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# Different flows

## Deposit flows into Asia's banks are important

Deposit flows into Asia's banks are important not just because they help fund the regional banks, but because they are funding growth and lending throughout the world.

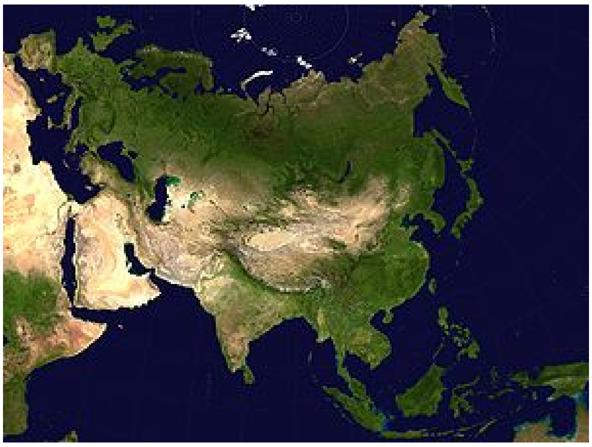
The developed world is still deleveraging but savings levels in the US and Europe have a long way to go to catch up with Asia, and Asian banks are increasingly involved in the global bond deals and syndicated loan deals the developed world desperately needs. Their strength, of course, has always come from the high savings rates western banks can only dream of.

In terms of deposit flows, however, the picture is not quite as clear-cut as it used to be, and there are several themes at play.

A few years ago it was simple equation: Asian families would save their money into deposit accounts and the world could rely on that. Now, the Asian banking system has become more sophisticated and people have a number of different products to put their funds in beyond the old plain vanilla deposit accounts.

There are isolated stories – such as outflows in Vietnam where depositors have enjoyed double digit rates - and strong growth in deposit flows for Indonesian banks, but once again the main story is focused on China.

The Asia-Pacific may well have the highest population of High Net Worth Individuals (HNWI) in a region – with 3.37 million people with US$1 million or more in investible assets – but they are increasingly looking to put their money into assets such as real estate and also gold.



The growing financial sophistication of China's newly affluent population combined with the development of the banking system there means that funds which would once have found their way into savings deposits now have a number of competing destinations. Chinese banks are now competing on deposit rates in the context of tight liquidity in the interbank market.

One of the major developments in the Chinese market in the last few years has been in the offering of wealth management products, and there are an estimated 20,000 currently on the market. In September alone, China's commercial banks launched just over 2700 new wealth management products.

Many Chinese consumers are turning to these wealth management products because they offer better returns than the traditional banks and – on face value at least - don't have the risk of equity investments. For example, one-year fixed deposits usually yield interest rates of around 3.25 percent, compared with 4.5 percent through wealth management. Sales of these types of products hit US$1.9 trillion in the first half of 2012.

The other Chinese theme is the increasing convertibility of the RMB, and the renewed growth of RMB accounts in Hong Kong.

There's been a steady drop in yuan deposits held in Hong Kong over the past year, but the RMB hit a 19 year high in late October, prompting a return to yuan deposits.

Interest rates on yuan products are rising in Hong Kong – HSBC pays 3.05 percent for a 12 month RMD certificate of deposit (CD) against 1.4 percent for the equivalent in $HK. Citibank is paying 3.0 percent for three months.

Asian consumers are still strong savers, but the internationalization of the RMB, the growth of cross border banking and the development of wealth management are changing the deposit dynamics.

Combine that with low interest rates, and Asia's savers are on the lookout for the best returns, and in the current market it looks like that might be the traditional term deposit at their local bank.