

# DBS RMB Index for VWinning Enterprises (DRIVE) - 4Q14

DBS Group Research

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## 4Q14 DRIVE reading fell to record low

The 4Q14 reading of DRIVE fell to 57.2 from 58.1 in 3Q14 (Chart 1). With business performance deteriorating slightly over the past 12 months (Chart 2a), actual usage levels and the outlook for the use of RMB customer orders/invoices and trade settlement worsened. Overall RMB product usage levels rose slightly, and companies are showing interest across a broader arrange of RMB products. Also, access to RMB loan/credit facilities became more difficult, and interest in RMB financing remained muted.

## Key findings and DBS insights

\* Unless stated otherwise, figures in parentheses represent findings in the previous survey (3Q14)

### 1. Business needs and usage of RMB products fell

- Only 29% (44%) of respondents said they had RMB customer orders/invoices and trade settlement in the past 12 months. Some 70% (55%) of companies reported that they had no RMB customer orders/invoices in the past 12 months (Chart 3a).
- Only 51% (56%) claimed that they would use RMB for these purposes in the next 12 months (Chart 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 nine quarters, there is no evidence of a persistent uptrend or downtrend in RMB corporate penetration. Usage levels fluctuate from quarter to quarter, and move in line with companies' business performance, business outlook, expectations of RMB appreciation, and RMB-related policy changes in that particular quarter.

### 2. More companies are using RMB products and are showing interest in a wider variety of RMB products

- The percentage of companies using RMB products [1] rose slightly to 29% from 28% in 3Q14 (Chart 4).
- 28% (20%) of companies said they are currently using or will consider using RMB payment and receivables services in the next 12 months.
- 10% (4%) of companies said they are currently using or will consider using RMB trade services in the next 12 months.
- Of the companies that were using trade services, some 56% have either used RMB payment and receivables or would consider using them for these purposes in the next 12 months, compared with 41% in 3Q 2014

(Chart 5). Some 42% have either used RMB trade services or would consider using them for these purposes in the next 12 months, up from 13% in the previous quarter (Chart 6).

- Interest is growing across a broader range of RMB products, including term loans and letters of credit (Chart 7).

### DBS insights

Companies using trade services showed an increasing need for RMB services, such as deposits, payment and receivables, and trade services, in their operations. This is consistent with the increasing use of RMB for global payments.

The use of RMB products is expected to increase going forward as corporates adopt various hedging strategies to mitigate increasing exchange rate volatility. Also, more small- and medium-sized enterprises tend to invoice in RMB because they may not have the experience and/or expertise to hedge foreign exchange risks effectively.

### 3. More companies are using RMB trade settlement accounts

- 14% (versus an average of 7.5% over 4Q13-3Q14) of companies that were using RMB trade settlement services said they were using RMB export trade settlement accounts.
- Meanwhile, 13% (versus an average of 12.3% over 4Q13-3Q14) of companies that were using RMB trade settlement services said they were using RMB import trade settlement accounts.
- In 4Q14, 15% of companies said customer acceptance of RMB for trade settlement has increased, 73% said it was unchanged, and only 12% said acceptance has decreased.

### DBS insights

These findings are consistent with those in a recent report issued by SWIFT. According to SWIFT, the RMB overtook the Canadian dollar as the fifth most-used currency for global payments in December 2014. The proportion of transactions denominated in RMB climbed to a record 2.2%, after hovering around 1.5% over the past year. The US dollar, euro, pound, and yen remained the four most-used currencies with respective shares of 44.6%, 28.3%, 7.9%, and 2.7%.

China is the world's largest trading country, and 25% of its foreign trade is now settled in RMB, which is not too far from the 30%–40% level for the yen for Japanese trade. Amid ongoing liberalisation efforts, more RMB capital will flow abroad and the number of transactions will increase, meaning spreads should narrow and the cost of trade should fall. That will further incentivise market participants to trade in RMB. We expect the RMB to surpass the yen and rank fourth for global payments by year-end 2015.

### 4. Interest in RMB financing remained low

- Since the launch of the DRIVE survey in 4Q12, overall interest in RMB finance has remained at a consistently low level. In 4Q14, 97% of respondents expressed no intention to apply for RMB finance in the next 12 months (Chart 8). Of these respondents, some 65% claimed that their company did not need RMB or they were mainly using other currencies. Only 3% attributed fluctuations in the RMB exchange rate as the reason for not applying for RMB finance.

- Fewer respondents (16% in 4Q14 versus 19% in 3Q14) claimed that getting access to RMB loans or credit facilities was easy (Chart 9). More than one-third of respondents who claimed that access was difficult said it was either due to strict approval standards or that the amount approved was small.

### DBS insights

Looking ahead, greater currency volatility and less structural appreciation pressure will further support the offshore loan business. Some companies are trying to reduce their foreign exchange risk by borrowing in RMB instead of US dollars or by using derivatives to lock in stable funding costs on US dollar debt. Adding to this is the potential expansion of cross-border loan programmes amid the establishment of more free-trade zones.

### Other findings

- More companies (14% in 4Q14 versus 9% in 3Q14) anticipate RMB depreciation in the next 12 months. One-third of companies said they prefer the RMB to depreciate, 38% prefer no change to the exchange rate and 27% said they prefer RMB appreciation.

Some people are concerned that the international use of the RMB is dependent on the appreciation expectations for the currency. We do not share this view. For corporations trading with China, the use of RMB can lower their foreign exchange costs and risks. They can also enjoy price discounts offered by some Chinese companies. Settling trades in RMB can also help foreign enterprises broaden their network of buyers and suppliers, and thereby improve their purchasing power.

Empirically, the results from this quarter's survey show that more companies are using RMB trade settlement accounts despite the relatively tame appreciation expectations. Only 3% of companies claimed that RMB exchange rate fluctuation is a factor in deciding whether or not to apply for RMB financing in the next 12 months.

- DRIVE largely reflects the level of corporate usage and acceptance of RMB, which fell in 4Q14. However, we found that the personal use of RMB has increased following the removal of the RMB 20,000 daily conversion limit in November 2014. Specifically, 47% of business decision makers claimed that they would consider increasing their personal investment in RMB products after the lifting of the cap. Some 69% said they would increase their investments by more than 10%.
- One-half of companies surveyed thought that the overall RMB reflow mechanism was sufficient. Some 74% and 65% of companies thought reflow channels were sufficient for RMB savings products and investment products, respectively. The number of channels for RMB reflow is expected to increase this year. Existing cross-border investment programmes are likely to be expanded, and more programmes are expected to be launched. It is reported that Hong Kong Exchange and Shenzhen Stock Exchange have completed the design work for the Shenzhen-Hong Kong Stock Connect and are starting the relevant technical system development work.

### **The outlook: Short-term fall in DRIVE is expected**

Looking ahead, the economic slowdown in Hong Kong and China will negatively impact companies' business performance and business outlook. Furthermore, the use of RMB customer orders/invoices is expected to decline in tandem. RMB product use may also fall as companies' volume of mainland businesses affects RMB product usage. We therefore project DRIVE to fall further in 1Q15. However, short-term instability should not alter the longer-term course for RMB internationalisation and the development of offshore RMB markets. In addition, RMB personal investment, which is not captured in DRIVE index values, has the potential to expand on the back of favourable policies.

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, China's citizens will be able to buy overseas equities and real estate. Talks are underway 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 212 companies were surveyed between November 2014 and December 2014. The sample comprised 202 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).

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&amp;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%

### 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

### About The Nielsen Company

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Key tables and charts

Chart 1: DRIVE

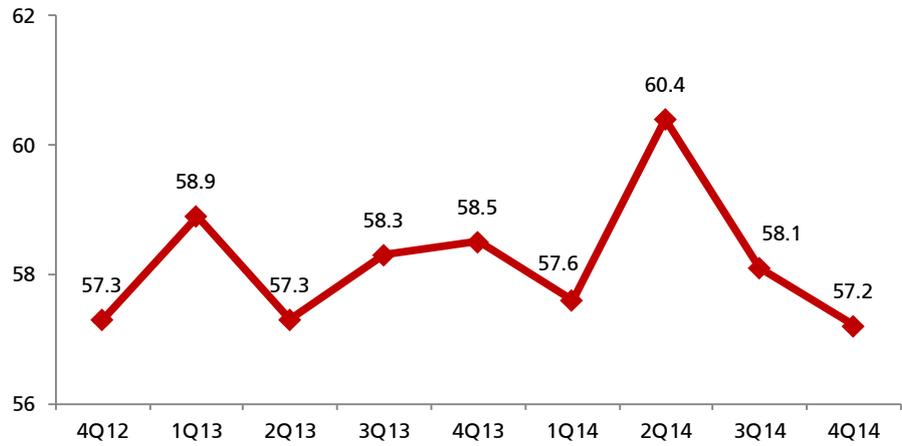
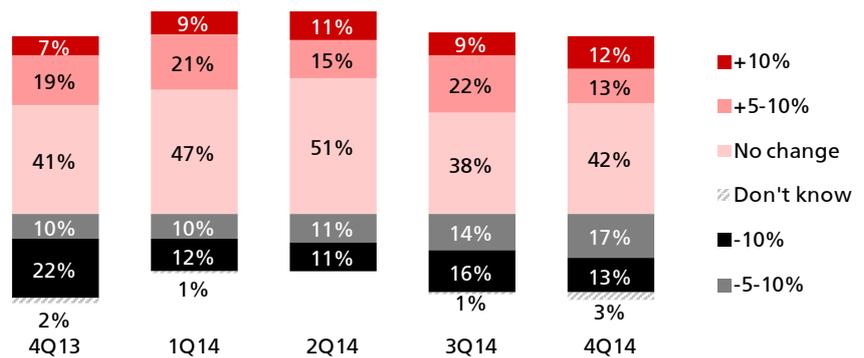
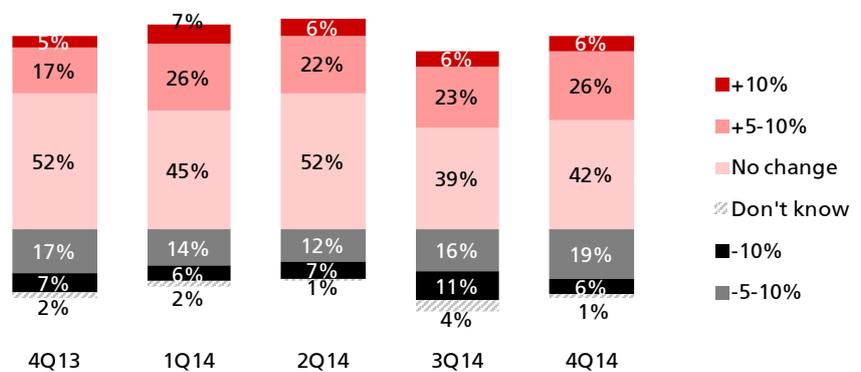


Chart 2a: Business performance in the past 12 months (sales turnover)



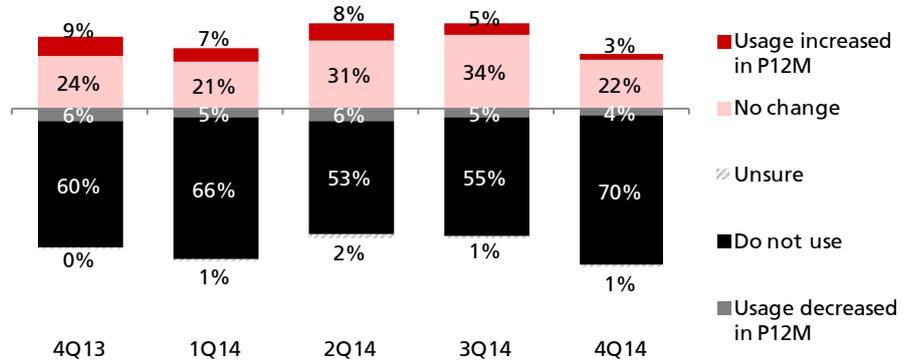
Base: All companies

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



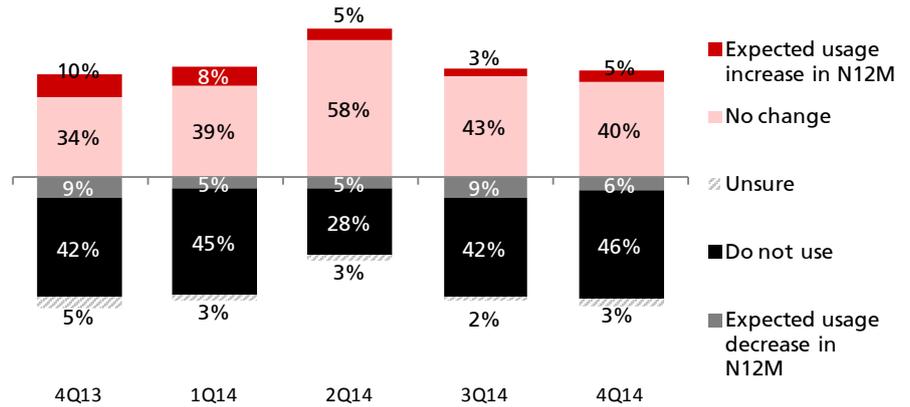
Base: All companies

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



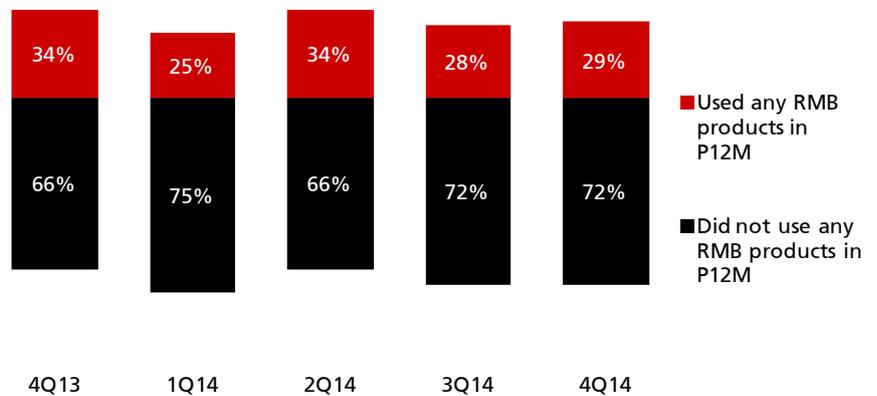
Base: All companies

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



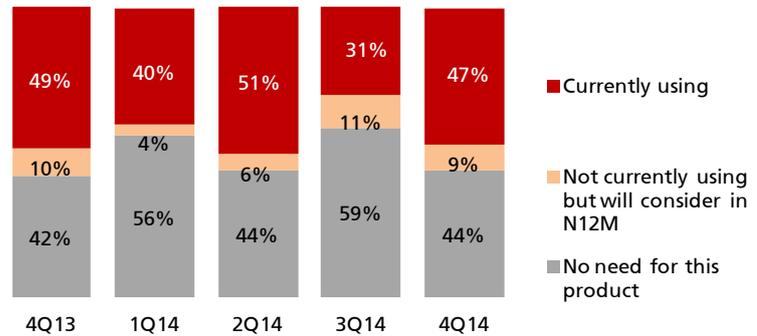
Base: All companies

Chart 4: Overall RMB products or services usage



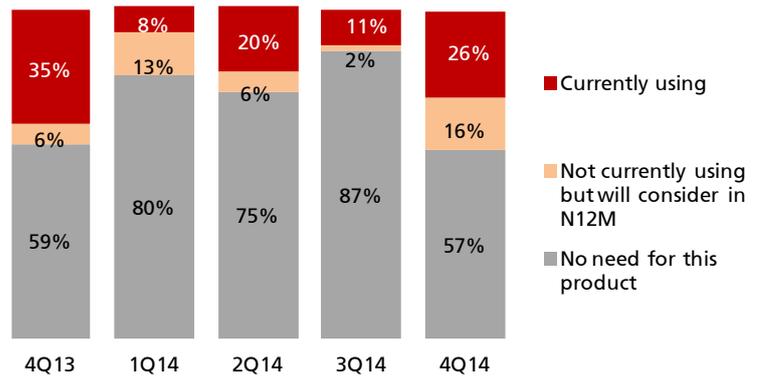
Base: All companies

Chart 5: Usage and needs for RMB payment and receivables



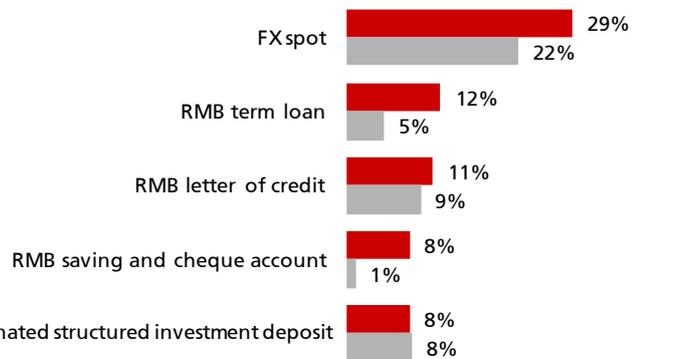
Base: Companies using trade services

Chart 6: Usage and needs for RMB trade services



Base: Companies using trade services

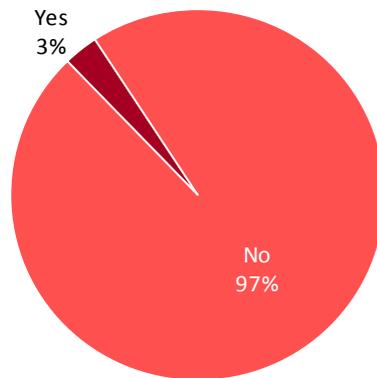
Chart 7: RMB products intended to be used in the N12M



Base: Companies with the intent to use RMB products in the N12M

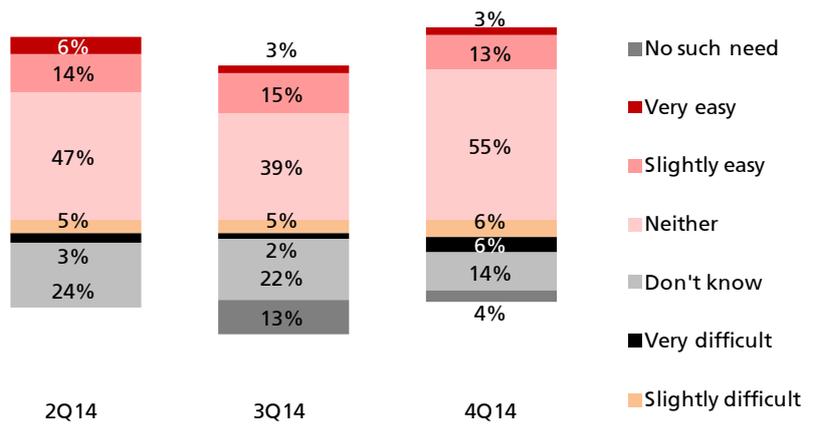
Note: Only the top five product categories are shown

Chart 8: Intention to apply for RMB finance in the next 12 months



Base: All companies

Chart 9: Ease of getting access of RMB loan or credit facilities



Base: All companies

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