

DBS RMB Index for VVinning Enterprises (DRIVE) - 2Q14

DBS Group Research

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DRIVE surged to record high in 2Q14

The 2Q14 reading of DRIVE jumped to a new high of 60.4 from 57.6 in 1Q14 (Chart 1). There is a broad-based increase in RMB customer orders/invoices, trade settlement, and RMB product usage. A stabilising RMB exchange rate has also prompted corporates to re-allocate RMB funds back to deposit accounts. Equally important is that more companies indicated easier access to RMB loan/credit facilities.

Key findings and DBS insights

* Unless stated otherwise, figures in parentheses represent findings in the previous survey (1Q14)

1. Business needs for RMB increased significantly

- Business needs for RMB rose in 2Q14. Some 45% (33%) of companies surveyed indicated that they had RMB customer orders/invoices in the past 12 months, and 69% (52%) claimed that they would use RMB for these purposes in the next 12 months. Both numbers are the highest recorded since 2Q13 (Charts 3a & 3b)
- 2Q14 saw the lowest level of respondents (53% vs. previous high of 66% in 1Q14) said they did not have RMB customer orders/invoices and trade settlement in the past 12 months (Chart 3a)

DBS insights

Business needs for RMB is a key indicator of actual RMB acceptance and usage levels at the corporate level. After tracking this component for seven quarters, there is no evidence of either an uptrend or a downtrend in RMB corporate penetration. Usage levels fluctuate from quarter to quarter, reflecting specific RMB-related policy changes and expectations of RMB appreciation in that particular quarter.

2. Usage of RMB products regained its growth momentum

- The percentage of companies using RMB products [1], which fell to 25% last quarter, reached 34% in 2Q14 (Chart 4)
- 32% (24%) of companies said they are currently using or will consider using RMB payment and receivables services in the next 12 months (Chart 5)
- 8% (5%) of companies said they are currently using or will consider using RMB trade services in the next 12 months (Chart 6)
- 7% (0%) of companies said they bought deliverable forward contracts in the past 12 months (Chart 7)

DBS insights

Since Beijing doubled the size of the RMB's daily trading band in March, corporates have taken on various hedging strategies to mitigate the accompanying increase in exchange rate volatility. Also, more small- and medium-sized enterprises tend to invoice in RMB because they lack the experience and/or expertise to hedge foreign exchange risks effectively.

3. Usage options for RMB liquid assets are increasing

- 38% of respondents had more than 10% of their liquid assets in RMB, recorded new high (Chart 8)
- The percentage of companies using RMB export trade settlement accounts grew slightly, to 10% (7%) (Chart 9)
- The proportion of companies putting their RMB back into deposit accounts rose substantially, to 54% in 2Q14 vs. 38% in 1Q14 (Chart 10)
- Only a quarter of the companies converted their RMB to HKD, compared to 31% in 1Q14 (Chart 10)

DBS insights

The RMB has shown signs of stabilising recently after depreciating more than 3% earlier this year. The change in exchange rate expectations seemed to have impacted corporate RMB cash management decisions. The fact that more companies chose to convert HKD into RMB in 2Q14 underscored two things. One, companies might be anticipating further RMB appreciation in the near term. Two, companies might be foreseeing a greater need to utilise RMB in their business operations amid a stabilising RMB exchange rate.

4. Ease of getting access to RMB loans improved substantially

- More respondents (20% in 2Q14 vs. 12% in 1Q14) claimed that getting access to RMB loans or credit facilities was "very easy" or "slightly easy" (Chart 11)
- That said, overall interest in RMB finance remained low, with the majority of respondents expressing no intention to apply for RMB finance in the next 12 months (Chart 12)

DBS insights

The launch of CNH HIBOR fixing supported the growth of the offshore RMB loan market by providing a reliable benchmark for the pricing of loan facilities. More encouragingly, a number of recent developments suggest a faster pick-up in the offshore loan market in the near term. That includes the Shanghai FTZ free trade account and the Hong Kong-Shanghai Stock Connect Programme.

The outlook: Further offshore penetration on the back of policy support

- While the Hong Kong-Shanghai Stock Connect Programme promotes two-way capital flows, valuation-driven equity flows can, at times, be significantly imbalanced. Given Hong Kong's limited liquidity pool (~RMB1,000 billion), its RMB market is vulnerable to a liquidity squeeze. Against this background, it is understandable why the Hong Kong Monetary Authority intends to relax the daily conversion cap for Hong Kong residents (RMB20,000) in the near future
- The relaxation of the daily conversion cap will in turn spur RMB product innovation and boost demand for sophisticated RMB products.

This, alongside other policy refinements, would increase Hong Kong's RMB liquidity pool

- Amid rising RMB volatility, interest in RMB hedging products shall continue to pick up. Total trading volumes of currency futures amounted to 13,903 contracts in July, up 53% from a year earlier, according to the Hong Kong Stock Exchange

About the index

The DBS RMB Index for VVinning Enterprises (DRIVE) is the first index in the industry that is specifically designed to gauge the level of RMB usage, acceptance and penetration among companies registered in Hong Kong, as well as companies' inclination to use RMB in the future. Although macroeconomic data on the circulation of offshore RMB are widely available, they are not able to offer an in-depth perspective on the developmental progress of Hong Kong as an offshore RMB centre. By focusing on the level of RMB usage and acceptance among Hong Kong-registered companies, this index aims to serve as the first benchmark to measure the pace of RMB internationalisation in Hong Kong. Policy-makers, businesses and investors alike will find this index a useful strategic tool over time.

DBS Bank (Hong Kong) Limited commissioned an independent research house (Nielsen) to compile DRIVE and conduct the related survey on a quarterly basis, starting from the fourth quarter of 2012. Subsequent index values will be released on a quarterly basis and over time will reveal a lot more about the pace of development of Hong Kong as an offshore RMB centre. Corresponding policy recommendations can thus be drawn by analysing the future time series. In future, the index may be extended to cover other countries which are also offshore RMB centres.

Methodology

Decision-makers of companies registered in Hong Kong with annual sales turnover of HK\$1 million or above were interviewed by telephone. A total of 210 companies were surveyed between May 2014 and June 2014. The sample comprised 200 SMEs (with annual sales turnover of HK\$1 million to HK\$1 billion) and 10 large corporations (with annual sales turnover of over HK\$1 billion). The SMEs were selected via quota sampling based on company industry and sales turnover distribution released by the Census and Statistics Department (C&SD). The final sample was weighted to ensure it was representative of the business landscape in Hong Kong, referencing C&SD's distribution information (Tables 1 and 2).

Index computation and components

The quarterly index aims to gauge the level of RMB usage, acceptance and penetration among Hong Kong-registered companies. It is based on six questions measuring four key dimensions driving business adoption and the internationalisation of the RMB in Hong Kong. They are: 1) Actual business performance in the last 12 months and expectations for the next 12 months; (2) Past and future demand for RMB in business operations; (3) Usage of RMB payment and receivables services and trade services; and (4) Ease of access to RMB financing. The index is the weighted average based on the factor analysis [2] applied to these key areas. The weightings are based on the statistical variance and correlation between each of the key areas. The calculated values are then rescaled to between 0 and 100.

The index for each quarter is computed using the following formula:

Index (i,j) =

$$\text{Index (i,j)} = \frac{\sum_{i=1}^N \sum_{j=1}^K W_j Q^{*ij}}{N}$$

Where,

N = Sample size for current wave

K = Number of selected questions

Q*ij = Response of selected questions (adjusted to 0-100)

Wj = Weighting for individual questions

Notes

[1] RMB deposits (including CNY time deposit/CNY deposit, current and saving accounts), RMB payment and receivables services (including Auto Pay, TT/ Remittance). RMB investment services, RMB financing services (including loans, issuing bonds, securities etc.), RMB trade services (including trade finance, L/C, bills etc.), RMB insurance products, RMB MPF products, RMB hedging products

[2] Factor analysis is a statistical treatment to provide approximation to describe the variability of the parameters used to calculate the index

Table 1: Company industry coverage

Manufacturing	Hotel and catering
Construction	Real estate
Wholesale	Information, communication
Retailing	Business services
Import/ Export trade	Community, personal services
Transportation, Storage	

Table 2: Company annual sales turnover (source: C&SD 2011)

Company size in terms of sales turnover	Weighting
Over HK\$ 1 Billion	0.5%
Over HK\$50 Million to HK\$1 Billion	6.7%
Over HK\$20 Million - HK\$50 Million	8.8%
Over HK\$10 Million - HK\$20 Million	6.8%
Over HK\$1 Million - HK\$10 Million	77.2%

Table 3: Factor weightings

Factor components		Weightings based on 4Q 2012 data	Updated weightings applied to 4Q 2012 - 4Q 2013 data
Company business performance	P12M company business performance	18%	9%
	N12M company business performance	17%	9%
Business needs on RMB	P12M change in RMB customer orders/ invoices	20%	29%
	N12M change in RMB customer orders/ invoices	22%	27%
RMB transactions in trade service & payment receivables		13%	21%
Access to RMB finance		10%	5%

About The Nielsen Company

The Nielsen Company (NYSE: NLSN) is a global information and measurement company with leading market positions in marketing and consumer information, television and other media measurement, online intelligence, mobile measurement, trade shows and related assets. The company has a presence in approximately 100 countries, with headquarters in New York, USA. For more information on The Nielsen Company, visit www.nielsen.com

Key charts and graphs

Chart 1: DRIVE index (with new weights and sampling)

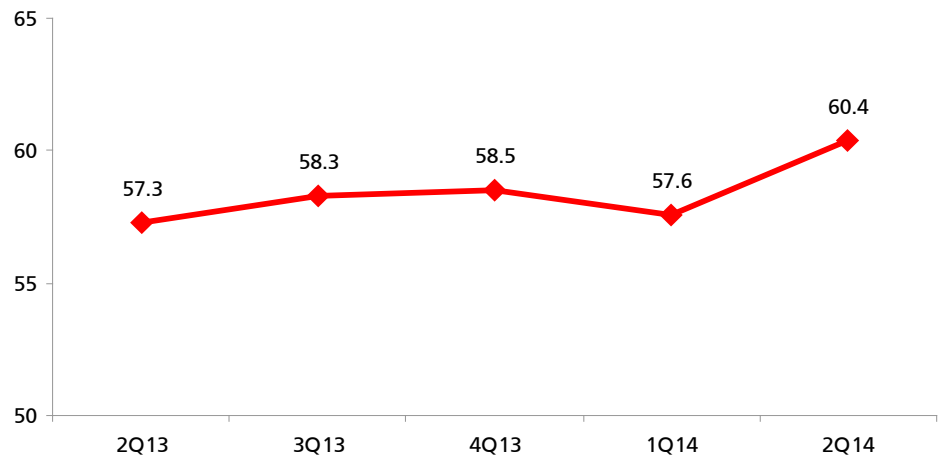
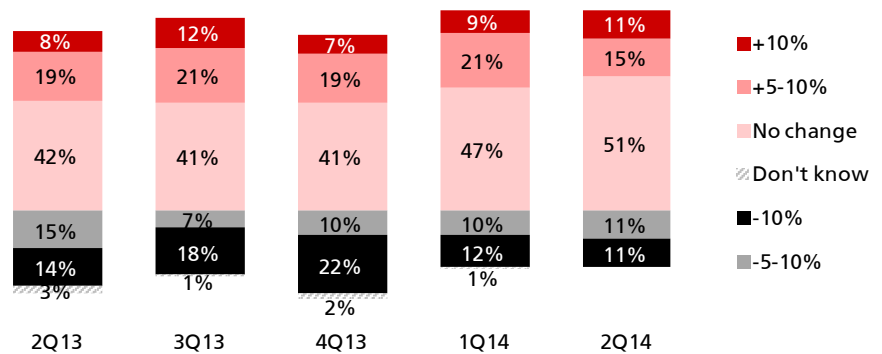
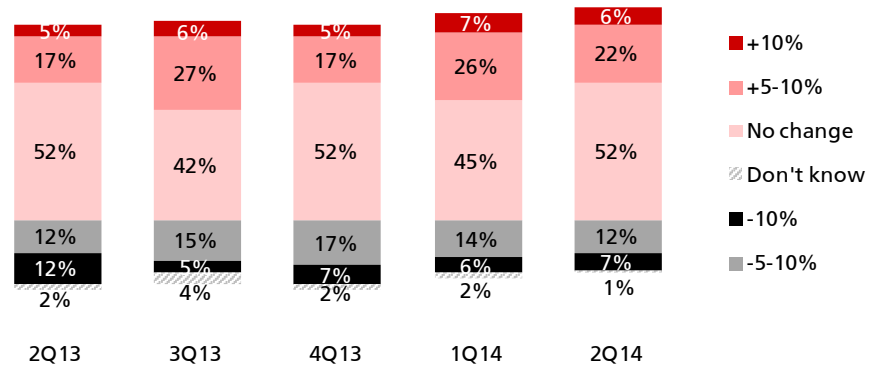


Chart 2a: Business results in the past 12 months (sales turnover)



Base: All companies

Chart 2b: Business performance outlook in the next 12 months (sales turnover)



Base: All companies

Chart 3a: Usage of RMB customer order/ invoices and trade settlement in P12M

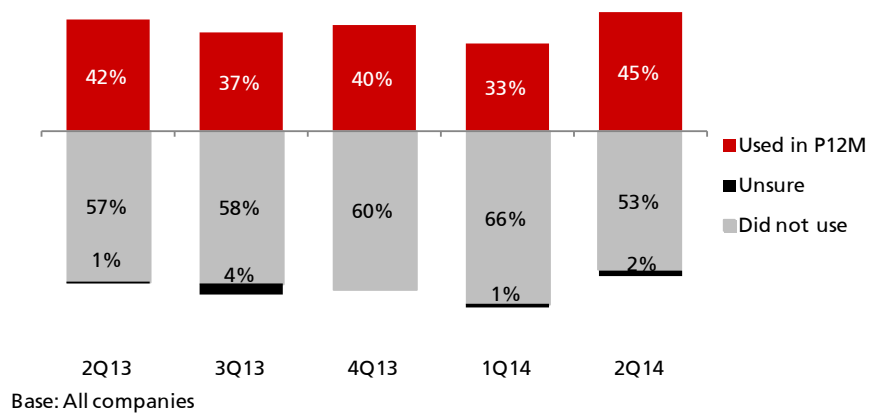


Chart 3b: Usage of RMB customer order/ invoices and trade settlement in N12M

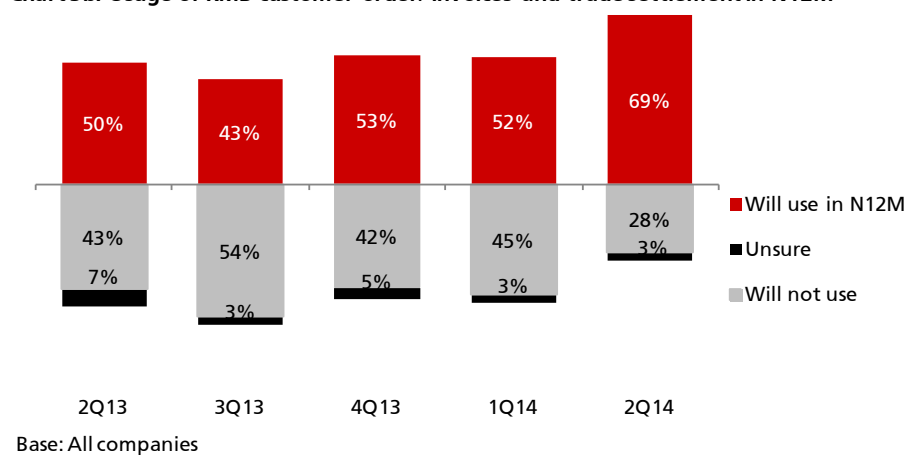


Chart 4: Overall RMB products or services usage

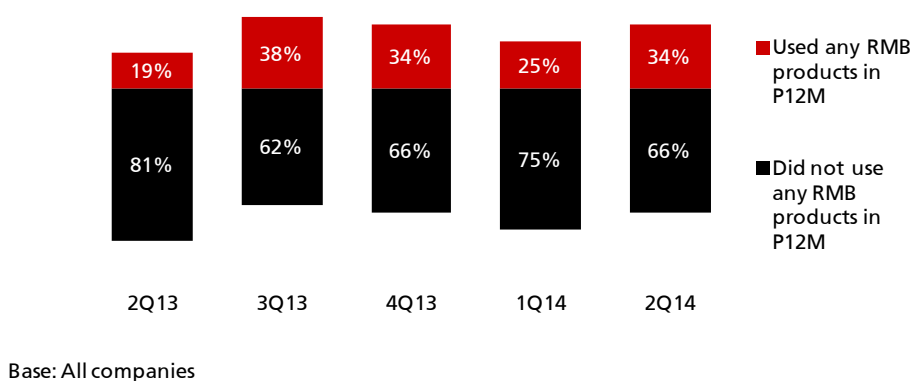
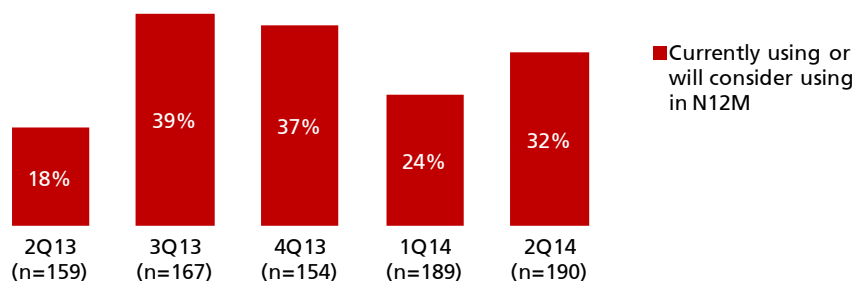
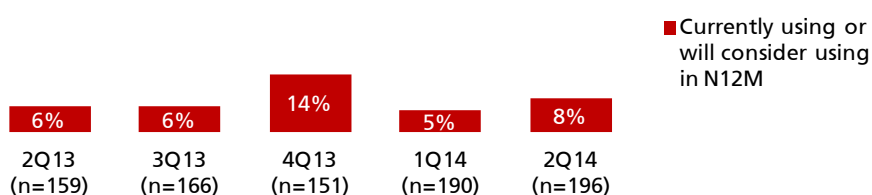


Chart 5: Usage of RMB payment and receivables



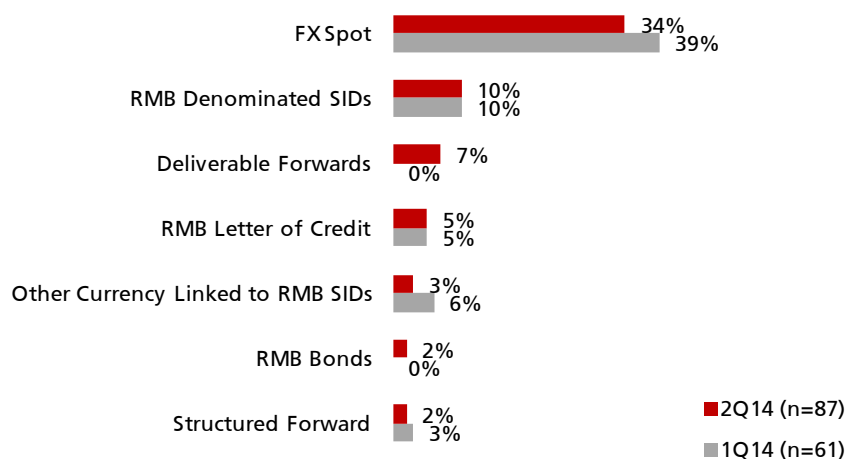
Base: All companies (excluding don't know/ unsure)

Chart 6: Usage of RMB trade services



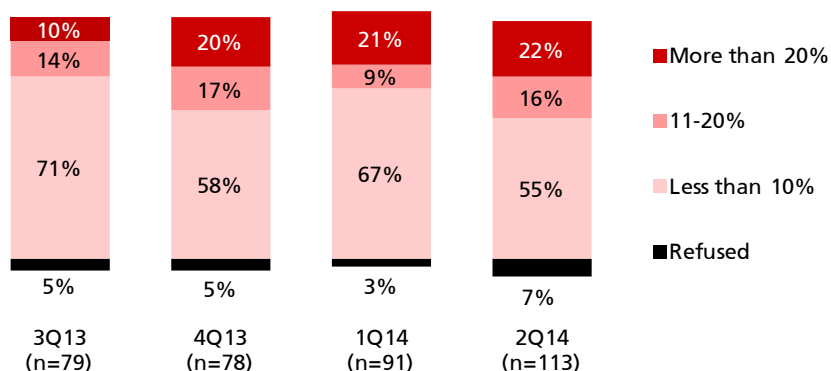
Base: All companies (excluding don't know/ unsure)

Chart 7: RMB products used in the past 12 months



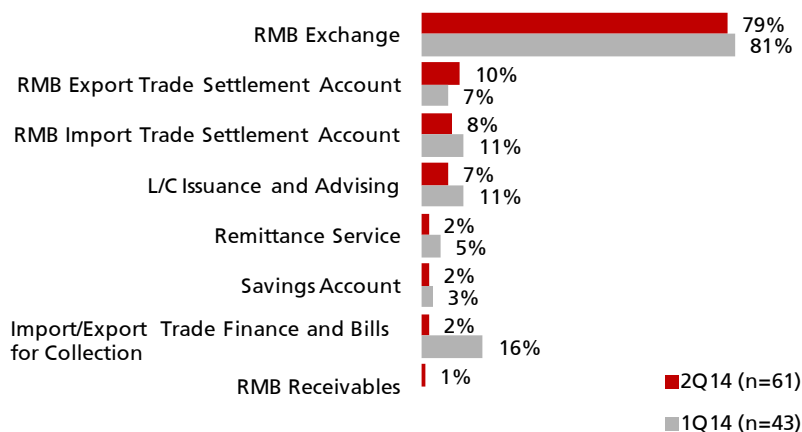
Base: Companies using RMB products

Chart 8: Percentage of RMB in company's liquid assets



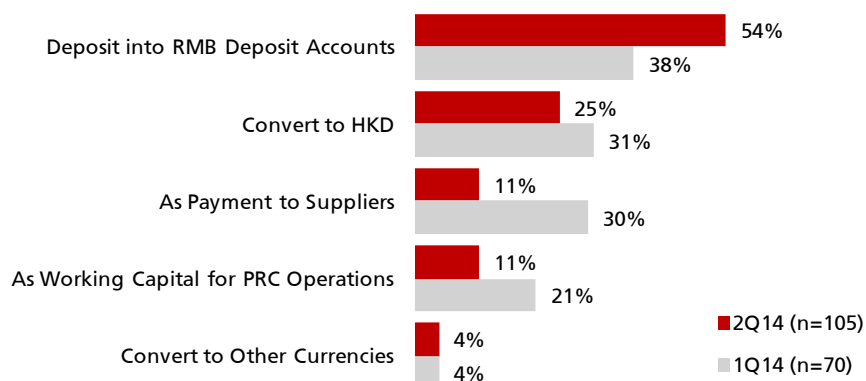
Base: Companies with RMB as part of its liquid assets

Chart 9: Current usage of RMB trade settlement products



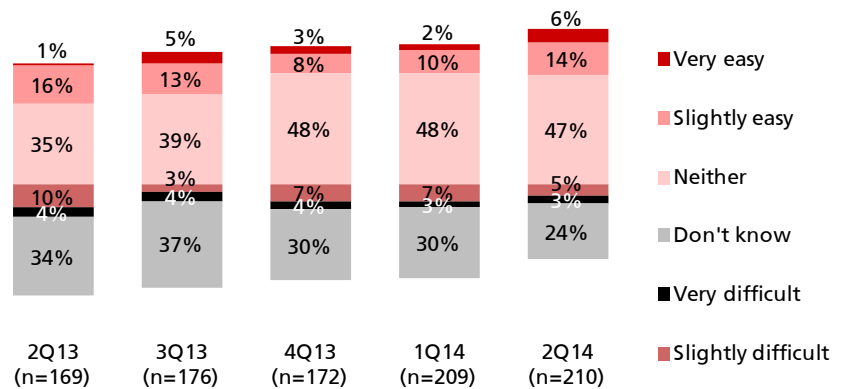
Base: Companies using RMB trade settlement service

Chart 10: Usage of RMB received from custom order/ invoices



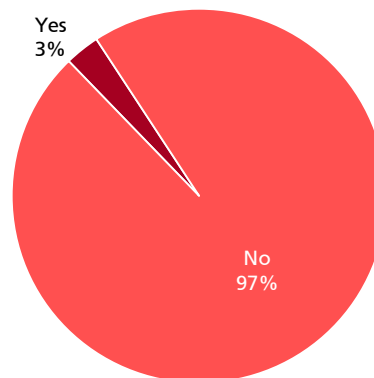
Base: Companies using RMB customer order/ invoices

Chart 11: Ease of getting access of RMB loan or credit facilities



Base: All companies

Chart 12: Intention to apply for RMB finance in the next 12 months



Base: All companies

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