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Hong Kong banks face tight funding this year by Sam Hopkins

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This is because Renminbi deposits turned down in January for a second month for hitting their lowest level since July. Now, the reduction which is matched with increased lending of offshore Renminbi (CNH) from Hong Kong is in China again. Moreover, issuance of CNH certificate of deposits which was sold by Chinese Banks and CNH bonds was increased, as per some analysts. There is a competition among Chinese banks for offshore Renminbi by issuing certificates of deposit for the duration of 12 months, analysts added. The tight monetary policy implement by the Chinese central bank has been unwound by it. But, the easing has come slowly. Moreover, it has been more regarding stabilizing liquidity as compared to stimulating the system.

According to some analysts, although Renminbi deposits are little part of total funding base of banks of Hong Kong, but the slow opening up of channels for CNH which is intended to be sent back into China seems to have some long term risks, for the liquidity of Hong Kong banking system, and that too at time when it has an additional stabilizing influence on liquidity on the Chinese banking system. Analysts at Goldman Sachs said that there are now more â€˜two-wayâ€™ Renminbi flows betwee onshore and offshore markets through the trade channels. They further said that the increased CHN outflows matched with the pickup in CHN lending activities in Hong Kong which may probably flow into China for taking the advantage of the Renminbi FDI scheme.

Tom Quarmby who is an analyst at Barclays Capital stated that there were no appreciation expectations implied by forward Renminbi exchange rates in January, which according to him was in key faction in the 2%, or Rmb12.5bn decline in deposits to Rmb576bn ($91bn). It followed a 6% fall in the month before. He further stated that the continued development of more CNH usage channels allows for easier homecoming to China which will continue to place pressure on system liquidity. Need quick finance apply with same day loans no credit check @ http://www.samedayloansnocreditchecksuk.co.uk/ and get quick funds.

Almost Rmb400bn was freed up by the central bank when loanersâ€™ required reserves were cut by it, previous month. The effect of the move was then partially reserved by the central bank by draining money through its open-market operations. But, in January, Rmb800bn in deposits had run out of the banks. At the time when these withdrawals are part of usual seasonal flows, clue will be given by deposit data of February about banks losing more deposits to investment products and higher yielding savings. Security Times, and official newspaper told that about Rmb500bn in new loans were issued by Chinese banks in the previous month. In that case, that amount may be below expectations, which will suggest that the position of cash will be comparatively tight for the Chinese banks.

There is other side of story also. Liquidity seems to be healthy from the money market prospective. The 3.5% fall of the seven day repo rate, a gauge of short term financing costs was witnessed which was lowest in nearly a month. The same was as high as 7% before the reserve requirement cut. In Hong Kong, the total deposits increased overall 1% in January due to the slight improvement in Hong Kong dollar deposits. But, on the other hand, there was hardly 83.4% change in the loan-to-deposit ratio, which was high for Hong Kong. Mr. Quarmby said that some system liquidity is being expected despite some seasonal easing to remain comparatively tight due to structural changes which include the exit of European players and ongoing deregulation also in the CHN market.

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