

DBS RMB Index for VWinning Enterprises (DRIVE) - 3Q14

DBS Group Research

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3Q14 DRIVE reading retreated from record high

The 3Q14 reading of DRIVE fell to 58.1 from a record high of 60.4 in 2Q14 (Chart 1). Amid a deteriorating business outlook (Charts 2a & 2b), there is a broad-based decrease in RMB product usage. The outlook for the usage of RMB customer orders/invoices and trade settlement also worsened. The ease of getting access to RMB loan/credit facilities decreased slightly.

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Key findings and DBS insights

* Unless stated otherwise, figures in parentheses represent findings in the previous survey (2Q14)

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1. Business needs and usage of RMB products fell

- 55% (53%) of respondents said they did not have RMB customer orders/invoices and trade settlement in the past 12 months (Chart 3a)
- Some 44% (45%) of companies surveyed indicated that they had RMB customer orders/invoices in the past 12 months. 34% of companies reported no change in their usage of RMB customer orders/invoices in the past 12 months. Only 55% (69%) claimed that they would use RMB for these purposes in the next 12 months (Charts 3a & 3b)

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 eight 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 business performance and expectations of RMB appreciation, as well as RMB-related policy changes in that particular quarter.

2. Usage of RMB products fell

- The percentage of companies using RMB products [1], which rose to 34% last quarter, fell to 28% in 3Q14 (Chart 4)
- 20% (32%) of companies said they are currently using or will consider using RMB payment and receivables services in the next 12 months (Chart 5)
- 4% (8%) of companies said they are currently using or will consider using RMB trade services in the next 12 months (Chart 6)

- 1% (7%) of companies said they bought deliverable forward contracts in the past 12 months (Chart 7)

DBS insights

Despite the recent retreat, the usage of RMB products is expected to rebound going forward as corporates take on various hedging strategies to mitigate the 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

- 40% (38%) of respondents had more than 10% of their liquid assets in RMB, a new high (Chart 8)
- The percentage of companies using RMB import trade settlement accounts grew notably, to 16% (8%) (Chart 9)
- However, the percentage of companies using RMB export trade settlement accounts fell notably, to 4% (10%) (Chart 10)
- The proportion of companies putting their RMB back into deposit accounts fell substantially, to 45% (54%) (Chart 10)
- 41% (25%) of companies converted their RMB to HKD, the highest percentage recorded to date (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. Traditionally, Chinese importers (Hong Kong exporters) have an incentive to settle in CNH when CNH trades at a premium. But arbitrage worked in the reverse direction during 3Q as CNH traded at a discount to CNY most of the time. This is why the percentage of Hong Kong companies using RMB export trade settlement accounts fell notably.

4. Ease of getting access to RMB loans dropped slightly

- Last quarter, many 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". However, only 18% of respondents claimed access was "very easy" or "slightly easy" in 3Q14 (Chart 11)
- More than half of the respondents who claimed access was difficult claimed it was either due to strict approval standards or that the amount of approved loan was tiny
- Similar to previous quarters, overall interest in RMB finance remained low, as 99% of respondents expressed 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, including the Shanghai FTZ free trade account and the Shanghai-Hong Kong Stock Connect.

Other findings and insights

- In the 3Q14 survey, we added a question to understand the actual drivers of corporations' RMB product usage in Hong Kong. We found that companies' volume of mainland business is the top factor affecting RMB product usage (Chart 13). 31% of business decision-makers thought that more business with their mainland counterparts will increase their RMB product usage. This means that China's macroeconomic environment would directly impact RMB usage in Hong Kong. Indeed, China's broad economic slowdown in 3Q14 coincided with a drop in RMB product usage and a decrease in DRIVE in 3Q14. Meanwhile, 15% of respondents reckoned supportive policies will increase usage, and 9% thought the movement of the exchange rate will impact usage levels
- The initial depreciation scare following a widening of the RMB trading band is apparently over. Many more companies (34% in 3Q14 vs. 20% in 2Q14) anticipate further RMB appreciation in the next 12 months. That said, 38% of companies prefer the RMB to depreciate if they had a choice
- 80% of business decision makers surveyed did not have a good understanding of the Shanghai-Hong Kong Stock Connect. 43% claimed they did not understand it at all. The Mainland's Investor Protection Bureau and Hong Kong's Investor Education Centre (IEC) have established an arrangement to cooperate on investor education relating to the Shanghai-Hong Kong Stock Connect and will continue their efforts after the launch of the pilot programme [2]
- 98% of companies did not foresee any need for cross-border financing in the next 12 months

The outlook: Short-term fall in DRIVE is expected

- Looking ahead, the double whammy of a slowdown in the Chinese economy and the deterioration of the Hong Kong business environment might result in a drop in DRIVE in 4Q14 and even in 1Q15
- However, short term instability should not alter the longer-term course for RMB internationalisation and the development of offshore RMB markets
- Apart from the Shanghai-Hong Kong Stock Connect, China is seeking to provide domestic residents with more investment channels. According to the People's Bank of China, mainland citizens will be able to buy overseas equities and real estate. Talks are under way to give locals access to RMB capital markets in Singapore and London via an RQDII scheme. Offshore RMB liquidity can be further boosted through such policy initiatives. This is important against the backdrop of more balanced cross-border RMB flows

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 July 2014 and August 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 [3] 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] Excerpt from "Joint Announcement of China Securities Regulatory Commission and Securities and Futures Commission, 10 Nov 2014"
- [3] Factor analysis is a statistical treatment to provide approximation to describe the variability of the parameters used to calculate the index

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

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%

Key charts and graphs

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

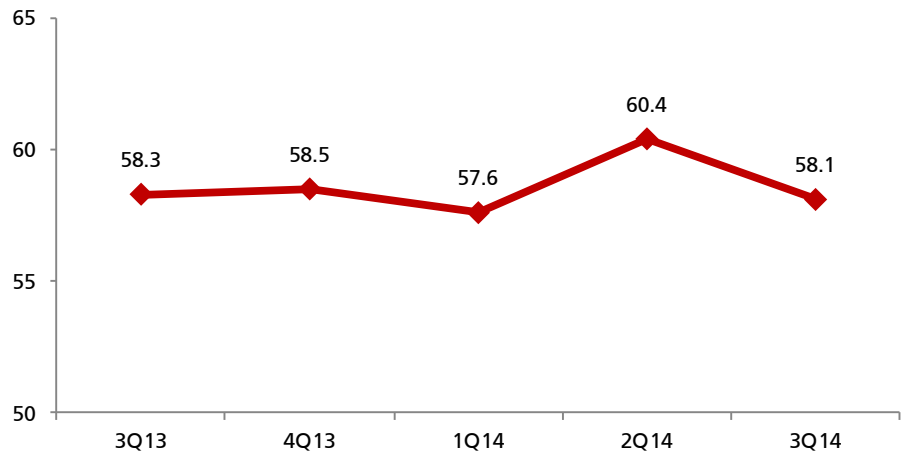
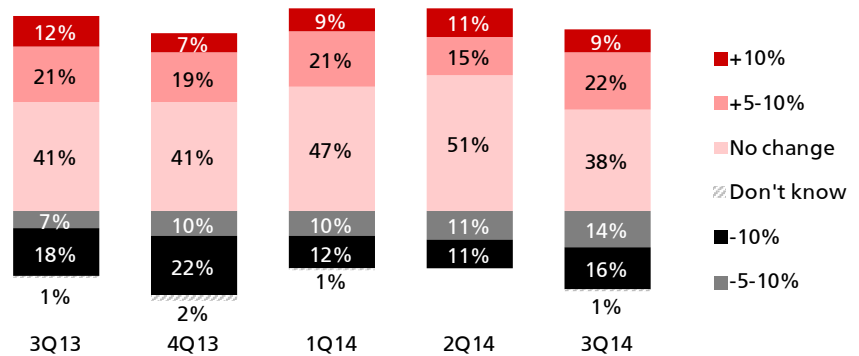
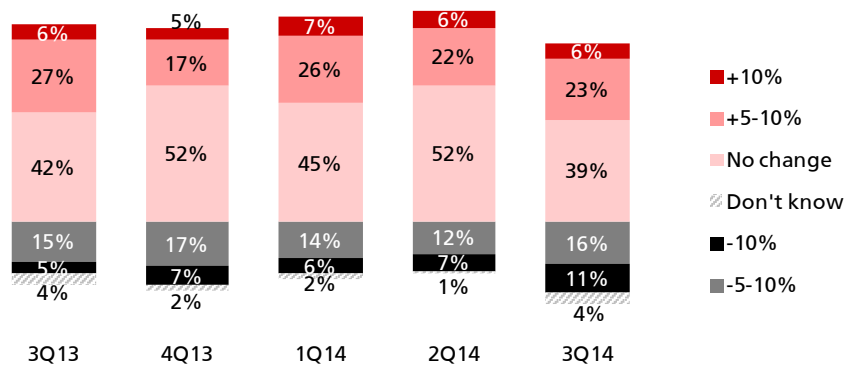


Chart 2a: Business results in the past 12 months (sales turnover)



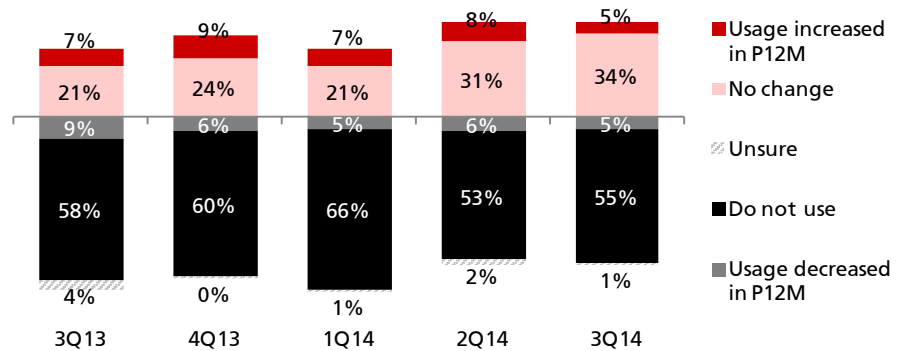
Base: All companies

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



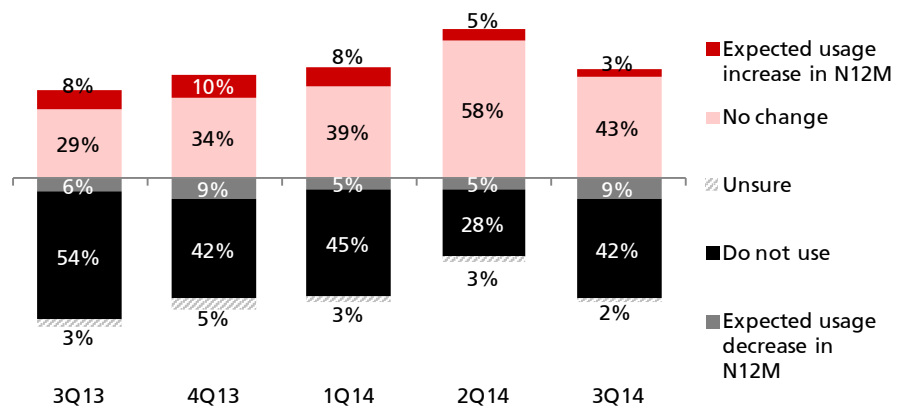
Base: All companies

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



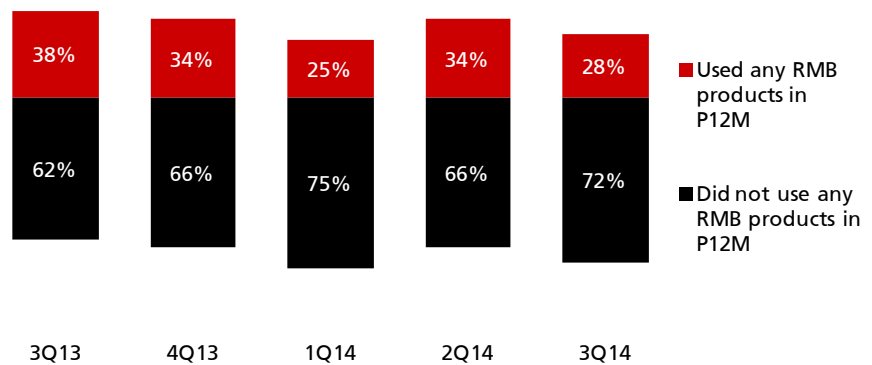
Base: All companies

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



Base: All companies

Chart 4: Overall RMB products or services usage



Base: All companies

Chart 5: Usage and needs for RMB payment and receivables

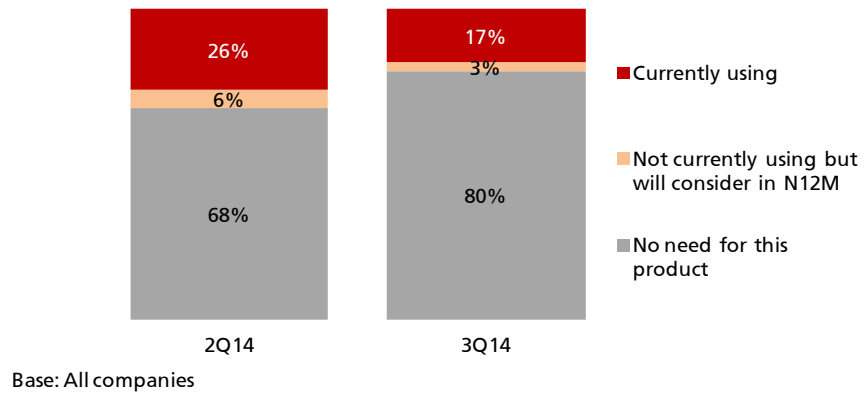


Chart 6: Usage and needs for RMB trade services

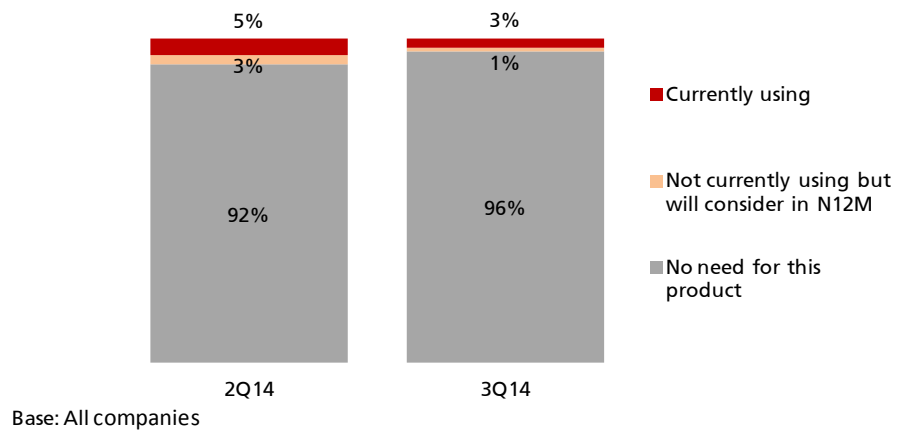


Chart 7: RMB products used in the past 12 months

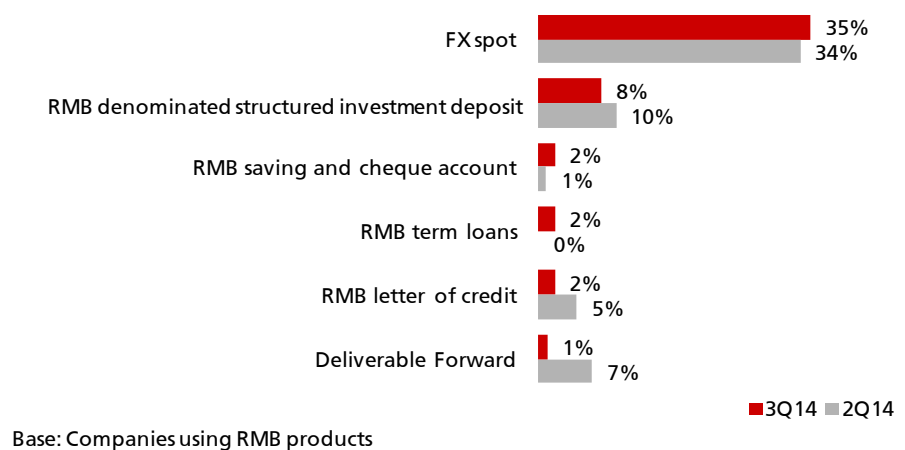
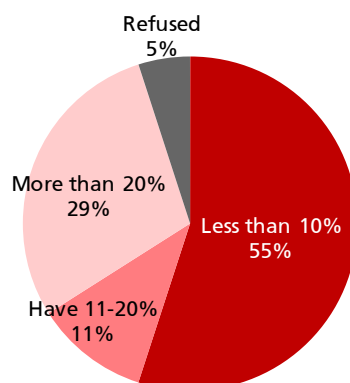
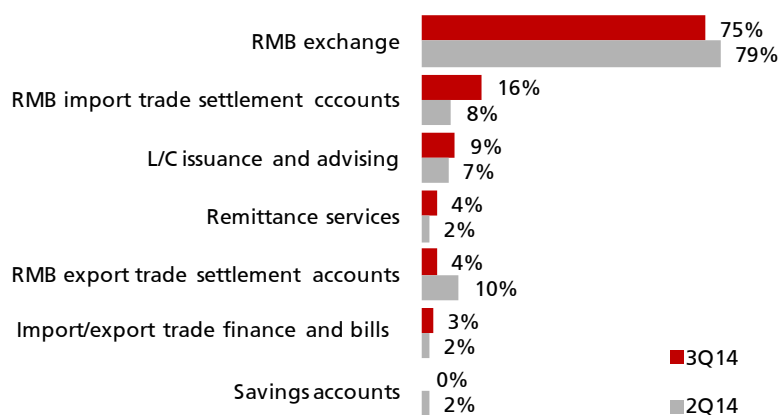


Chart 8: Percentage of RMB in company's liquid assets



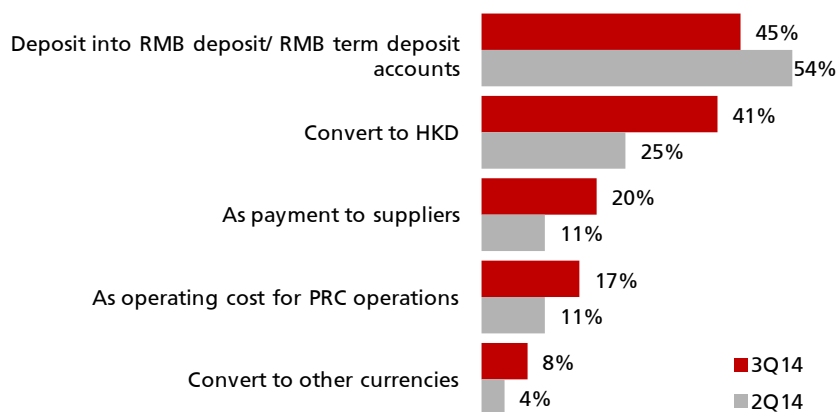
Base: Companies with RMB as part of their liquid assets

Chart 9: Current usage of RMB trade settlement products



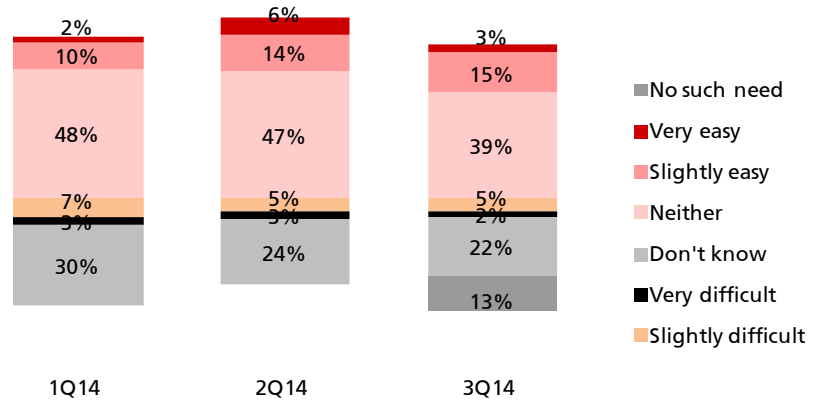
Base: Companies using RMB trade settlement services

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



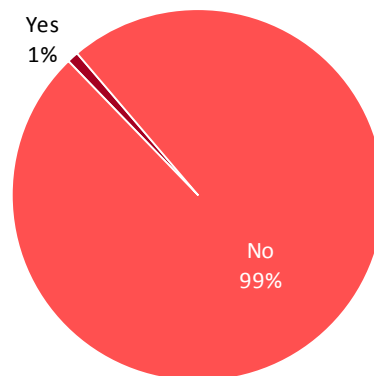
Base: Companies with RMB customer orders/invoices

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



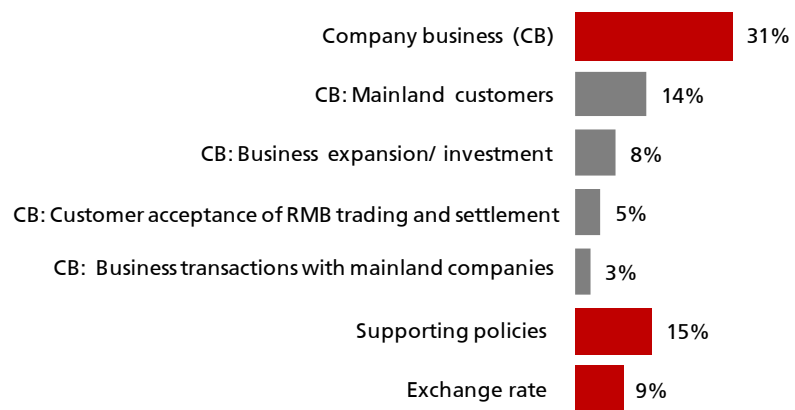
Base: All companies

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



Base: All companies

Chart 13: Factors that increase RMB product usage



Base: Companies using any RMB products

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