

# RMB

## The Offshore Renminbi Review

Respondent Report – Issue Four Q3 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 fourth Offshore Renminbi Review took place in September 2013 and surveyed 132 treasurers and senior treasury/finance executives from Asia, Europe and the US concerning their current and planned offshore Renminbi activity: deposits, trade settlement, FX transactions, CNH bonds, loans, financial instruments in CNH. Many respondents also provided comments in follow-up interviews, which help explain the trends in the data collected.

In addition, 87 fixed income investors gave their views concerning CNH bonds.

## METHODOLOGY AND RESPONDENT DISTRIBUTION

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

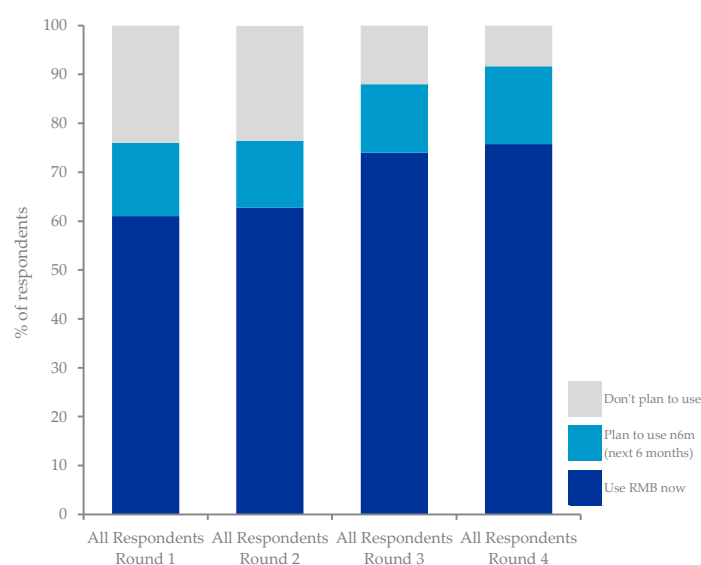
- The on-line questionnaire was sent to finance directors, CFO s, treasurers and senior treasury managers in corporations in Hong Kong, Singapore, several other Asian countries as well as Europe and, for the first time, the US.
- Two language versions were available: English and Korean.
- Follow-up interviews were conducted with approximately half the respondents.
- Respondent distribution, with Round 3 percentages in brackets, was 38% (49%) from Hong Kong, 27 % (29%) from South East Asia, 11% (11%) from North Asia (China, Taiwan, Korea), 14% (11%) from Europe and 10% from the US.
- More than half the respondents were large companies with more than 1000 employees.
- Half the respondents also participated in Round 3 of the survey in July 2013.

## CORE SURVEY FEEDBACK – ROUND 4 Q3 2013

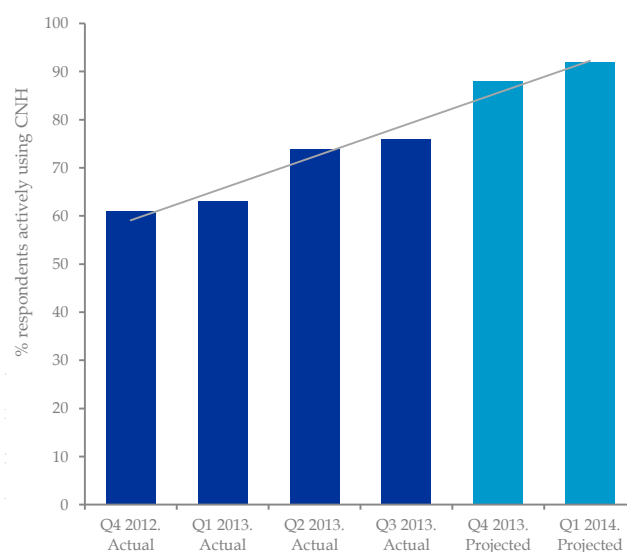
More companies are using offshore RMB today and our data suggests the trend will continue

- Every three months, we ask corporates about their present and intended future use of offshore Renminbi products.
- In Q3-2013, 76% of total respondents report that they are using at least one offshore Renminbi product, compared with 74% in Q2-2013 and 63% in Q1- 2013. 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. Offsetting this is the inclusion for the first time of US respondents, many of which are in the early stages of their RMB journey and are more modest users of offshore RMB than corporates in North Asia.
- Projecting RMB usage out to Q1-2014 implies RMB usage will continue to increase with 92% of respondents saying that they would use or plan to use the RMB offshore by the first quarter of next year.

### OFFSHORE RENMINBI USAGE



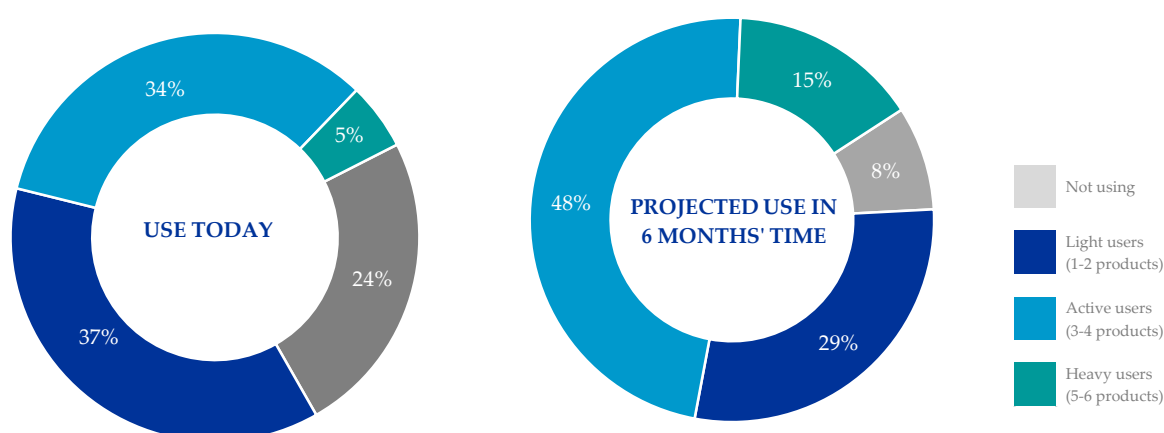
### ACTUAL AND PROJECTED USAGE OF OFFSHORE RENMINBI



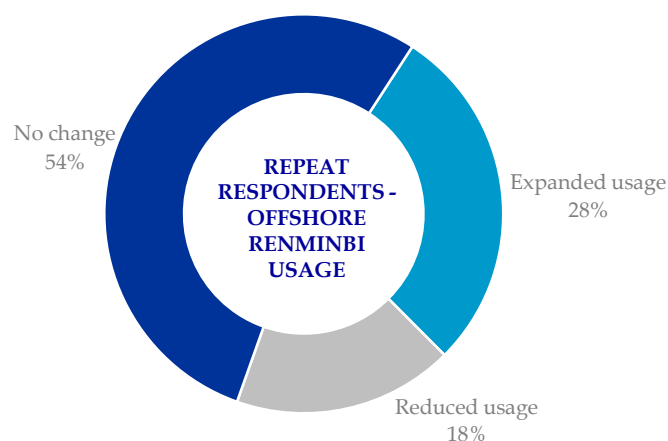
## More companies are using more products, and others plan to join them

- In Round 4, more respondents (39%) are actively using three or more products compared with Round 3 (33%). This is despite the inclusion of US respondents who are relatively less active users
- If users follow their plans for the next six months, by Q1 2014, 53% of respondents will be using three or more products.

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



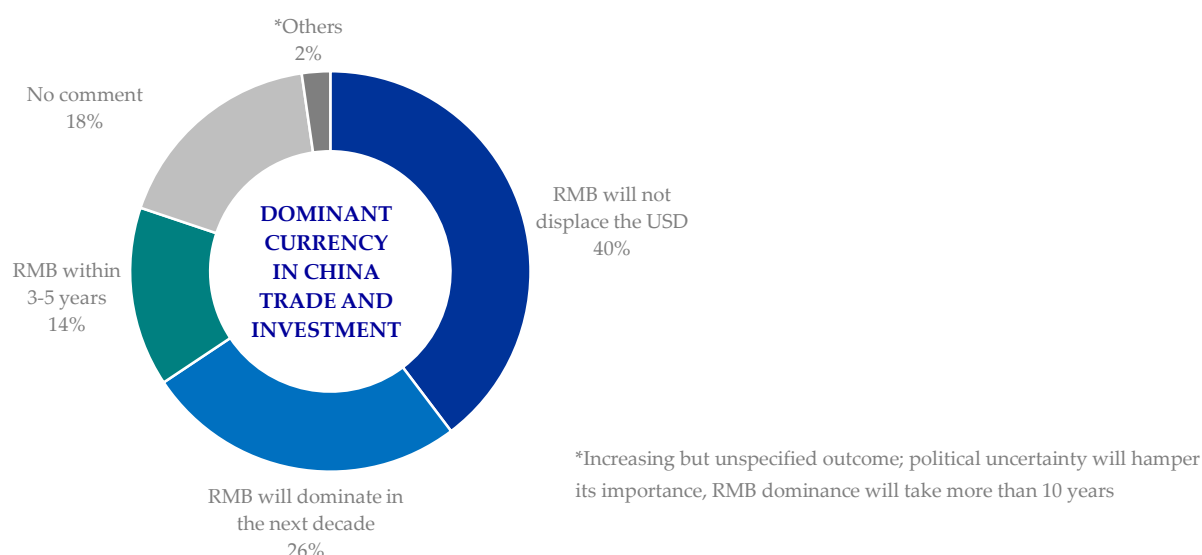
- Examining the 67 respondents that took part in both Rounds 3 and 4 average product usage increased from 2.0 to 2.2.
- Nineteen companies (28%) increased their current offshore RMB usage. Of these, five were non-users in Round 3 and fourteen had planned to increase their usage. These nineteen companies now use an average of 2.8 products and plan to add an average of 0.9 products in the next six months (compared with an overall average product use across the survey of 2.0). In contrast 12 respondents (18%) reduced usage (two stopped using RMB offshore altogether). While 54% of the repeat respondents have not changed their current RMB use, 22 (61%) of these companies plan to increase their usage over the next six months, adding an average of 2.1 products. The products with expected increases in use are: Loans and Deposits (31% of the 36), Trade (25%), FX (19%), Investment (14%) and Bond Issuance (8%).



## 40% of companies see RMB supplanting USD as the dominant currency for China trade and investment, though opinions differ over how long this will take

What is driving the expansion in RMB? One factor is the growing view that RMB will become the dominant currency in trade and investment with China. Interviews in previous rounds have suggested that some industries are adhering to the USD as the traditional currency of exchange. This time we asked corporates to give their outlook for the RMB.

Two-fifths (40%) of respondents expect the RMB to become the dominant currency in China trade and investment in the next decade (18% sees a shorter 3-5 year timeframe). Others believe that it will take longer for the RMB to develop as an international currency and that the speed will depend on the speed of China's regulatory reforms. "It will increase [in prominence] but probably will need longer time. It also depends on how fast are the reforms of the financial markets and regulations," said the treasurer from a European multinational. Another 40% of respondents do not believe the RMB will displace the USD as the dominant currency in their industry sector. Respondents holding this view represent a wide range of industries. For example, the treasurer of one computer hardware company said: "Our functional currency is the US dollar. So we cannot invest or borrow in other currencies."

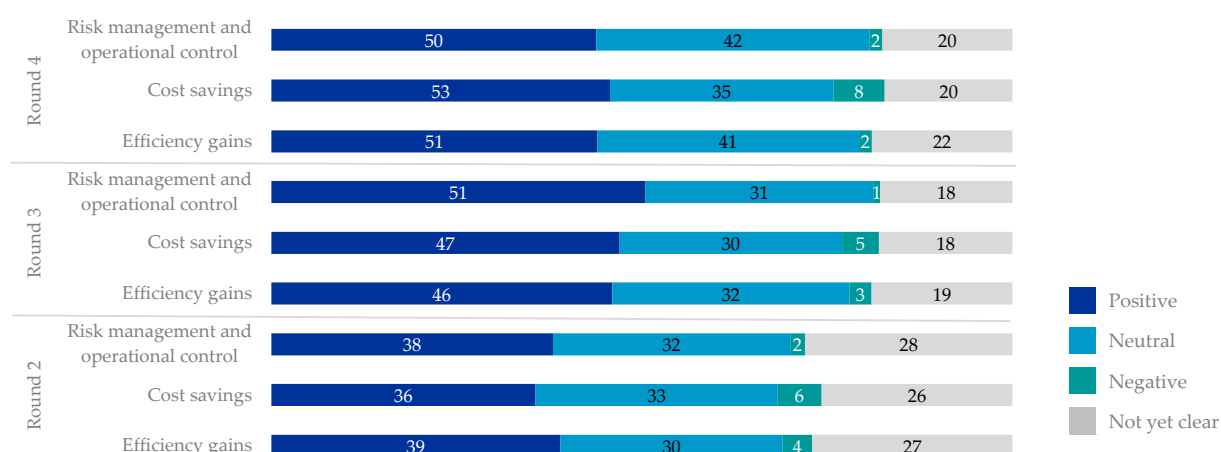


However, there is no convincing correlation between the industry and the outlook for the RMB - respondents from the same industries hold different views. Not surprisingly, there is a better correlation between the experience of the respondent with offshore Renminbi products and their view of its rise to dominance. Two thirds (65%) of respondents that believe the Renminbi will become the dominant currency in the next five to 10 years report a positive experience, in contrast to only 50% of those who do not see the RMB displacing the USD.

## The benefits case is becoming stronger as cost savings are seen by more corporates, active users see the greatest benefits

- In Round 4, a larger proportion of respondents (53%, compared with 47% in Round 3) said that using offshore RMB resulted in cost savings.
- Half of all respondents said that their experience of had been positive in terms of improved risk management/operational control and efficiency gains.
- However, for one-fifth of respondents, no such advantages are yet clear.
- Companies using more products report the largest benefits. An overwhelming majority (83%) of heavy users of CNH products report efficiency gains, while two thirds say they achieved cost savings. In contrast, only 38% and 33% respectively of light users saw cost savings or efficiency gains.

### EXPERIENCE WITH CNH - % OF RESPONDENTS

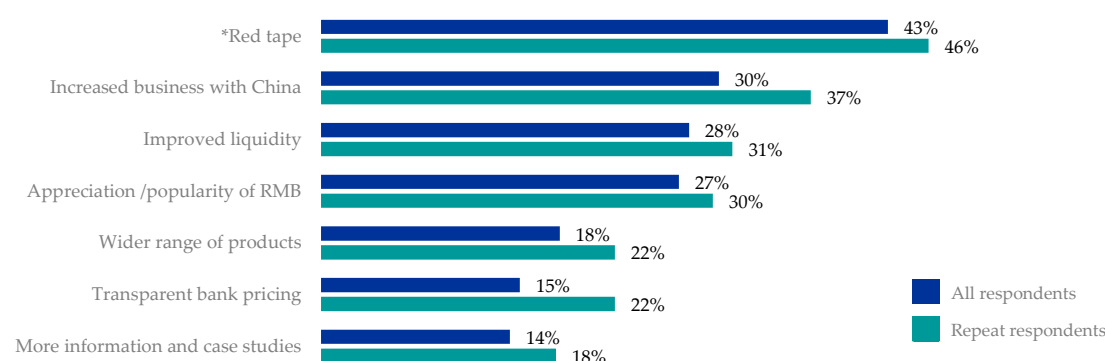


## What is holding companies back? Regulatory factors dominate

- Respondents were asked what changes would have the *biggest impact* on their use of offshore RMB in the next 12 months.
- The majority of respondents (89%) cited between one and three different factors as impediments to their increased usage.
- The largest proportion of respondents (43%) said that their usage of offshore Renminbi would be increased if there was less red tape (unification of regulations across districts in China and streamlined documentation and procedures for remittances of offshore RMB and intracompany payments). This was the same proportion of respondents as in Round 3.

- As the treasury officer for a European multinational put it: “From my point of view, what is difficult is really the level of documentation - all the administrative aspects. Each time we have to deal in currencies with China we have the SAFE (State Administration of Foreign Exchange).”
- The same treasury officer would like to see a cash-pooling system without the current cross-border restrictions. “It is something that is really important for a corporate like us because when you want to reach a certain level of volume; you need to have the execution and transactional aspects done in an easy manner, which means that you cannot deal transaction per transaction with tonnes of documents to be set up for each transaction. You need to have flawless execution so less administrative stuff and all the technical means to have volume. It’s not necessarily linked to banks, or products, or transparency on pricing. It’s really what is regulatory. It’s really what depends on China.”
- However, a major US multinational offered a different perspective: “The regulatory obstacles have mostly been dealt with. Everything that we do will be driven by business needs,” the treasurer said.
- One third of respondents said that their usage of offshore RMB would increase if they were doing more business with China.

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



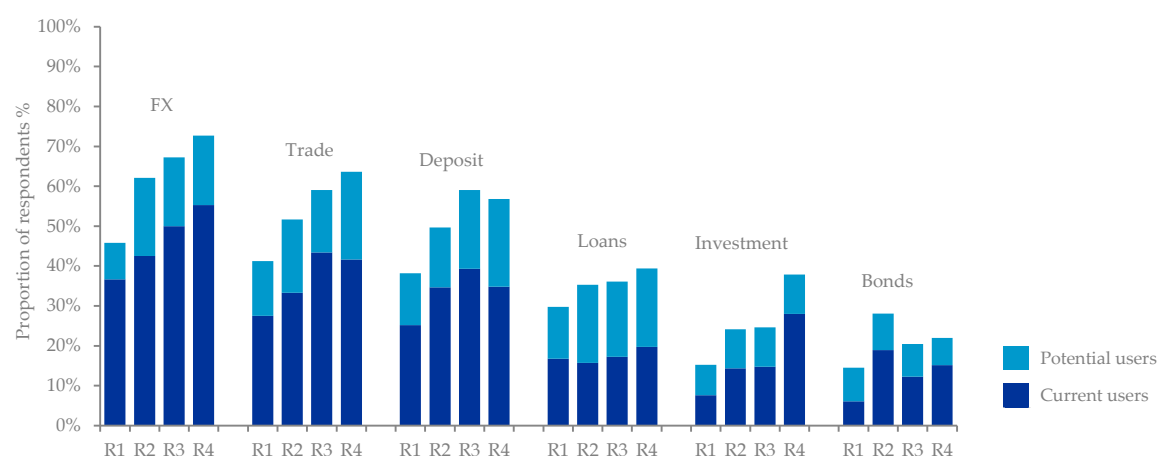
\*Red tape combines two categories: unification of regulations across China (30% all respondents, 33% repeat) and streamline documentation (33%, 33%)

## FX, Trade Settlement and Deposits remain the most widely used products

- For the fourth consecutive quarter, FX is the most widely-used product. In Round 4, more than half (55%) of offshore RMB users are already active in the product with a further 17% planning to use CNH FX in the next six months.
- The majority (53%) of current CNH FX users are driven by hedging needs, while the main objective for another 25% of existing CNH FX users is to centralize their FX management.
- Priorities appear to change among prospective users. Corporates that are planning to use CNH FX in the next six months are primarily motivated by drives to centralize FX management (43%) while 35% are focused on hedging.

- Alpha-seeking objectives feature for 5% of current CNH FX users and 13% of potential users.
- Many corporates are actively managing their exposures. One major Hong Kong corporate explained the motivation for selling RMB for HKD earlier in the year: “We were in need of HKD to settle certain obligations, so we booked into certain cross-currency swaps. We have the intention to keep the RMB as a long-term asset for return enhancement, so that’s why we did it on a 3-month basis. After expiration, we just converted it back to RMB at a fixed rate. So we can preserve the earning power for term deposit interest for RMB in the future.”

#### RENMINBI PRODUCT USAGE % - ROUNDS 1 TO 4

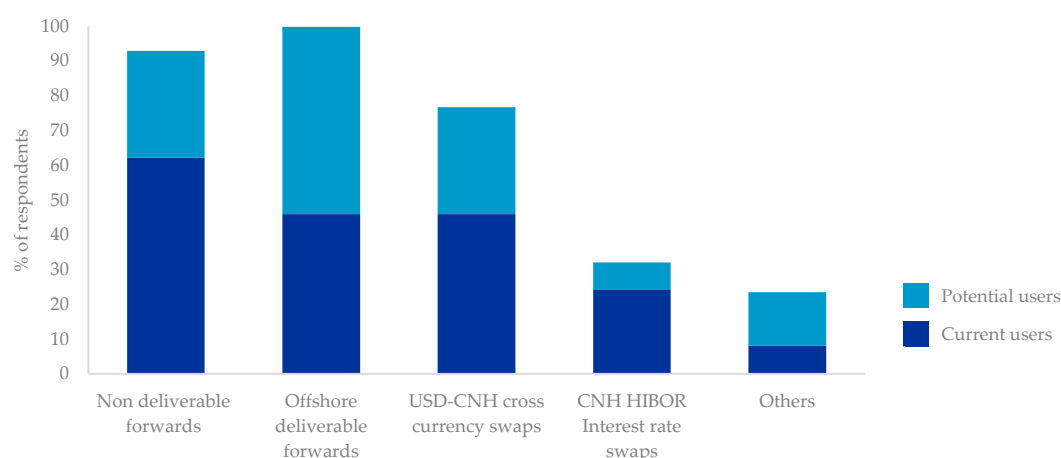


- After CNH FX, the next most popular products are for trade settlement with 42% of offshore RMB users active. And while, the proportion has dipped marginally from the 43% of CNH users in Round 3, potential users have jumped from 16% to 22%.
- The primary motive for using CNH in trade settlement remains FX risk management (55% vs 57% in Round 3), followed by cost savings (40% vs 45%) and improved access to China buyers and suppliers (40%).
- Looking forward over the next 6 months, 58% of users of trade settlement products expect to expand use, which is a significant increase compared with the 36% of users in Round 3. After more than a year of experience, a supply chain management company in Hong Kong said: “Both the buyers and sellers see benefits from using RMB LCs (letters of credit)”.
- The third most commonly used product is CNH deposits with 35% of respondents using them (down from 39% in Round 3) and 22% of respondents planning to do so in the next six months. Given interest rate differentials and other market factors, corporates are weighting up their decisions regarding offshore RMB deposits. When one corporate treasurer was asked what prevented him from holding more offshore RMB deposits, he said it was over FX volatility concerns and expectation of RMB appreciation. “This offshore CNH right now is idle cash for us,” he said. “Putting it in the bank we can earn around 2-3% per annum. But comparing with the loan interest right now with us for HKD bonds, say for example, we are just below 2%, so it gives us less incentive to sell the RMB to support our obligations in investments for now, given that the RMB still has appreciation opportunities. Until a certain point in time if we foresee that the appreciation may not be sustainable and secondly the interest rate in HK may be rising due to the QE reversal or whatever. Then we may have a chance to rework the positions of holding CNH, to dump it in the market to convert to other currencies for usage.”



- A treasurer in Europe explained his company's motivation for using offshore RMB deposits: "The reason why we do get involved in deposits is if our customer has paid and we're not ready to fix the FX with them to convert it into USD price. Whenever we pay in CNH or we receive in CNH it's always done on a hedging basis. So the FX is always back-to-back with the customer."
- There was a small increase in the use of CNH loans (20% of respondents, up from 17% in Round 3). Another 20% are considering a CNH loan facility in the next six months. CNH loans are predominantly used to finance China investments (64%) and trade with China. Almost one third (28%) of companies with outstanding RMB loans are using them to finance trade with China.
- However, in interviews, many respondents said their internal resources were sufficient and they had no borrowing requirements.
- 15% of respondents have issued a CNH bond while 7% are considering an issue in the next six months. When issuers were asked to identify the benefit of CNH bonds the largest proportion (44%) said it was to expand financing channels, while 28% said it was to achieve a lower cost of funds and 17% said the objective was to reduce their asset-liability mismatch.
- Companies that have not issued CNH bonds were asked to select the single most important hindering factor from a prompt list. One quarter (24%) said there was no demand and another 23% cited market factors such as the RMB appreciation and higher interest rates than other operating currencies. Other reasons given were the difficulty of remitting funds for onshore usage (15%) and the preference for onshore RMB bonds issuance (10%).
- In Round 4, there was a significant increase in companies using CNH investment products from 15% of users in Round 3 to 28% in the current round. Nonetheless, many respondents have a cautious policy towards investments. "Due to our company policy, we don't do any speculation. Our projects are conservative. We just pay some fixed deposits, this is our internal policy. We don't buy bonds and we don't buy shares," stated the finance director of a Hong Kong company.

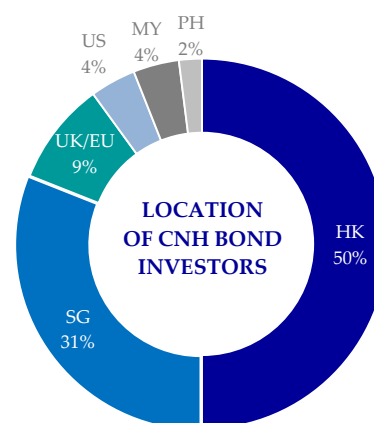
## CNH INVESTMENT PRODUCTS



## CNH BONDS FROM BUYSIDE'S PERSPECTIVE

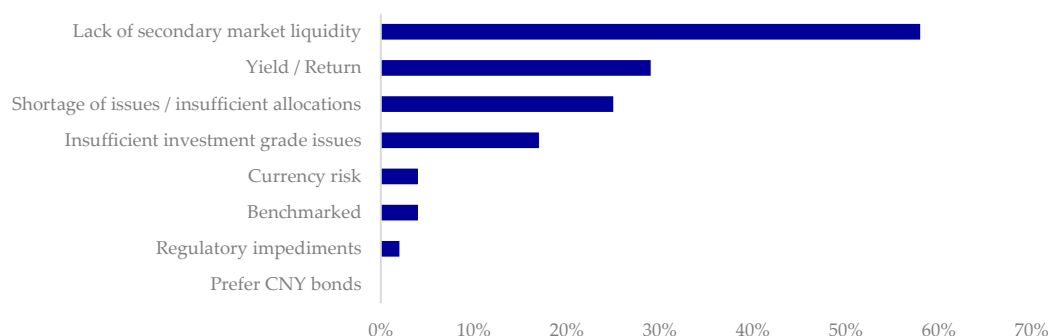
Following the survey of investors in local Asian currency bonds in Round 3, Asset Benchmark Research asked 80 major investors in Asian G3 bonds whether they were invested in CNH bonds and whether they intended to increase their holdings. Two thirds (60%) of respondents invest in CNH bonds, while 21% 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 (56% and 69%, respectively).

- Half of the existing investors in CNH bonds were located in Hong Kong.
- One-third (31%) was based in Singapore.
- Investors outside Asia were significantly represented, with 9% of CNH investors located in the UK/Europe and 4% in the US.



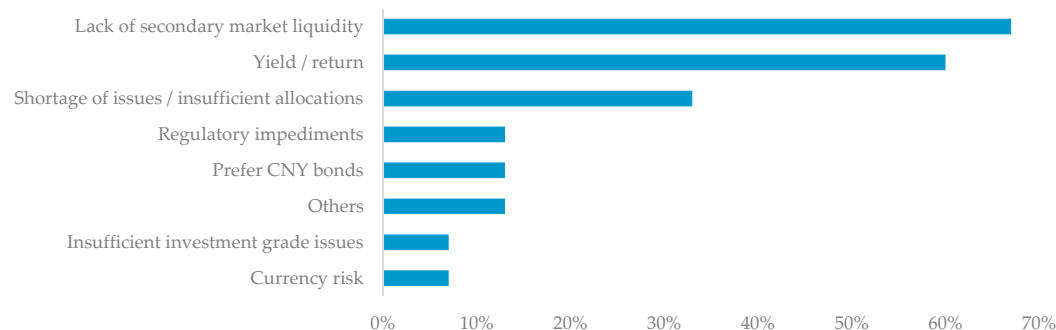
### INVESTORS IN CNH BONDS.

#### REASONS WHY THEY DO NOT INCREASE INVESTMENTS



### \*NON-INVESTORS IN CNH BONDS.

#### REASONS WHY THEY DO NOT INVEST



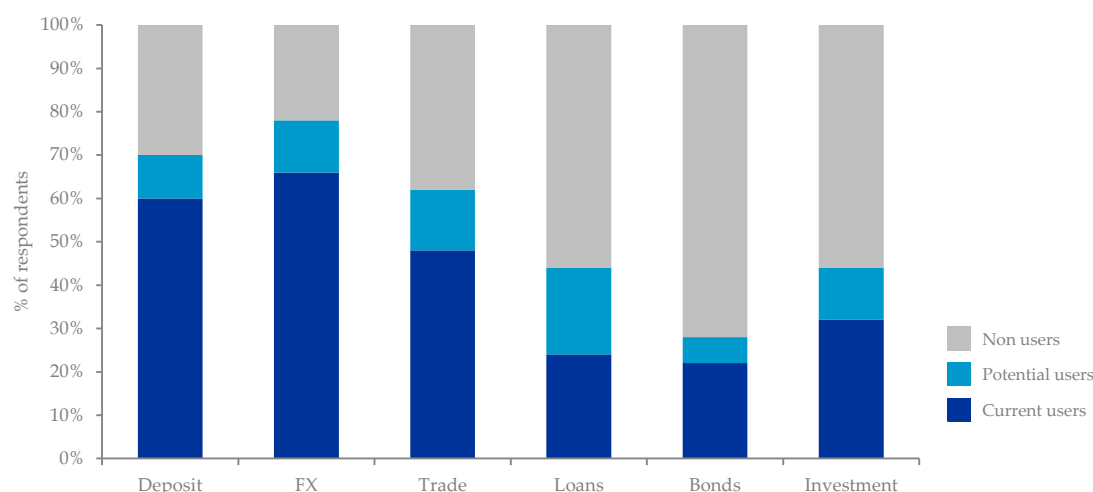
\*Does not include investors whose mandate precludes them from

## THE VIEW FROM HONG KONG

### From routine activities to further exploration

Hong Kong is again the main centre for offshore Renminbi activity with 38% of the respondents in Round 4. The majority (92%) of companies surveyed from Hong Kong use CNH products with half of those replying active in three or more products.

#### RMB PRODUCT USAGE - HONG KONG. CURRENT AND POTENTIAL



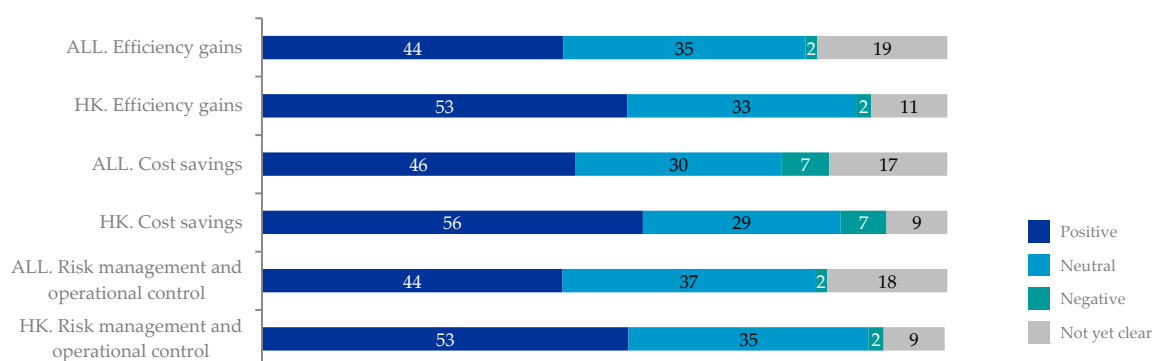
As in the broader survey, CNH FX is the most commonly used product with two-thirds of respondents active largely for hedging (61% of users) and to centralize FX management (15%). Deposits eclipse trade settlement products in Hong Kong, which is a departure from the more general trend.

In interviews, corporate treasurers explain how they are still investigating the different approaches to managing their CNH and CNY exposures. For example, one blue chip Hong Kong corporate is looking at investment vehicles: "We are actually exploring the opportunities because we do have investments in China but most of our investment companies in China are denominated in USD. Whenever we inject equity into it – we have to wait for the official approval for conversion, which takes one to two months. We have to find a way to hedge the currency fluctuation during that period of time because the RMB-USD rate fluctuates a lot. So we are exploring, but NDF may only be able for us to hedge on a group level. If our China investment company could do the hedge by themselves, we'd prefer them to do that. We are exploring with the banks whether that can be done in China."

Another Asian multinational reported a large decrease in CNH FX transactions over the past six months saying: “It depends on the pricing risk of using an offshore product. I’m expecting that if there’s no more improvement in the pricing risk, it will continue to decrease.”

Hong Kong corporates report a more favourable experience with CNH than the larger universe of all respondents, albeit slightly less pronounced than in Round 3. In particular, 56% of Hong Kong respondents report cost savings, compared with 46% of the entire survey base. A slightly lower proportion (53%) says they have benefitted from efficiency gains and improved risk management/operation control.

#### EXPERIENCE WITH CNH - % OF RESPONDENTS

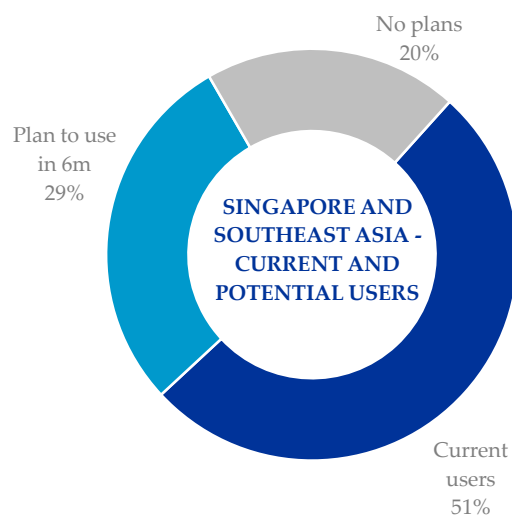


## THE VIEW FROM SINGAPORE AND SOUTHEAST ASIA

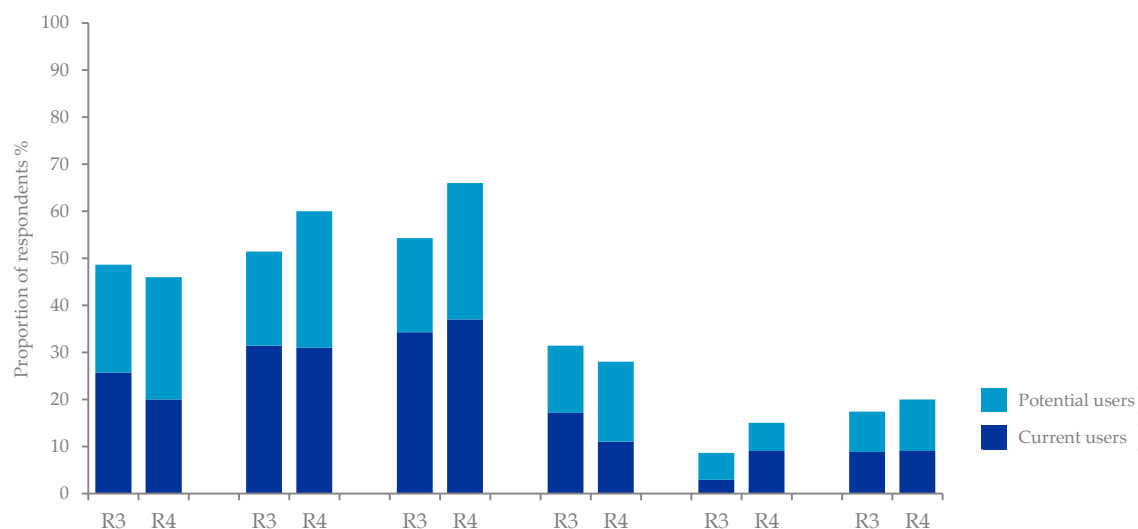
### Further expansion of activity

Combining the responses from Singapore (17) and Southeast Asia (18), 51% of respondents are currently using offshore Renminbi products. However, the penetration in Singapore is much higher at 71% of the total with a further 24% considering using CNH products in the next six months.

- The use of CNH FX across the region has increased since Round 3.



### RENMINBI PRODUCT USAGE % SINGAPORE AND SOUTHEAST ASIA



## THE VIEW FROM THE US

### Well established among China-linked companies

For the first time, companies in the US with an affiliate in China were included in the survey. Of the 13 respondents, seven currently use offshore Renminbi (two are heavy users), and four plan to in the next six months. A similar level of penetration is seen among the US company subsidiaries that were surveyed in Asia.

Consistent with the full survey, CNH FX and trade settlement products are the most commonly used products.

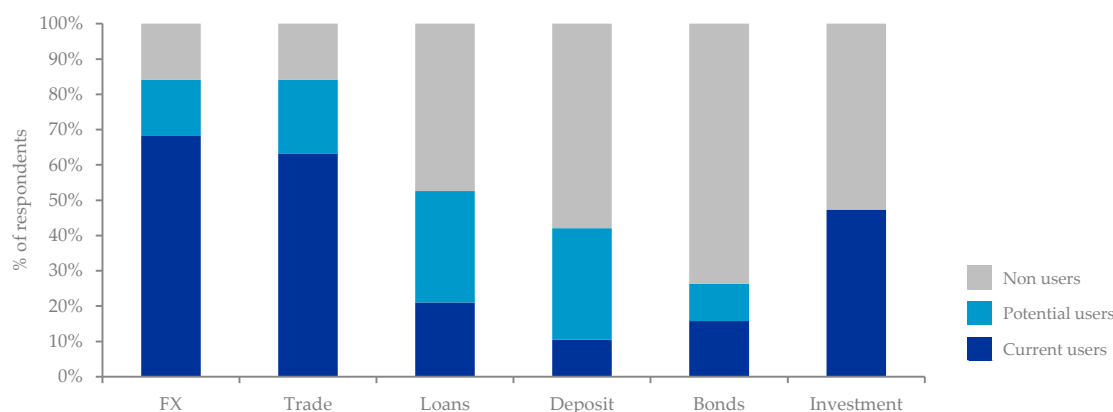
When asked the motivation behind using offshore Renminbi deposits, one US-based treasurer said: “One, we anticipate that we may in the future be doing RMB payments to our suppliers. So it positions RMB in anticipation of that event. Secondly we believe we can derive improved yields by making RMB deposits, assuming that the RMB stays stable and/or appreciates. But the interest rate differential compared with the US is greater, so that motivated us. And thirdly it’s hopefully that we can derive some appreciation. But that’s not the key purpose.” The same treasurer foresaw the changes as follows: “It would change our business to the extent that we would not have to do these hedges that we currently do - converting from various currencies into US dollars to pay our suppliers (from our foreign affiliates).”

## THE VIEW FROM EUROPE

Since the survey targets European companies with interests in China, all but one respondent are already active in offshore RMB, and the remaining non-user is considering using four CNH products in the next six months.

Product use by European companies continues to be focused around FX and trade settlement products. One treasurer said his company’s use of offshore RMB for trade settlement was because it delivered “improved terms of trade for doing business with China corporates - in certain cases it’s more competitive”.

### RMB PRODUCT USAGE - EUROPE - CURRENT AND POTENTIAL



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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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