month

Rank	Best performing indicators	Worst performing indicators
1	Operating efficiency (costs/income)	Financial transaction income
2	Non-operating net profit	Fee and commission income
3	Corporate client credit risk	Whole bank pre-tax net profit
4	Intention to hire	Average spread
5	Overseas (OBU and overseas branch) income	Non-performing debt coverage

Data source: TABF