

# RMB

The Offshore Renminbi Review  
Respondent Report – Issue One Q4 2012



## INTRODUCTION

In view of the increased activity in the offshore Renminbi markets, Standard Chartered Bank launched its Renminbi Research series in November 2012. The series has two elements: the monthly Renminbi Globalisation Index, which tracks the recorded transaction volumes in four offshore Renminbi products (deposits, trade settlement and international payments, bonds and certificates of deposit and FX) and a quarterly survey of corporate opinion, The Offshore Renminbi Review, conducted by Asset Benchmark Research. Copies of the Renminbi Globalisation Index reports are accessible on [Standard Chartered's website](http://research.standardchartered.com) (<http://research.standardchartered.com>).

In the first Offshore Renminbi Review, some 150 treasurers and senior treasury/finance executives from Asia and Europe participated in an online survey which asked whether they are, or plan to be involved in six main areas of offshore Renminbi activity: deposits, trade settlement, FX transactions, CNH bonds, loans, portfolio investments. More than 20 respondents also provided comments in follow-up interviews.

## METHODOLOGY AND RESPONDENT DISTRIBUTION

### Email invitations to take part in the Offshore Renminbi Review

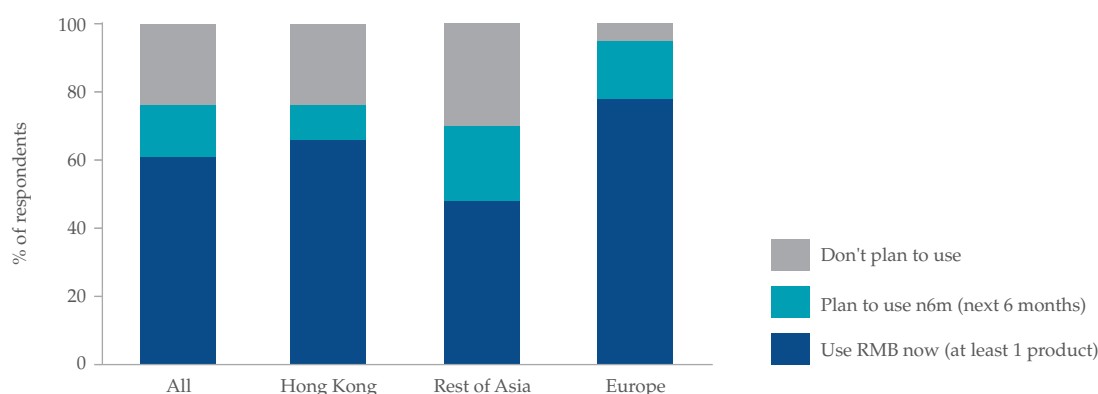
- The on-line questionnaire was sent to finance directors, CFOs, treasurers and senior treasury managers in corporations in Hong Kong and several Asian and European countries.
- Follow-up interviews were conducted with randomly selected respondents.
- Respondent distribution was 51% from Hong Kong, 14% from Europe and 35% from the Rest of Asia.

# CORE SURVEY FEEDBACK – Q4 2012

## Offshore Renminbi is gaining traction with corporates

- 76% of respondents are either conducting business in at least one of the six areas of offshore Renminbi activity tested, or may consider doing so over the next six months.
- Large companies in Hong Kong are more likely to use Renminbi offshore compared to similar enterprises in Singapore, Indonesia, Malaysia, Philippines, Thailand or Taiwan.
- While European companies are even more likely to use offshore Renminbi than those in Hong Kong, all the European companies invited to take part were known to have activities in China, whereas in Asia we invited a random selection of top-tier listed companies and MNCs.

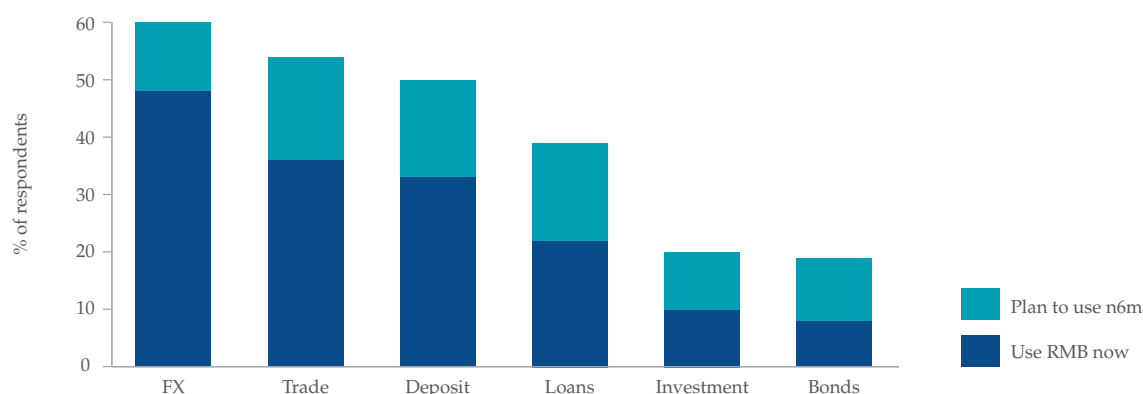
### OFFSHORE RENMINBI USAGE



## The most common offshore use of Renminbi is for FX transactions

- Almost half of the respondents, or 60% if one includes potential users, are using offshore Renminbi FX, driven by hedging needs.
- For Renminbi trade settlement, potential users are mainly eyeing the benefits of better FX risk management, while those already using Renminbi for trade settlement appreciate the improvement in timeliness or are doing so at the request of onshore counterparts.
- According to the survey responses, the two main drivers of CNH (Dim Sum) bond issuance are the lower cost of funds and the expansion of financing channels; more than half of the relevant respondents said they will use the proceeds to make investments onshore in China.
- The need to fund investment in, and finance trade with, China is set to drive future growth in CNH loans.

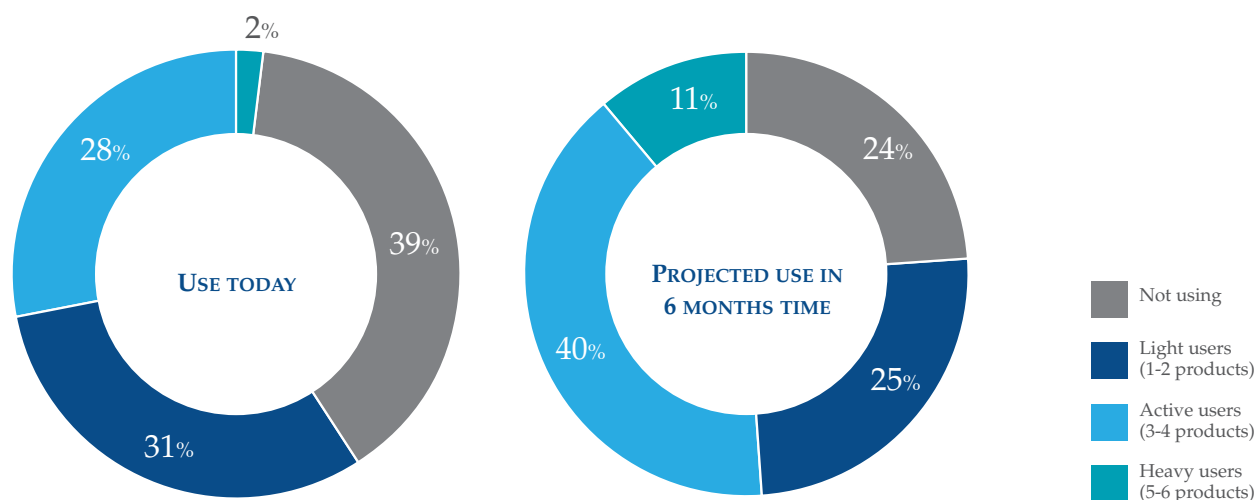
### RENMINBI PRODUCT USAGE – CURRENT AND POTENTIAL



## Projected changes in the number of Renminbi products used

- 44% of respondents are planning to add at least one of the offshore Renminbi products that they don't currently use. Companies already using at least some Renminbi products are more likely to add more than those not using any today.
- Projecting forward six months if users follow through on these plans then 51% of respondents will be using 3 or more offshore Renminbi products, compared to just 30% today. At the same time non-users will reduce to 24% from 38% today.

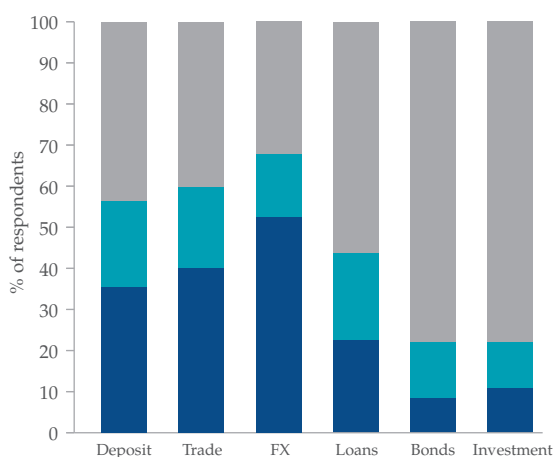
### PROJECTED CHANGES IN THE NUMBER OF RENMINBI PRODUCTS USED



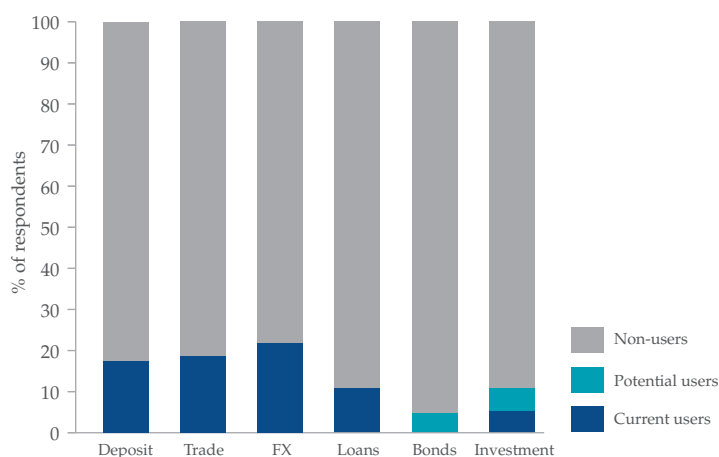
## Companies with affiliates in China are more likely to be active users of offshore Renminbi products

- Companies with affiliates in China are 31% more likely to use Renminbi FX products offshore, 24% more likely to use offshore Renminbi trade settlement products, 18% more likely for deposits, 8% more likely for loans, 8% more likely for bond issues and 5% more likely for investment products.

### PRODUCT DISTRIBUTION FOR COMPANIES WITH AFFILIATED ENTITY IN CHINA



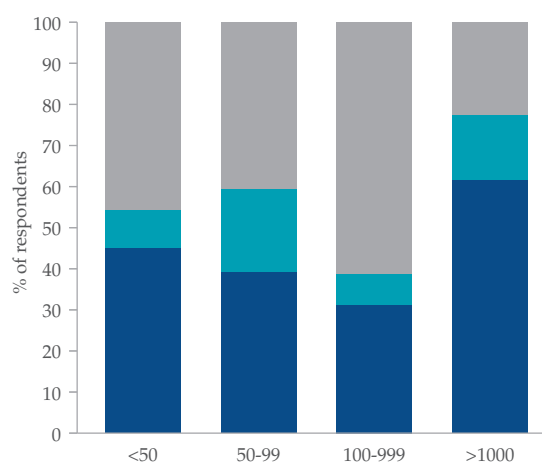
### WITHOUT AFFILIATED ENTITY IN CHINA



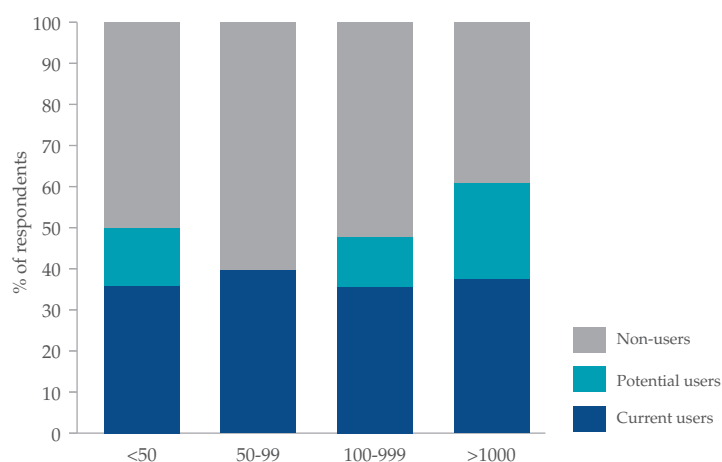
## The usage of offshore Renminbi is only marginally related to the size of the company

- The largest companies, in terms of employee numbers, are the most active users of FX Renminbi products.
- Current and potential users of offshore trade settlement products and deposits are evenly distributed across the different-sized companies.
- The smallest companies are the least likely to be using offshore Renminbi loans.

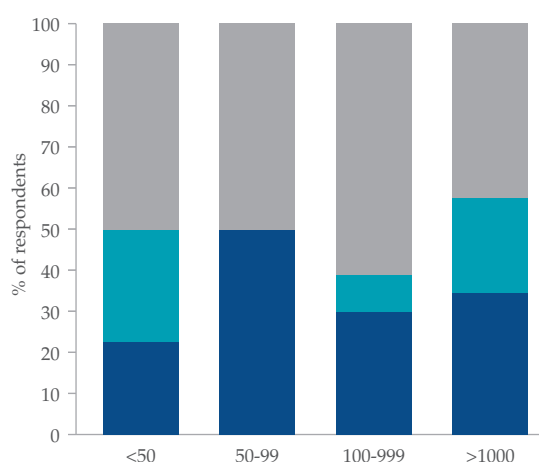
**DISTRIBUTION OF FX TRANSACTION USERS  
BY EMPLOYEE NUMBERS**



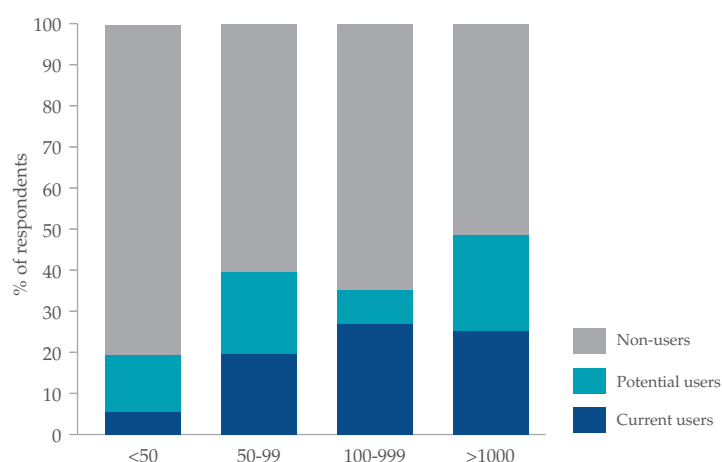
**DISTRIBUTION OF TRADE SETTLEMENT USERS  
BY EMPLOYEE NUMBERS**



**DISTRIBUTION OF DEPOSIT USERS  
BY EMPLOYEE NUMBERS**



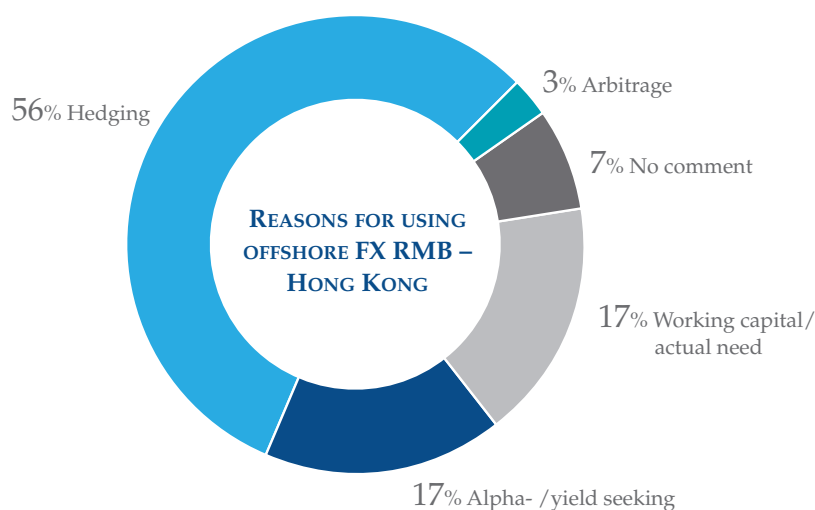
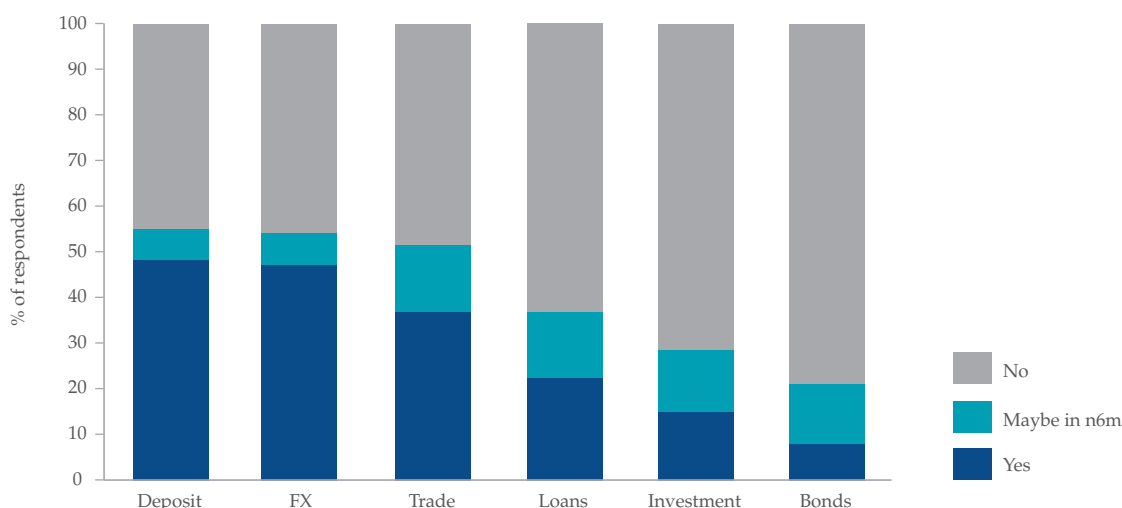
**DISTRIBUTION OF LOAN USERS  
BY EMPLOYEE NUMBERS**



## THE VIEW FROM HONG KONG

- Respondents in Hong Kong are active users of Renminbi deposits (48% of respondents) and FX (47%). The other available products are less widely used.
- Respondents primarily use the offshore Renminbi FX markets to hedge or to increase yield.

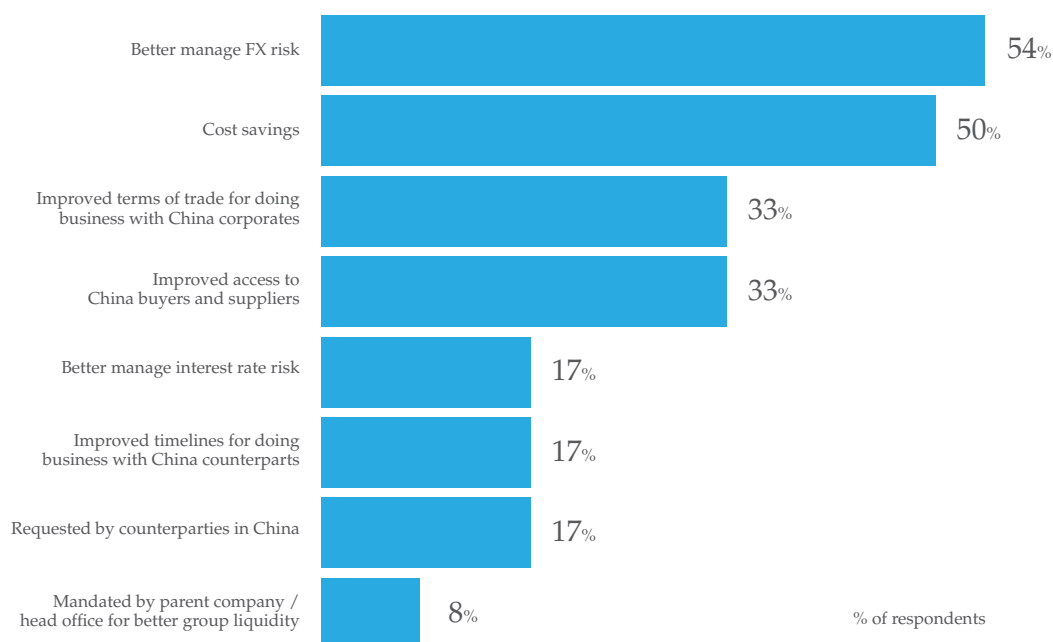
### RMB PRODUCT USAGE – HONG KONG – CURRENT AND POTENTIAL



*“[We use offshore Renminbi] for investment purposes – as [our] investment is in Mainland China and the ultimate currency used is RMB. For that project, the revenue is in RMB and investment currency is RMB. So we have a natural hedge. Overall speaking, the trend of RMB is still rising. As a result, using RMB has been beneficial to us in terms of revenue/income from the China business.”*

- Risk management is cited as the major purpose for using offshore Renminbi for trade settlement (54%), followed by cost savings (50%).

#### RENMINBI TRADE SETTLEMENT USAGE IN HONG KONG - PURPOSES



Comments from Hong Kong include:

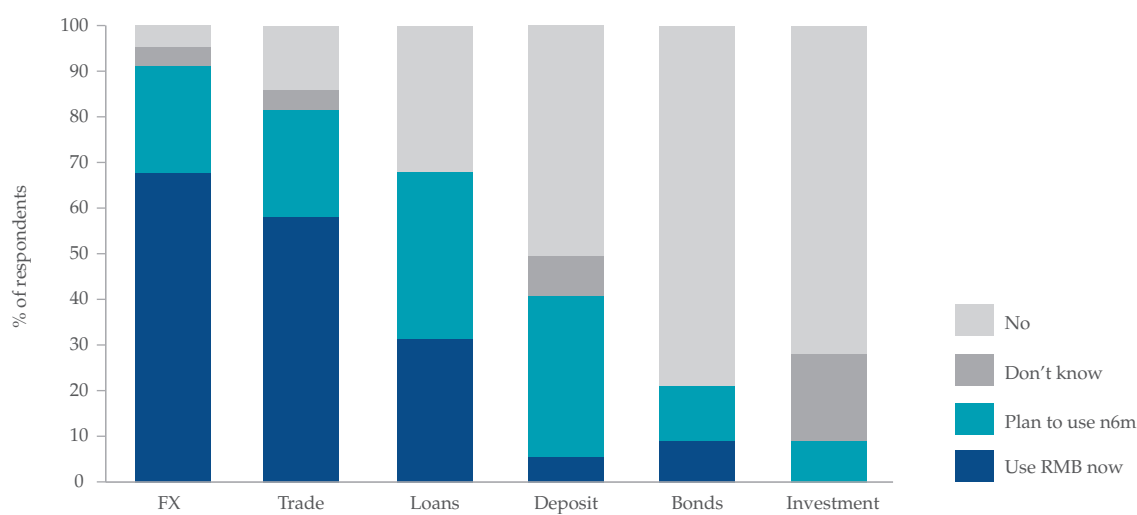
- “I suspect there is a lot of potential there [in offshore Renminbi]. Still a bit of skepticism with the system itself. But the potential is a lot – as usage is at the tip of the iceberg compared to the size of the economy that we’re looking at in China.”
- “HK is the centre mainly because it has China as its hinterland. And of course HK is a very important international financial centre. HK has a lot of real currency requirement for RMB. We really need it – we are not speculating in it. Of course there are companies or people who try to speculate, they think it will appreciate, therefore they buy the RMB. For many other businesses like our company – we really are a user of the currency. HK has a wonderful banking/financial system. All of those things provide good support for currency transactions.”

*“When you are in business you have to have a win-win situation. We satisfy the factories by paying them in RMB. In that case they don’t have to worry about the depreciation of the US dollar. If we pay them in RMB, it’s their own currency, so they do not need to guard against currency risk. That means our company is taking up the currency risk. That’s why we utilize the special products of the banks to buy the RMB.”*

## THE VIEW FROM EUROPE

All the European companies invited to take part in the survey were known to have an interest in China, so we should not be surprised at their high levels of offshore RMB usage. This usage is relatively focused on trade and FX (with some loans). In contrast Hong Kong-based respondents are more likely to be using, or to plan to use, Deposits, Bonds and Investments.

**RMB PRODUCT USAGE – EUROPE – CURRENT AND POTENTIAL**



**While Europe respondents are using Renminbi, it represents a lower share of their total Trade and Loan volumes than for respondents in Hong Kong.**

- In Hong Kong, respondents settle an average of 14% of their trade in offshore Renminbi (ranging from 0.1% to 50%) versus 5% for companies in Europe (from 1% to 15%).
- Renminbi accounts for 11% of total funding for respondents in Hong Kong versus 1.3% in Europe.

*“The offshore Renminbi enables us to lend cross border from HK into China – we are creating Renminbi debt. The fact that it is become somewhat less controlled is helpful – controlled currencies always present a risk. The more flexible the currency and the more freely traded, the better it is.”*

Comments from Europe include:

- “We had a trade exposure that was managed in China which was quite sizeable. We looked at the benefit of changing our internal invoicing currency from a hard currency into Renminbi. The goal of the treasury is to have control of currency exposure centrally to mitigate the risk by looking at all exposures together - so making the management of currencies more efficient. Then as well it was to make it simpler for China so they focused on the business rather than the evolution of the currency market rates. Other benefits include being able to manage centrally, access to more banks and better rates, lighter documentation.”
- “We always try to get involved in opportunities that there are and the liberalization of the Renminbi was one of those. When it was introduced, we were very interested to get involved and we found that it worked out.

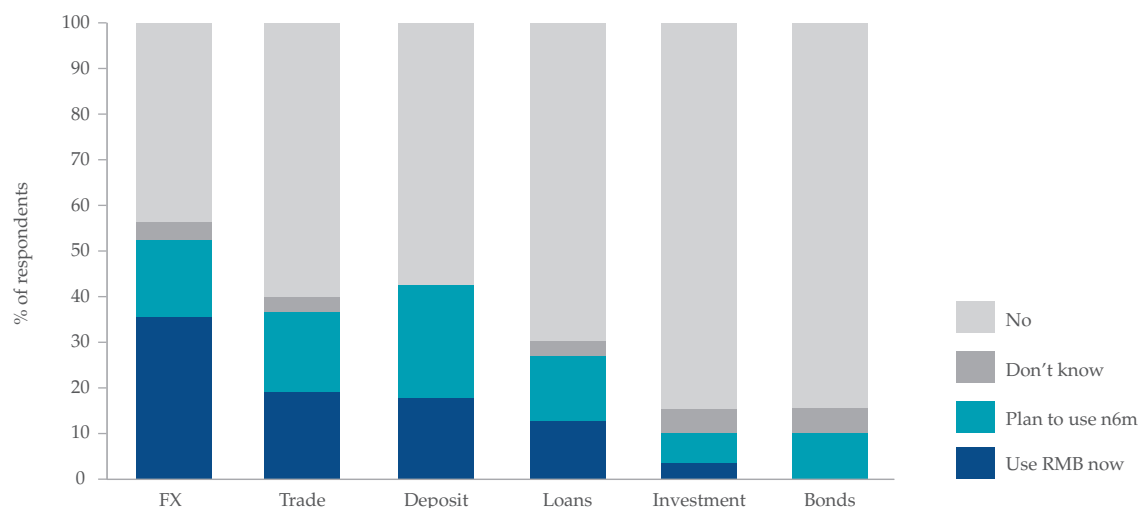


## THE VIEW FROM THE REST OF ASIA

Respondents from Asia ex Hong Kong are less frequent users of offshore Renminbi products.

- The most commonly used product is FX, although the largest expected increase is planned for Renminbi deposits.

**RMB PRODUCT USAGE – REST OF ASIA – CURRENT AND POTENTIAL**



Comments from the rest of Asia include:

- “We are not sure [about] using Renminbi offshore – this is something we are still just exploring.”
- “We started doing RMB business mainly because we find the value of CNH is good.”
- “We also receive queries from our vendors whether we can do it [can pay in RMB]. What's more is, we think that possibly, by paying our vendors in China in RMB, it may have some savings versus if we paid them in US dollar.”

*When questioned on the qualities of a financial centre to conduct Renminbi business, one respondent said: “Just like a bank, stability, an international banking partner with a credit rating that is compliant with our standards.”*

## QUALITATIVE FEEDBACK

### Advantages and concerns/difficulties

Our follow-up interviews generated further advantages of using the offshore Renminbi markets. They are (in no particular order):

- Centralised currency management from head office/treasury centre
- Access to more bank counterparties
- Reduced documentation.
- Payments reduce the need for FX transactions
- CNH bond issues provide access to a community of Asian investors
- On-line transactions possible using SWIFTnet linked to company's ERP platform
- Possible savings paying vendors in China in Renminbi rather than USD.

Some respondents commented on concerns/difficulties they were still facing. They are (in no particular order):

- Still a controlled currency, albeit less controlled;
- Price differences between offshore and onshore forward rates – these differences are not consistent. Sometimes better to hedge onshore, sometimes offshore;
- Insufficient information from regulators;
- Questions remain regarding taxation;
- On-line quotes can be unrealistic;
- Capital repatriation and onshore pooling by onshore Chinese entities not foreseen;
- Challenges setting up systems and processes.

### The decision-making and transition process

Most companies appear to be approaching the transition to offshore Renminbi in steps. Some companies began tests as early as 2010 and fully adopted the CNH in 2011 or 2012. In general, the geographical proximity to China was a factor that made the decision to use offshore Renminbi products more obvious.

Respondents said they were motivated to test new opportunities to reduce risk and increase control.

The impetus also came from banks, suppliers and/or clients. Convincing headquarters tended not to be a problem once the treasury specialists were satisfied with the advantages of moving into CNH.

### Financial centres

The general view was that Hong Kong, Singapore and London function well as centres to transact CNH. The important qualities (in no particular order) are:

- Legal framework is important;
- Infrastructure to support good clean deals;
- Sufficient deposits in offshore RMB and liquidity;
- Access to bank counterparties.

#### **About Asset Benchmark Research**

Asset Benchmark Research conducts in-depth, product-specific surveys in Asia's financial markets. Part of the group that publishes The Asset magazine, the research team specialises in accessing senior corporate decision-makers and institutional investors to provide accurate quantitative and qualitative data to assist in management decisions.

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