

# RMB

The Offshore Renminbi Review  
Respondent Report – Issue Two Q1 2013



*In association with*



## 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 (RGI), 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 (ORR), conducted by Asset Benchmark Research.

The second Offshore Renminbi Review took place in March 2013 and surveyed more than 150 treasurers and senior treasury/finance executives from Asia and Europe concerning their current and planned offshore Renminbi activity: deposits, trade settlement, FX transactions, CNH bonds, loans, portfolio investments. Many respondents also provided comments in follow-up interviews. Their feedback is shared in this respondent report.

## METHODOLOGY AND RESPONDENT DISTRIBUTION

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

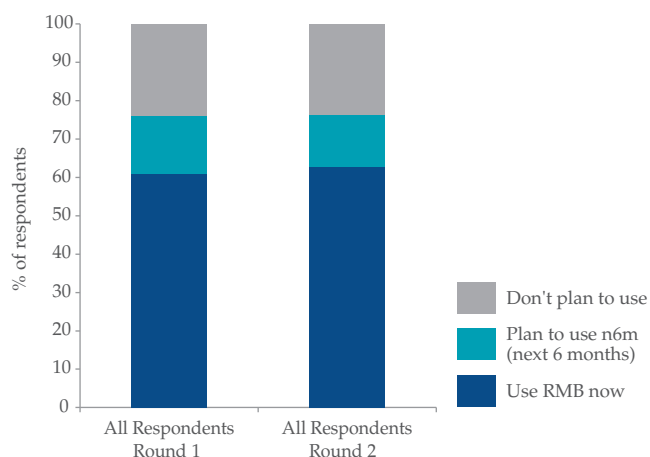
- The on-line questionnaire was sent to finance directors, CFOs, treasurers and senior treasury managers in corporations in Hong Kong, Singapore, Taiwan, Korea and several Asian and European countries.
- Three versions were available: English, Korean and Traditional Chinese.
- Follow-up interviews were conducted with almost a third of randomly selected respondents.
- Respondent distribution, with Round 1 percentages in brackets, was 41% (51%) from Hong Kong, 23.5% (29.2%) from South East Asia, 16.3% (6.2%) from North Asia (China, Taiwan, Korea), and 19% (14%) from Europe.
- More than half the respondents were large companies with more than 1000 employees.
- Two-fifths of respondents also participated in Round 1 of the survey in November 2012.

## CORE SURVEY FEEDBACK – ROUND 2 Q1 2013

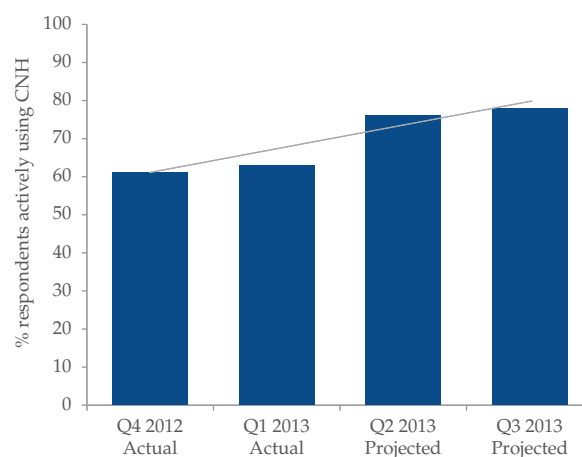
More companies are using offshore RMB today and we project that more will do so in the next 6 months

- Every three months, we ask corporates about their present and intended future use of the offshore Renminbi.
- In Q1-2013, current offshore Renminbi usage among companies surveyed increased by two percentage points from 61% to 63% of total respondents. The increase was most evident among Hong Kong-based companies – 81% of respondents currently use offshore Renminbi products, up from 66% in Round 1.
- Projecting RMB usage out to Q3 2013 implies RMB usage will continue to increase at a steady rate.

OFFSHORE RENMINBI USAGE



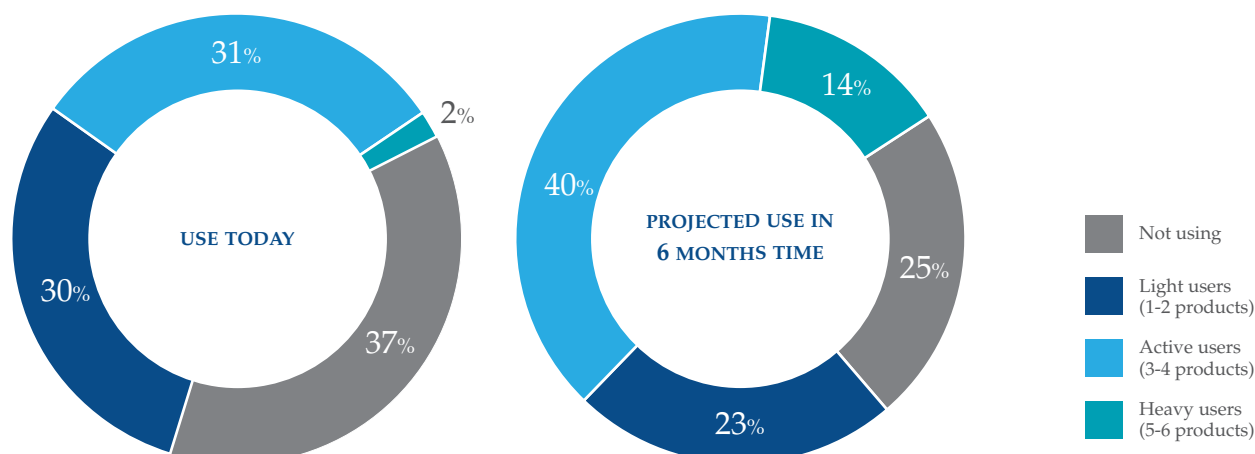
ACTUAL AND PROJECTED USAGE OF OFFSHORE RENMINBI



## More companies are using more Renminbi products

- In Round 2 we see more respondents (33%) actively using three or more products compared to Round 1 (30%).
- If users follow their plans for the next six months, by Q3 2013 54% of respondents will be using three or more products.

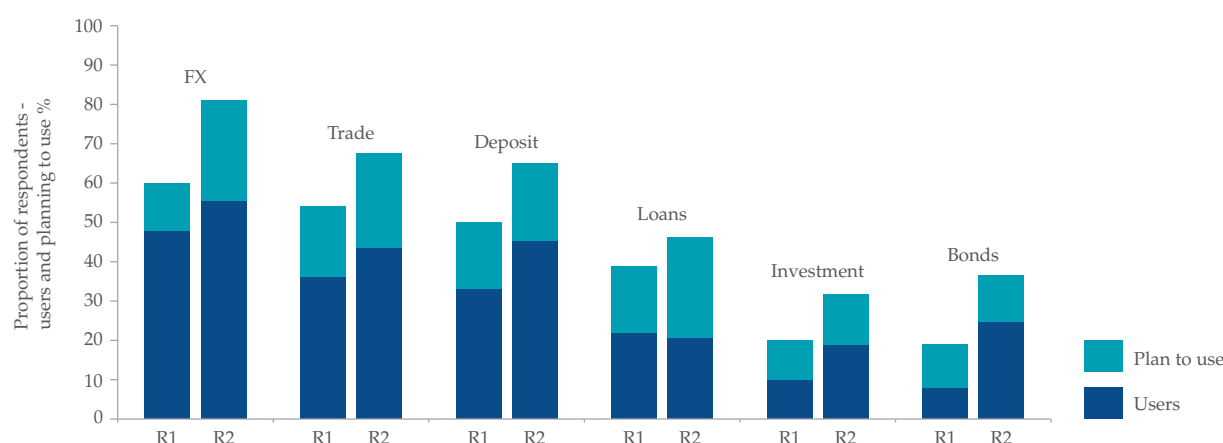
PROJECTED CHANGES IN THE NUMBER OF RENMINBI PRODUCTS USED



## The most common offshore use of Renminbi remains FX, with changes in product use visible over the past 3 months

- 56% of current offshore Renminbi users are engaged in CNH FX transactions, up from 48% in Round 1. Another 26% plan to get involved in the next six months. In total, 81% of those already using offshore Renminbi are either active in using CNH FX, or plan to be. This is a dramatic increase from 60% in Round 1.
- Usage of CNH Deposits also increased strongly. 45% of users and those planning to use CNH in the next six months already have CNH deposits and 20% are planning them.
- We also see a rise in the use and planned use of trade settlement products. Trade users increased from 36% of respondents in Round 1 to 44% in Round 2. Those planning to use trade settlement products in offshore Renminbi increased from 18% in Round 1 to 24% in Round 2.
- In this round of the survey we actively targeted CNH bonds issuers and they now form 25% of active users, up from 8% in Round 1. More respondents are also active in CNH investment products – 19% of CNH active companies, up from 10% in Round 1.
- In contrast, there was no material change in the current use of CNH loans, although the intention to use offshore Renminbi loans has increased, from 17% in Round 1 to 26% in Round 2.

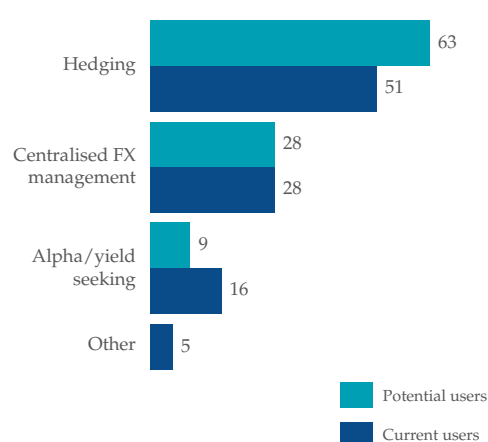
### RENMINBI PRODUCT USAGE – CURRENT AND POTENTIAL USERS ROUND 1 AND 2 – %



## Most respondents are moving to offshore RMB to assist them in managing the risks and costs relating to their business in China

- When asked to identify the single most important purpose for engaging CNH FX, two-thirds (63%) of current users and 51% of potential users are motivated by the need to hedge their exposures. The second most important motivator is to centralise FX management – 28% of both current and potential users cite this objective. A further 16% is seeking alpha/yield.
- Respondents identified better risk management, costs savings and relationships with their counterparts in China as the main reasons for moving to CNH Trade settlement, out of a list of eight possible drivers.

PURPOSE OF USING CNH FX – % OF RESPONDENTS



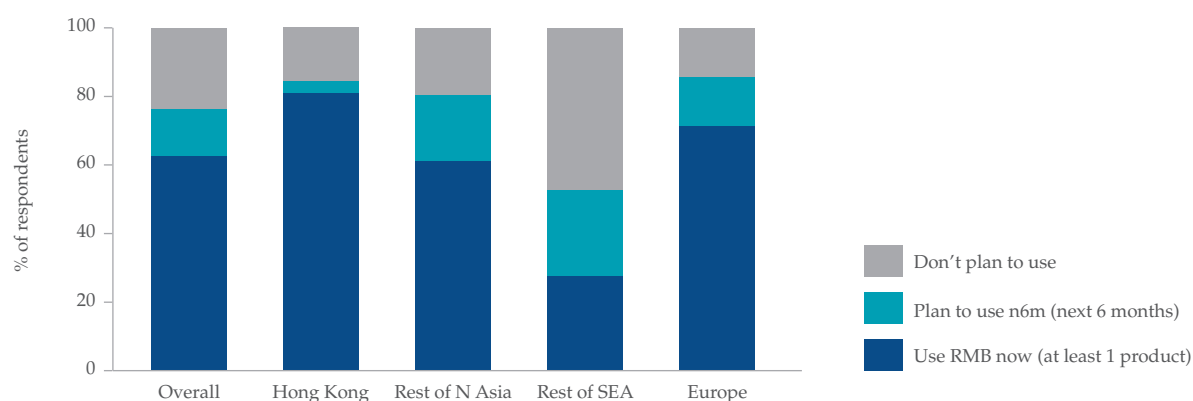
PURPOSE OF USING CNH TRADE SETTLEMENT – % OF RESPONDENTS



## Offshore RMB usage is most established in Hong Kong, and amongst European companies active in China

- Our data shows marked variations in the extent of offshore RMB usage, based on the location of the respondent.
- North Asia companies currently lag behind though many have plans to expand usage in the next 6 months. It is possible that Taiwan's new clearing bank capabilities and the rise in China-ASEAN trade will be the catalyst for the next wave of CNH conversion, following the rise in usage by Hong Kong corporates and European multinationals.
- Southeast Asian respondents appear to trail others in their CNH market participation. In discussions some Singapore non-RMB users shared concerns with market maturity and liquidity, while others have little or no business with China and no current need to use offshore Renminbi.

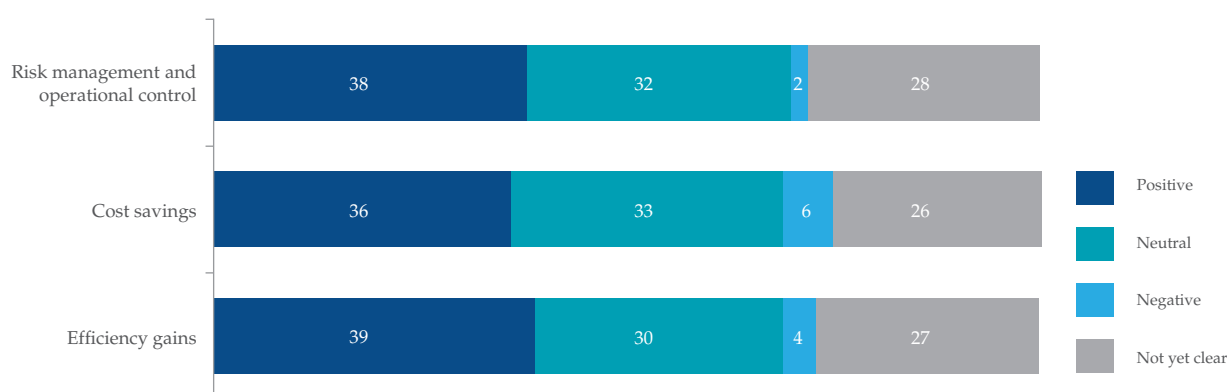
OFFSHORE RENMINBI USAGE



## While 40% of CNH users see their experience as positive, others say the benefits are not yet clear

- Approximately 40% of respondents rated their CNH activities as positive, particularly in terms of efficiency gains. The majority, however, report either neutral benefits or say that it is too early to assess the outcome.
- A few have had a negative experience, largely in relation to costs. Regulatory challenges and liquidity considerations were cited as concerns by several respondents.

### EXPERIENCE WITH CNH % OF RESPONDENTS



### Views from current non-users:

- “Offshore RMB bonds issuance is not permitted now. The mainland Chinese government will approve these kinds of financial products by the end of this year.” Taiwan corporate, planning to use RMB.
- “It’s unlikely for us to start any offshore RMB business at the moment. I think at this stage the offshore RMB is just developing although there is a lot of interest, but the level of liquidity is not there yet, and that’s our perspective.” Singapore corporate, with no plans to use RMB.

*“Liquidity is something we are concerned about; and probably the stability or track record.”*

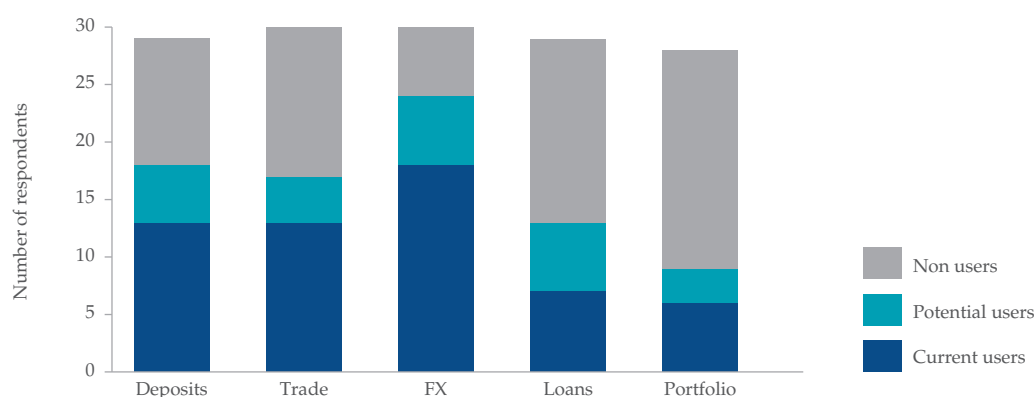
### Views from current users:

- “So far, our experience has been positive,” explained a respondent “I don’t know whether it is cost effective. It’s too early to say.” European multinational using CNH FX and trade settlement products.
- “When it comes to cost savings, it is very opportunistic. There is cost effectiveness sometimes when there are better offers in the offshore market. Generally, I had a positive experience of our offshore RMB business,” Asian issuer of CNH bonds and holding CNH deposits.

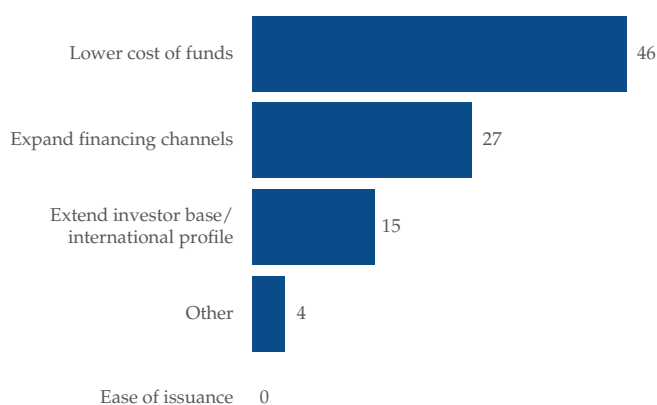
## Those companies that have issued RMB Bonds are likely to be active users of other RMB products

- 30 respondents have issued CNH Bonds, and all but three of these are actively using or plan to use additional CNH products. Most CNH Bonds issuers (60%) also use CNH FX and 43% have CNH deposits or use CNH for trade settlement. Twelve of the 30 CNH Bonds issuers surveyed (40%) also plan to engage in more CNH products in the next six months.
- The key motivations for issuing CNH Bonds has been to lower the cost of funding (46%) and to expand financing channels (27%).
- CNH issuers surveyed are considerably more likely to issue more bonds in the future than non-issuers. 42% of issuers said they are likely to issue in CNH again in the future, whereas 81% of non CNH Bonds issuers have no plans to issue CNH Bonds (11% may issue and 8% do not know).

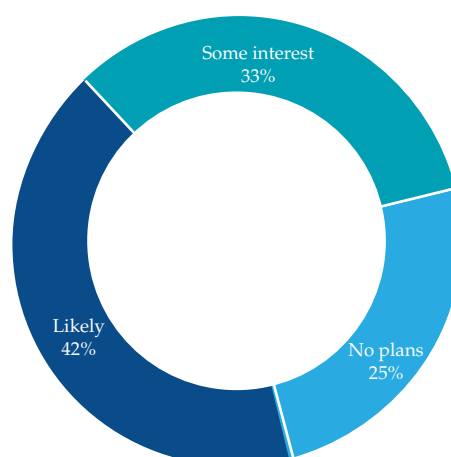
### CNH BONDS ISSUERS – ADDITIONAL PRODUCTS USED/PLANNED



### MOTIVATION FOR ISSUANCE OF CNH BONDS % OF RESPONDENTS



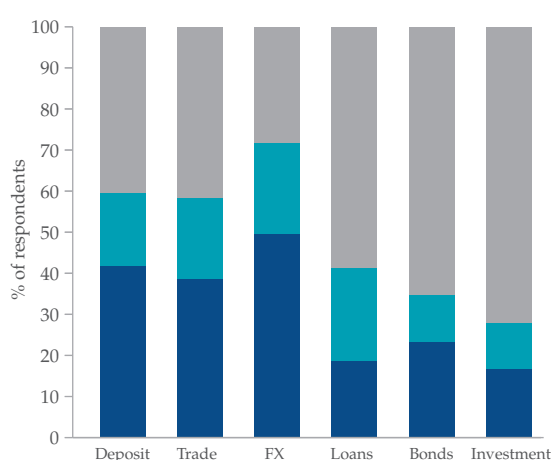
### LIKELIHOOD FOR CNH ISSUERS TO ISSUE OFFSHORE RMB BONDS IN THE FUTURE



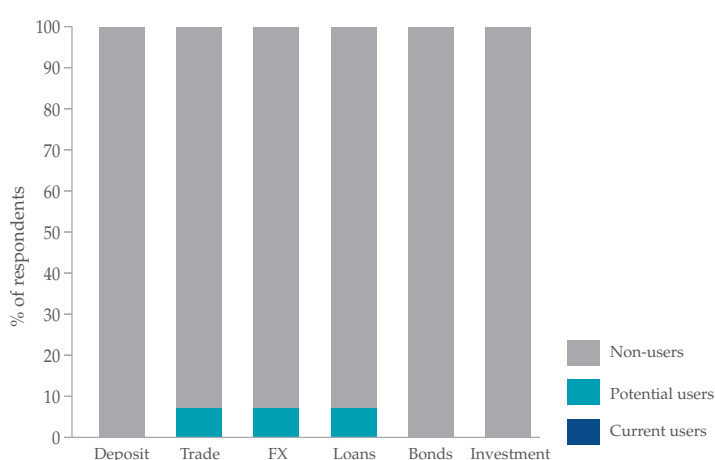
## COMPANIES WITHOUT AFFILIATES IN CHINA ARE RARELY ACTIVE USERS OF OFFSHORE RENMINBI PRODUCTS

- The difference between companies with affiliates in China and those without is even more marked in Round 2 than in the last survey.
- In Round 1, 18% of companies without entities in China were active in CNH FX and/or trade settlement products, however in Round 2 those companies without entities in China were not current users of Offshore RMB products, and few planned future use.

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



**PRODUCT DISTRIBUTION FOR COMPANIES WITHOUT AFFILIATED ENTITY IN CHINA**

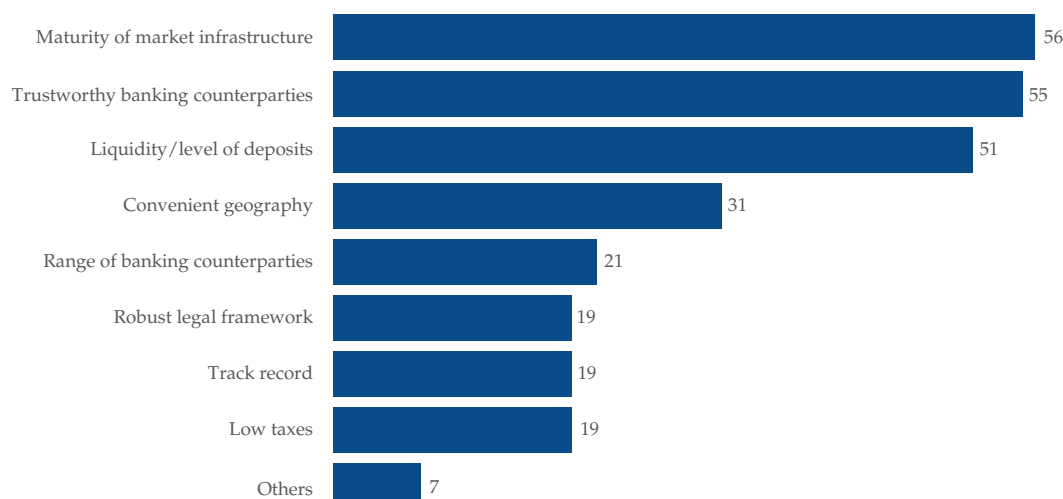




## LOCATION OF CNH FINANCIAL CENTRE AND REGULATIONS

- As the number of offshore Renminbi financial centres is set to expand, we asked respondents to give the three most important factors that drive their choice of centre. The top three factors are the maturity of the market infrastructure, trustworthy banking counterparties and market liquidity.

### FACTORS THAT DRIVE CHOICE CNH CENTRE % OF RESPONDENTS



*“The range of banking counterparties is an important factor to us. We are located in Singapore. Unless liquidity becomes an issue, we naturally go to where there’s best value for us. When there’s not enough liquidity in Singapore but it is better in Hong Kong, and if our volumes require more liquidity, then we go to Hong Kong. That’s make what most sense from value perspective.”*

- Another said: “I’d say trade location is essential. So far, I would say most of the offshore RMB are used as trade settlement. If most of the trades are settled in Hong Kong, then we would choose Hong Kong as the centre to use. Other than that, I think the track record, liquidity and the number of available products in the market are also important.”
- A third respondent explained: “It depends on whether our funds can be transferred onshore, as temporarily the majority of our loans are used as investment in China. We need to go through a lengthy process accordingly when we transfer our offshore funds. This process includes the documentation, the approval procedures, the clearances, etc., which in fact is not an easy task. I think if the time required for such procedures could be shortened, it could help us and therefore would expand our usage of offshore RMB.”

## THE VIEW FROM HONG KONG

- Two thirds of respondents in Hong Kong are active users of Renminbi deposits (up from 48%) and FX (up from 47%).
- Respondents primarily use the offshore Renminbi FX markets to hedge or to increase yield.

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



- Some comments indicate that regulation is inhibiting further usage of offshore RMB:

“In terms of the regulations, if the remittance of offshore RMB was more convenient, I think that may increase our usage of offshore RMB,” said the respondent with a company that has issued CNH bonds and has deposits in offshore Renminbi.

- Another company which is active in four offshore Renminbi products – deposits, trade settlement, FX and portfolio investment – made a call for more choice of products.

“We’d like to see more RMB channels available, as the existing ones in the market are confined; and it will be easier for us if the RMB continues to appreciate,” the respondent said. He added that more frequent and transparent market data on CNH development would lead to more confidence in using offshore RMB. “This will help us to update our books from time-to-time, and also to keep track of the amount in the transaction records. On top of the issue of transparency, I think the secondary market is not broad enough. I would like to see more accessible option products. I can only see a one-way exit for offshore RMB at the moment.”

- Other companies have not yet been able to navigate the regulations.

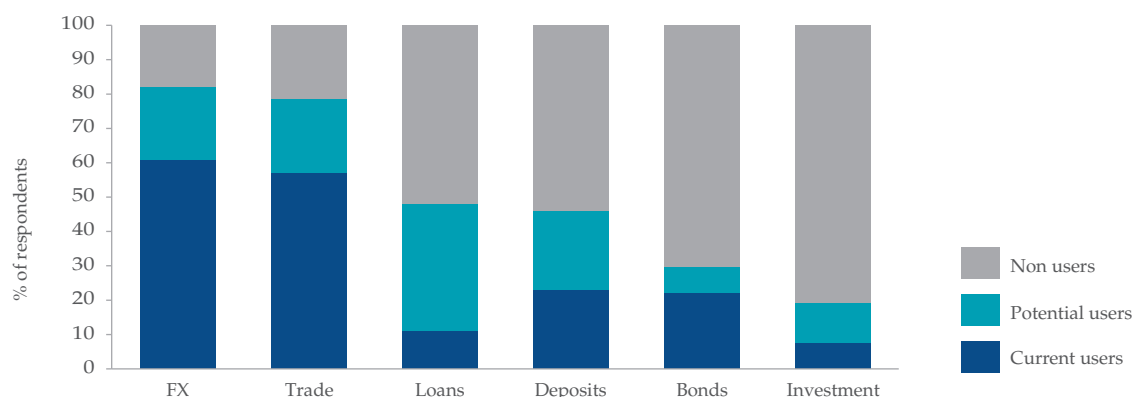
“For RMB trade settlement, we are still in the planning stage because we cannot find a proper mechanism to start doing it. We have business in China; ideally we would like to see our trades settled in RMB directly between our Hong Kong and China companies, for both sales and purchases. From what we have understood, however, is that it is unlikely that we could execute at this stage, and the request/application procedure could be complicated. Thus, in practice we haven’t established our business in offshore RMB. I’m not specifically clear about how large enterprises or corporations with a Chinese background set up their offshore RMB business. In general, after discussing with the banks and with feedback from China-based colleagues, there isn’t a direct channel for us to facilitate this yet.”

*“In terms of the regulations, if the remittance of offshore RMB was more convenient, I think that may increase our usage of offshore RMB.”*

## THE VIEW FROM EUROPE

- Due to the survey selection process, respondents in Europe are more likely to be using Renminbi products today than respondents in Hong Kong and Asia.
- FX and trade settlement products are the most commonly used.

### RMB PRODUCT USAGE – EUROPE CURRENT AND POTENTIAL



Comments from Europe include:

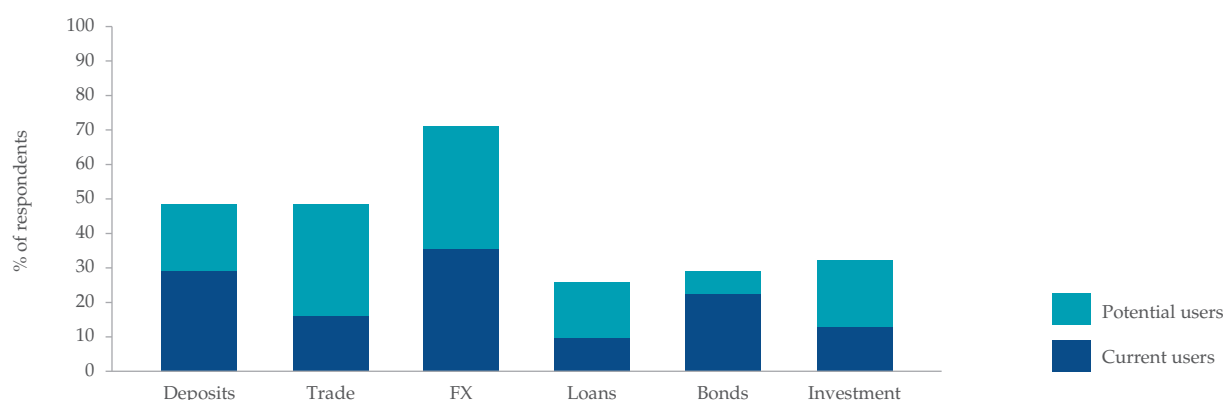
- “For me it does not matter where the financial centre is for the CNH. The most important centre is Hong Kong, but when I speak with banking partners I just have to open a bank account in CNH in Paris or London and when I want a quote for some FX derivative in EUR/CNH, I just call them in the morning because it is more liquid then. I don’t know how it works for the back office of the bank – I guess they just book the deal in Hong Kong. There is a big difference trading in the morning when there is much more liquidity – spreads are much better then. That is the same for all the Asian currencies.”

*“It is better to negotiate directly with the suppliers in CNH to get more transparency in the negotiation for the goods - we are able to hedge the EUR/CNH.”*

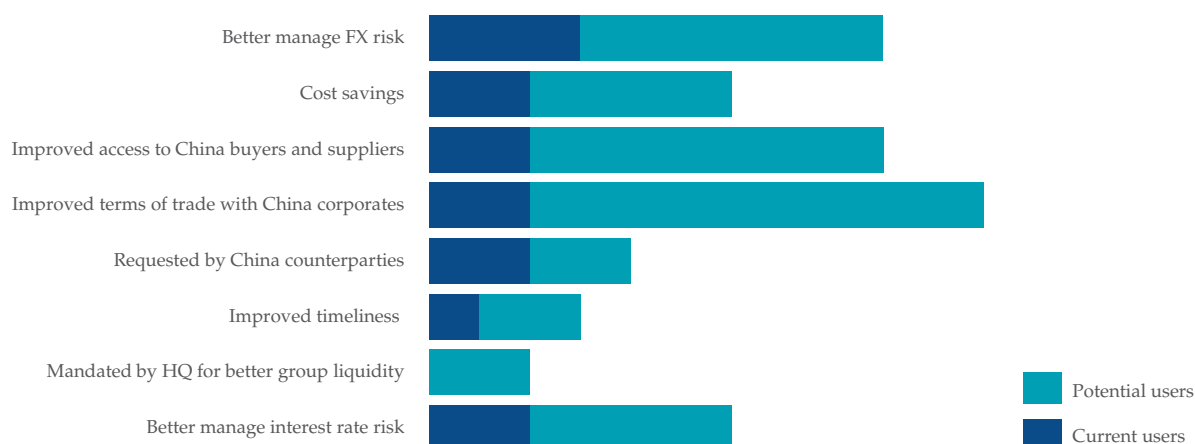
## THE VIEW FROM NORTH ASIA

- There were 31 survey respondents based in North Asia outside Hong Kong.
- Of these, 61% are current users of offshore Renminbi products and another 26% plan to enter the market in the next six months.
- Offshore Renminbi FX is the most common product currently used, followed by deposits. Respondents are most likely to start to use FX and trade settlement products.
- The only respondents in this region using offshore Renminbi deposits are located in Taiwan. Most of these companies are holding between 6% and 10% of their total deposits in CNH and two-thirds plan to increase the levels in the next six months.
- Five companies in North Asia currently use CNH trade settlement products, the majority to manage FX and/or interest rate risk. A further ten respondents plan to use trade settlement products in the next six months. All but one of the prospective users said that a motivating factor was to improve the terms of trade with corporates in China.
- Half of the current users of CNH FX said the main reason they do so is for hedging.

### RENMINBI PRODUCT USAGE FOR NORTH ASIA - CURRENT AND POTENTIAL USERS



### PURPOSE OF USING CNH TRADE SETTLEMENT – NUMBER OF RESPONDENTS



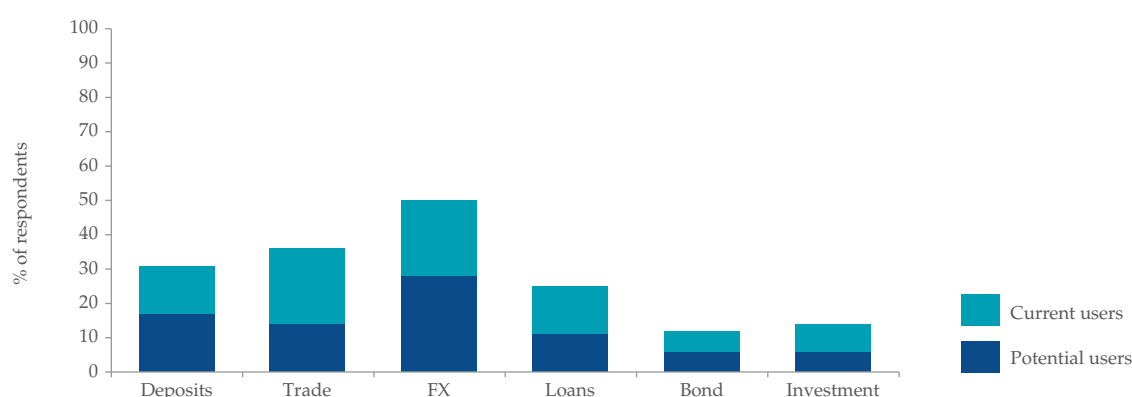
Comments from North Asia ex Hong Kong include:

- “We have never faced any regulatory issues when doing RMB business. Basically we are using a platform for offshore RMB transactions, so it’s not difficult for us to do business in offshore RMB.”
- When asked what regulatory/operational changes would encourage your company to broaden and expand your use of offshore RMB, one company from China said: “Currently we don’t think the regulations are a limitation for us.”

## THE VIEW FROM SOUTH EAST ASIA

- Respondents in Asia outside Hong Kong are less frequent users of offshore Renminbi products either because of a lack of information about how to begin or because they have insufficient business with China.
- Only 10 out of the 36 South East Asia respondents (28%) are current offshore Renminbi users; nine (25%) are potential users.

### RENMINBI PRODUCT USAGE FOR SOUTH EAST ASIA CURRENT AND POTENTIAL USERS



*“Our company benefits from our long-term RMB investments because we can eliminate the foreign exchange rate. So I think it’s a good move for the Chinese government, but it also depends on certain cities as well. We still need to make special application for the inflow of RMB into China.”*

Comments from South-East Asian companies include:

- When asked about the factors to consider when choosing an offshore Renminbi centre a respondent said: “It’s a combination. Our offshore RMB business is a long-term investment, so I think we need a longer term of repayment. The loan we’ve taken now gives us a 10-year repayment period. So that’s the most important factor we would consider. Another factor I would consider is the interest rate.”
- “We are still pursuing a long-term outlook for the RMB even though for the past 6 months the economy of China has slowed down, but I’m quite positive on China especially if the Yuan appreciates further. As I said, we are doing it for long-term investment, it depends whether we can set a new projection.”
- Asked whether more frequent and transparent market data on CNH development would give more confidence to use offshore Renminbi, a respondent that engages in FX, loans and investments said: “Yes. I think earlier when they started, the gap was quite big. Subsequently they narrowed it down it and that is more efficient to us. Otherwise if the gap was too big, it may not be so efficient to us to tap into this.”

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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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