

DBS RMB Index for VWinning Enterprises (DRIVE) - 2Q15

DBS Group Research

11 Aug 2015

Chris Leung
(852) 3668 5694
chrisleung@dbs.com

Nathan Chow
(852) 3668 5693
nathanchow@dbs.com

Lily Lo
(852) 3668 5695
lilylo@dbs.com

2Q15 DRIVE reading rose to record high

DRIVE rose to 60.5 in 2Q15 from 55.1 in 1Q15 (Chart 1). The previous historical high was reached in 2Q14, when the index hit 60.4. Business needs for RMB increased as more companies used RMB customer orders/invoices in the past 12 months, and more expect to use them in the next 12 months. More companies used RMB payment and receivables, and the same number of companies used RMB trade services in 2Q15, compared to the previous quarter. Access to RMB loan/credit facilities became easier, but interest in RMB financing remains muted. Compared to the previous quarter, more respondents claimed that business performance worsened. Also, more respondents were pessimistic about business performance in the next 12 months (Charts 2a & 2b).

Key findings and DBS insights

* Unless stated otherwise, figures in parentheses represent findings in the previous survey (1Q15)

- 1. Business needs for RMB rebounded despite deteriorating business performance**
 - 30% (23%) of respondents said they had RMB customer orders/invoices in the past 12 months. Some 63% (66%) of companies reported that they had no RMB customer orders/invoices in the past 12 months (Chart 3a).
 - 35% (32%) claimed that they would use RMB for these purposes in the next 12 months (Chart 3b).
 - Companies' business performance worsened persistently since 2Q14. In 2Q15, manufacturing, retail, community and personal services sectors reported deterioration in their business performance, citing economic slowdown as the main reason.
 - The business performance outlook for the next 12 months was the most pessimistic since 2Q13, with 28% (18%) of respondents believing business performance will worsen. The manufacturing sector fared worst, with more than half of the respondents expecting declines.

DBS insights

Business needs for RMB, measured in terms of the use of RMB customer orders/invoices, is a key indicator of actual RMB acceptance and usage levels at the corporate level. There was evidence of a downtrend in business needs for RMB since 2Q14, before it rebounded in 2Q15. The rebound occurred despite the fact that actual business performance and business outlook both deteriorated over this period.

2. Positive relationship between appreciation expectations and business needs for RMB

- More companies (24% in 2Q15 versus 13% in 1Q15) anticipate RMB appreciation in the next 12 months. The RMB exchange rate was more stable in this survey period compared to the previous survey period. Over the fieldwork period (7 May 2015 – 11 Jun 2015) the RMB/USD exchange rate appreciated by 0.02% on average [1]. In comparison, over the fieldwork period in the previous wave (10 Feb 2015 – 18 Mar 2015), RMB/USD depreciated by -0.4%.

DBS insights

After tracking the index for 11 quarters, we observed that the adoption of RMB in Hong Kong corporations has been growing very slowly. This could be due to the fact that 98% of Hong Kong companies are SMEs, whose needs for RMB is more limited compared to large corporations.

RMB appreciation expectations seem to affect Hong Kong companies' business needs on RMB (RMB customer orders/invoices). In 2Q15, appreciation expectations made a comeback and business needs for RMB increased in tandem. In fact, there is a generally positive correlation between appreciation expectations and business needs for RMB over the course of our study (Chart 4). On the other hand, the relationship between RMB appreciation expectations and RMB product usage is less clear (Chart 5).

The State Council recently announced that the RMB will be allowed to trade in a wider range against the dollar, but greater price swings are not expected in the near term. On one hand, the Chinese government will likely keep its currency relatively stable at a time when China's weakening economic growth is fanning fears of capital flight. On the other hand, by keeping the RMB largely stable, China could further promote the cross-border use of the currency.

3. RMB product usage increased

- The percentage of companies using RMB products [2] rise to 30% from 27% in 1Q15 (Chart 6). The highest historical value was 34%, recorded in 2Q14.
- 25% (24%) of companies said they are currently using or will consider using RMB deposits in the next 12 months.
- 5% (5%) 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 41% (36%) have either used RMB payment and receivables or would consider using them for these purposes in the next 12 months (Chart 7). Some 18% (11%) have either used RMB trade services or would consider using them for these purposes in the next 12 months (Chart 8).

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.

The use of RMB products is expected to increase going forward as corporates adopt various hedging strategies to mitigate increasing exchange rate volatil-

ity as China continues on with financial liberalization. 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.

In June 2015, the RMB held its position as the fifth most active currency for global payments in value and accounted for 2.09% of global payments.

4. Interest in RMB financing remained low

- Since the launch of the DRIVE survey in 4Q12, the overall interest in RMB finance has remained at a consistently low level. In 2Q15, 99% (97%) of respondents expressed no intention to apply for RMB finance in the next 12 months (Chart 9). Of these respondents, some 59% (69%) claimed that their company did not need RMB or they were mainly using other currencies. Only 2% (2%) attributed fluctuations in the RMB exchange rate as the reason for not applying for RMB finance.
- More respondents (14% in 2Q15 versus 10% in 1Q15) claimed that getting access to RMB loans or credit facilities was easy (Chart 10). Meanwhile, 7% (11%) claimed access was difficult. More than half 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 new free-trade zones.

The outlook: Stock market rout has limited impact on the internationalisation of RMB

The recent stock market debacle should not derail the Chinese government's attempt to internationalise the RMB. The internationalisation of a currency is the process of promoting its use outside the home country. This process can be grouped into three categories: 1) RMB being used as a pricing and invoicing currency; 2) used as financing and investment tool; and 3) adopted as a reserve currency.

For the RMB, encouraging development was seen in all these fronts. The proportion of China's trade settled in RMB has already surged to 25% from 3% in 2010. Inward and outward direct investments that were settled in RMB have ballooned by 850% and 830%, respectively, over the past three years. The offshore RMB bond market has doubled in size each year since 2008. Its outstanding volume (including Certificates of Deposit) reached approximately 700 billion yuan as of July 2015. More importantly, many foreign reserves managers are showing an increasing appetite for the currency. To date, around 50-60 central banks, sovereign institutions, and supranationals have invested in the RMB. All these reflect the fact that the Chinese yuan is now perceived as a relatively more mature currency.

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 is widely available, it is 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 211 companies were surveyed between May and June 2015. The sample comprised 200 SMEs (with annual sales turnover of HK\$1 million to HK\$1 billion) and 11 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&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 [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] Using 20 day moving averages

[2] 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.

[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

Key charts and graphs

Chart 1: DRIVE

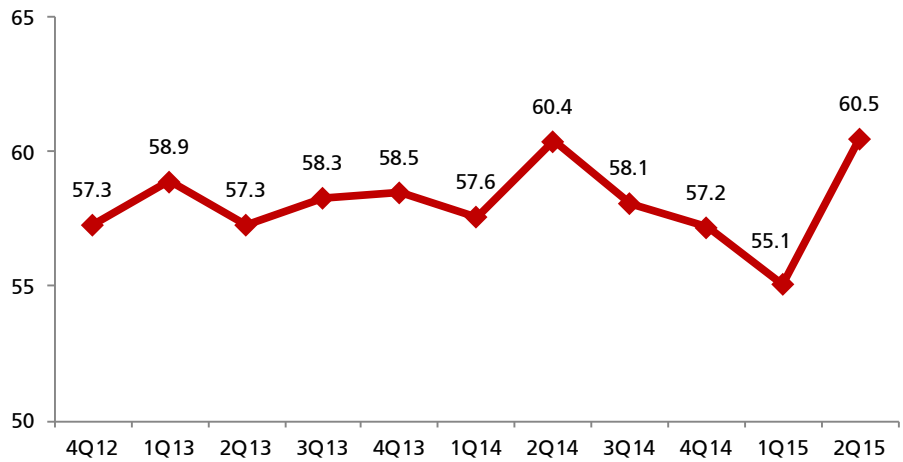
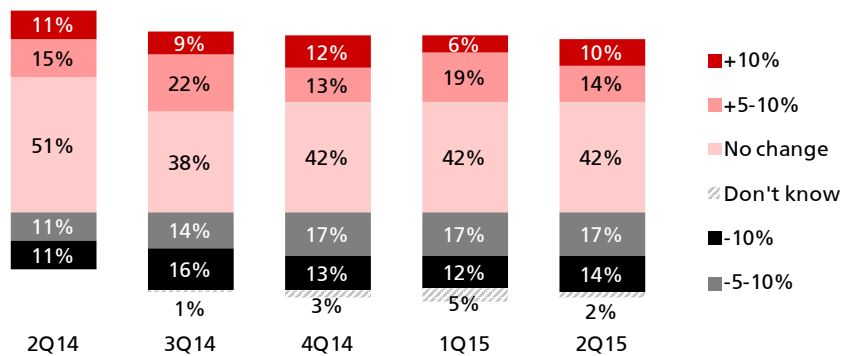
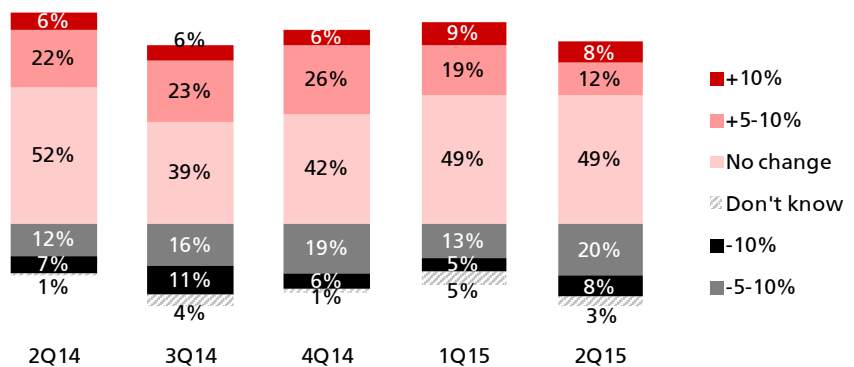


Chart 2a: Business performance in the past 12 months (sales turnover)



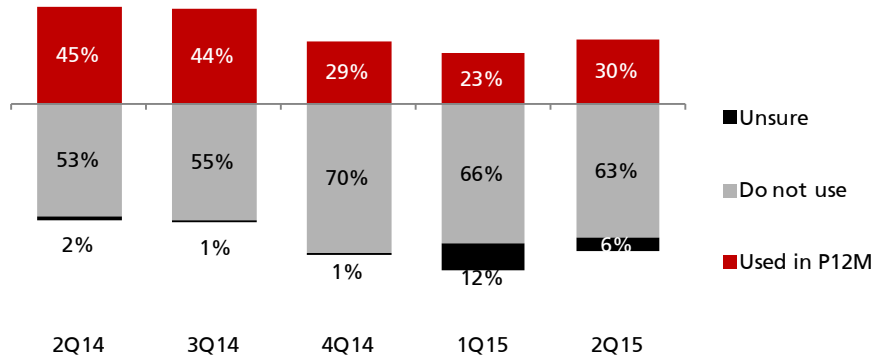
Base: All companies

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



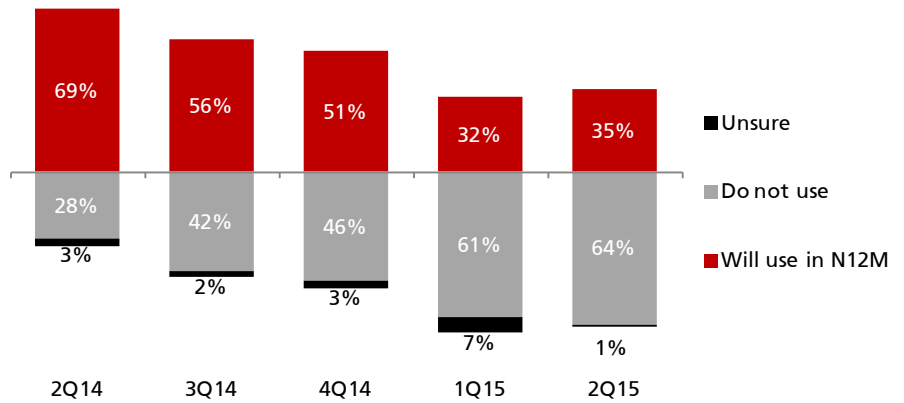
Base: All companies

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



Base: All companies

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



Base: All companies

Chart 4 Relationship between RMB appreciation expectations and business needs for RMB

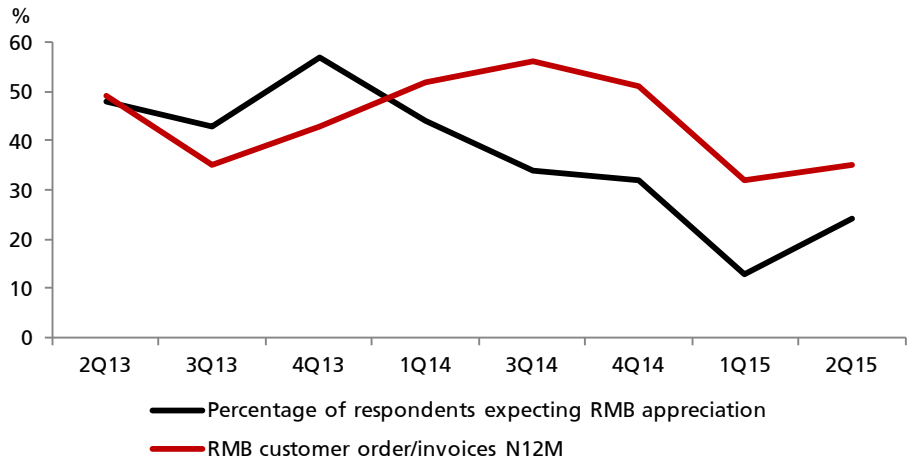


Chart 5: Relationship between RMB appreciation expectations and RMB product usage

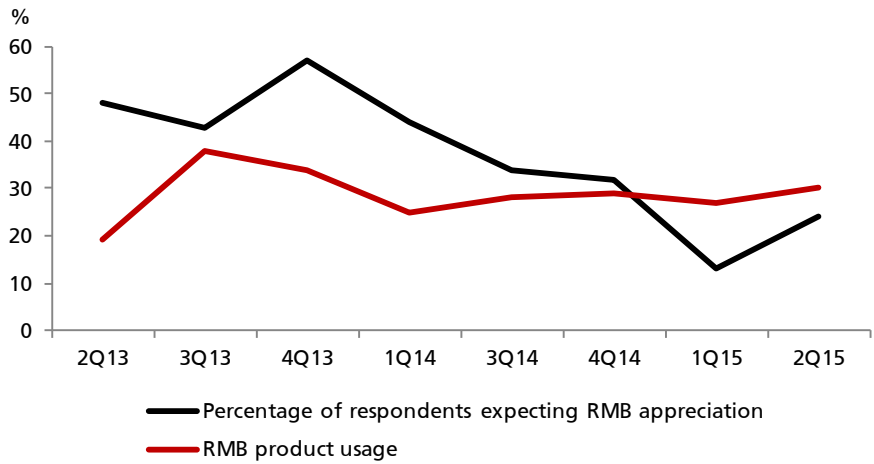
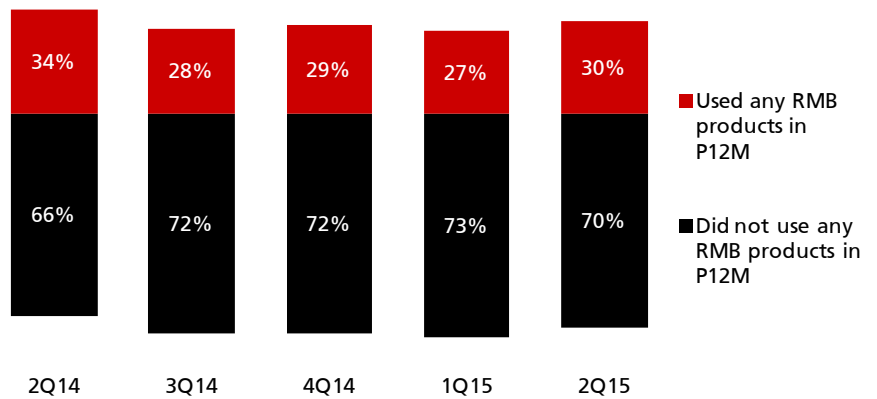
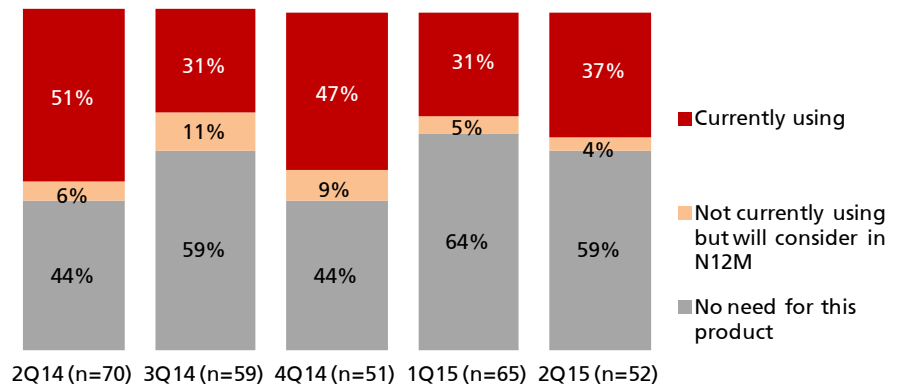


Chart 6: Use of RMB products or services



Base: All companies

Chart 7: Usage and needs for RMB payment and receivables



Base: Companies using trade services

Chart 8: Usage and needs for RMB trade services

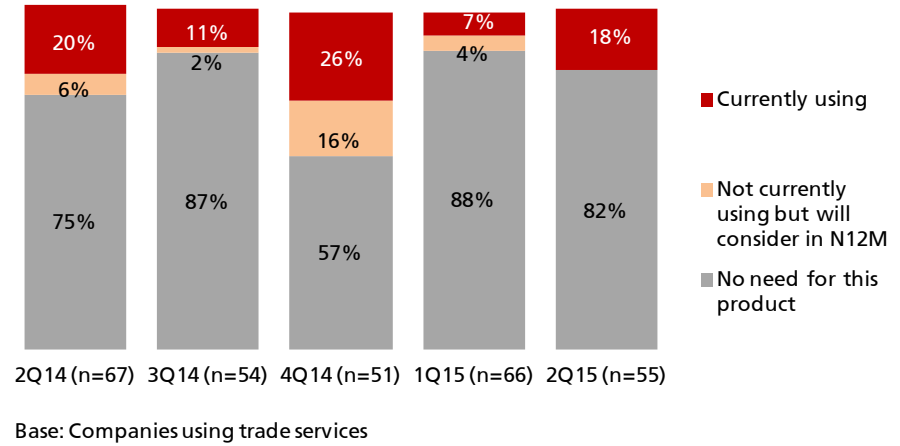


Chart 9: Intention to apply for RMB financing in the next 12 months

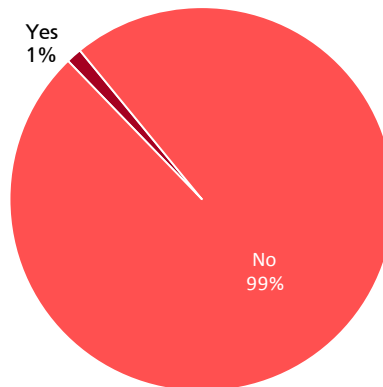
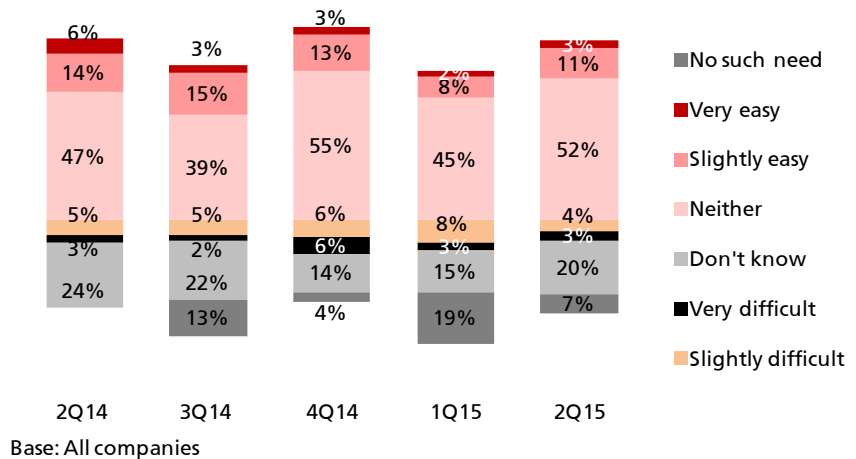


Chart 10: Ease of getting access of RMB loan or credit facilities



Recent Research

IN: Inflation remains key	6 Aug 15	MY: limited options	29 Apr15
IN Gilts: greater foreign ownership mooted	4 Aug 15	India and Indonesia: taking stock	29 Apr 15
IDgov bonds: 2Y sector looks attractive	31 Jul 15	US: over the hump (and sliding fast)	28 Apr 15
Japan's "go global experience (2)	29 Jul 15	Asia bonds: floating on a yield cushion	27 Apr 15
IN: harnessing demographic dividend	27 Jul 15	Asia: breaking new old ground	22 Apr 15
CN: fiscal reforms to accelerate (2)	24 Jul 15	JP: portfolio rebalancing underway	16 Apr 15
SG: slowest growth in six years	9 Jul 15	US: Fed funds and such	14 Apr 15
CN Rates: stock market woes driving onshore/offshore divergence	9 Jul 15	CN: more inclusive urbanization policies	13 Apr 15
Greece: near the tipping point	6 Jul 15	TH: further cuts unlikely	13 Apr 15
ID: investors staying put	6 Jul 15	Asia cyclical dashboard: an eerie calm	8 Apr 15
VN: Asia's latest electronics spark	1 Jul 15	IN: policy to be data dependent	7 Apr 15
Japan's "go global" experience: implications for China	30 Jun 15	SGD: making room for volatility	6 Apr 15
SG: watch core inflation	16 Jun 15	CN: recalibrating monetary policy	2 Apr 15
Qtrly: Economics-Markets-Strategy 3Q15	11 Jun 15	ID: tax targets are too optimistic	1 Apr 15
IN: weak monsoon a risk	8 Jun 15	CNH: the growing influence of yuan settlement in forex reserves	31 Mar 15
CN: the AIIB to test diplomatic skills	4 Jun 15	CN: fiscal reforms to accelerate	27 Mar 15
Rates: the rise in global yields: where to now?	25 May 15	IN: assessing RBI priorities	24 Mar 15
TH: still climbing Sisyphus' hill	22 May 15	KR: wither export competitiveness?	19 Mar 15
IN: time to deliver	21 May 15	CNH: a freer China	17 Mar 15
What will the AIIB mean for Korea?	19 May 15	Qtrly: Economics-Markets-Strategy 2Q15	12 Mar 15
Asia: breaking new new ground	11 May 15	IN budget: growth trumps fiscal goals	2 Mar 15
CNH: "Q" expansion heralds next stage of capital account liberalization	6 May 15	ID: no shift in BI's tight policy bias	27 Feb 15
Greece: the clock is ticking	4 May15	SG budget: shaping Singapore's future	24 Feb 15
		India budget: a balancing act	17 Feb 15

Disclaimer:

The information herein is published by DBS Bank Ltd (the "Company"). It is based on information obtained from sources believed to be reliable, but the Company does not make any representation or warranty, express or implied, as to its accuracy, completeness, timeliness or correctness for any particular purpose. Opinions expressed are subject to change without notice. Any recommendation contained herein does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. The information herein is published for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees, who should obtain separate legal or financial advice. The Company, or any of its related companies or any individuals connected with the group accepts no liability for any direct, special, indirect, consequential, incidental damages or any other loss or damages of any kind arising from any use of the information herein (including any error, omission or misstatement herein, negligent or otherwise) or further communication thereof, even if the Company or any other person has been advised of the possibility thereof. The information herein is not to be construed as an offer or a solicitation of an offer to buy or sell any securities, futures, options or other financial instruments or to provide any investment advice or services. The Company and its associates, their directors, officers and/or employees may have positions or other interests in, and may effect transactions in securities mentioned herein and may also perform or seek to perform broking, investment banking and other banking or financial services for these companies. The information herein is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation.