

# RMB

## The Offshore Renminbi Review

Respondent Report – Issue Five Q4 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. Treasurers and senior treasury/finance executives answered questions about their current and planned offshore Renminbi activity: deposits, trade settlement, FX transactions, loans and financial instruments in CNH. Some respondents also provided comments in follow-up interviews, which help explain the trends in the data collected.

As the Offshore Renminbi Review enters its second year, we shift the focus closer to home and Round 5 is based on feedback only from Mainland Chinese and Hong Kong-based companies. This allows us to test the extent to which domestic Chinese companies are actively encouraging a shift to RMB for trade and commerce.

## METHODOLOGY AND RESPONDENT DISTRIBUTION

### Focus on China corporates

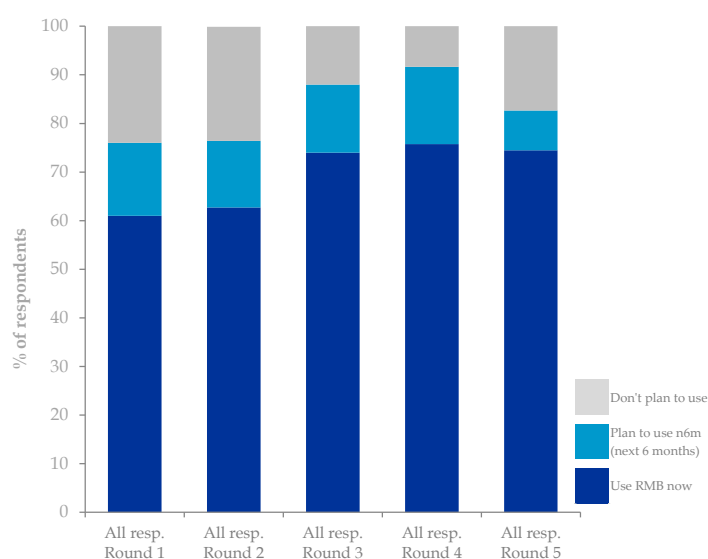
- The on-line questionnaire was sent to finance directors, CFOs, treasurers and senior treasury managers in corporations principally in China and Hong Kong.
- Two language versions were available: English and simplified Chinese.
- Follow-up interviews were conducted with some 20 respondents.
- The respondent distribution was: China corporates in China (36%), Chinese companies in Hong Kong (14%), Hong Kong corporates (29%), Taiwan companies in Hong Kong (5%) and MNCs from the US or Europe in Hong Kong and China (16%). This compares with the Round 4 split of 38% from Hong Kong, 27% from South East Asia, 11% from North Asia (China, Taiwan, Korea), 14% from Europe and 10% from the US.
- Just under half the respondents were large companies with more than 1000 employees (48%).

## CORE SURVEY FEEDBACK – ROUND 5 Q4 2013

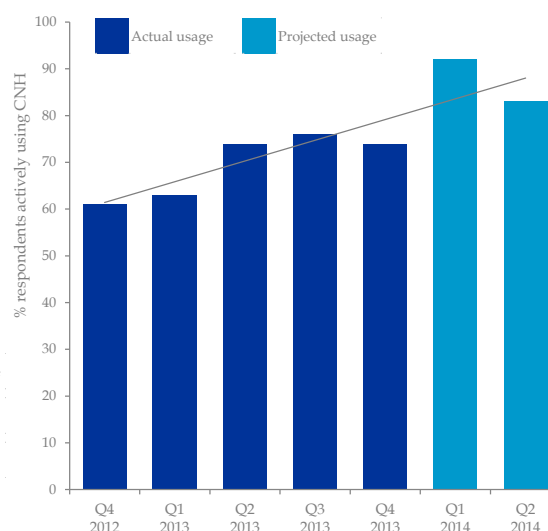
### The uptake in offshore Renminbi products continues

- Every three months, we ask corporates about their present and intended future use of offshore Renminbi products. In this round of the Offshore Renminbi Review, the emphasis was focused on corporates in China and Hong Kong – both local entities and MNCs.
- Hong Kong companies continue to be active in the use of Offshore RMB and are aware of the benefits. However, while their current use is extensive, at this stage they see limited future expansion due to concerns over currency appreciation, red tape, and a lack of liquidity.
- Many mainland China companies are already active in the use of offshore RMB, with ambitious plans to expand usage even holding offshore loans/deposits. Despite their activity, they do not yet see as direct benefits as their counterparts in Hong Kong.
- While many companies believe the RMB will become more important as a global currency, few are current strong advocates of RMB.

OFFSHORE RENMINBI USAGE



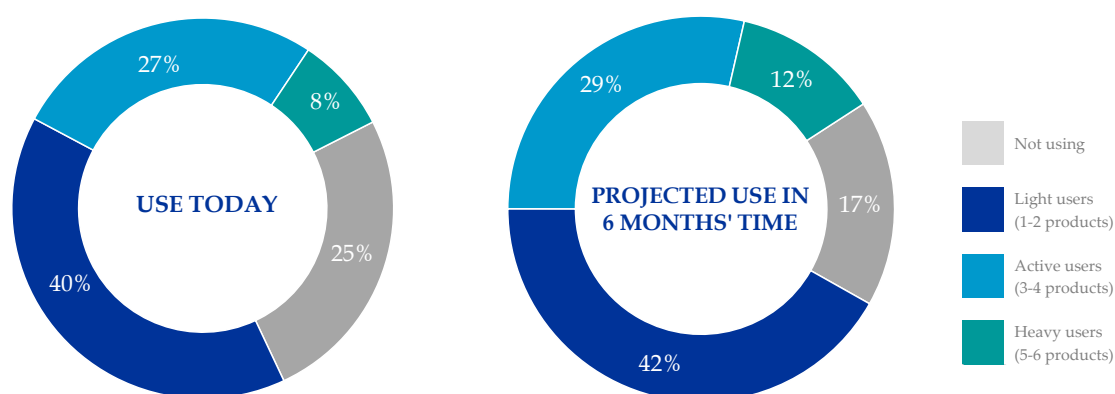
ACTUAL AND PROJECTED USAGE OF OFFSHORE RMB



## Familiar users tend to see more scope for expansion

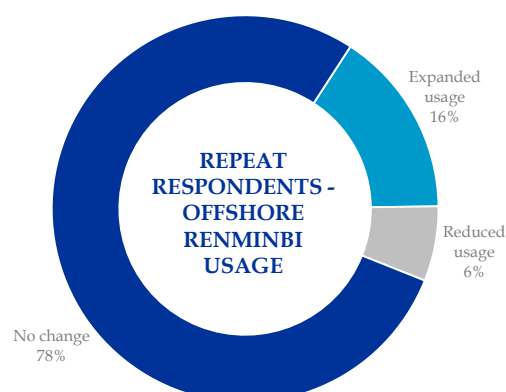
- In the past three rounds, there has been a steady increase in the proportion of respondents that use 5 to 6 Offshore Renminbi products. In Round 5, 8.2% of respondents were “heavy” users compared to 5.3% in Round 4 and 1.6% in Round 3.
- However, plans for projected use show a slower rate of increase than we have seen in the past, due to the inclusion of mainland companies.

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



## Repeat respondents will increase usage

- A more accurate gauge of projected use is provided by the 32 repeat respondents who took part in both Rounds 4 and 5. While the tendency of the majority (78%) is to maintain the current level of Offshore RMB usage in the four most popular products (deposits, trade, FX, loans), a significant proportion (16%) plans to increase usage, although 6% are likely to decrease.



## Foreign exchange remains primary entry point to Offshore RMB usage

In Round 5, as with previous rounds, the product preferred by the largest proportion of respondents is FX. Current FX users comprised 52% of total respondents and another 9% are potential users.

- The main purpose of users' CNH FX transactions was for hedging (36%) while another 20% of users cited centralizing FX management as a motivation.
- 33% of users looking to get involved in CNH FX in the next six months cited centralizing FX management as a major concern while 22% were motivated by hedging.

The next most popular product is offshore RMB deposits, with 44% of respondents active and another 8% planning to use offshore RMB deposits in the next 6 months. The proportion of current deposit users has jumped from 35% in Round 4.

- However, current users and potential users had concerns about the impediments. The main factors hindering corporates' use of RMB deposits is a lack of investible assets to deploy such deposits (35%), uncompetitive offshore deposit rates compared to onshore (33%) and worries over FX volatility (26%).
- A CFO in China explained his concerns: "Worries over FX volatility. I understand that there is only about 700 billion RMB circulating in Hong Kong. So I think that with any let's say bond issue in RMB or holding RMB deposits, it's not big enough. What I mean is the secondary market is not big enough. So if there's any change in the demand and supply in such a shallow market, the exchange rate will fluctuate easily. So that's my main concern."

Trade settlement in RMB is third in product penetration with 44% of respondents involved and 5% of respondents planning to do so in the next six months.

- The main driver for using CNH in trade settlement remains FX risk management (53% vs 55% in Round 4), followed by cost savings (35% vs 40%) and the RMB being requested by overseas counterparts (30% vs 31%).

Significantly, there was a greater uptake in the current and planned usage of offshore RMB loans in Round 5. In particular, about one third of exporters surveyed currently use Offshore RMB loans (compared to the all-respondent average of 24%) and a further 15% plan to take out such a facility in the next six months.

- Half of the respondents with loan facilities in Offshore RMB do so to finance trade with China, up from only 28% in Round 4. Previously, the most common reason for borrowing was to finance investment in China. However, 42% of respondents with loans were motivated by this factor, compared to 60% in Round 4, which is likely to be partly due to the respondents in China and a reluctance to borrow offshore. When asked about loans, one senior finance manager in Hong Kong stated: "Not in HK but we have RMB loans in China."
- Companies report an array of concerns that hinder them from borrowing more. Overall in Round 5, those with existing loans are discouraged because interest rates for Offshore RMB loans are higher than other currencies. They also say that it is hard to remit funds to China. Another inhibiting factor, particularly among Hong Kong corporates is the appreciation of the Chinese currency.

Capital investment in CNH remains relatively low with 23% of respondents currently active and an additional 7% considering investments in the next six months. Interviews suggest that the low penetration is due to liquidity concerns as well as the restricted range of available assets.

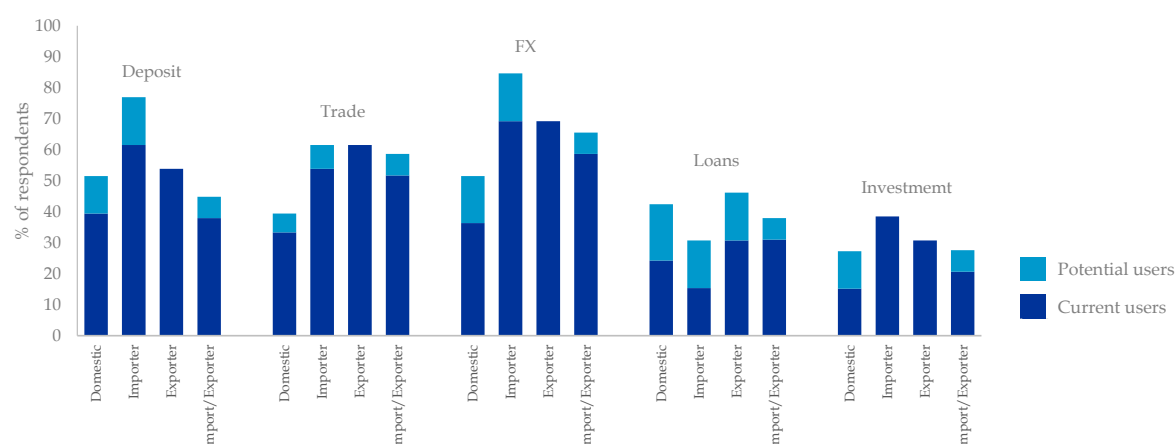
- The offshore RMB financial instrument that was the most preferred by respondents was non-deliverable forwards (used by 57%) while 43% were involved in offshore deliverable forwards and 8% in USD-CNH cross currency swaps.

## Exporter/importers are more open to Offshore Renminbi than domestic companies

For the first time, we asked respondents to define the nature of their businesses. While some Chinese companies servicing the domestic market use Offshore RMB (an average of 2.2 products currently), the highest incidence is among exporters (2.9 products) followed by importers (2.8 products).

Among importers, exporters and companies that both import and export, FX is – not surprisingly – the most popular product. (See graphs below). Trade settlement products are more commonly used by exporters than importers, suggesting that the impetus to adopt Offshore RMB is coming from outside China.

### OFFSHORE RENMINBI USAGE - % OF RESPONDENTS. BY SUB-SEGMENT



When asked to describe their attitude to RMB use, exporters were most likely to be proactive in pushing for a switch to RMB whereas importers were more indifferent. One exporter in Hong Kong described his proactive attitude for adopting the RMB for trade settlement by reasoning that “if they accept in RMB trade settlement of course there won’t be such big changes from time to time due to the appreciation of the currency”.

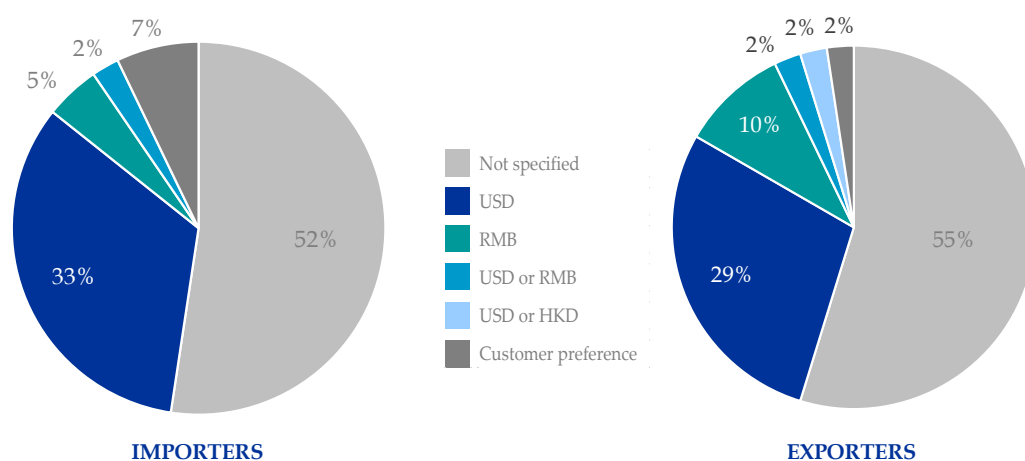
However overall, most respondents are either indifferent or passive in their attitude to RMB as a settlement currency, so while they expect their use of RMB for trade to increase, few are actively pushing RMB as the settlement currency.

Deposits are currently used by 62% of importers and 54% of exporters, though only 38% of import/export companies.

## Few companies today are actively promoting RMB as their currency of choice

Focusing on the currency respondents preferred when engaging in trade settlement, most corporates did not specify. Those who did respond opted for the USD. However, 10% of exporters are willing to quote prices to overseas buyers in RMB, while only 5% of importers are more likely to pay overseas suppliers in RMB. This also suggests exporters are being more proactive in using the RMB for trade settlement.

### IMPORTERS AND EXPORTERS CURRENCY CHOICES

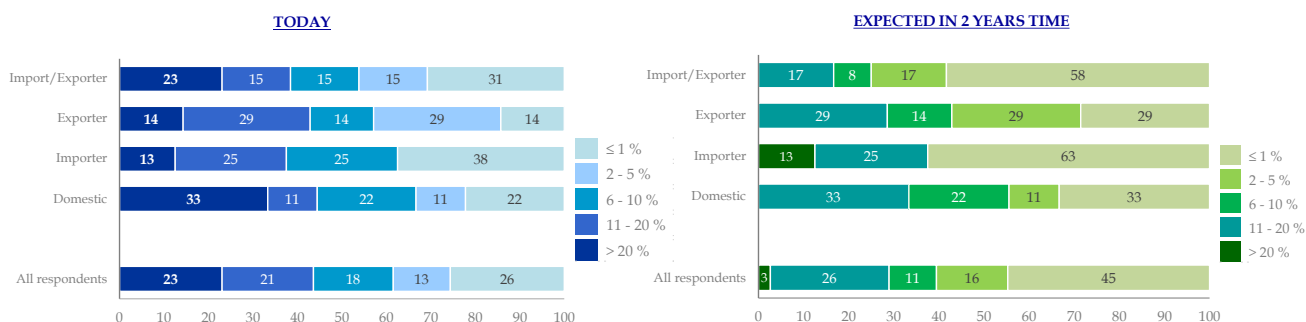


## Importers and exporters are most active users

Looking at the current percentage of total overseas trade in RMB, it is apparent that those corporates who both export and import settle the largest proportion of their trade in RMB, followed by exporters, importers and then domestic firms. Specifically, 46% of the respondents who both import and export settle 11% or more of their trade in RMB. This compares to 43% for exporters and 38% for importers and 33% for domestic firms.

Interestingly, when looking at corporates' potential use in two years' time, 63% of importers predict that they will settle more than 20% of their trades in RMB (up from 38% today) while only 29% of exporters predict that they will settle more than 20% of their trades in RMB (up from 14% today). Overall it is apparent that a greater proportion of trades will be settled in RMB in two years' time, with the amount of corporates settling less than 1% of their trades in RMB dropping from a current average figure of 23% to 3%.

### OVERSEAS TRADE IN RMB – BY SUB-SEGMENT



## More companies optimistic about the Renminbi as dominant currency

Half of the companies surveyed see the RMB supplanting the USD as the dominant currency for China trade and investment, though opinions differ over how long this will take. This compares with 40% in Round 4. 35% of the respondents believe the RMB will become the most important currency in the world in the next decade while a much smaller proportion, 7% are more optimistic and predict the RMB will dominate China investment and trade in the next 3 to 5 years.

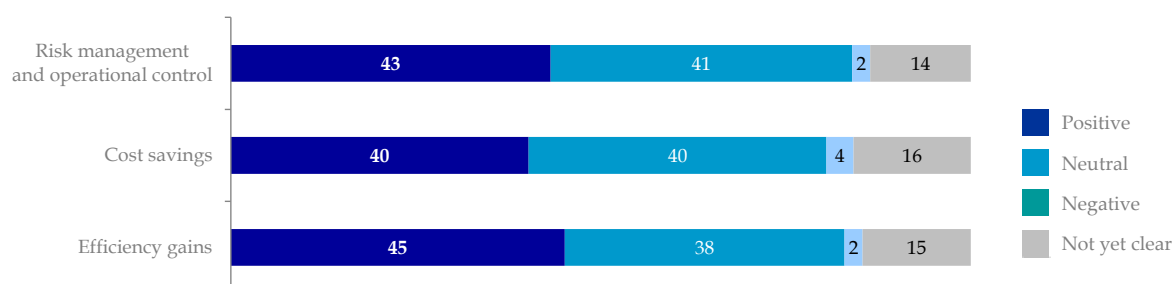
## Efficiency gains are main benefit

Typically we have found that the benefits of using Offshore Renminbi are felt most strongly by those who are most active in their product use. There is typically a pattern where companies start by using 1-2 products (usually Trade and FX) and see some slight cost benefit, then as they gain in confidence and experience they expand their product use to embrace loans and or deposits and the benefits become clearer. This survey shows mainland companies relatively early in their shift to Offshore RMB and so still waiting to see clear benefits.

Efficiency gains are the main benefit of using offshore Renminbi according to 45% of respondents.

- One finance director for a European multinational in Hong Kong gave an example of gains in efficiency obtained by using the RMB for trade settlement: "I think it's mainly from the supplier's point of view. It is easier; they don't need to monitor the forex exposure," she explained.
- In Round 5, one-fifth of the respondents were either unclear or had a negative experience in terms of cost savings. This is a greater percentage than those reporting a negative or unclear experience with regards to risk management and operational control (16%) or efficiency gains (17%).
- One corporate treasurer in China cited interest rates as a major factor behind his inability to save costs: "The problem is that we can always get RMB funds in mainland China at a much cheaper rate than we do in Hong Kong," he said.

### EXPERIENCE WITH CNH - % OF RESPONDENTS



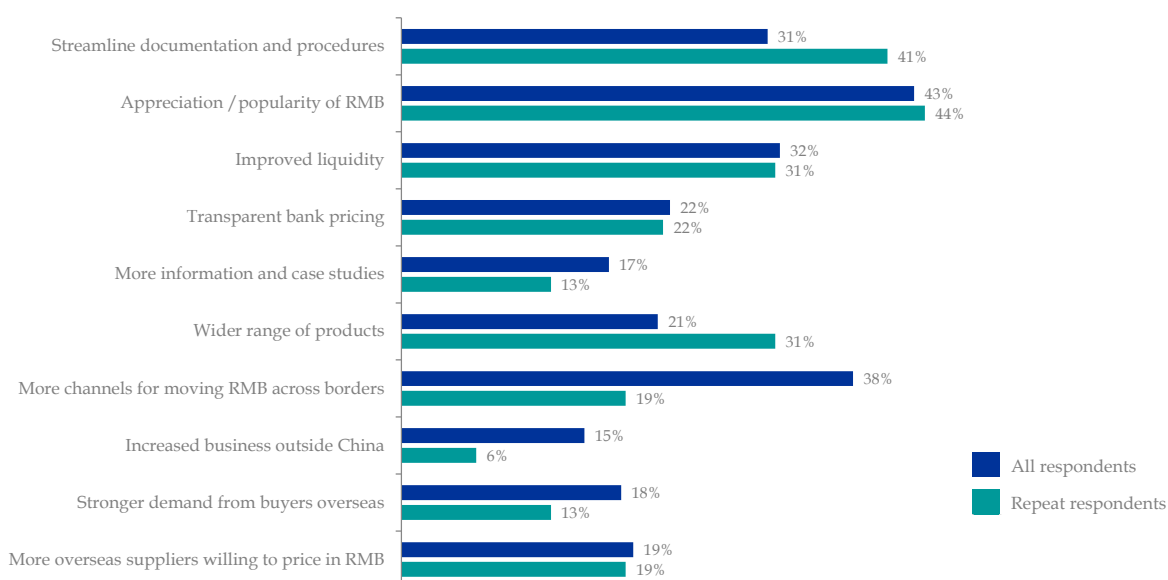


## Regulatory restrictions continue to be an issue, however appreciation takes first place

Respondents were asked what changes would have the *biggest impact* on their use of offshore RMB in the next 12 months.

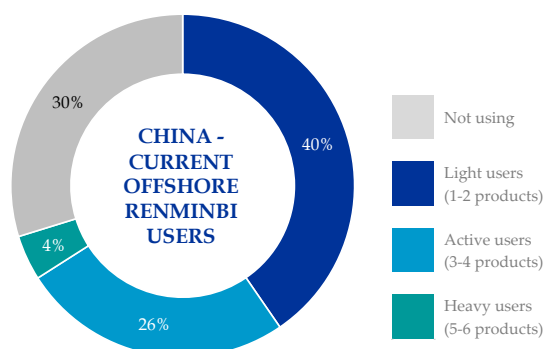
- 43% of respondents cited concerns over appreciation as being one of the major factors that will affect their use of offshore RMB products in the next year. This is also a key factor for the largest proportion of repeat (matching) respondents from last round (44%).
- When asked what would be the main reason stopping him from borrowing in offshore RMB loans, a Hong Kong-based senior finance manager clearly stated: “It’s mainly due to the appreciation of RMB. I think the exchange rate is the most important thing”.
- Regulatory restrictions, namely more channels for moving the RMB across borders (mentioned by 38% of respondents) and the streamlining of documentation and procedures for remittances (31%), are also two major factors that will affect respondents’ usage of offshore RMB in the next year.
- The Banking and Treasury manager of a US multinational in China outlined in greater detail: “More channels for moving RMB across borders as in bank processing or system channels,” he said. “Additionally, the Chinese government allowing more products and business areas to settle in RMB.”

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



## THE VIEW FROM CHINA

In Round 5, 48% of the respondents were based in China – two-fifths Chinese companies and 15% are MNCs. Product penetration in China is high with of the respondent group using offshore RMB products. However, the largest percentage of China corporates are light users and are only using 1 to 2 products. This suggests there is large catch-up potential.



Of the Chinese companies, 64% are either importers (15%), exporters (15%) or both (38%); the rest are domestic companies mainly buying and selling in-country.

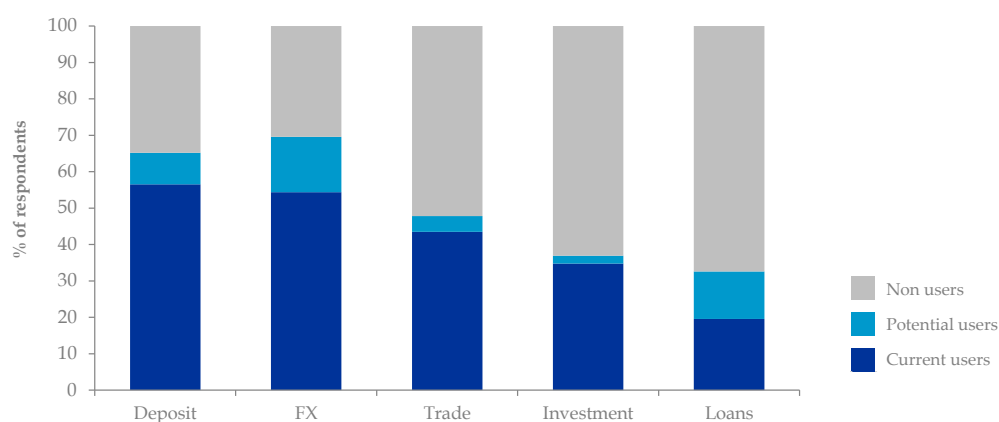
The majority 71% of Chinese companies that are involved in external trade are current users of Offshore RMB products. 60% of the current non-users are considering the products in the next six months. The most prevalent products among importer/exporters are trade settlement (58%), FX (53%), and deposits (37%).

Despite their local market focus, nearly half of the domestic companies use Offshore Renminbi products, principally in trade settlement and FX.

## THE VIEW FROM HONG KONG

Hong Kong-based treasurers accounted for 47% of total respondents. Over half these corporates were involved in offshore RMB deposits (57%) and FX transactions (54%). The lowest percentage of Hong Kong-based corporates was involved in loans (20%). However, in terms of potential usage, the two products corporates are planning on getting involved in above others are loans (13%) and offshore RMB FX transactions (15%).

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



93% of all Hong Kong corporates use at least one RMB product, far surpassing the offshore RMB usage by Chinese corporates in HK, at 57%.

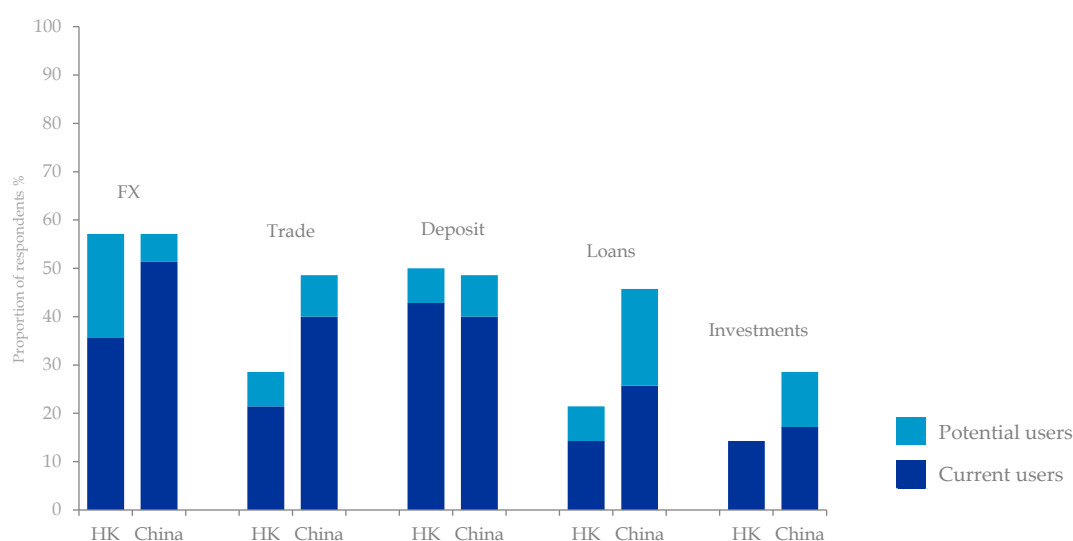
## CHINESE COMPANIES IN HONG KONG

Chinese companies in Hong Kong accounted for 14% of responses and stand out due to their surprisingly limited use of Offshore RMB products, lagging behind both mainland China respondents, and HK domestic companies. We will explore this grouping further in future surveys to see if this trend continues.

Overall China corporates based in China were more likely to use offshore RMB products (71%) as compared to those based in Hong Kong (57%). The largest percentage of China corporate users in both Hong Kong and China are currently involved in offshore RMB FX transactions (36%, 51%) and deposits (43%, 40%) over the other product types. This is in line with the broader survey results, being the most popular two products for respondents overall.

In the next 6 months, 21% of Hong Kong-based Chinese companies plan to get involved in RMB FX transactions. While the product of choice for China-based corporates in the next 6 months is loans, with 20% planning to use.

### RENMINBI PRODUCT USAGE % CHINA CORPORATES IN HONG KONG & CHINA



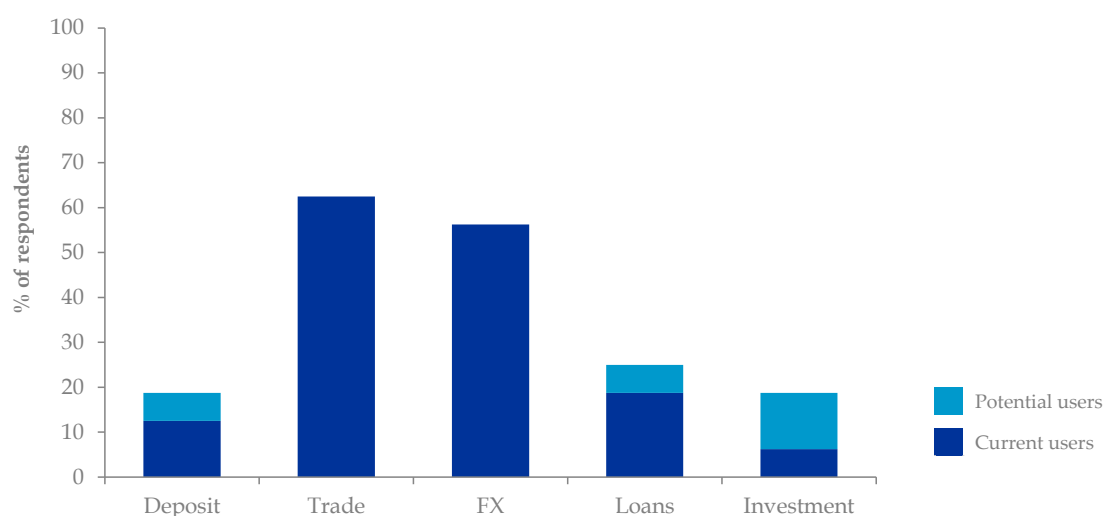
## THE VIEW FROM MNCs IN CHINA AND HONG KONG

### Consciously proactive attitude

U.S. or European multinationals in China and Hong Kong represent 16% of the total respondents. This group consists predominantly of light users of offshore RMB products with 63% using only 1 to 2 products. 13% are active users that make use of 3 to 4 products. Unlike local Chinese or Hong Kong companies, no MNCs that we interviewed were heavy offshore RMB users (using 5 to 6 products).

Looking at product usage, the majority of MNC users were involved in trade settlement (63%) and FX transactions (56%). One MNC treasury officer described their attitude to adopting the RMB for trade settlement as consciously proactive: “The supplier is open to change to RMB or USD. But it was about 2 years ago, after discussions with the supplier that we changed from USD to RMB. So from now on all the transactions are in RMB.” The largest percentage of potential users looked to get involved in offshore RMB capital raising or investment in the next 6 months (13%).

### RMB PRODUCT USAGE - MNCs RESPONDENTS CURRENT AND POTENTIAL USERS



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Contact: [research@theasset.com](mailto:research@theasset.com) +852 2165 1660

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