

# RMB

The Offshore Renminbi Review  
Respondent Report - Issue Three Q2 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 third Offshore Renminbi Review took place in June 2013 and surveyed more than 120 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, which help explain the trends in the data collected.

## METHODOLOGY AND RESPONDENT DISTRIBUTION

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

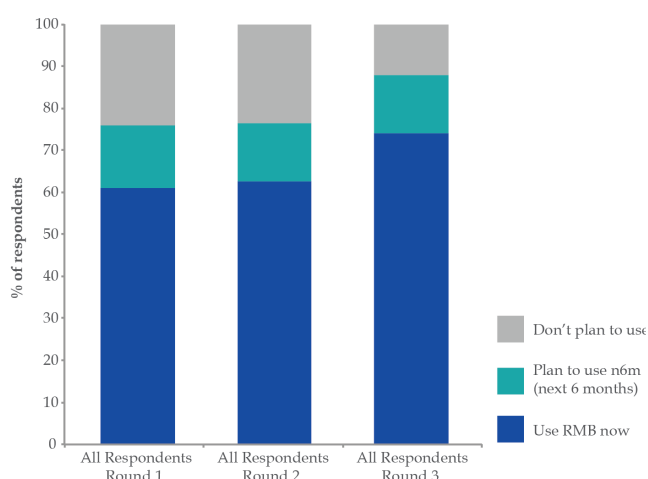
- The on-line questionnaire was sent to finance directors, CFOs, treasurers and senior treasury managers in corporations in Hong Kong, Singapore, Taiwan, Korea and several Asian and European countries.
- Three versions were available: English, Korean and Traditional Chinese.
- Follow-up interviews were conducted with approximately half the respondents.
- Respondent distribution, with Round 2 percentages in brackets, was 49% (39%) from Hong Kong, 29% (24%) from South East Asia, 11% (19%) from North Asia (China, Taiwan, Korea), and 11% (18%) from Europe.
- More than half the respondents were large companies with more than 1000 employees.
- Half the respondents also participated in Round 2 of the survey in March 2013.

## CORE SURVEY FEEDBACK – ROUND 3 Q2 2013

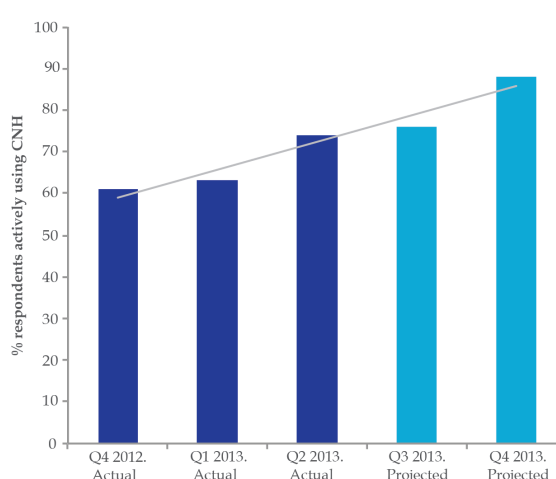
More companies are using offshore RMB today and the data suggests the trend will continue

- Every three months, we ask corporates about their present and intended future use of offshore Renminbi products.
- In Q2-2013, companies surveyed are even more likely to be current users of offshore Renminbi with 74% of total respondents using at least one offshore RMB product, compared to 63% in Q1-2013 and 61% in Q4-2012. In part this increase reflects the added interest in offshore RMB amongst active users, these companies are more likely to be regular respondents to the survey.
- Projecting RMB usage out to Q4-2013 implies RMB usage will continue to increase with 88% of respondents saying that they would use or plan to use the RMB offshore by the end of this year.

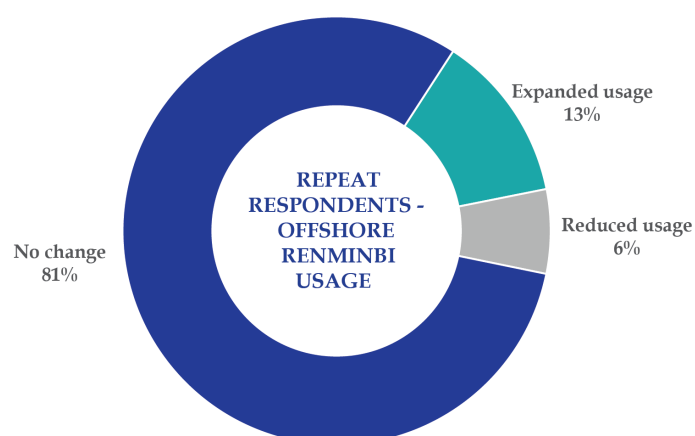
### OFFSHORE RENMINBI USAGE



### ACTUAL AND PROJECTED USAGE OF OFFSHORE RENMINBI



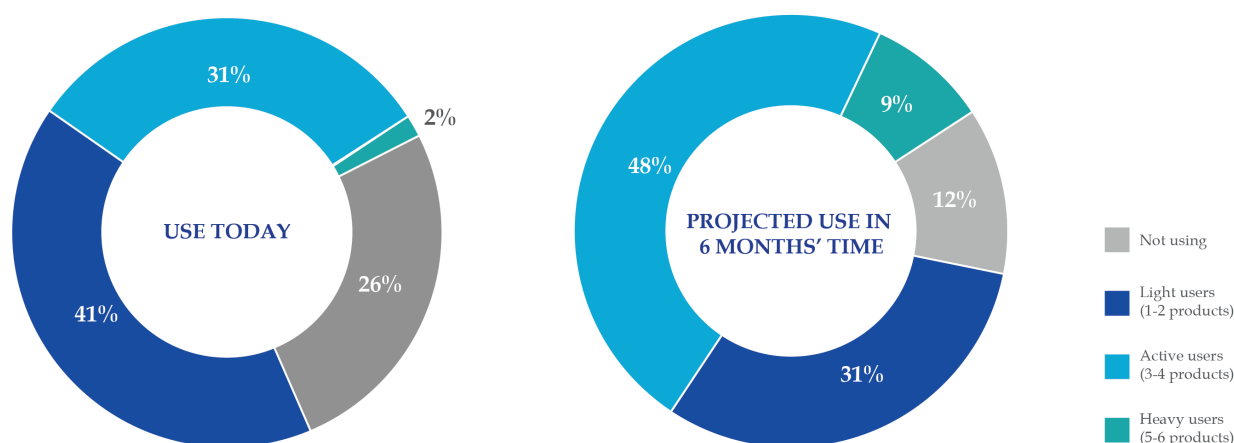
- These trends are reinforced when we look at the 63 respondents that took part in both Rounds 2 and 3. Eight companies (13%) increased their current offshore RMB usage. Of these, three were non-users in Round 2 and five had planned to increase their usage. These eight companies now use an average of 2.6 products and plan to add an average of 0.9 products in the next six months. In contrast four respondents (6%) reduced usage (two stopped using RMB offshore all together). While 51 of the repeat respondents have not changed their current RMB use, 36 (57%) of these companies plan to increase their usage over the next six months, adding an average of two products. The products with expected increases in use are: Loans (50% of the 36), Deposits (33%), Trade and FX (31%), Investment (22%) and Bond Issuance (11%).



### The product mix continues to expand, although at a slower pace

- In Round 3, more respondents use 1-2 products (41%) among the six offshore RMB products, compared to round 2 (30%)
- If users follow their plans for the next six months, by Q4 2013, 57% of respondents will be using three or more products.

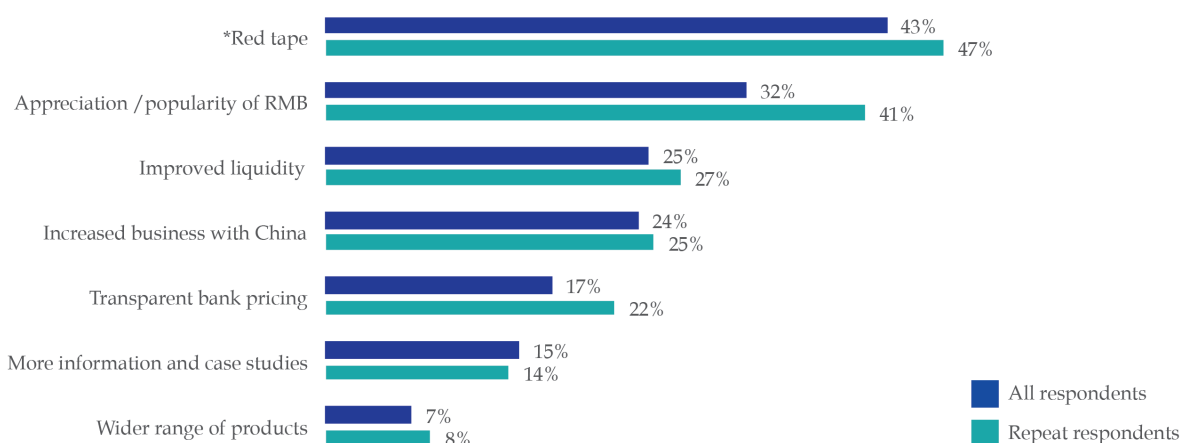
### PROJECTED CHANGES IN THE NUMBER OF RENMINBI PRODUCTS USED



## Red tape, appreciation and liquidity are biggest obstacles to increased usage

- In Round 3, we asked respondents what changes would have the highest impact on their Offshore RMB usage.
- Almost half of our respondents (43%) pinpoint red tape as the main impediment to increasing use of offshore RMB products. One third of respondents wanted unification of regulations across China and one third said the streamlining of documentation and procedures for remittances/intracompany payments would boost their usage; 16% cited both factors.
- Apart from bureaucratic obstacles, the appreciation/popularity of the RMB was the single most critical factor, especially among repeat respondents.
- Liquidity in the available products and the volume of business the company transacts with China were also important with a quarter of respondents.

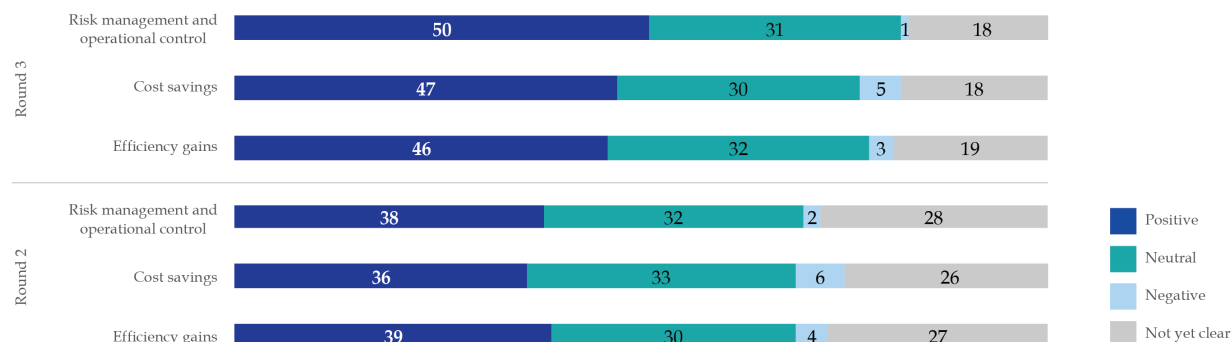
### FACTORS IMPACTING OFFSHORE RMB USAGE - % OF RESPONDENTS



## Despite these frustrations, corporates' experience of Offshore RMB use is improving

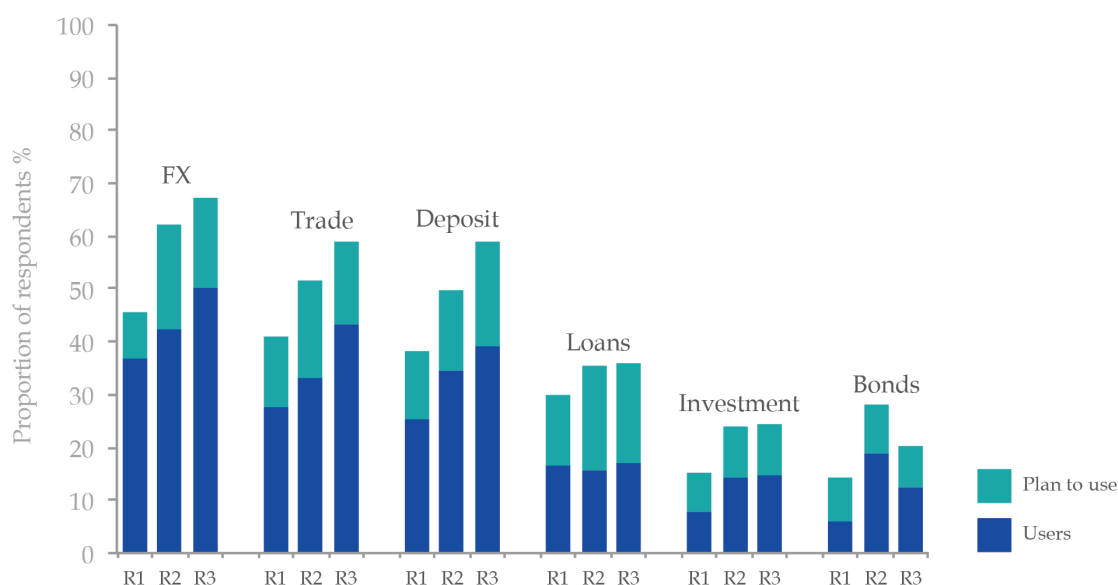
- Survey respondents are increasingly positive about their experiences with the CNH market. More than half of the respondents now see positive benefits in risk management and operational control compared to only 38% in the previous round.
- Results suggest that respondents are now clearer on the benefits of accessing offshore RMB – while in Round 2 almost a third of respondents told us it was too early for them to say if offshore RMB had delivered benefits, this percentage now drops as the benefits become clearer.
- Half of all respondents (51%) and almost two-thirds (59%) of those in Hong Kong said that their experience of using offshore RMB had been positive in terms of improved risk management and operational controls. There was a marked increase from Round 2 when 38% cited this benefit. Efficiency gains and cost savings were given by 46% and 47% of respondents respectively (60% and 56% for HK).

## EXPERIENCE WITH CNH - % OF RESPONDENTS



## FX, Trade Settlement and Deposits remain the most popular products

### RENMINBI PRODUCT USAGE %-ROUNDS 1 TO 3



- The most common offshore use of Renminbi, for the third consecutive quarter, is in FX transactions – 50% in the case of our respondents (versus 42% in Round 2). A further 17% of respondents plan to use CNH FX in the next six months, albeit down from the 20% in Round 2.
- One multinational in Hong Kong revealed that the environment for offshore Renminbi FX is changing. “There are more regulators looking at this area – so the banks will be a bit more reluctant,” the treasurer said.
- The majority of CNH FX activities are driven by hedging needs - 52% of respondents, versus 51% in Round 2; while 62% of respondents plan to use FX for hedging in the next six months. Another 23% of existing CNH

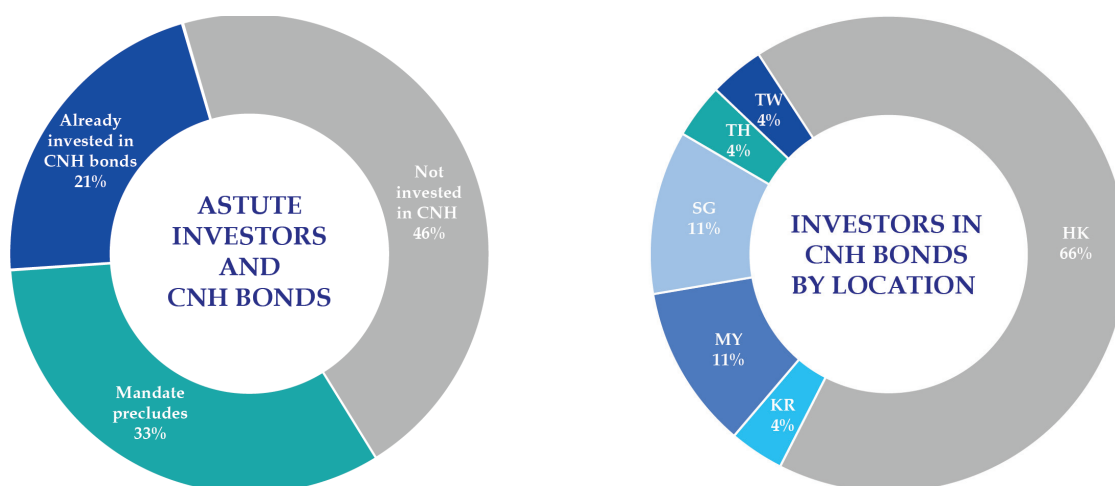
FX users conduct centralized FX management and 29% of potential users also cite this objective.

- Trade settlement products are currently used by 43% of respondents (vs 33% in Round 2) and another 16% (down from 19%) are planning to use them in the next six months. These are the only products now used by companies that do not have an affiliate in China.
- The primary motive for using CNH in trade settlement remains FX risk management (57%), followed by cost savings (45%) and requests by counterparties in China (43%).
- Looking forward over the next 6 months, 36% of users of trade settlement products expect to expand use, which is a significant decrease compared to the 61% of users in Round 2. And whereas exports were viewed as the stronger driver in Round 2, imports were rated slightly ahead in the current round. More than half of offshore RMB trade settlement product users did not expect to change the pattern of usage in the next six months.
- In interviews, corporates often say that the USD is still deep-rooted as the currency of international trade. As the treasurer of one Japanese multinational put it: “Chinese customers are reluctant to change the payment currency from USD to RMB. This is the current situation.” A respondent from a Taiwanese company similarly explained: “We are a trading company. Right now the currency we quote to the buyer is always USD.” Another Taiwanese company executive reported: “We want to pay RMB into China, but China’s vendors don’t like RMB. They ask us to pay by USD.” Even a major Asian multinational had a similar experience “We have a lot of the components imported into China. However, all the invoices are denominated in USD. So we don’t have any RMB settlement.”
- The third most commonly used product is CNH deposits with 39% of respondents using them (up from 35% in Round 2) and 20% of respondents planning to do so in the next six months. One of the Taiwanese respondents gave this explanation: “I have a lot of idle money. Some of my extra money I invest in the bond market. I don’t think the bond market will be better than the first half. So I think maybe we will invest more in offshore RMB deposits.”
- Loans in CNH have remained static with 17% of respondents reporting outstanding loans (compared to 16% in Round 2) and 19% considering a facility in the next six months. CNH loans are predominantly used to finance China investments and trade with China. However, in interviews, there is some evidence that companies are finding it hard to access credit. “We are looking at [a CNH loan] but it’s getting difficult to procure. I suspect that lending is getting a bit tight right now,” said the respondents from a large Hong Kong based company.
- Just over one in ten respondents (12%) has issued a CNH bond and only 8% are considering an issue in the next six months. The perception has been growing over the three survey rounds that a CNH issue offers a lower cost of funds. At the same time, CNH bond issuance is less likely to be seen as a means to expand financing channels and only one in ten respondents would issue a CNH bond to extend their investor base. One respondent noted that it was hard to forecast whether they would issue a bond in the medium term. “It is difficult to say given the volatility in the market,” he said. Another treasurer with a major Singaporean company had another concern. “We might issue a CNH bond. The problem is that under SAFE regulations, it would be very hard for us to remit the proceeds from the bond issue into China,” he explained. Not all companies view it as an economic source of capital: “I am not sure if we will issue another CNH bond. We issued one two years ago, but it was only to raise funds to settle some loans. Now there is no need and the cost is too high,” commented the treasurer.

## THE VIEW FROM THE BUYSIDE

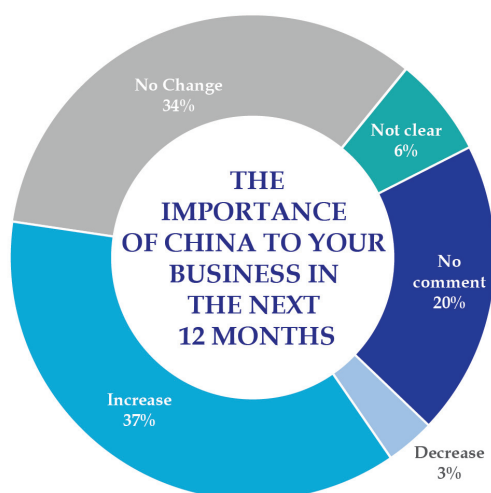
Asset Benchmark Research asked 125 major investors in Asian currency bonds whether they were invested in CNH bonds and whether they intended to increase their holdings. One fifth of respondents invest in CNH bonds, while one third are precluded by their mandates from this asset class. The main obstacle given by investors and non-investors alike for not increasing their CNH bond stakes was the lack of secondary market liquidity (44% and 39%, respectively). Non-investors also said they were deterred by regulatory impediments (26%), the shortage of investment grade issues and the returns.

- Predictably, two-thirds of existing investors in CNH bonds were located in Hong Kong.
- However, a large proportion (26%) was also based in Southeast Asia.



## THE GROWING IMPORTANCE OF CHINA

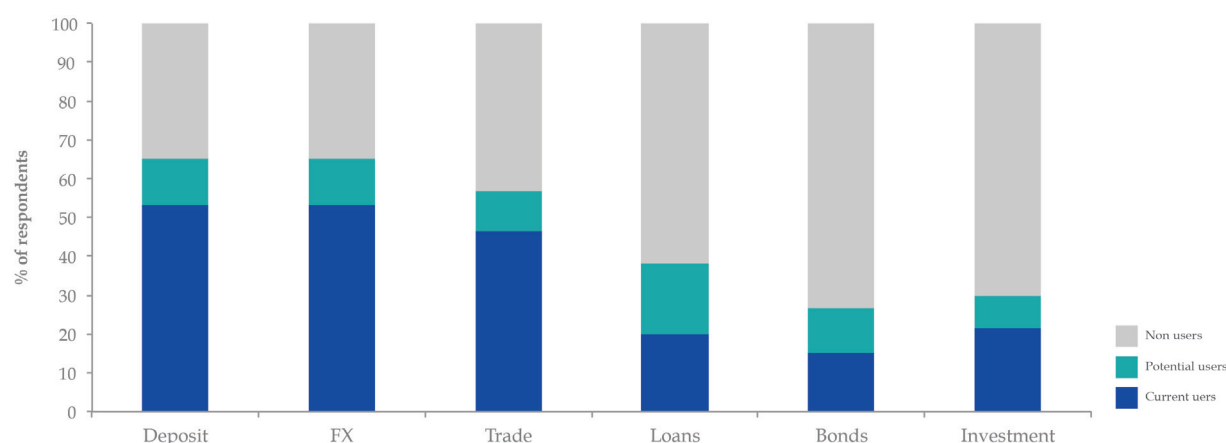
More than a third of our respondents (37%) sees China as growing in importance to their business, compared to 9% who are unclear of the future trend or see a potential decrease in importance.





# THE VIEW FROM HONG KONG

## RMB PRODUCT USAGE-HONG KONG CURRENT AND POTENTIAL



Hong Kong remains the main locus for offshore Renminbi activity among corporates. Half of the respondents in Round 3 were from Hong Kong of which 83% use CNH products. Companies in Hong Kong also use the most products with two-thirds active in three or more offshore Renminbi instruments.

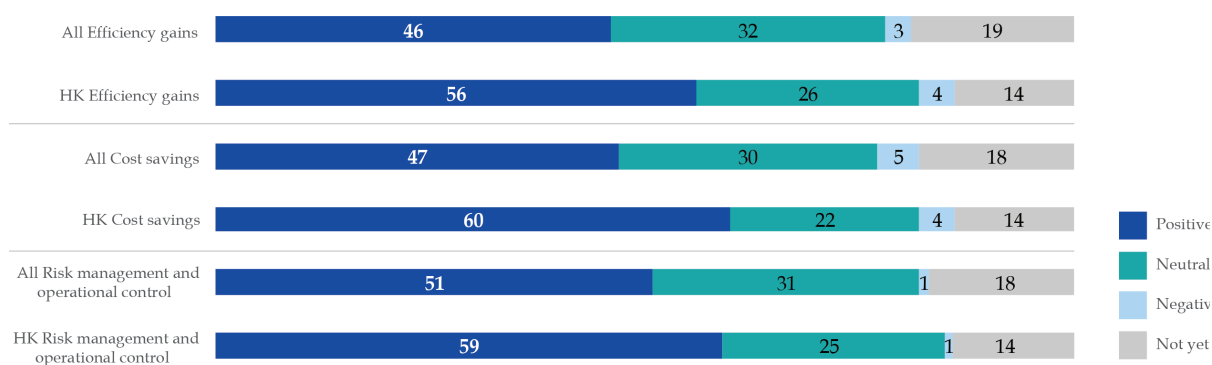
Despite the high incidence of offshore Renminbi usage, companies report a range of difficulties from the market-related concerns such as exchange rates and liquidity to procedural obstacles.

- When asked why one company expected the value of offshore RMB deposits to drop in the next six months, the treasurer said: “There two main reasons. First, I expect in the medium-term, the trend of RMB appreciation will slow down. And the second reason is, even if we consider RMB hedging, we prefer to do a forward contract or some structured contract instead of buying spot RMB spot.”
- Another major company pointed to the market volatility. “There are 3 ways of converting RMB into USD; one is onshore forward or onshore spot. Second is through the CNH market. Even though all the invoices are denominated in USD, the bank can structure a product for us so that we are selling RMB and buying USD, but dipping into the CNH market. The last route is the NDF. NDF is no settlement, non-delivery, so we will do the spot in China but cash settle the NDF contract. We have both NDF and CNH trade. I expect it will be very volatile and we will need to closely monitor the price difference between the three products and do the right thing.”
- Others focused on the procedural difficulties: “It’s still just not easy to use RMB offshore, unless you’ve got a substantial business. It ought to make risk easier. For example, today we got a quote from a distributor in China who wants to put the price up by 9% because we do business with him in HKD. We would have a lower increase in that cost if it’s in RMB. But it’s not easy for us to do offshore RMB transactions. Because we’re a small business and it’s not easy for us to have RMB accounts and to do RMB transactions. It’s still not easy,” explained the treasurer of a company using offshore RMB trade settlement products.
- A company that is active in FX, Trade and Loan products reported that “the recent China-Japan relationship problems ... unfortunately impact our business”.

However, other reports are of relatively straightforward operations and market developments:

- “We will borrow more RMB and probably we will re-exchange it to other currencies.”
- “We [increased the volume of trade our company settles in RMB in the past 6 months] because the business is more stable.”
- “We began offshore RMB Deposits two months ago. We rarely have any trade settled in RMB unless requested by customers. No need to have hedging activities because RMB volatility is low. RMB is mostly in fixed deposits. No need for investment purpose because we concentrate on the business. Location and interest rate are the top factors. If Singapore had higher CNH deposit rates, we would definitely put some RMB in Singaporean banks.”
- “We strongly expect a cross-border RMB cash pooling system will come. So the People’s Bank of China (PBoC) or the State Administration of Foreign Exchange (SAFE) will relax their regulation on the cash pooling system - to increase our cash exchange.”
- “The trend is that the market is developing all the time. If we could get the clauses being approved by the authorities more quickly that would be better. For example, we are applying for offshore RMB lending out of China that has been pending for a few weeks, if not months. It would be helpful if the process could be speeded up. We want to be able to use our idle cash for pooling. We are waiting for the PBOC and SAFE. It will improve efficiency – deploying idle cash. The USD will still be the dominant trade currency for the foreseeable future, although the CNH and CNY are picking up. But I think it will take more time for the Renminbi to take a larger percentage of trading currency volumes.”
- While Hong Kong respondents want to see simplification in the use of CNH, they are more positive about their experiences of using offshore RMB than our other respondents. More than 60% of Hong Kong based respondents see their experience as positive compared to 45-50% overall (this stat would be better if you could say 60% in HK compared to 35-40% elsewhere – i.e. calculate the positive percent for ROW excluding HK).

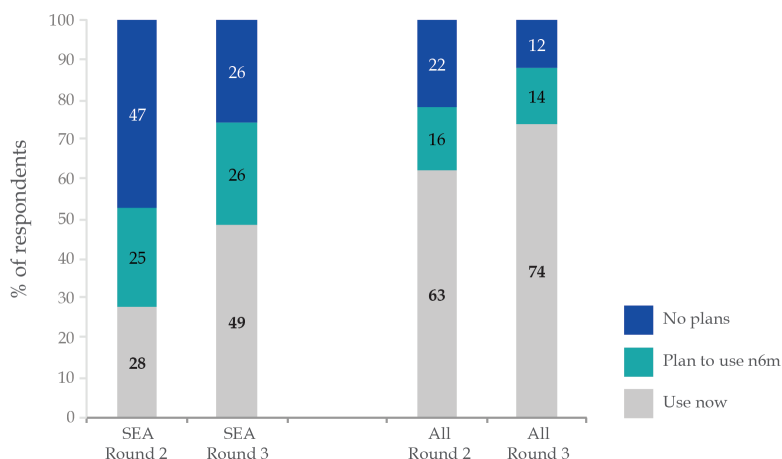
## EXPERIENCE WITH CNH - % OF RESPONDENTS



## THE VIEW FROM SINGAPORE AND SOUTHEAST ASIA

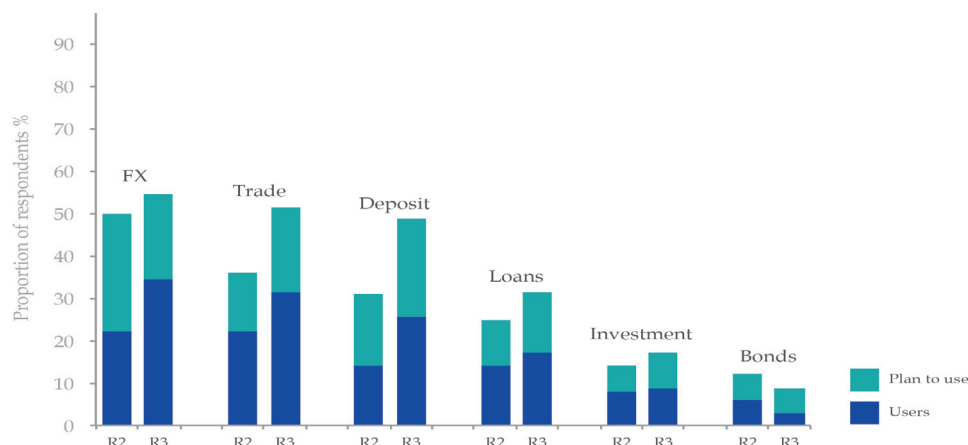
The uptake of offshore Renminbi products among Southeast Asian respondents has significantly increased since Round 2.

### OFFSHORE RMB UPTAKE IN SE ASIA - %



- The products showing the largest increase are FX, Trade Settlement products and Deposits.
- A large resources multinational in Singapore illustrated the market-related decisions for the next six months. In terms of CNH deposits, “I think it will either remain the same or be a little bit on the higher side, because we are still looking at the RMB as appreciating,” the treasurer explained. “With the RMB appreciating, we will not get exposed to RMB loans.” He also said that liquidity would have the largest impact on the market. “If there is an increase in liquidity, of course then you will see more users.”

## SE ASIA RENMINBI PRODUCT USAGE % - ROUNDS 2 AND 3



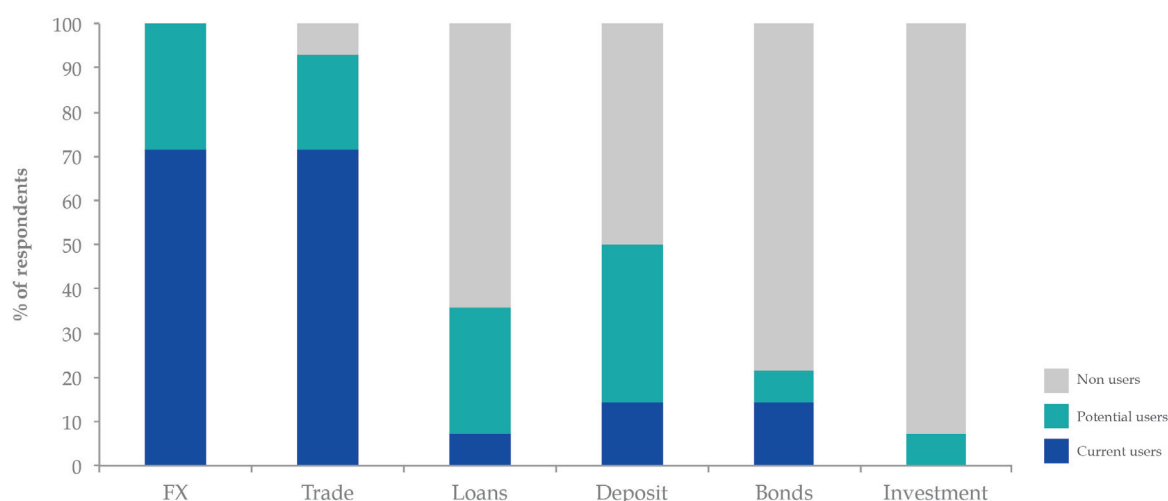
- A major company in Singapore, with expanding China business, believes that regulatory changes would boost the off-shore RMB market. “For our subsidiaries in China, we encourage them to trade in RMB. Trade-wise, the government has already allowed offshore RMB transactions for trade purposes. However, we still have problems when we trade with other countries, apart from Hong Kong or Singapore where there is already a broad arrangement. Because of the RMB appreciation, we would want to deal with our overseas customers in RMB so that our exposure to the FX is better controlled. However, our customers don’t want to trade with us in RMB. If you talk about developing countries, they don’t have RMB. Everybody is also thinking the RMB is going up, so if I trade with you in other currencies such as USD its better than trading with you in RMB. As far as trading is concerned, it’s not as easy.”
- Another company in Thailand was planning to reduce the volume of offshore RMB transactions due to regulatory changes. In Q4 2012, “we had the opportunity to enter into the offshore onshore RMB market. But now it is not available for us to do that, so we have reverted to trade in USD,” the treasury officer said.

## THE VIEW FROM EUROPE

In this survey we deliberately target European companies with interests in China and, as a result, a very high proportion (86%) of respondents in Europe are using offshore RMB products, with a further 14% considering doing so in the next six months. Many respondents are being encouraged into the market by their customers and suppliers.

Product use by European companies continues to be focused around FX, trade settlement and deposits, reflecting their underlying commercial activities.

### RMB PRODUCT USAGE - EUROPE CURRENT AND POTENTIAL



- “Our Chinese customers have the option to pay in USD or in RMB, or for us to pay them in RMB or USD. So it’s all driven by the customers and suppliers and what currency they want. I believe where the rate is now they don’t like to do it too much. So at the moment we haven’t got anything where we are going to be selling RMB and buying dollars. But we do have about 50 million a month that we will be paying out to buy in RMB and selling in dollars. We buy the RMB and we won’t necessarily put it on deposit. It all depends on the situation. It’s very difficult to gauge, it’s not locked in because our customers have options. I would say the more customers, and diverse customers that we have in China will mean that they want different needs. So that will increase our RMB usage.”

When asked what changes would have the biggest impact on the company's use of offshore RMB in the next 12 months, the treasurer of one European company said: "The foreign exchange rate and market prices for our products. If prices go down, it's more likely that the demand in China will go up. Which means it's more likely that there will be chances for us to use RMB."

Another European multinational is steadily extending its RMB usage. "My team is actively looking for further opportunities to do offshore RMB cross-border settlement. Our plan is to systematically introduce our entities in China, one-by-one into the scheme, depending on its impact with our global FX risk profile. So we will select guys with the least FX impact then we will introduce them. At the same time we will try to find time because my global treasury guys are also busy with some treasury implementation projects. So at a suitable time we will start talking about the bigger entities with FX exposure and see how to implement. The aim eventually is to introduce cross-border settlement for the whole China region. Our aim eventually is to try to introduce it such that we will have FX neutral in terms of the China region. We will have neutral FX so that all the RMB risks are transferred through our global treasury. Then global treasury does the hedge directly using the CNH market." This conforms to the trend among multinationals to centralize control of their treasury operations.

The same company reported that offshore RMB had been neutral in terms of efficiency gains but positive in terms of risk management. "It has improved, because we have switched all the NDF into CNH and that is better linked. It's also giving us a better chance to look into the future - how we centralize our risk activity. It's only with this that we truly see the avenue and opportunity to concentrate more into global treasury. There has been an improvement and I do believe there will be further improvement in terms of FX risk management."

Another European multinational had experienced cost savings when using offshore RMB for trade settlement? "There are a lot of benefits and advantages in terms of cost savings. We can easily monitor and harmonize internal processes," the treasurer said.

However another company that is engaged in trade settlement, FX and has offshore RMB deposits reported the opposite. "Our experience has been negative in terms of efficiency gains and cost savings. There is still a gap between the onshore and offshore RMB in terms of foreign exchange rate."

### 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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