

DBS RMB Index for VVinning Enterprises (DRIVE) - 4Q13

DBS Group Research

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The 4Q13 reading rose - What happened to the index components?

The 4Q13 reading of DRIVE rebounded to 54.7 from 54.3 in 3Q13 (Chart 1). The increase came amid increasing business needs for RMB. In 4Q13, there was a rebound in RMB customer orders and trade settlement, although the proportion of companies using these was below that from a year earlier (Chart 2). In terms of RMB services and products, more companies reported that they are currently using or will consider using RMB payment/receivables and RMB trade services (Chart 3a & 3b) than in all the previous quarters. Interestingly, the general improvement in the usage of RMB services and products in 4Q13 came despite findings showing slightly poorer business performance in the previous 12 months and a more pessimistic business performance outlook for the next 12 months (Charts 4a & 4b). This means that the speed and depth of RMB development in Hong Kong hinges on factors other than local economic and business performance. As Hong Kong is an open economy, its offshore RMB development should be evaluated in the broader context of international RMB development. To put this into perspective, the 4Q13 survey revealed that the initiation of RMB trade settlement is equally split among the Hong Kong companies surveyed (34%), their overseas customers (31%) and their suppliers (28%) (Chart 5). This means that the preferences of overseas players also contribute to the RMB development of Hong Kong. Arguably, the preferences of these external parties are shaped in part by their country's own pace of RMB development. As such, future surveys will continue to monitor Hong Kong's corporate usage of RMB with a global view in mind.

Finally, regarding access to RMB finance, the perception about the ease of access remained fairly constant in 4Q13 compared to previous quarters.

Key findings and DBS insights

* Unless stated otherwise, figures in parentheses represent findings in the previous survey (3Q13)

1. Business needs for RMB have rebounded

- Business needs for RMB rebounded in 4Q13. Some 35% (24%) of companies surveyed indicated that they had RMB customer orders/invoices in the last 12 months, and 44% (35%) claimed that they would use RMB for these purposes in the next 12 months (Charts 2a & 2b)
- The usage of RMB is already quite common among large corporations (turnover >HK\$1 billion). All of the large corporations surveyed indicated that they had RMB customer orders/invoices and trade settlement in the last 12 months

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 five quarters,

there is no evidence of an uptrend in RMB corporate penetration. In particular, the higher reading in 4Q13 compared to that of 3Q13 should not be seen as an improvement, as it is merely a recovery from the relatively weak results of 3Q13.

2. Usage of RMB services and products achieved record highs

- The number of companies that used any RMB products [1] rose to 30% compared to 24% in 3Q13 (Chart 6). 30% (26%) of companies said they are currently using or will consider using RMB payment and receivables services in the next 12 months. The number of positive responses in 4Q13 is the highest to date (Chart 3a)
- 9% (4%) of companies said they are currently using or will consider using RMB trade services in the next 12 months. The number of positive responses in 4Q13 is the highest to date (Chart 3b). Of the companies that used trade services (all currencies), 35% (9%) used RMB trade services in the past 12 months. Of those that used trade services (all currencies) but are not currently using RMB trade services, 6% (1%) will consider using them in the next 12 months

DBS insights

The percentage of companies using RMB services and products in 4Q13 was the highest recorded to date. While it is still too early to say that this is the start of an uptrend, the 30% usage rate is quite significant in terms of offshore centre development.

3. Expansion of RMB corporate product scope

- Most companies were only using simple RMB spot conversion for their daily operations. The use of RMB for investment (2%), hedging (4%) or financing (1%) remained negligible
- Of those companies that used any RMB services or products, 36% (57%) used FX spot, but only 9% (10%) had RMB-denominated structured investment deposits and only 1% (5%) had RMB savings and chequing accounts (Charts 7a & 7b).
- However, companies using trade services [2] showed growing interest in RMB investment, finance and hedging products. Some 8% of respondents had RMB investments in 4Q13 (vs. 1% in 3Q); 7% of respondents had RMB financing in 4Q13 (vs. <1% in 3Q), and 12% of respondents were using RMB hedging products in 4Q13 (vs. 3% in 3Q). In 4Q13, more companies showed an intention to use RMB letters of credit (6% intend to use in the next 12 months vs. 1% actual usage in the past 12 months), RMB term loans (5% in N12M vs. 1% in P12M) and RMB structured forwards (4% in N12M vs. 1% in P12M)
- In the RMB financing space, interest is still very limited. Just 1% of companies surveyed said they had been using RMB financing, and only 2% indicated that they are likely to use RMB financing in the next 12 months

DBS insights

The past five quarters of findings showed no consistent trends in the usage of most RMB products. The usage of products such as structured investment deposits (SIDs) and deliverable forwards fluctuated from quarter to quarter.

While efforts to develop RMB products and related financial infrastructure can arouse corporate interest, a sustained take-up of RMB products ultimately depends on their business needs for RMB, which showed signs of increasing.

4. Usage options for RMB liquid assets are limited

- 35% (44%) of respondents held RMB as part of their liquid assets in the past 12 months
- Most companies are only using simple RMB spot conversions in their daily operations, and not employing RMB funds in more sophisticated ways
- Most companies use the RMB they receive by either paying their suppliers, putting it into bank deposits or converting it to HKD

DBS insights

These findings reflect that companies either did not take advantage of short-term cash management solutions or did not require such solutions. This may also indicate a lack of short-term liquid RMB investment products in the market. As RMB takes up more and more of corporate liquid assets, both financial institutions and companies could begin to explore RMB liquidity management solutions or short-term investments.

Other findings

- RMB usage among Hong Kong companies is still limited, but is slowly increasing
- 33% (19%) of companies [3] reported that RMB assets as a percentage of the company's liquid assets were more than 10% (Chart 8)
- 42% (34%) of companies [4] reported that RMB customer order/invoices accounted for more than 10% of their overall sales turnover (Chart 9)
- 29% (24%) of companies [5] reported that RMB trade settlement accounted for more than 10% of their total trade settlement services (Chart 10)

The outlook: favourable policy support remains the key driver behind corporate usage of RMB

- Despite a slightly more negative outlook for Hong Kong's general business environment in 4Q13 vs. 3Q13, the corporate usage of RMB saw some improvement in 4Q13
- Five quarters of findings showed no consistent positive correlation between the state of the economy/business outlook and the actual/intended corporate usage of RMB
- Since RMB usage is still at an early stage, a positive economic outlook alone - without policy catalysts - is insufficient to further incentivise usage

- The potential relaxation of the personal RMB 20,000 conversion daily cap would be a near-term catalyst for Hong Kong's offshore RMB market
- This, alongside other policy refinements, would increase Hong Kong's RMB liquidity pool and lead to more innovation in RMB products
- Personal RMB wealth management products would flourish initially, followed by a gradual pick up in corporate usage

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 RMB offshore 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 has 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 from 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\$200,000 and above were interviewed by telephone. A total of 211 companies were surveyed between November 2013 and January 2014. The sample comprised 201 SMEs (with annual sales turnover of HK\$200,000 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 internationalisation of RMB in Hong Kong. They are: 1) Actual business performance in the last 12 months and expectations for the next 12 months as the underlying conditions driving corporate demand for RMB; (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 [6] 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) =

$$\frac{\sum_{i=1}^N \sum_{j=1}^K w_j Q_{ij}}{N}$$

Where,

N = Sample size for current wave

K = Number of selected questions

Q_{ij} = Response of selected questions (adjusted to 0-100)

W_j = Weighting for individual questions

Table 1: Company industry coverage

Manufacturing	Restaurants
Construction	Hotel/ Real Estate
Wholesale	Transportation/ Communication
Retailing	Business Services
Import/ Export	Personal Services

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

Over HK\$1 Billion	0.3%
Over HK\$50 Million to HK\$1 Billion	4.1%
Over HK\$20 Million to HK\$50 Million	5.4%
Over HK\$10 Million to HK\$20 Million	4.1%
Over HK\$1 Million to HK\$10 Million	47.0%
Over HK\$ 200,000 to HK\$1 Million	39.1%

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] Companies using trade services (n=50)
- [3] Companies with RMB as part of their liquid assets (n=87)
- [4] Companies that had RMB customer orders/invoices (n=81)
- [5] Companies that used RMB trade settlement services (n=57)
- [6] 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

Key charts and graphs

Chart: 1 DRIVE index

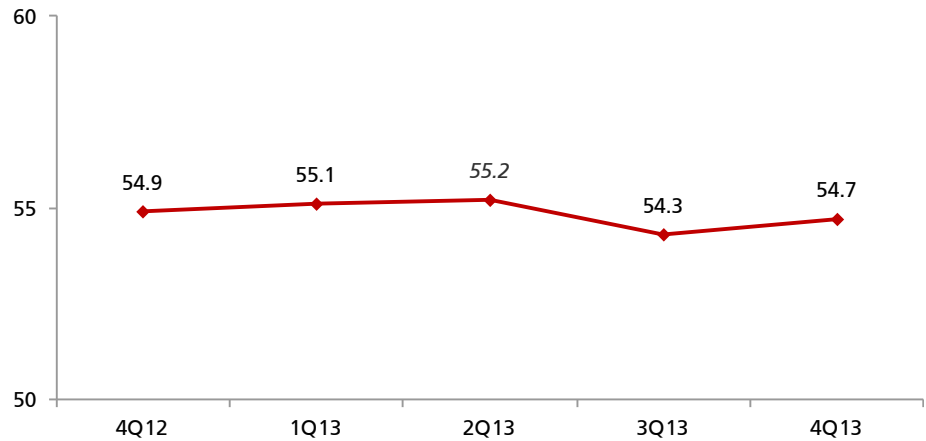
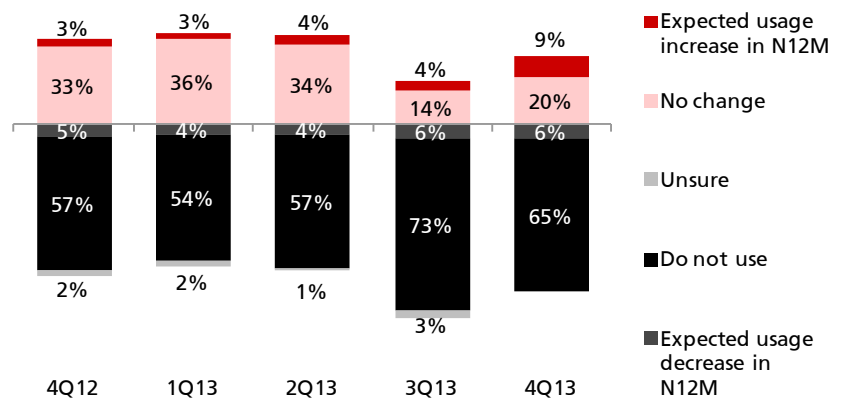
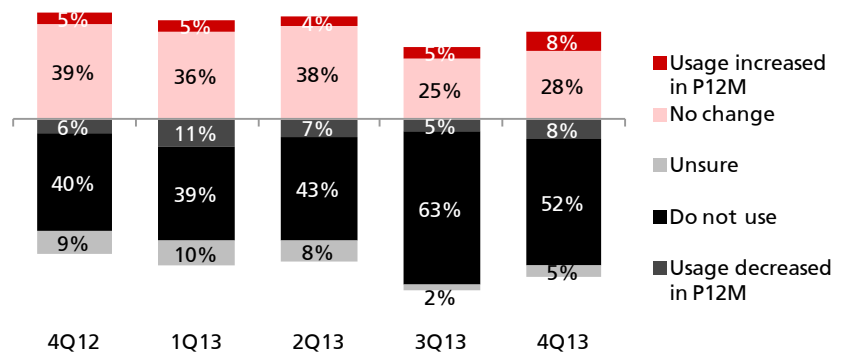


Chart 2a: Change in RMB customer order/ invoices and trade settlement in P12M



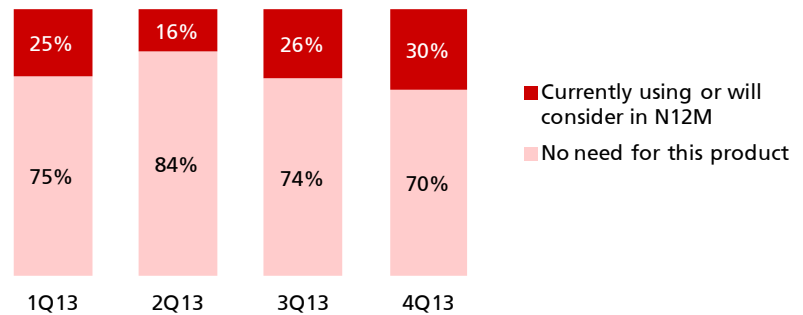
Base: All respondents

Chart 2b: Change in RMB customer order/ invoices and trade settlement in N12M



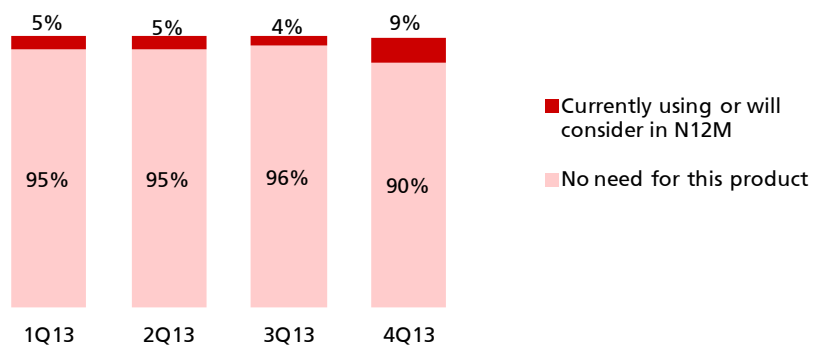
Base: All respondents

Chart 3a: Usage of RMB payment and receivables services



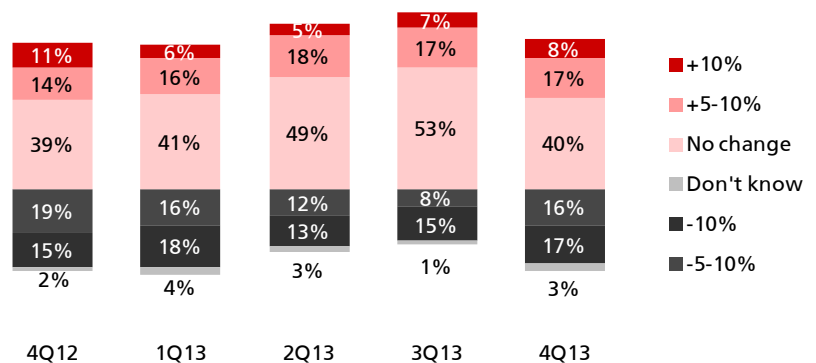
Base: All respondents

Chart 3b: Usage of RMB trade services



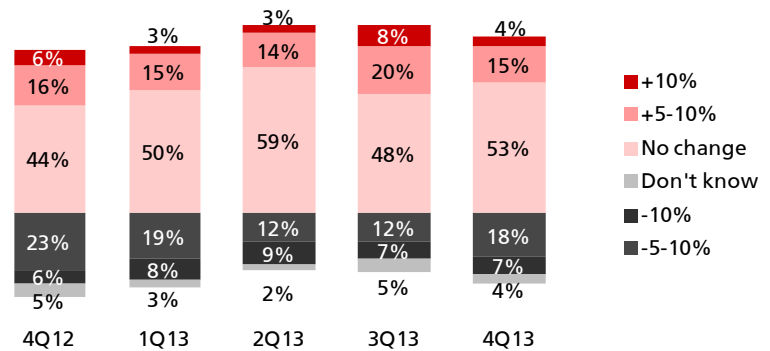
Base: All respondents

Chart 4a: Business results in the past 12 months (sales turnover)



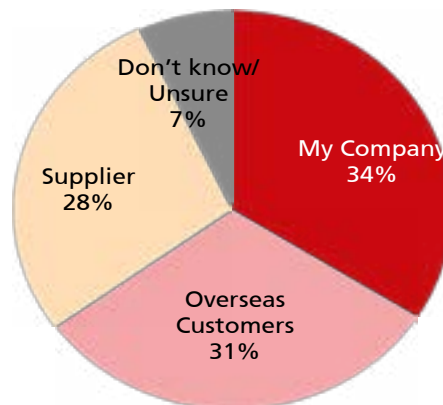
Base: All respondents

Chart 4b: Business performance outlook in the next 12 months (sales turnover)



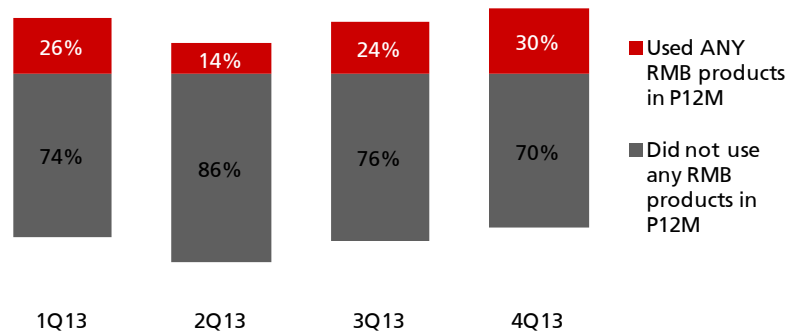
Base: All respondents

Chart 5: Initiation of RMB trade settlement



Base: Companies using RMB trade settlement service

Chart 6: Overall RMB products or services usage



Base: All respondents

Chart 7a: RMB products used in the past 12 months

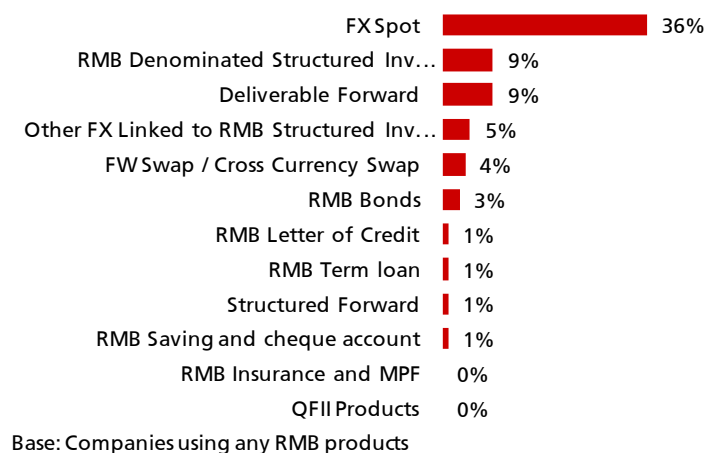


Chart 7b: RMB products intended to use in the next 12 months

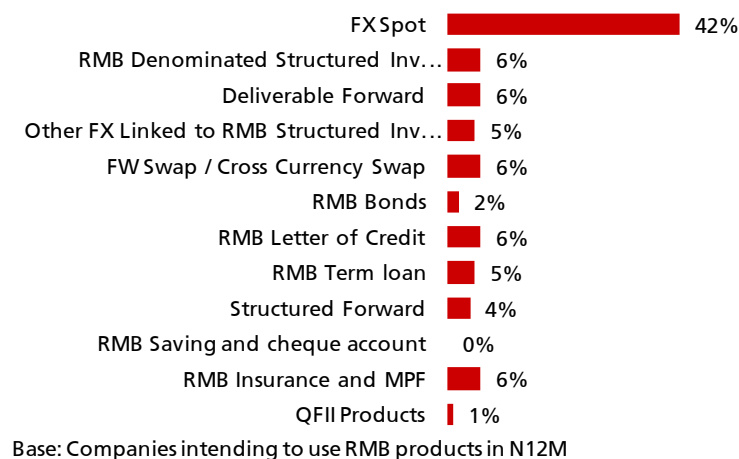


Chart 8: Percentage of RMB in company's liquid assets

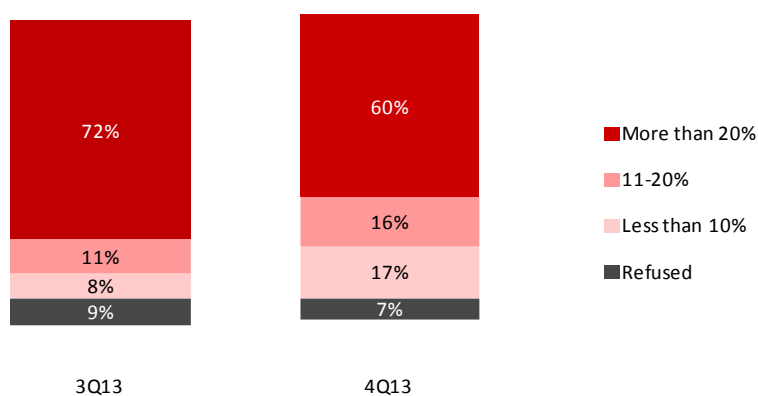
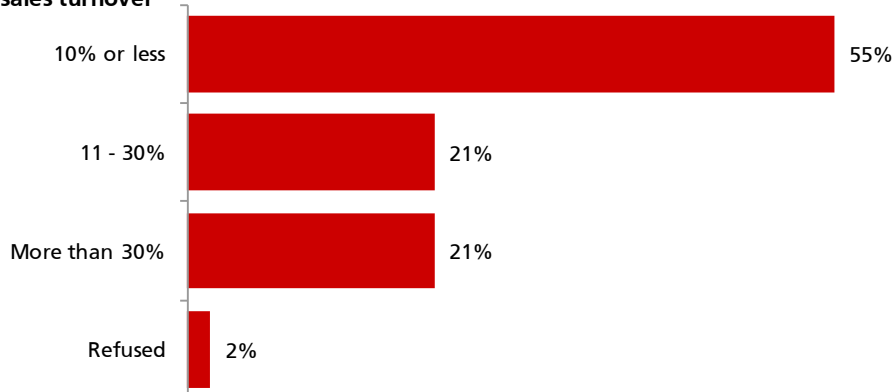
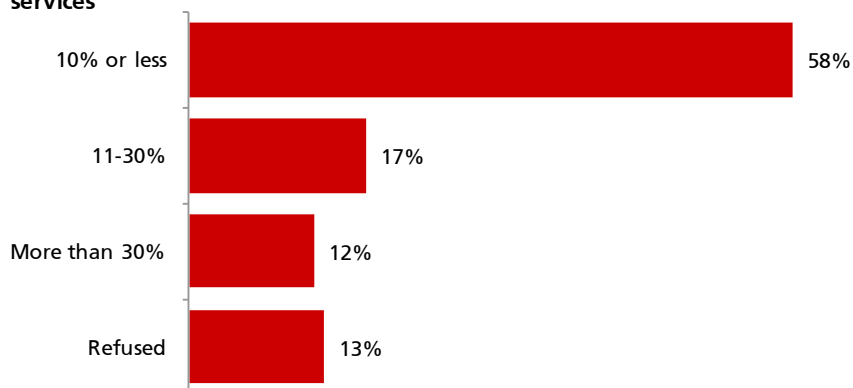


Chart 9: Percentage of customer order/ invoices denominated in RMB in overall sales turnover



Base: Companies using RMB customer order/ invoices

Chart 10: Percentage of RMB trade settlement in total trade settlement services



Base: Companies using RMB trade settlement service

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