



Banking Executive Index (BEI) Newsletter

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July Highlights

- **More Willingness to Lend and Optimism on Overseas Business; General Outlook Better than Last Month**

The BEI Operations Index has benefitted from stable stock performance, the passage of legislation for funds repatriation, return of overseas capital, a possible transfer effect from the Japan-Korea trade war, and new capital support by domestic banks in June. Working capital loans increased, showing increased willingness to lend, and banks are also more positive about credit, wealth management, and trusts. In addition, stocks are in the earnings season, financial transaction profits are stable, and overseas profits have increased steadily over the first five months of the year. Domestic bankers' confidence in overall pre-tax net profit is higher than last month, and they are optimistic about interest and transaction fee income.

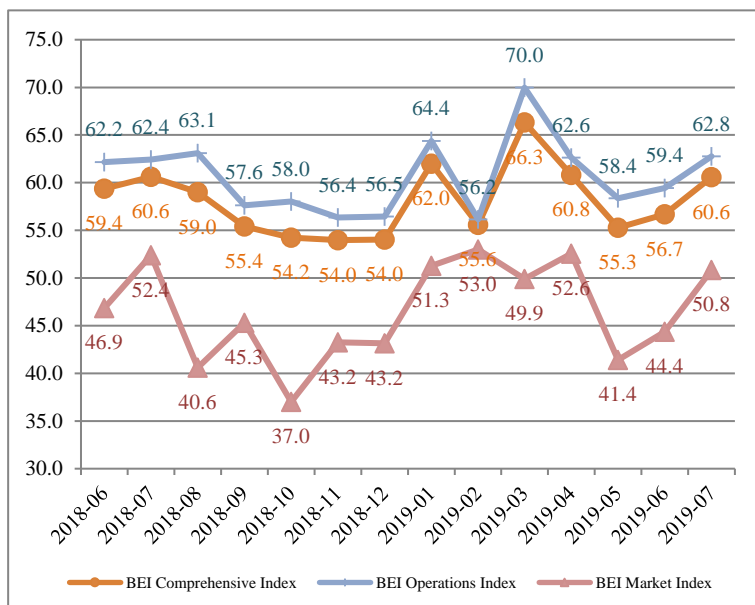
- **US and China Resumed Trade Negotiations; Fed is Expected to Resume Cuts; Market Confidence Rebounds**

The overall BEI Market Index has rebounded to its previous high. Fed Chairman Powell recently said that economic uncertainty has increased, causing the market to expect more cuts in the 2H. Optimism on interest rates fell. The US and China restarted trade negotiations in Shanghai, but are unlikely to reach specific consensus on issues like agricultural purchases or the Huawei ban. However, Huawei's application for exemption will soon be processed, and with the earnings season, bankers remained cautiously optimistic on stocks in the coming quarter. For exchange rates, the Fed cut, plus the Act on Inward Remittances, significantly improved views on the NTD trend. For real estate, new mortgage lending and fewer sales in Taiwan's six directly administered cities in June only affected banks slightly, and outlook remained stable.

- **Domestic and International Focus Points in July:**

1. The US Fed rate cut; 2. The possibility of no-deal Brexit; 3. Restarted US-China trade negotiations; 4. The Japan-Korea trade war; 5. Overseas Capital repatriation; 6. Progress in domestic virtual and open banking.

BEI Trends

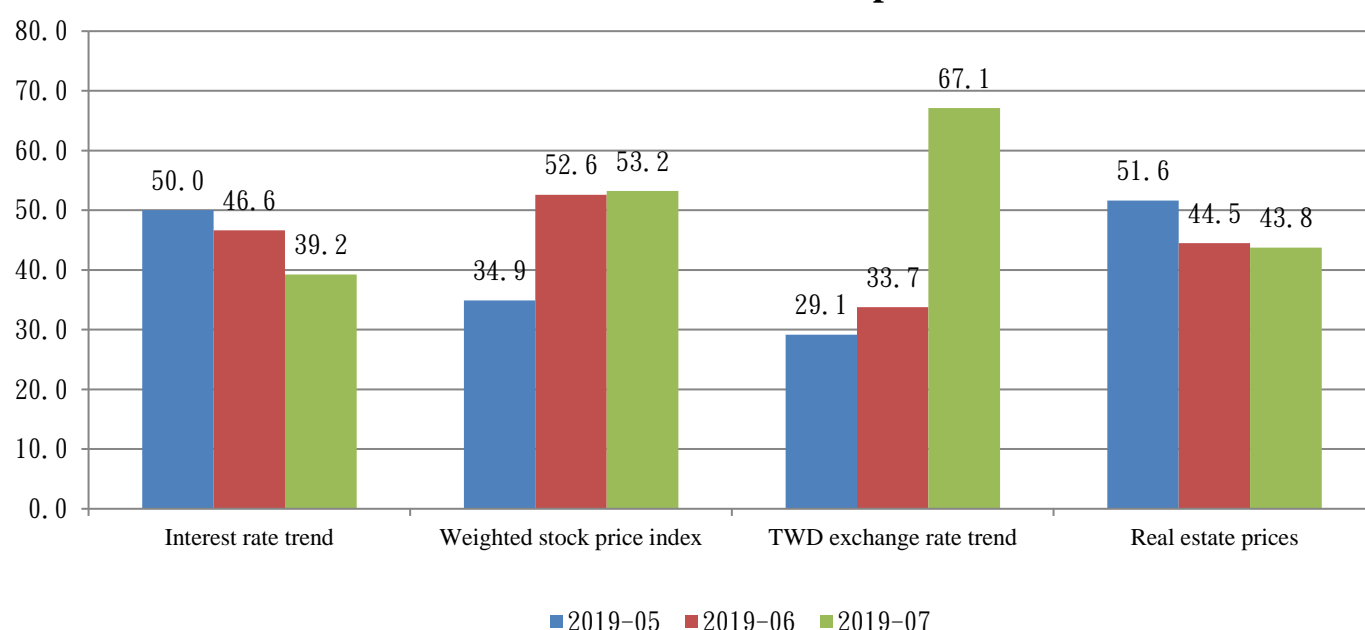


Data source: TABF

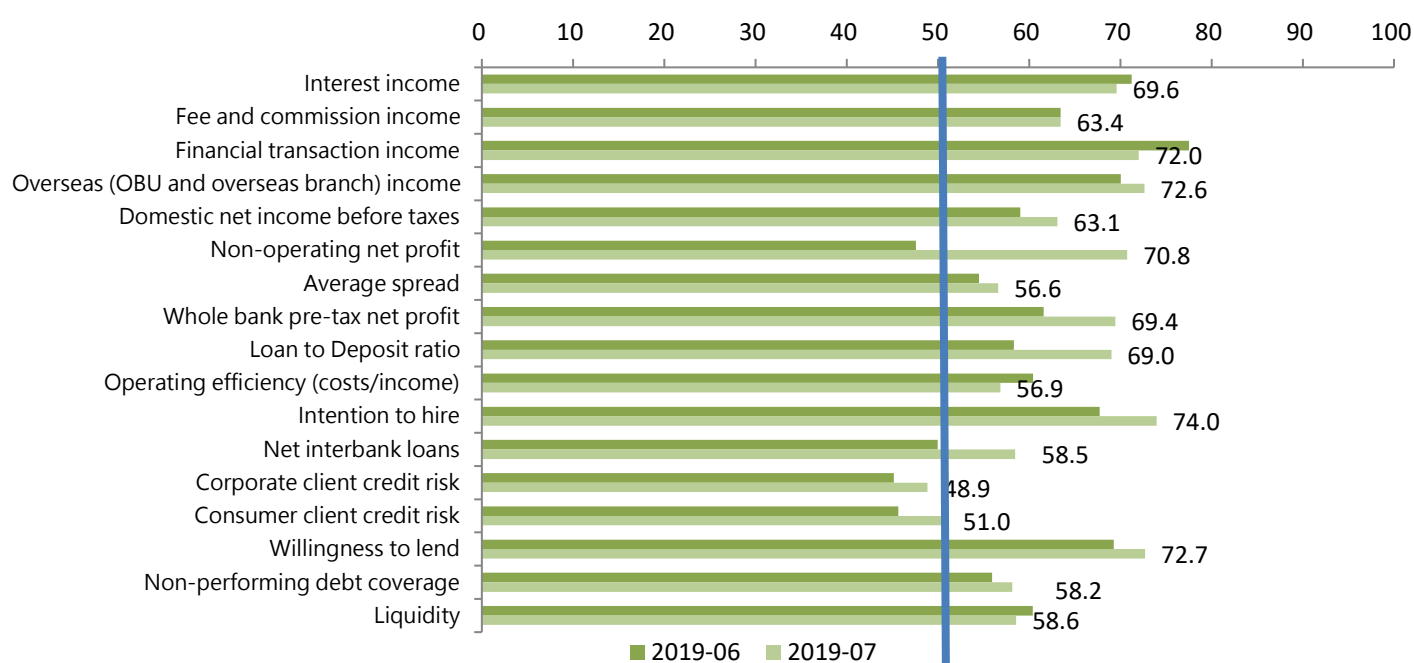
The July 2019 BEI Comprehensive Index compiled a score of 60.6, 6.88% higher than the June score of 56.7. The BEI Operations Index score was 62.8, 5.72% higher than 59.4 in June. The passage of legislation for repatriation of overseas funds attracted capital back to Taiwan. New capital expenditures and working capital loans rose sharply in June, and credit, wealth management, and trust businesses expanded. The MOEA believes the trade war between Japan and Korea will have a transfer effect on Taiwanese semiconductors in the short term. The stock market is in earnings season, so loan-to-deposit ratio and pre-tax net profits have both risen; client credit risk is lower than last month. Banks continued to be optimistic about interest and transaction fee income. They had positive views on overseas profits and OBU/foreign branch income in the first 5 months of the year, with a positive overall outlook.

The BEI Market Index reached 50.8, 14.41% higher than 44.4 in June and now within the positive range. On rates, Fed Chairman Powell testified to Congress that the uncertainty of the US economic outlook has increased, increasing market expectations of rate cuts in 2H. Views on rates continued to fall to 39.2. The US and China held trade negotiations in Shanghai at the end of the month, and Huawei's export ban exemption application will be processed shortly. Taiwanese stocks are entering earnings season, and bankers' views on future stock performance reached 53.2. In anticipation of the Fed cut, earnings reports, and fund repatriation, views on the NTD returned to a positive range at 67.1. For real estate, new mortgages decreased by NT\$ 3.95 from June. Housing sales in the six major cities decreased, and bankers maintained a conservative view. The BEI Real Estate Index fell slightly to 43.8.

BEI - Market Index Components



BEI - Operations Index Components



Changes since last month

Rank	Best performing indicators	Worst performing indicators
1	Non-operating net profit	Financial transaction income
2	Loan to Deposit ratio	Operating efficiency (costs/income)
3	Net interbank loans	Liquidity
4	Whole bank pre-tax net profit	Interest income
5	Consumer client credit risk	Fee and commission income

Data source: TABF