

RMB

The Offshore Renminbi Review

Respondent Report – Issue Six Q1 2014



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 sixth Offshore Renminbi Review took place in March and April 2014 and surveyed 129 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. For the first time, users were queried on how they manage their Renminbi risk and non-users were asked for their attitude toward offshore Renminbi. Many respondents also provided comments in follow-up interviews, which help explain the trends in the data collected.

Unlike Round 5, which focused mainly on Mainland Chinese and Hong Kong-based companies, Round 6 reverts back to the sample distribution in Round 4, where we gained feedback from companies based across the globe.

METHODOLOGY AND RESPONDENT DISTRIBUTION

Email invitations to take part in the Offshore Renminbi Review

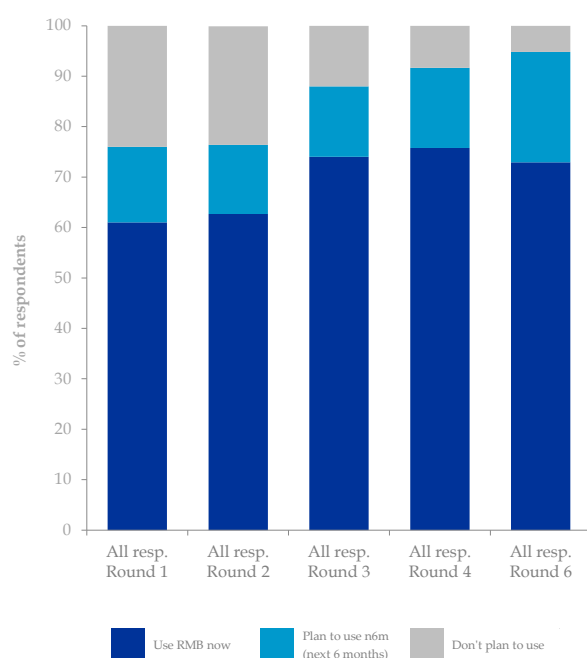
- The on-line questionnaire was sent to finance directors, CFOs, treasurers and senior treasury managers in corporations in Hong Kong, North Asia, Southeast Asia as well as Europe and the US.
- Two language versions were available: English and traditional Chinese.
- Follow-up interviews were conducted with 29 respondents.
- The respondent distribution, with Round 4 percentages in brackets, was 33% (38%) from Hong Kong, 23% (11%) from North Asia, 22% (27%) from Singapore and South East Asia, 15% (14%) from Europe and 7% (10%) from the US.
- The distribution according to business interactions with China was those who export from and import to China companies (35%), exporters (10%), importers (12%) and those who buy and/or sell to China subsidiaries (intercompany) (29%).
- 43% of the respondents were large companies with more than 1000 employees.
- 33% the respondents also participated in Round 4 of the survey in September 2013.
- An additional 26 companies provided data on their usage of offshore Renminbi products. These responses have been incorporated in the usage statistics only.

CORE SURVEY FEEDBACK – ROUND 6 Q1 2014

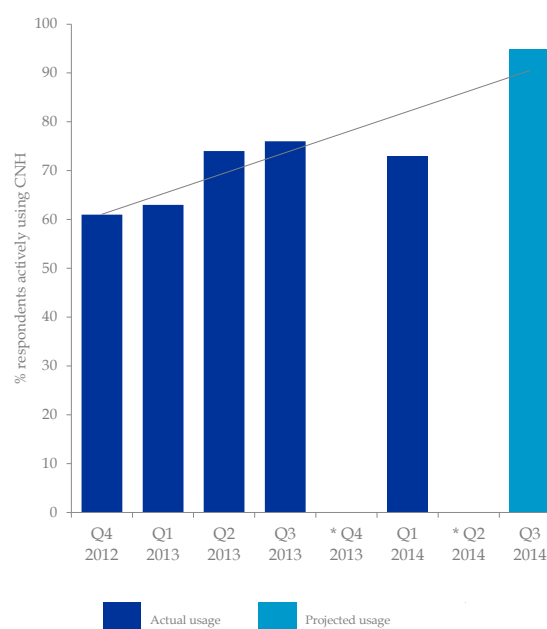
Offshore market should continue to broaden and deepen

- Every three months, we ask corporates about their present and intended future use of offshore Renminbi products. As in Round 4, in Round 6 the focus was back to the global sample of respondents. Therefore comparisons are made to the Round 4 sample throughout this report.
- The current usage of offshore RMB products in Round 6 (73%) has stayed stable relative to Round 4 (76%). However, planned users are more optimistic. The proportions of respondents who plan to use the offshore RMB in the next 6 months have increased, from 16% to 22%. Therefore overall current and planned usage of offshore RMB products in Round 6 (95% of respondents) has increased compared to Round 4 (92%).
- Looking at the projected usage of offshore RMB, the percentage of respondents that are likely to use offshore RMB is expected to increase to 95% in the third quarter of 2014.

OFFSHORE RENMINBI USAGE



ACTUAL AND PROJECTED USAGE OF OFFSHORE RMB

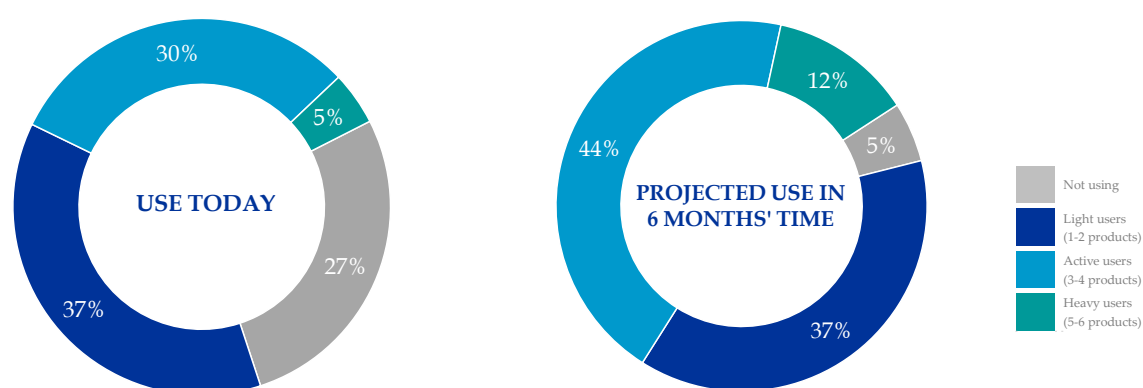


* Usage from round 5 is omitted from the above graphs to show the usage comparison between round 4 and 6.

Corporates plan to broaden their product use in the next 6 months

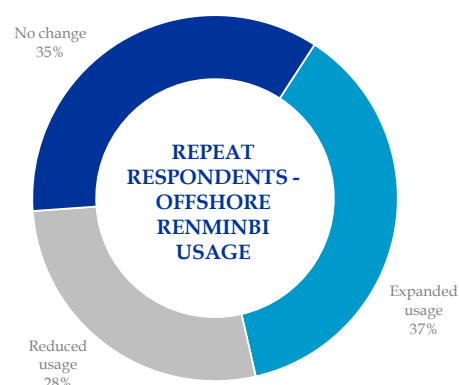
- Product use in Round 6 remains very similar to Round 4, with 27% not currently using RMB (compared to 24% in Round 4), 37% light users with 1-2 products (37%), 30% active users with 3-4 products (34%), and only 5% currently heavy users with 5-6 products (5%).
- Projecting forward, respondents in Round 6 expect their use of offshore RMB products to expand in six months' time, from an average of 1.9 products per client to 2.8 products per client. Most notably the proportion of non-users is expected to reduce from 27% to 5%, and the proportion of heavy users to increase from 5% currently to 12%.

PROJECTED CHANGES IN THE NUMBER OF RENMINBI PRODUCTS USED



Most repeat respondents have expanded their usage

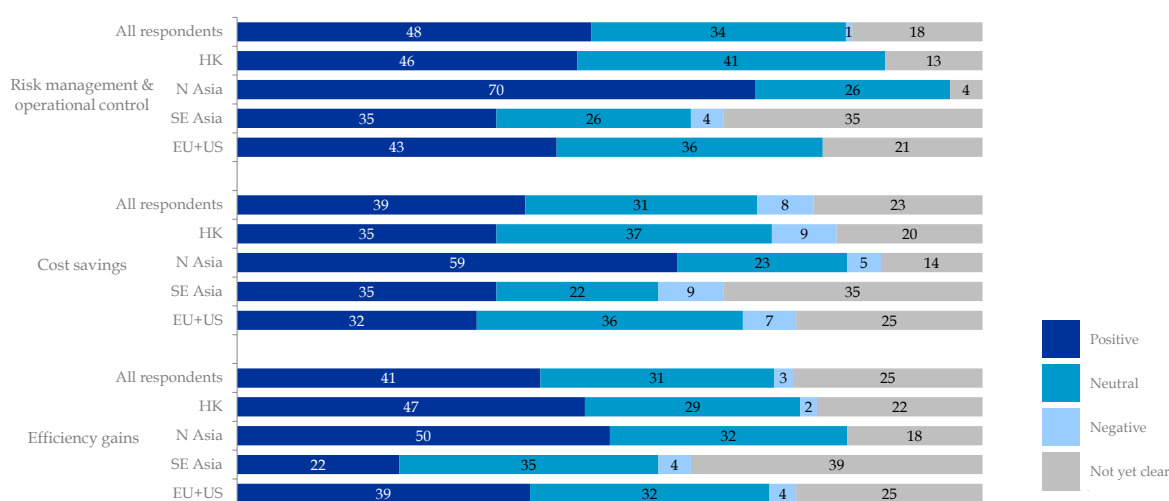
- Among the 51 repeat respondents from Round 4, 37% expanded their usage of offshore RMB deposits, trade settlement, FX and loans. This represents a 9% increase on the proportion of matching respondents who expanded their usage two quarters ago. Looking specifically at these nineteen repeat companies, they used an average of 1.7 products in Round 4 and now use an average of 3.1 products.
- There are also some companies who have reduced their usage of offshore RMB products between Round 4 and Round 6 – these clients represent 28% of the repeat respondents. On average their usage has fallen from 4.0 products to 2.4 products.



Improved control, risk management and efficiency

- Almost half the respondents (48%) were positive about offshore RMB benefits in terms of risk management and operational control, a 4% increase from Round 4, while 41% of respondents have experienced efficiency gains. Yet the perception of the benefits was markedly asymmetrical. Companies in North Asia (excluding Hong Kong) were significantly more positive with 70% recording gains in risk management and operational control, 59% cost savings and 50% seeing efficiency gains. One China-based finance director described the experience of using offshore RMB in terms of cost savings: “Positive, cost savings have been roughly about 40 to 50%.” In contrast, respondents in the US and Europe are more circumspect with only 32% claiming cost savings, 39% seeing efficiency gains and 43% better risk management and operational control.

EXPERIENCE WITH CNH - % OF RESPONDENTS. BY REGION



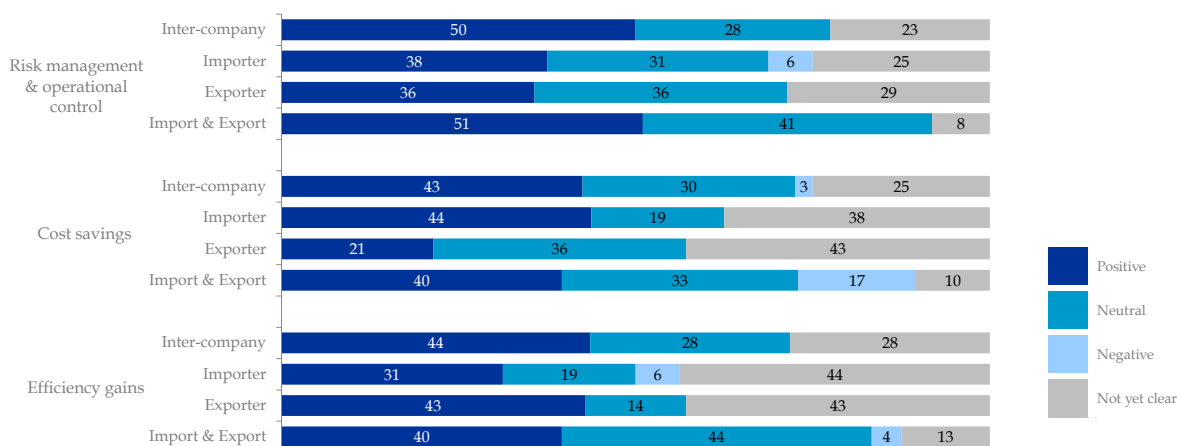
- Approximately a third of respondents in Singapore and South East Asia were positive about risk management improvements and cost savings while 22% said they had achieved efficiency gains. The majority was neutral towards the advantages or not yet clear. A small proportion of respondents (between 4% and 9%) were negative. Queried on why he was negative in terms of risk management and efficiency gains, a Malaysian CFO said: “The China currency revaluation and also the economic growth are not good signs. All this impacts everything, not only on the components, commodities, all this is impacted.” In Hong Kong, a greater proportion of respondents were neutral with regards to cost savings (37%) as compared to risk management (41%) and efficiency gains (29%). When asked why his experience of using RMB offshore has been neutral in terms of cost savings (when it was positive two quarters ago), a chief financial officer in Hong Kong also cited RMB depreciation: “Taking into account the short-term fluctuations in the exchange rate of RMB. But long-term [I’m] probably positive.”

Firms that both export to and import from China companies are more positive

- Categorising the corporates by type of business interactions with China, the firms that were involved in two-way flows with China (both importing from and export to other companies in China) were more positive or neutral in terms of offshore RMB usage. 51% were positive with regards to risk management, and 40% in terms of cost savings and efficiency gains. This relationship is further explored in the section on trade settlement.

- Among the companies that are positive about risk management, 77% were involved in FX transactions, 68% in trade settlement, 54% in deposits and 35% in offshore RMB financial instruments. When asked about his usage of financial instruments in CNH, a Hong Kong-based treasurer answered: “NDFs occasionally, because we do need to hedge the risk when we put money into China investment.” Companies that had achieved cost savings also mostly used offshore RMB for FX (76%), trade settlement and deposits (both 63%).

EXPERIENCE WITH CNH - % OF RESPONDENTS. BY TYPE

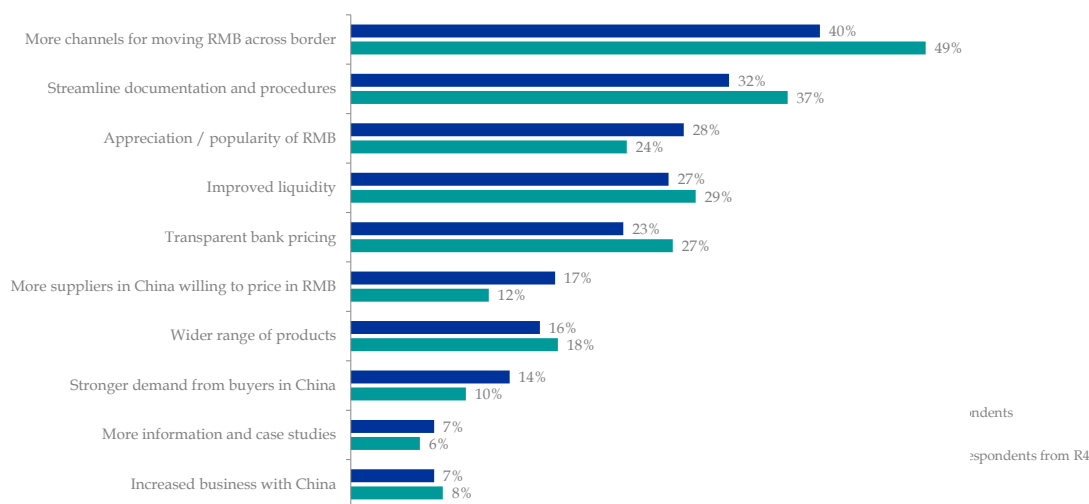


- Of those who reported cost savings, 17% were involved in offshore RMB bonds and 43% in financial instruments in CNH. These were the highest proportions among the three experience types, suggesting that these products are most closely associated with decreasing costs. A CFO of a Singapore-based company outlines the biggest benefit of dim sum bonds: “Expand financing channels. Definitely using our balance sheet, we can raise funds offshore pretty competitively. It’s more for onshore China use.”
- Three quarters of the firms who valued efficiency used offshore RMB FX products, 63% were involved in trade settlement, 56% in deposits and 40% in financial instruments in CNH. 31% of the firms who valued efficiency were involved in offshore RMB loans, the largest percentage among the three experience types.

Impact factors

- The factors that most respondents expect will have the largest impact on their usage of offshore RMB products in the next year include more channels for moving the RMB across borders (40%) and the streamlining of documentation and procedures for remittances (32%). A greater proportion of repeat respondents were affected by these factors, 49% were concerned about the movement of RMB across borders and 37% about documentation.
- A Singapore-based vice president of an American company describes in greater detail: “More channels for moving RMB across border. It’s really about being able to move money freely and with certainty. Streamline documentation and procedures for remittances of offshore RMB and intra-company payments. It would sure be nice, but I guess we do have good staff in China who feels the pain on that more than we do on an executive level. Remittances are always a problem, and the level of documentation; it’s the inconsistency that’s the problem, in my mind.”

FACTORS IMPACTING OFFSHORE RMB USAGE - % OF RESPONDENTS

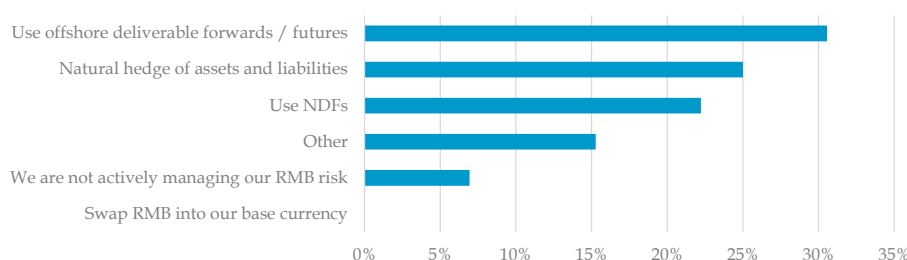


- As we saw with respondents' experience with the offshore RMB, exchange rate risk was also a major factor concerning corporates. 28% of firms expect that RMB appreciation will impact their use of offshore RMB in the next 12 months. For repeat respondents this was less important (24%).

FX continues to be the most widely used product

- Product use in Round 6 is similar to Round 4. Offshore RMB FX transactions was the most favoured product (54%) followed by trade settlement (45%), deposits (39%), financial instruments in CNH (23%), loans (20%) and bonds (6%).
- If we focus on FX transactions in particular, similar to Round 4, 54% of Round 6 users were involved. Another 20% were likely to use FX products in the next 6 months, up 3% from Round 4.
- For the first time, we asked companies how they manage their RMB risk. 31% use offshore deliverable forwards or futures. The next most popular approach was a natural hedge of assets and liabilities (25%). 7% of respondents were not actively managing their RMB risk. As one Hong Kong CFO put it: "[It's] not effective to manage RMB risks offshore. I think basically that the RMB and USD fluctuation is very limited so that even the losses are not that substantial."

RMB RISK MANAGEMENT



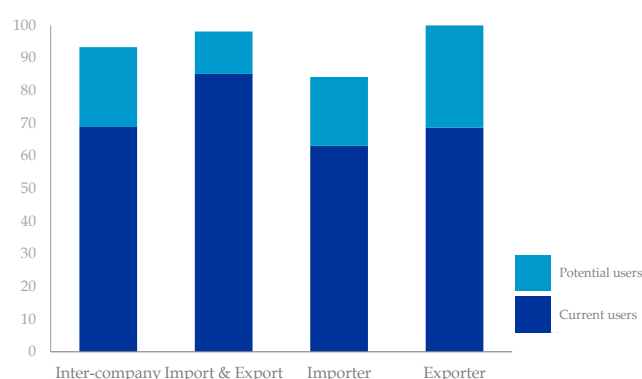
Increasing share of trade being settled via offshore RMB

- The proportion of firms that currently settle more than 20% of their trades with overseas counterparts in RMB was 43% this round. The proportion that planned to settle more than 20% of their trades in RMB in two years' time was 49%. This suggests more firms are proactively moving towards settling trades in RMB. This relationship is further explored in the next section.
- Looking at offshore RMB deposits, 39% of respondents were involved this round. This represents an increase of 4% in current use from Round 4. While the percentage of current users of offshore RMB loans has stayed constant from Round 4 (20%), the planned use has dropped from 20% to 15%. The main reasons companies gave for not borrowing (or borrowing more) in offshore RMB loans were the difficulty to remit funds for onshore usage (37%) and a lack of market depth (26%). However, one Hong Kong treasurer was more positive: "Right now, recently there have been quite a number of reforms in the Shanghai Free Trade Zone so the bad things that I mentioned last year (difficult to remit funds for onshore usage, lack of market depth) can be relieved this year. So hopefully there will be more bright side for putting funds into China for RMB offshore loans."
- From Round 4 to Round 6, the use of financial instruments in CNH dropped from 28% to 23% and the projected use dropped from 10% to 6%. The CFO of a Singapore-based UK multinational gave one reason: "Our policy is we don't encourage speculation, so we don't do forwards." Current users are predominantly involved in offshore deliverable forwards (53%) and in non-deliverable forwards (50%).
- The interest in issuing CNH bonds fell to only 6% of respondents compared to 15% in Round. A treasurer of a firm based in Hong Kong explained why they postponed plans to issue CNH bonds: "We expected the cost to come down, but actually it has not. Also the reason is the tenor is too short," he said.

Business interactions with China - offshore RMB usage remains most popular amongst traders who import from or export to China companies

- For the second quarter, companies were asked about their business interactions with China. As in Round 5, companies that traded with China either as importers, exporters or both were the most active users of offshore RMB. The greatest percentage of current offshore RMB users were respondents that both imported from and exported to China companies (85%). More than two-thirds (69%) of exporters and companies who mainly buy and sell to their China subsidiaries (inter-company) used offshore RMB products and 63% of importers were involved.
- Exporters in Round 6 were the most hopeful of expanding usage with 31% were likely to use offshore RMB products in the next 6 months.

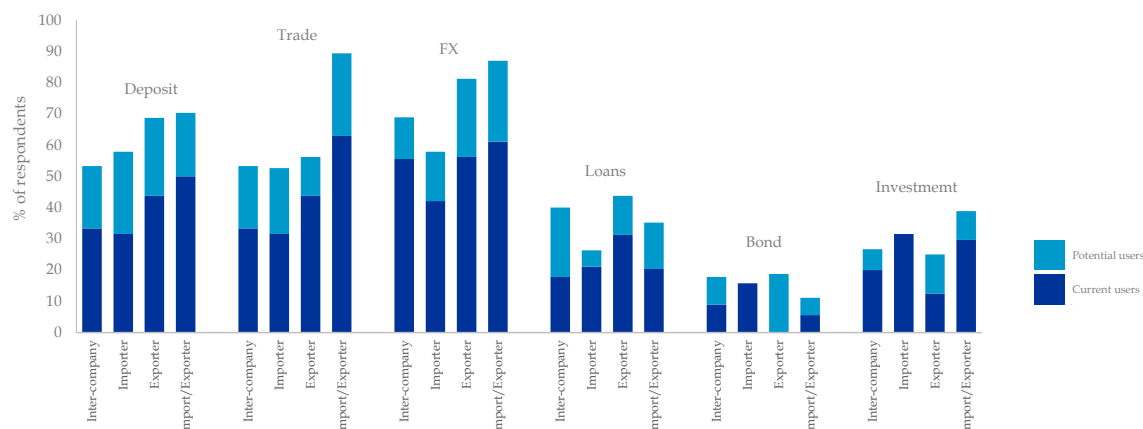
**OFFSHORE RMB USAGE.
% OF RESPONDENTS. BY SEGMENT**



- The current and planned product use varied depending on the company's interactions with China. For all companies, FX transactions were the most popular product.
- FX was the most popular product among exporters (56%), importers (42%) and intercompany firms (56%). However firms that both import from and export to China companies, with 2-way trade flows, were most likely to be using offshore RMB for trade finance (63%). Importers/exporters and exporters were most likely to be involved in offshore RMB deposits. Financial instruments in CNH on the other hand, were more popular among importers/exporters and importers.

- The least popular product for all groups were CNH bonds, exporters were not involved at all, while 16% of importers were involved, 9% of intercompany firms and 6% of firms that both import from and export to China companies.

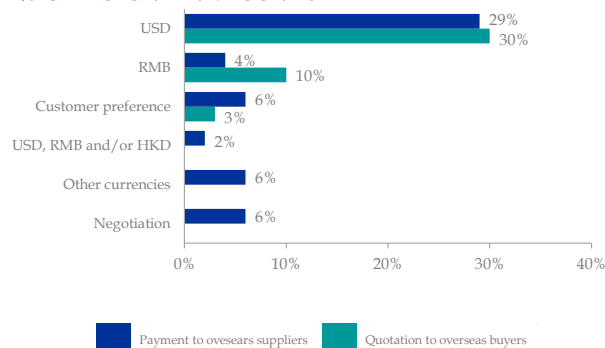
OFFSHORE RENMINBI USAGE - % OF RESPONDENTS. BY SUB-SEGMENT



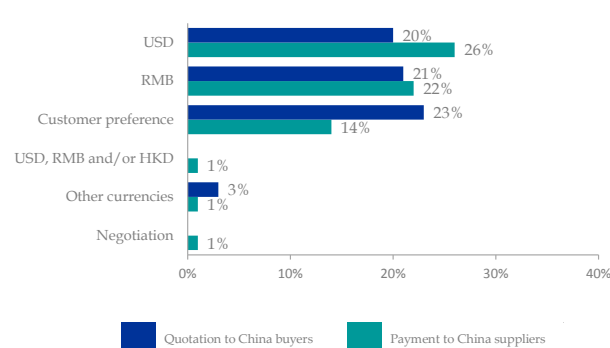
Trade settlement and currency preferences – firms with two-way flows dominate

- 63% of firms that both export from and import to China companies were involved in trade settlement with offshore counterparties in RMB and 17% of this group planned to get involved in the next 6 months. On the other hand importers were the group that was least involved in trade settlement at 32%. When asked about his plans for trade settlement, a Hong Kong-based importer cited regulatory concerns: “No plans. We don’t have any RMB payment to offshore. Because of the foreign currency regulation in China, it is difficult to make the payment to China. We cannot make any payments in the coming 6 months, until the foreign exchange regulation has been amended.”
- For the second time, we asked exporters and those who both export and import from China companies how they preferred to quote prices to China buyers. The largest percentage of respondents did not specify (33%). The companies that responded preferred to quote according to customer preference (23%), followed by RMB (21%) and then USD (20%). A Chinese treasurer of a US multinational opted for RMB to mitigate currency risk: “Because you know for us, the major reason we applied RMB for cross-border transactions is to mitigate our FX risk, for the export business. So as long as the customer can accept that, we will propose RMB instead of USD.”

CURRENCY PREFERENCE FROM EXPORTERS & IMPORTERS % OF RESPONDENT. ROUND 5

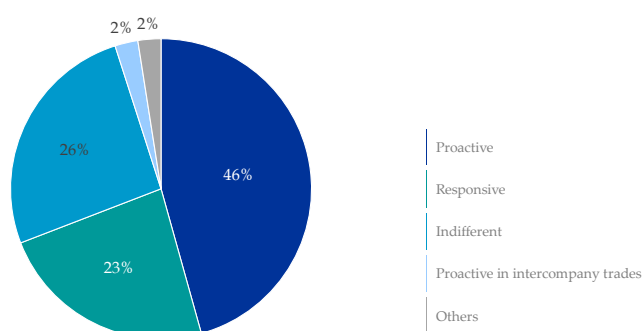


CURRENCY PREFERENCE FROM EXPORTERS & IMPORTERS % OF RESPONDENT. ROUND 6



- We also asked importers and those who both export and import from China companies how they preferred to pay their China suppliers. Again the largest percentage of respondents did not specify (34%). The companies that responded preferred to quote in USD (26%), followed by RMB (22%) and then according to supplier preference (14%). From our interviews, a Southeast Asian CFO describes how he is considering the RMB: “We pay in the currency preferred by the supplier. At the moment we are more based on the request of the exporters from China. We are looking at the option of using RMB, but of course there is also the downside of the so-called RMB strengthening.”
- Comparing the currency preferences of offshore companies with mainland companies from Round 5 yields interesting results. In Round 5 the majority of mainland companies who were importers (52%) and exporters (55%) did not specify which currency they preferred to settle trades in. However in Round 6, the preference from offshore companies was for RMB. 32% of offshore exporters quoted prices to their China customers in RMB and 33% of offshore importers paid their China suppliers in RMB. 34% of exporters quoting prices to China buyers opted to allow the customer to decide the currency preferred. This suggests mainland Chinese customers have more power to drive offshore RMB use for trade settlement in the future.
- Although only 52% of companies replied about their attitude toward adopting the RMB for trade settlement, 46% of the firms that did were proactive (requesting counterparts to switch to RMB), 23% were responsive (being requested to switch to RMB) and 26% were indifferent. When asked about his plans for trade settlement in two years’ time, a Hong Kong-based treasurer of a European firm showed his proactive stance: “I think there will be a gradual conversion over to the CNY.”

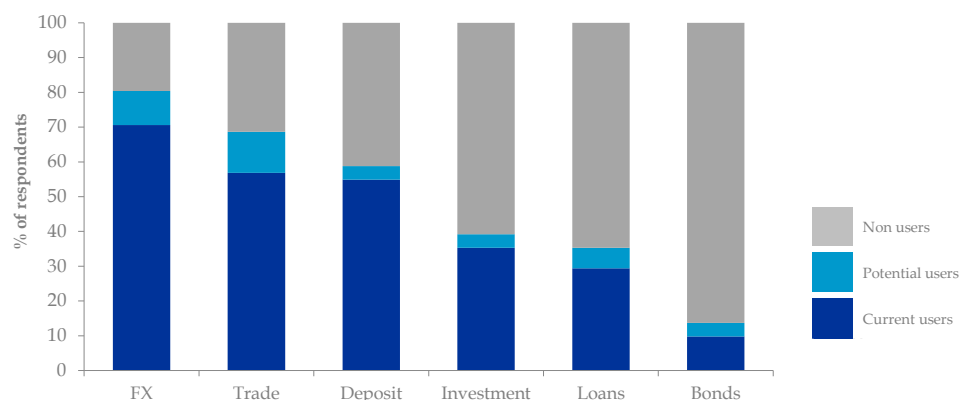
ATTITUDE TOWARDS ADOPTING
RMB TRADE SETTLEMENT



THE VIEW FROM HONG KONG

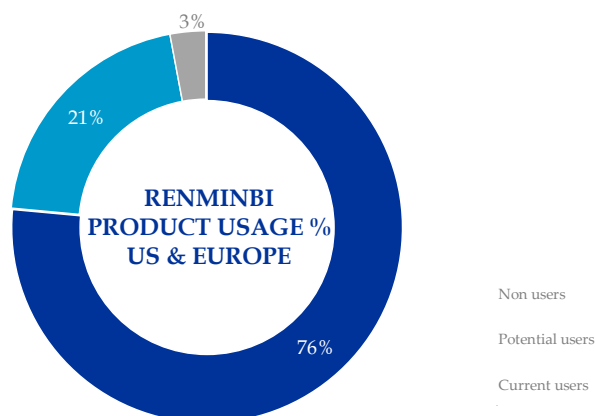
- Hong Kong respondents were the most active users of RMB using an average of 2.6 products. Over half of the respondents based in Hong Kong (57%) were active (3-4 products) and heavy users (5-6 products) of offshore RMB.
- With the Round 4 percentages in brackets, the most popular product among Hong Kong corporates was FX at 71% (66%) followed by trade settlement at 57% (48%) and deposits at 55% (60%). The least popular products were capital investment in CNH at 35% (32%), offshore RMB loans 29% (24%) and CNH bonds 10% (22%). Despite increasing their usage of financial instruments and loans in Round 6, planned use of these products as well as CNH bonds has waned for corporates in Hong Kong.

RMB PRODUCT USAGE - HONG KONG CURRENT AND POTENTIAL



THE VIEW FROM THE US AND EUROPE

- After Hong Kong, the companies that were most active in offshore RMB were those based in the US and Europe (76%). US and European companies used an average of 1.6 products. Although current usage in the US and Europe has dropped since Round 4 when it was at 78%, the planned use of offshore RMB in the next 6 months has increased from 16% in Round 4 to 21% in Round 6.



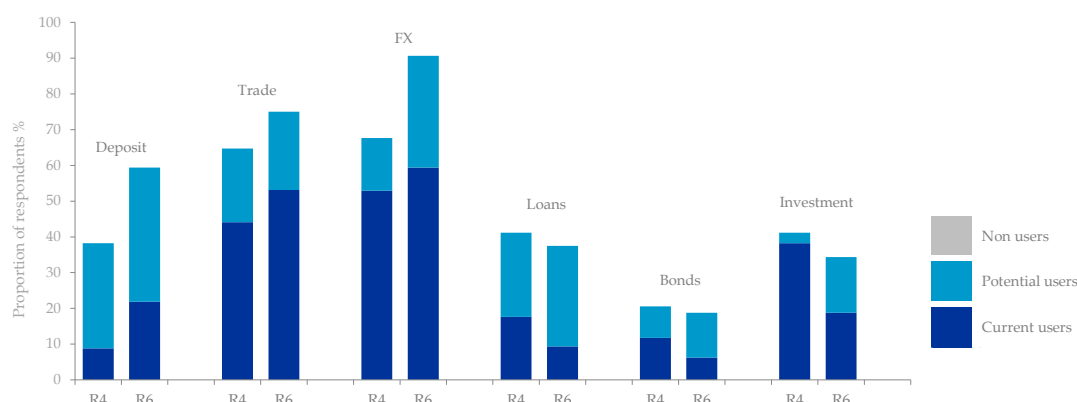
- US and European respondents that mainly bought and sold from their China subsidiaries use the largest average number of products (1.9). 1.7 products were used by companies that import from and export to China companies. 1.3 products were used by exporters and no products were used by importers.

- In Round 6, the largest percentages of US and European respondents favoured FX transactions (59%), trade settlement (53%) and deposits (22%). The usage for each of these products in Round 4 was 53%, 44% and 9% respectively. Planned usage in these products has also increased since Round 4. With Round 4 percentages in brackets, 31% (15%) of corporates plan they will use FX products in the next 6 months, 22% (21%) plan to settle trades with offshore counterparties in RMB and 38% (29%) plan to use offshore RMB deposits.

- The front office of one European firm stated his motivation for settling more trades in RMB: "In trade settlement, we do have CNH LCs but when we get the funds in, it is converted to USD. CNH has helped us deliver additional business. The original push to move into CNH came from our China office because our customers were asking whether we could do CNH payments or LCs. The push also came from our FX desk as well. The offshore market is much easier. The onshore market involves a lot more paperwork."

- Although current involvement in capital investment in CNH (19%), offshore RMB loans (9%) and CNH bonds (6%) has halved since Round 4, potential usage in these products has increased. Unlike Hong Kong corporates, fewer US and European companies currently use these products but they are more hopeful in terms of the extent of their future use. This might be a result of the fact that US and European respondents mainly have inter-company dealings with China. However Hong Kong-based companies that predominantly engage with China via two-way flows are likely to be involved in a broader range of products.

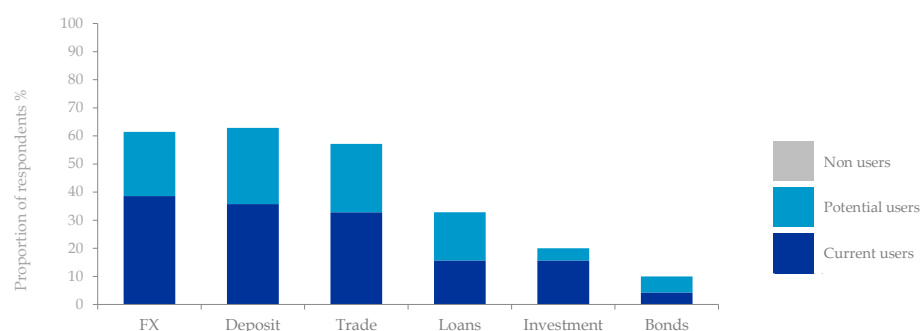
RENMINBI PRODUCT USAGE % - US & EUROPE



THE VIEW FROM THE REST OF ASIA

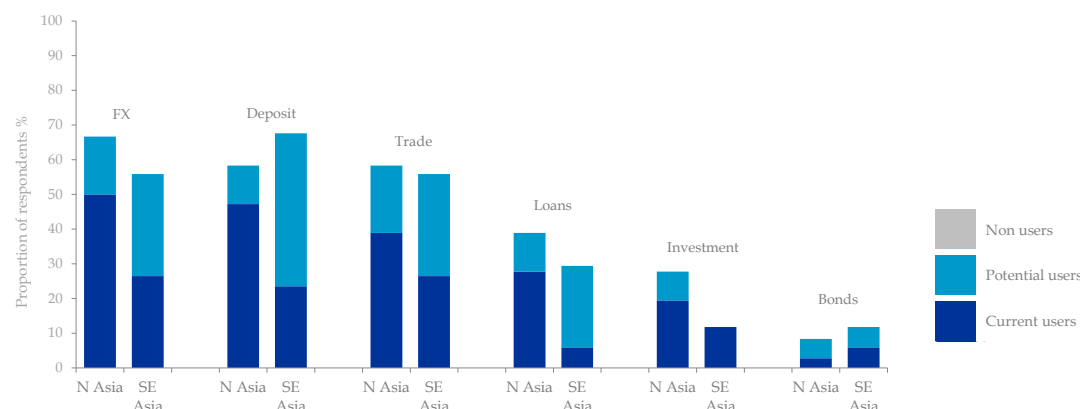
- In Round 4, 58% of firms in the rest of Asia were current users and 24% were potential users. In Round 6 these percentages were 60% and 31% respectively. Singapore and South East Asian respondents used an average of 1.0 products and North Asian respondents (China, Taiwan and Korea) used an average of 2.0 products.
- The most popular products among Hong Kong and US and European respondents were FX transactions and trade settlement in offshore counterparties in RMB. However for companies from the rest of Asia, deposits took the place of trade settlement as the second-most favoured product (36% were involved).

**RENMINBI PRODUCT USAGE % -
REST OF ASIA**



- Not surprisingly, current usage in North Asia is higher than in Singapore and South East Asia in most product categories except CNH bonds. However Singapore and South East Asian respondents were more hopeful and planned usage was higher for these respondents. Looking at the potential usage for the most popular products, 17% of North Asian corporates planned to get involved in FX products in the next 6 months, 11% in deposits and 19% in trade settlement. While 29% of Singapore and South East Asian companies planned to get involved in FX products, 44% in deposits and 29% in trade settlement.

**RENMINBI PRODUCT USAGE % -
NORTH ASIA VS SOUTHEAST ASIA**



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