



Banking Executive Index (BEI) Newsletter

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August Highlights

- **Corporate risks increase with the trade war, overseas and financial outlook deteriorate**

The US-China and Japan-Korea trade wars heated up, causing financial market volatility. Bankers' views of non-operating profit over the next three months reached a new low. Corporate and consumer credit risk has risen due to the fast-moving trade situation, and confidence in client credit has decreased. As the RMB broke through the 7 mark and the protests in Hong Kong remain unresolved, confidence on financial transaction fee and main overseas business income declined, causing the BEI Operations Index to fall.

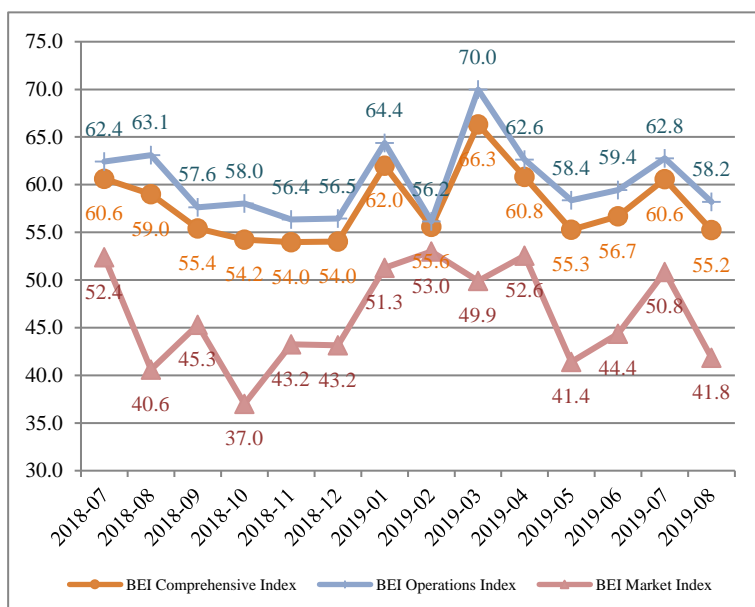
- **The trade war increased economic uncertainty, and the stock market index fell**

With the US bond yield inversion and unclear progress in the trade war, the market is uncertain about the economic outlook, and expectations for a future Fed cut are increasing. The trade war rapidly expanded in August, and the tariffs increased to 25%-30%. Corporate profitability faced downward pressure, and views on Taiwan stocks turned negative. For rates, affected by both trade wars, the RMB depreciated past 7. The Korean won reached a 7-year low, and bankers expect depreciation of the NT dollar. For real estate, views on the domestic housing market for the next three months rebounded for the first time since June, but still within a conservative range below 50 due to internal and external political and economic factors.

- **Domestic and international economic and political focus points in August**

1. The resurgence of the US-China trade war; 2. The possibility of no-deal Brexit; 3. The new trade war between Japan and Korea; 4. The pace of rate cuts by central banks; 5. Repatriation of funds to Taiwan; and 6. Process in domestic virtual and open banking.

BEI Trends

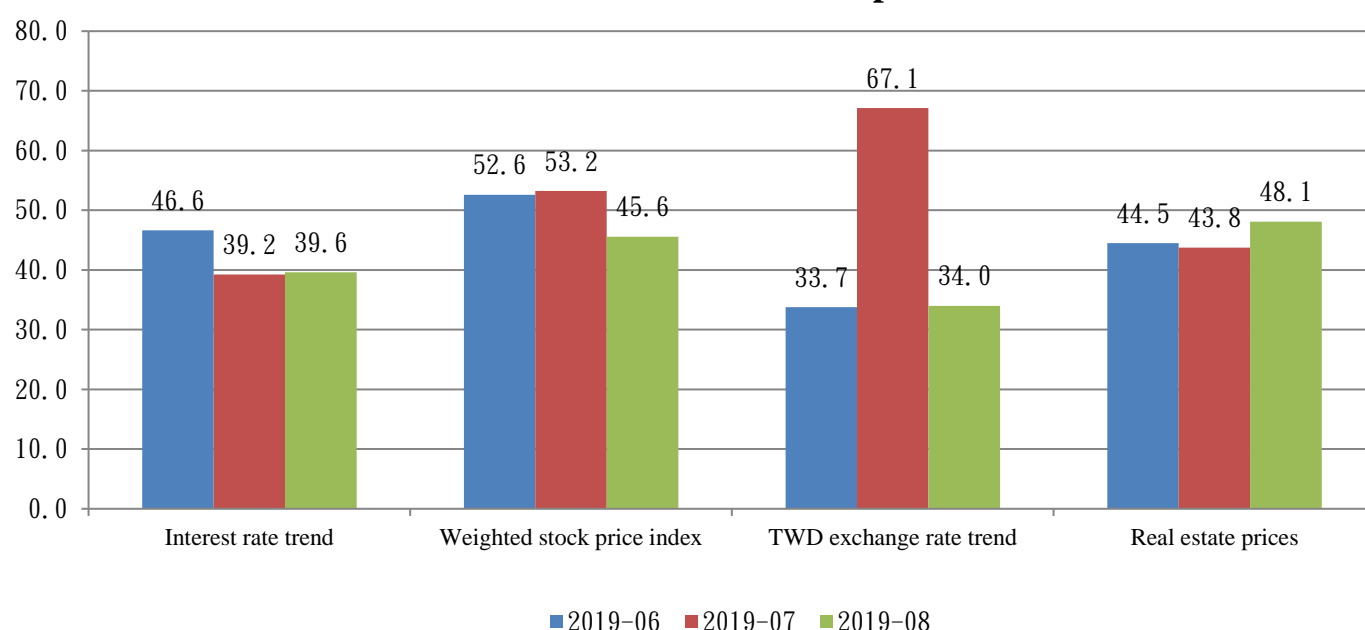


Data source: TABF

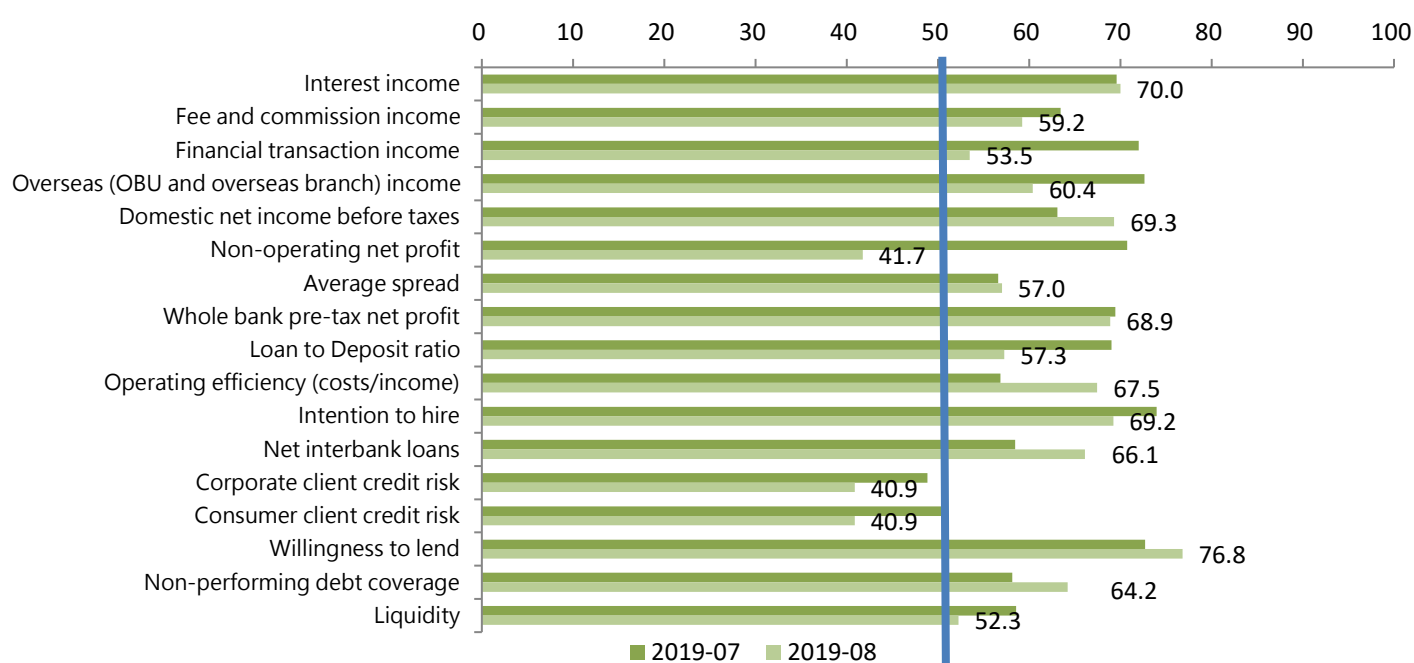
The August 2019 BEI Comprehensive Index compiled a score of 55.2, 8.91% lower than July's 60.6. The BEI Operations Index score was 58.2, 7.32% higher than 62.8 in July. The US early this month imposed tariffs on the remaining US\$ 300 billion worth of goods, and after China's retaliatory tariffs, it further increased the rate 5% to 25%-30%. Further, a new trade war has arisen between Japan and Korea, causing market volatility. The complex and volatile international situation has increased the risks of banks' international and investment operations. Expectations for non-operating profit over the next three months reached a new low, and client credit risk has risen. Expectations for income from transaction fees and overseas operations fell as the RMB depreciated past 7 and the turmoil in Hong Kong continued.

The BEI Market Index scored 41.8, 17.72% lower than July's 50.8. With the US bond inversion, plus its trade war with China and increased economic uncertainty, banks' optimism on rates continued to fall to 39.6. Views on the domestic stock market fell to 45.6 as corporate profits fell. With the RMB depreciation and the outbreak of the Japan-Korea trade war, the Korean won also fell to a 7-year low, causing expectations of NT dollar depreciation, with a score of 34. For real estate, new mortgage lending in July reached a 3½-year high. August performance was better than last year's, so the BEI housing market sub-index reached 48.1, its first rebound since June.

BEI - Market Index Components



BEI - Operations Index Components



Changes since last month

Rank	Best performing indicators	Worst performing indicators
1	Operating efficiency (costs/income)	Non-operating net profit
2	Net interbank loans	Financial transaction income
3	Non-performing debt coverage	Consumer client credit risk
4	Domestic net income before taxes	Loan to Deposit ratio
5	Willingness to lend	Overseas (OBU and overseas branch) income

Data source: TABF