Renminbi in 2015

The Impact of RMB Devaluation on Usage Patterns

Findings of the Renminbi Review 2015

In association with

INTRODUCTION

On August 11 2015, the People's Bank of China (PBoC) changed the way it calculates the reference rate around which the Renminbi (RMB) is allowed to trade. They would now calculate the daily central parity, by taking note of FX demand and supply including the closing price in the previous day's trading session. This caused the RMB to devalue by more than 3% against the US dollar in the following three days, reversing the currency's upward track for a decade. Standard Chartered commissioned Asset Benchmark Research (ABR) to conduct a survey on corporate users of RMB to measure the impact of this recent devaluation in the currency. The survey was designed to provide constructive feedback on RMB usage patterns, operational challenges and the outlook for the currency.

The project took place over a 3-week period from late-October to mid-November 2015 and surveyed 173 treasurers and senior treasury/finance executives from Asia, Europe and the US concerning how they managed the RMB FX risk given the volatility of the currency after August 11. The survey also looked at how the respondents have changed their attitude toward settling trades in RMB and the volume of trades they actually settle in the currency.

The questionnaire focused on two major groups of respondents, onshore companies based in China and offshore companies based overseas. The respondents were further segregated according to their business interactions. The onshore companies were split into five categories: firms that were importing from overseas companies, exporting to overseas companies, both importers and exporters, firms that mainly buy and sell to domestic Chinese companies and intercompany firms that mostly buy and/or sell to their overseas subsidiary.

Similarly the offshore companies were split according to firms that were importers from China, exporters to China, both importers and exporters and intercompany firms that mostly buy and/or sell to their China subsidiary. A fifth category was also offered to the offshore respondents, namely firms that have no business or investment in China.

METHODOLOGY & RESPONDENT DISTRIBUTION

Email invitations to take part in the Renminbi Review 2015

- The on-line questionnaire was sent to finance directors, CFOs, treasurers and senior treasury managers in corporations in China, Hong Kong, North Asia, Southeast Asia as well as the US and Europe.
- Two language versions were available: English and simplified Chinese.
- Follow-up interviews were conducted with 46 respondents.
- The respondent distribution was 33% from China, 30% from Hong Kong, 13% from North Asia, 15% from Southeast Asia and 9% from the US and Europe.
- 46% of the respondents were large companies with more than 1000 employees.

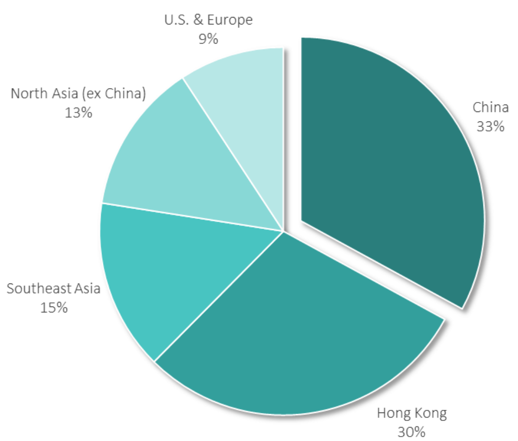

Figure 1. Respondent distribution by location

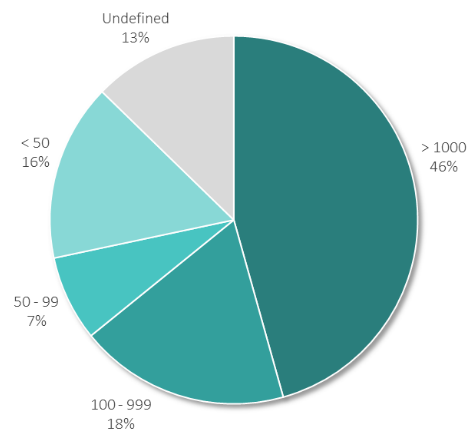

Figure 2. Respondent distribution by company size

EXECUTIVE SUMMARY

- Given the recent volatility of the currency, the majority of respondents (61%) are managing their RMB FX risk more actively than before. Onshore respondents are more active than offshore respondents in this regard.

- The most popular methods for China-based respondents to manage their RMB FX risk are by hedging with instruments such as FX forwards and swaps and by settling more of their trade in RMB. For overseas respondents hedging is most common and they also manage their risk by actively reducing their RMB liquidity/position by converting it to other foreign currencies.

- Therefore while onshore respondents are more likely to want to manage their RMB risk by denominating more overseas trades in the currency, offshore companies trading with China prefer to reduce their RMB position.

- For the respondents that are not more actively managing their RMB FX risk, most onshore respondents say it is because they do not normally manage their RMB exposures. Overseas respondents are more likely to do so, the largest proportion (45%) hedge the same way and to the same extent as before.

- There is a high level of inertia with regards to firms' intentions to hedging going forward compared to before August 11. The largest percentage of respondents (61%) either had not decided whether or not to change or planned to hedge to the same extent.

- The widely held belief is that the RMB will either weaken or remain stable against the USD in the next three months. Some of the concerns that are top of mind for respondents when deciding the direction of the currency included the rise in the Fed rate, the slowdown in China's economy and policy risk.

- China-based companies have a more proactive stance toward RMB trade settlement than their overseas counterparts. Among companies outside of China, Southeast Asia-based firms are more likely to be proactive while North Asian firms are generally more reactive.

- Interestingly small companies (with fewer than 50 employees) are more inclined to manage their RMB FX risk more actively. More than half of these companies are either based in China or headquartered there, suggesting they have more at stake with the devaluation of the currency.

- Large firms with more than 1000 employees are also more likely to want to manage their RMB FX risk more actively.

- Anticipating how their RMB trade settlement might change in the next six months, most respondents were inactive and thought their trade would stay the same. Onshore companies were more likely than those offshore to increase their RMB trade settlement.

Core Survey Feedback – RMB 2015

Given the recent volatility of the RMB, the majority of companies are more actively managing their RMB FX risk

- Viewed overall, 61% of respondents reported that they were managing their RMB FX risk more actively than before, given the recent volatility of the currency.

- Four-fifths (80%) of onshore respondents were managing their RMB risk to a greater degree as compared to 52% of offshore respondents.

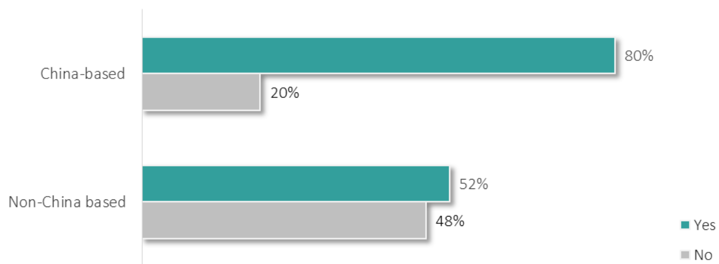

Figure 3. "Are you more actively managing your RMB FX risk?", China based vs non-China based respondents

- Among onshore respondents, the largest percentage (100%) that said they were more actively managing their RMB risk were intercompany firms that mostly buy and/or sell to their overseas subsidiary.

- Comparatively, among offshore respondents, the largest percentage (71%) that said they were more actively managing their RMB risk were exporters to China. While those managing intercompany flows are least likely to have reassessed their management of RMB FX risk (40%) (aside from those firms that have no business or investment in China).

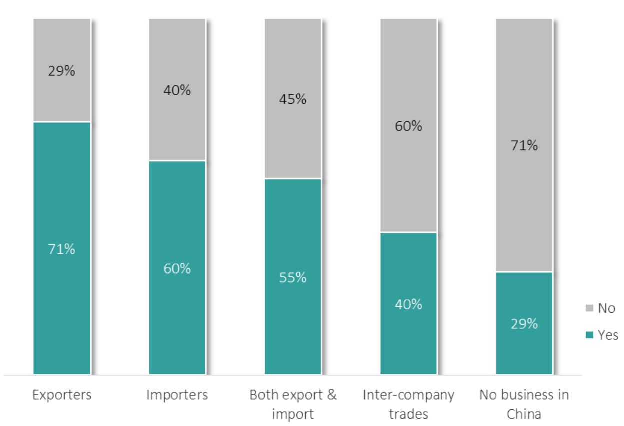

Figure 4. "Are you more actively managing your RMB FX risk?", non-China based respondents, by business type

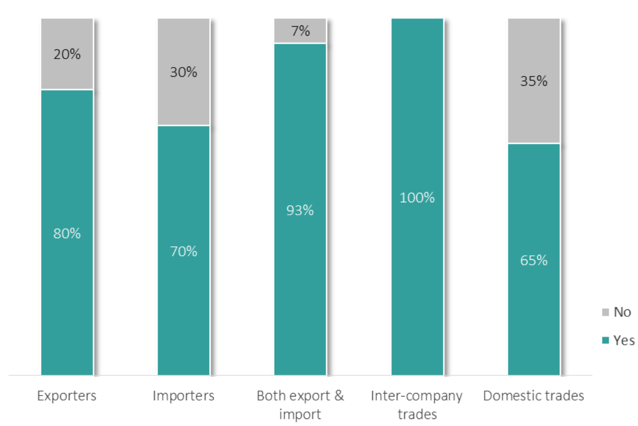

Figure 5. "Are you more actively managing your RMB FX risk?", China-based respondents, by business type

- Firms with fewer than fifty employees or more than 1000 employees were the most likely in terms of company size to want to more actively manage their RMB FX risk (77% and 64% respectively). Although smaller firms are typically less likely to have an active FX risk management policy in place, 52% of firms in our sample that have less than 50 employees are either based in China or are headquartered in China. This suggests they are more vulnerable to the recent devaluation in the currency. Conversely large multinationals with more than 1000 employees are more likely to employ more complex FX risk management policies. A Singapore-based treasury accountant of one such MNC explains that her strategy is to: "*…hedge more. To stabilize the revenue streams.*"

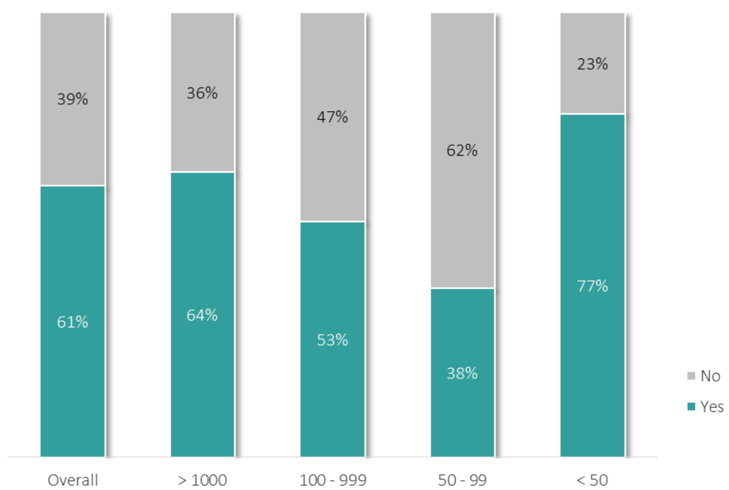

Figure 6. "Are you more actively managing your RMB FX risk?", by company size

How are they doing it? Onshore companies differ from offshore companies in the way they are managing their RMB FX risk

- For China-based respondents, the most popular methods to manage their RMB FX risk were by hedging more of their RMB position with instruments such as FX forwards and swaps (44%) and by settling more of their overseas trade in RMB (27%).

- One regional treasurer of a China-based company headquartered in Europe elucidates the benefits of RMB trade settlement from a risk management point of view: "*We are settling more of our trade with overseas companies in RMB because our imports and exports are predominantly intercompany, it's within the group. So it makes it easier to ask our overseas counterparts to say that we want to be paid in RMB, and we will be paying RMB out to them. So obviously from the group point of view the risk is not reduced, but from the local entity point of view the risk is reduced.*"

- The pattern of risk management was different for offshore respondents. Almost half (44%) are now hedging more of their RMB exposures as well as actively reducing their RMB liquidity or positions by converting it to other foreign currencies (36%). However only 8% of overseas respondents were settling more of their trade with China in RMB.

- Thus the offshore point of view with regards to RMB trade settlement is vastly different from the onshore perspective. When asked if he saw benefits in holding the RMB, one Hong Kong-based CEO countered: "*No, actually we will try to convert the RMB into other currencies as soon as we receive it. So we will keep less.*" The same CEO was asked how his RMB trade settlement would change in the next six months: "*We expect it to decrease. We are pessimistic with the movement on RMB, we expect it to devalue.*"

- Consequently while the devaluation of the RMB has caused onshore respondents to be more likely to settle trades in RMB, for offshore respondents the depreciation was not as much of a pull factor for RMB denomination. In fact, overseas respondents were more likely to reduce their RMB position. China-based firms are more pro-RMB trade settlement possibly because it allows them to shift some FX risk to foreign buyers and suppliers. While offshore companies will eventually have to convert the RMB they gain from trade settlement into their functional currency, so the movement out of the RMB is likely to lower their overall exposure to the currency fluctuation.

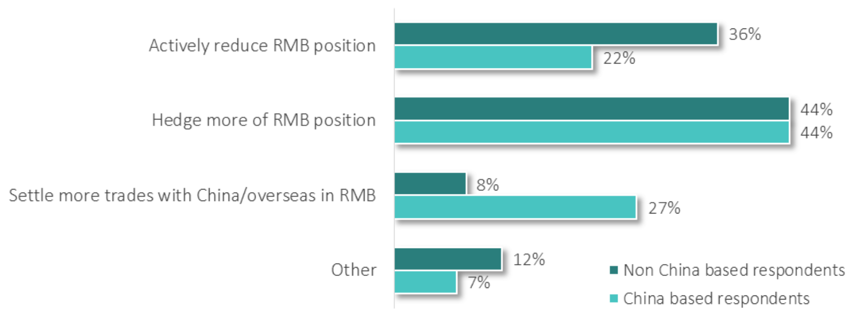

Figure 7. Approaches in more actively managing RMB FX risk

- 73% of onshore companies that are settling more trades in RMB are firms with more than 1000 employees. While the majority of overseas companies that want to hedge more of their RMB position with instruments such as FX forwards and swaps (58%) are companies of this size. This suggests large corporates within China are less likely to opt to hedge than their overseas counterparts. A Singapore-based manager of one such large corporate communicated her preference for hedging: "*We use everything, NDFs, DFs, options and swaps.*"

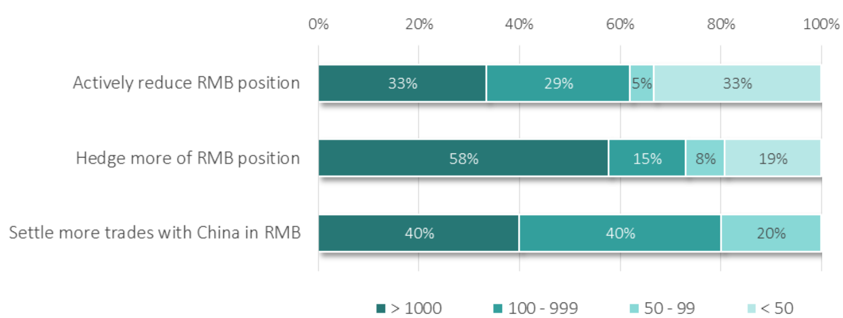

Figure 8. Approaches in more actively managing RMB FX risk, non-China based respondents, by company size

The companies that have not changed their approach to managing their RMB FX risk, cite a number of different reasons

- Out of the 39% of firms that are not actively managing their RMB FX risk, 41% hedge the same way and to the same extent as before. 28% are not actively managing their RMB exposure and 22% don't have RMB exposure.

- The main reason why many (45%) onshore respondents have not increased their RMB risk management is because they have never been active. One China-based finance director explained: "*We have no policy on this.*" Another onshore treasury manager of a US-headquartered firm said: "*We never think about this issue*"; while a third director said: "*We have a lack of talented professionals.*"

- Contrastingly overseas respondents have a track-record of being more active in their risk management. A large proportion had been managing their RMB FX risk before the recent volatility and hedge the same way and to the same extent as before (45%). One Singapore-based treasury director explained her approach: "*We have been doing it [active RMB FX risk management] all along.*" A Hong Kong-based treasury manager was also active from before: "*We expect the RMB will depreciate but we also have 100% hedging on those incoming funds.*" Another offshore VP in finance that hedges to the same extent said that the depreciation had not affected his overall strategy that much: "*The move itself at the moment hasn't warranted any drastic changes yet. The cost of applying those outweighs the benefits.*"

- Respondents also cited other reasons for not changing their approach to managing their RMB FX risk. A Taiwan-based finance head said it was "*because our RMB exposure is very small.*" Similarly, a Hong Kong-based financial controller said: "*We are not actively managing our RMB exposure because we have no business need.*"

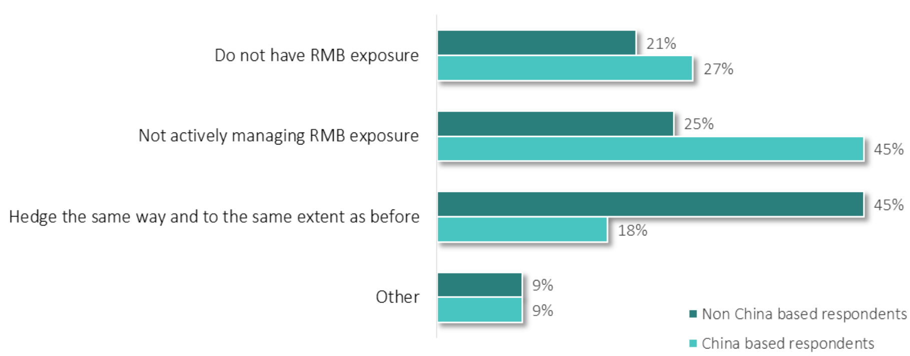

Figure 9. Reasons for not actively managing RMB FX risk

- The majority (57%) of firms that hedge the same way and to the same extent as before are international firms with more than 1000 employees. A Hong Kong-based assistant treasurer of a large company emphasized: "*Our policy has not changed.*"

INTENTION TO HEDGE

- When asked about their intention to hedge since August 11, the bulk of respondents displayed a high level of inertia. Two-thirds (61%) of respondents either had not decided whether to change or were not going to change. 27% planned to hedge more and only 8% expected to hedge less.

- Some respondents that are on the fence are still reeling from the costs of hedging after the devaluation. One Singapore-based treasurer said: "*I'm not sure because it was in September that the RMB suddenly dropped and we actually lost a lot of money because of the hedging. So we don't know what to do in the future because we are still suffering because of the last hedging decision.*" A CFO of a Hong Kong-based firm also emphasized the cost of hedging: "*That large depreciation of the RMB on August 11 cost us quite a lot of money because we had special derivatives contracts for buying RMB in the future.*"

- Nonetheless, the volatility of the RMB after the devaluation has been a major incentive for companies to hedge more. One Hong-Kong based director explained: "*In the beginning of this year, we could enjoy the clear trend of the RMB appreciation. We could enjoy open foreign exchange positions. But after the RMB liberalization, we cannot find a clear trend in the USD-CNY foreign exchange market. So we would like to minimize our open positions and increase our hedged positions with forward contracts (offshore RMB deliverable forwards).*" Another Singapore-based treasurer also noted: "*For all these years, many have used RMB as a currency because the currency was appreciating. So it made sense to use the RMB as a currency and take an exposure on the RMB because it was an appreciating currency. That means you go long on the RMB exposures. But now it's a different world, in the last six months, the currency has depreciated; people have lost a lot of money so now they remain hedged. They don't know which way this is going – there's no one-way street anymore.*"

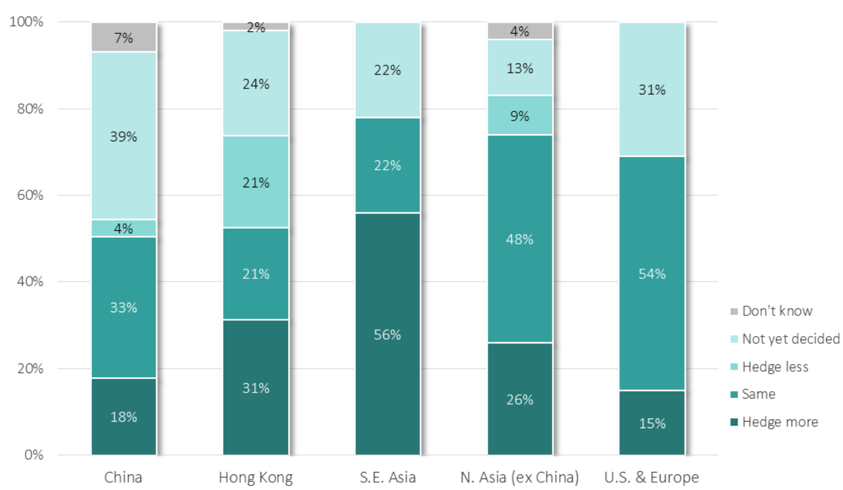

Figure 10. Company's intention with regards to hedging going forward compared to August 11, by company location

- Onshore respondents are more likely to be undecided about their hedging plans going forward (39%) or intend hedge the same amount (33%). Only 18% plan to hedge more. One China-based CFO of a large firm with more than 1000 employees suggested that the opportunities open to him were limited: "*Our business is very simple, so we haven't considered the hedging instruments.*" Another regional treasurer explained how he plans to hedge by the same amount: "*…we have already done the hedging* *in the past in the offshore market so there is no change, whether there is a change [in the value of the currency] pre or post-August 11th."* This same treasurer also raised the issue of regulatory hurdles: *"…at the same time you should know that at the moment onshore, the authorities slap a heavy penalty (so-called) if you were to do hedging onshore. Because the right hand side of the swap is extraordinarily high compared to even offshore.*" Another Singapore-based manager does however suggest that while reticent, she's noticing that her China-based counterparts are now starting to hedge more: "*I think also because of the August 11th situation, now they are more concerned about hedging. Previously they have not been hedging their exposure.*"

- Overseas firms have a tendency to expect to hedge more (32%) or hedge to the same extent (36%) going forward as compared to before August 11. Breaking it down by location, companies based in Southeast Asia are more likely to hedge more than any other region. One VP of treasury management here elaborated: "*We will hedge more with a longer horizon as well…We use both deliverable forwards and NDFs.*" Another Southeast Asian manager also planned to use forward contracts: "*Our main currencies would be USD and RMB. So for us of course we take a look at the forward market, and hedge our risk on it. Maybe there's a three-month forward. Because if it's too long you can't really tell the volatility of the RMB so we would favour one month to three months.*"

CURRENCY OUTLOOK

- Respondents were asked about their outlook for the USD-CNY in the next three months. 44% of respondents think the RMB will weaken, while 42% expect the currency to remain stable during this period. Only 6% of respondents anticipate the currency will strengthen relative to the US dollar. The views from both onshore and offshore respondents are generally aligned.

- Respondents suggested a number of different reasons why they expected the currency to weaken. A China-based treasury manager attributed it to the US Federal Reserve's monetary policy: "*I think it's mainly because of the expectations for an interest rate increase from the Fed which will cause a liquidity squeeze.*"

- A Southeast Asia-based corporate finance director cited the slowdown in China's economy and the stimulus for international trade as a driver for the further depreciation of the currency: "*I would think that the RMB would likely weaken a bit for the next few months. The reason is that China is actually still undergoing a hard landing. So it is likely they will want to spur their exports by maintaining a weaker than expected exchange rate against the USD, so as to give a boost to their export sector.*"

- 8% of the corporates surveyed are unsure about the direction of the currency. A Singapore-based director of trade finance argued the intricacy of the question. He asserted that the Chinese government has the final say: "*I don't know. This is all controlled by China, so you can't really say. Economic data says that China needs to make its currency competitive so you know we might see some depreciation in the currency. That's the economic data. But then this is China. So you can't really say what the government can do because it's too complex in terms of their economy and transparency.*"

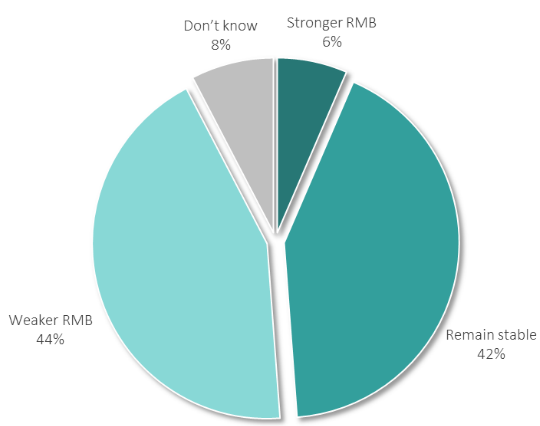

Figure 11. Outlook for USD-CNY in the next three months

- Judging by location, Hong Kong-based respondents are most likely to expect the RMB will remain stable in the next three months (58%). While most Southeast Asia-based respondents anticipate a weaker RMB (63%).

- North Asia-based and China-based corporates are more likely than corporates in other regions to take the contrary view and think the currency will appreciate (13% and 11% respectively). An onshore financial controller said: "*From the research I did before, some economists also think the RMB will be stronger.*" A Taiwan-based finance manager was also more positive: "*The RMB has already devalued a lot, so I think it should be stronger in the next months. Also RMB may be officially classed as an SDR currency in the next 3 months.*"

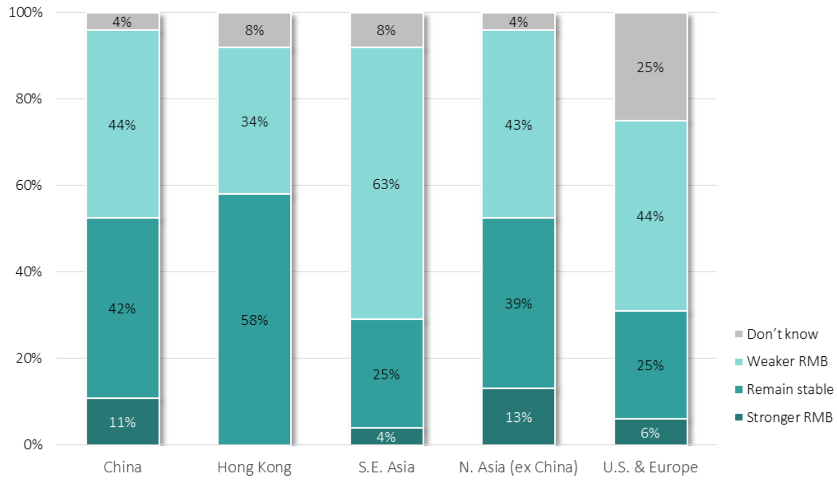

Figure 12. Outlook for USD-CNY in the next three months, by company location

Attitude towards Trade Settlement

- Attitudes toward adopting the RMB for trade settlement are split down the middle. One third (34%) of all respondents are proactive. Therefore they have requested their counterparts to switch to RMB in order to gain benefits from managing RMB FX exposure outside China at better rates. An equal percentage is reactive and only switch when their counterparts request them to use RMB for trade settlement. While 26% are inactive and do not intend to settle trades in RMB. Some respondents were more convinced about their plans than others. When asked about his attitude towards RMB trade settlement, one Southeast Asian VP of treasury management said: "*Proactive. Definitely matching as much as we can.*" In contrast, a Singapore-based group finance manager who was reactive was more uncertain: "*Because recently it's been very volatile. You don't know what's going to happen.*"

- China-based companies tend to be more positive. 44% of these companies have a proactive attitude toward RMB trade settlement, 40% are reactive and 16% are inactive. Only 31% of companies based outside of China are proactive, 34% are reactive and 34% are inactive. When asked what the biggest difference has been in his use of RMB after August 11, the CFO of an onshore company simply said: "*Actually we request our counterparties to use RMB in trade settlement more than before, that may be the difference.*"

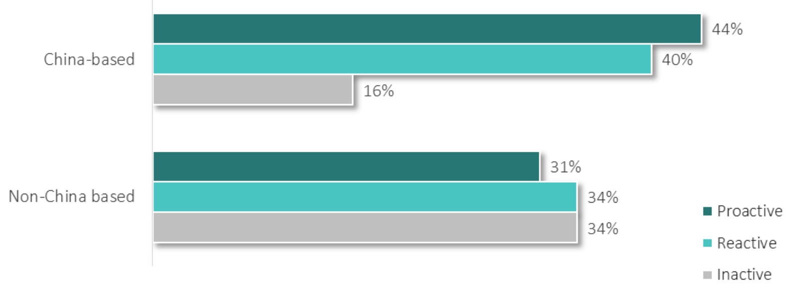

Figure 13. Attitude towards adopting RMB trade settlement, China-based vs non-China based respondents

- Among the regions we looked at outside of China, Southeast Asia-based firms were the most likely to be proactive with regards to RMB denomination (41%). North Asia-based firms were the most likely to be reactive (48%) and US and Europe-based firms were the most likely to be inactive (42%). One Taiwan-based manager relayed her reluctance to switch to the currency despite the likelihood of an increase in trade: "*We may not ask our counterparties to switch to RMB, but I think our RMB trade settlement may increase in the future.*"

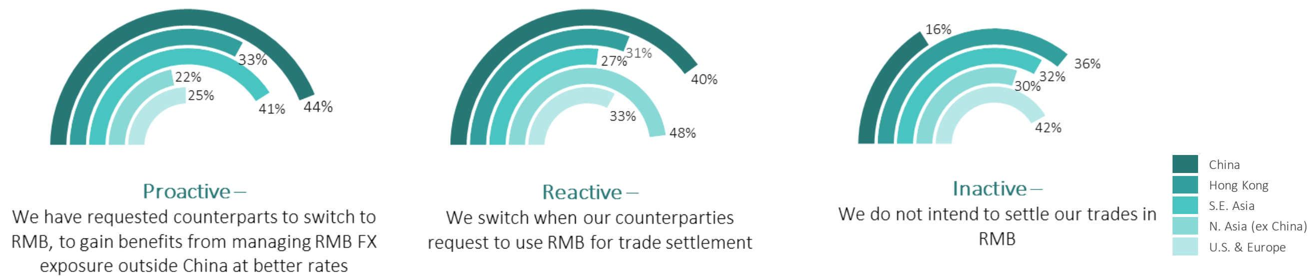

Figure 14. Attitude towards adopting RMB trade settlement, by company location

- Further segregating the onshore responses by business interactions, it is evident that 63% of firms that mainly buy and sell to domestic Chinese companies are proactive. This group of companies is the keenest on settling trades in RMB which is reasonable considering their payables and receivables are all in RMB. They are followed by firms that mostly buy and/or sell to their China subsidiary, then those that both import from and export to overseas companies as well as exporters. China-based firms that were importing goods or services from overseas were the least likely to be proactive with regards to RMB trade settlement, at only 20%. This could likely be the situation if the company produces outside of China (with production costs in a foreign currency) and its sales are predominantly to Chinese consumers as was the case with one onshore treasury manager: "*Because the appreciation of the USD against the RMB, we have to pay more when we import from overseas companies.*"

- Among non-China based respondents, firms that both import from and export to China are more likely to be proactive (41%). One Singapore-based manager that was both an importer and exporter suggested RMB trade settlement is a better method to manage FX risk than hedging. When asked about what her attitude was toward RMB trade settlement, she said: "*Proactive. We're trying to get our buyers to pay us in RMB. Because I think now, it is also pretty difficult to hedge in RMB. The cost of hedging onshore is pretty high.*"

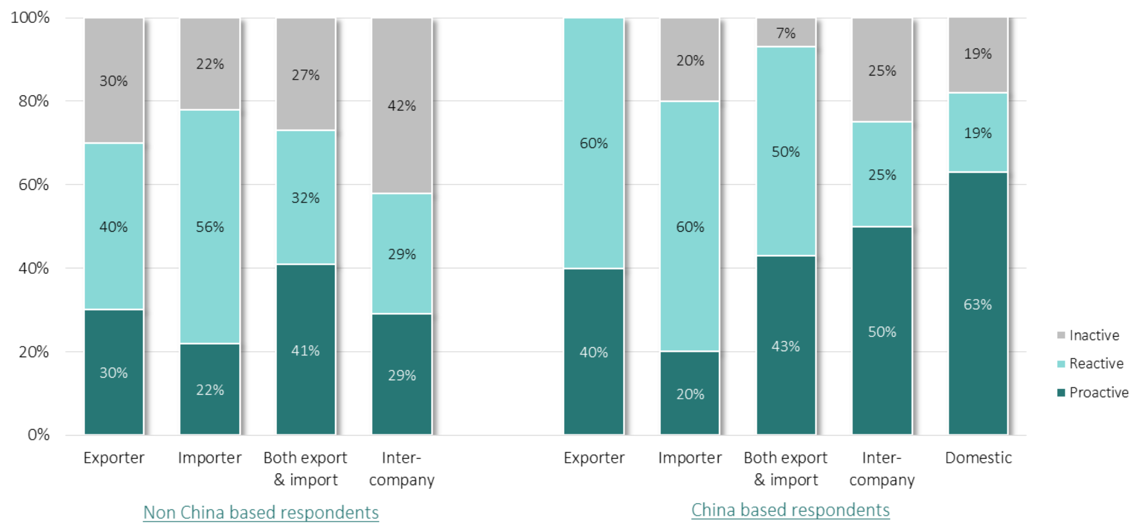

Figure 15. Attitude towards adopting RMB trade settlement, by business type

TRADE SETTLEMENT IN THE NEXT SIX MONTHS

- The majority of firms are inactive when it comes to their plans for RMB trade settlement in the next six months. 51% of respondents expect their RMB trade settlement to stay the same, compared to 41% anticipate it to increase and only 8% that think their trade settlement will decrease. Respondents cited several reasons for the lack of activity. One Hong Kong-based treasury manager claimed: "*Our sales volume will be the same.*" Another CFO that expected his volume of trade in RMB to stay the same said: "*Previously we had a lot of surplus holding in RMB. So now we think that we do not need that huge surplus. So we need not do much hedging now, we are trying to use up the surplus that we have.*"

- 54% of China-based respondents expect their trade settlement to increase in the next six months compared to only 34% of overseas firms. While 41% of onshore respondents believe their trade settlement will stay the same compared to 59% of offshore firms. This suggests that while China-based respondents want to denominate more of their trade in RMB, overseas counterparts are reluctant to make the shift.

- Focusing on onshore respondents, 80% of exporters of goods or services to overseas companies anticipate their trade settlement in RMB to increase, the highest percentage according to the different types of business interactions. This is a likely scenario considering China-based firms that export outside of the country may tend to have costs as well as service their debts in RMB while their sales will be in a foreign currency. Changing into RMB trade settlement would give them a natural hedge position so they don't need to manage the increasing FX volatility between USD-CNY, although they may lose the benefits from exchange rate differential. It may also be due to their anticipation that their trade counterparties would like to pay in RMB, as reflected in the high expectation percentage of non-China based importers (44%) to settle trade in RMB in the next six months. Among China-based respondents that expect their RMB trade settlement to decrease, 20% are importers and 6% are firms that buy and sell to domestic companies. While the other business interaction types don't feature. This is in line with our previous findings that showed China-based importers were also least likely to have a proactive attitude toward RMB trade settlement.

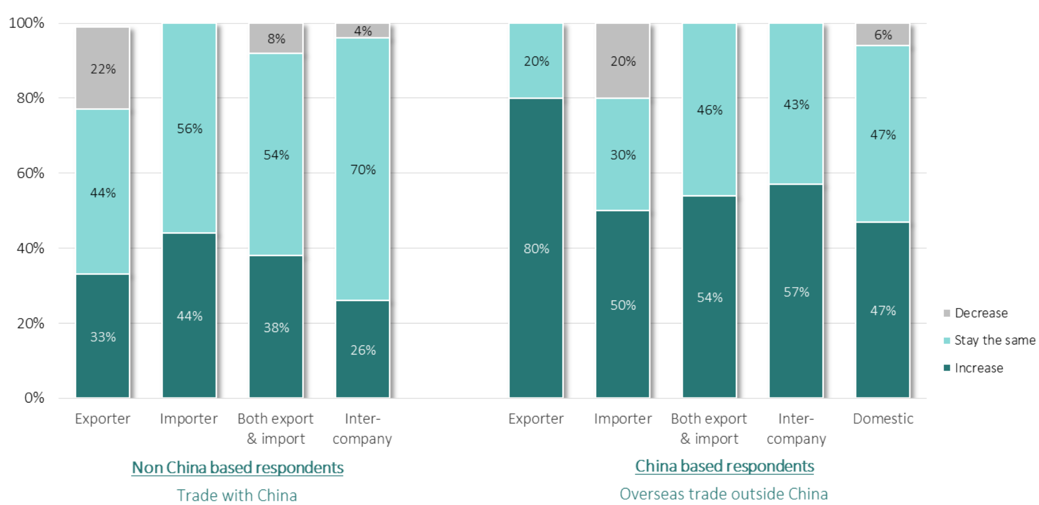

Figure 16. Expected change in RMB trade settlement in the coming six months, by business type

- Among offshore respondents, 44% of importers of goods or services from China expect their RMB trade settlement to increase, the largest percentage when segregating by business interactions. While exporters of goods or services to China are most likely to decrease their settlement in RMB in the next six months (22%). International companies mainly buying and/or selling to their subsidiaries in China are most likely to remain inert with regards to RMB trade settlement and settle trades by the same amount (70%). A Hong Kong-based financial controller that buys and sells to his subsidiaries in China explains why he thinks his trade settlement will remain the same: "*All our sales and all our costs are in China, so it's denominated in RMB. So whether the RMB appreciates or depreciates has no impact on our business*."

Reduction of Foreign Currency Debt

- The depreciation in the currency may also have caused companies that are based in China or those with their main business in the mainland to reduce their holdings of foreign currency debt particularly the US dollar. Companies with US dollar debt could stand to lose out as the value of their interest payments on the debt have increased.

- Four Hong-Kong based subsidiaries of large China corporates that mainly buy and sell to their China subsidiaries volunteered this information when asked about how they were more actively managing their RMB FX risk. One financial controller explained: "*We plan to hedge maybe using FX forwards and swaps. We may also reduce our borrowing in USD.*" Another financial general manager clarified: "*We are trying to minimize the risk associated with borrowing by minimizing our USD or foreign currency borrowing and hedging more.*" A third when asked for her main interactions with China gave more details: "*We are a holding company that has several subsidiaries and all of them do their main business in the mainland. To us RMB is not a foreign currency; it's our local currency, our functional currency. Our foreign currency is in debt, so we've reduced our foreign currency debt.*"

APPENDIX

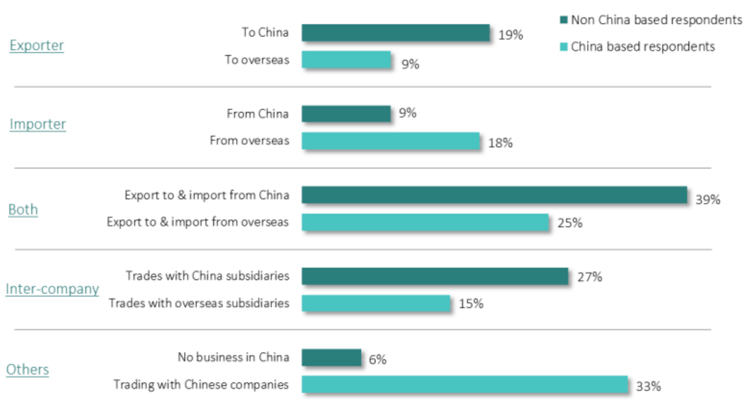

Figure 17. Main business interactions, China-based and non-China based respondents

The largest percentage of non-China based respondents are both importing from and exporting to China (39%). While the largest percentage of China-based respondents are trading with domestic companies within the country (33%).

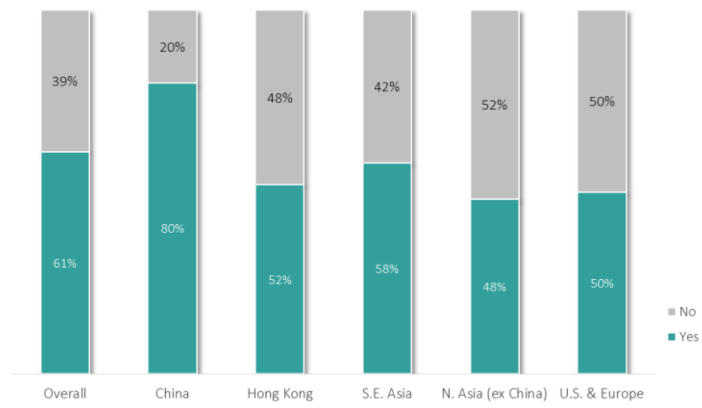

Figure 18. Whether or not firms are more actively managing their RMB FX risk, by company location

China-based firms clearly tend to want to more actively manage their RMB FX risk as compared to foreign firms (80%). Among the overseas companies, North Asian firms were least likely to want to more actively manage their RMB FX risk (48%).

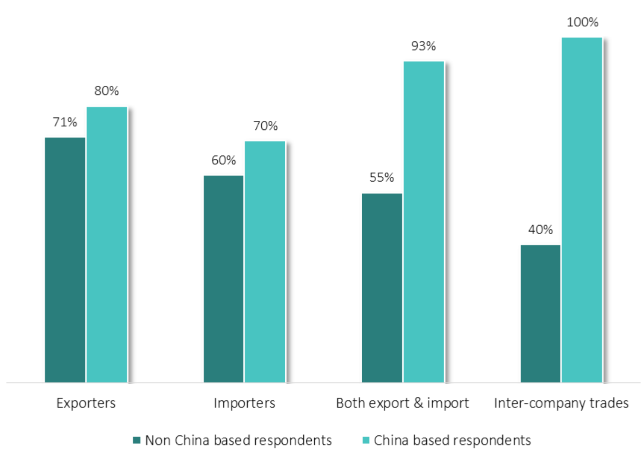

Figure 19. Whether or not firms are more actively managing their RMB FX risk, by business type

100% of China-based respondents that trade with their own subsidiaries prefer to more actively manage their RMB FX risk. The largest percentage of non-China based respondents that were more actively managing their risk were exporters of goods or services to mainland China (71%).

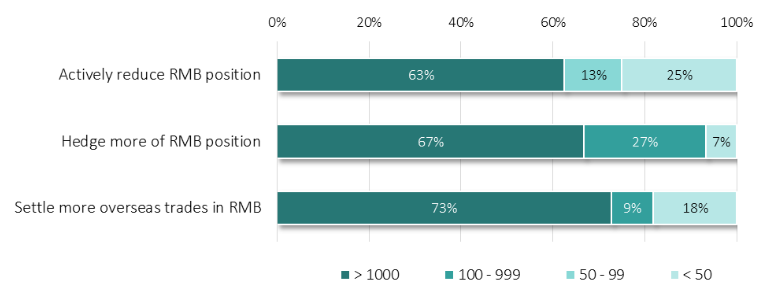

Figure 20. Approach to more actively managing their RMB FX risk, China-based respondents, by company size

73% of firms that want to settle more of their trades with overseas companies in RMB are large companies with more than 1000 employees. A quarter of China-based firms that want to actively reduce their RMB liquidity/position by converting it to other foreign currencies are small companies with less than 50 employees.

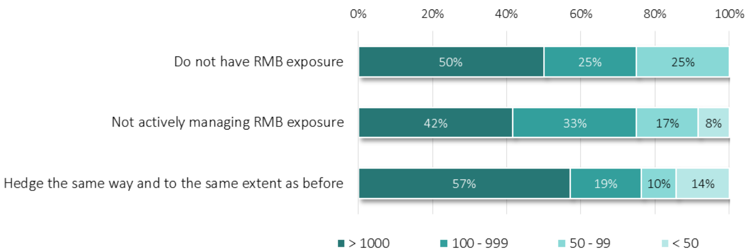

Figure 21. Reason why respondents are not actively managing their RMB FX risk, non-China based respondents, by company size

57% of companies that hedge the same way and to the same extent as before are firms with more than 1000 employees. A third of firms that are not actively managing their RMB exposure have between 100 to 999 employees.

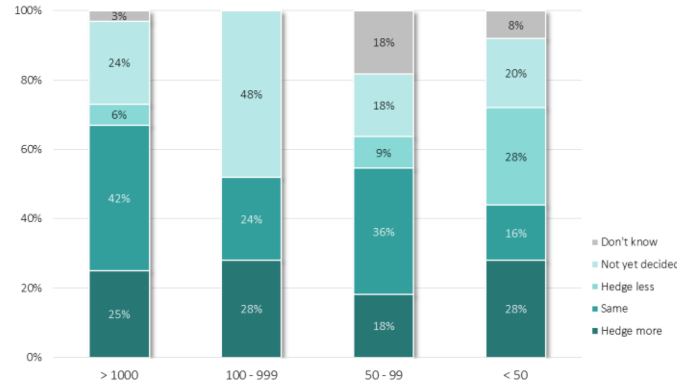

Figure 22. Company intention with regards to hedging going forward compared to before Aug 11, by company size

Large firms with more than 1000 employees are more likely to hedge by the same amount (42%). Medium-sized firms with between 100 and 999 employees tend to be undecided (48%).

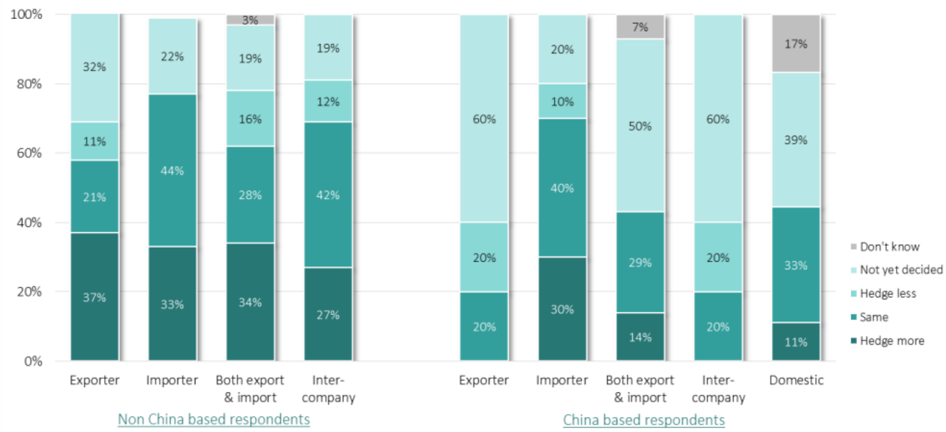

Figure 23. Company intention with regards to hedging going forward compared to before Aug 11, by business type

China-based respondents are compared to non-China based respondents. Among the international firms, 37% of exporters to China are likely to hedge more, the largest percentage among the interaction types. 44% of importers are likely to hedge to the same extent as before; this group is the most inactive. Focusing on the mainland respondents, roughly one third of importers from overseas companies are likely to hedge more, the largest percentage among the different interaction types.

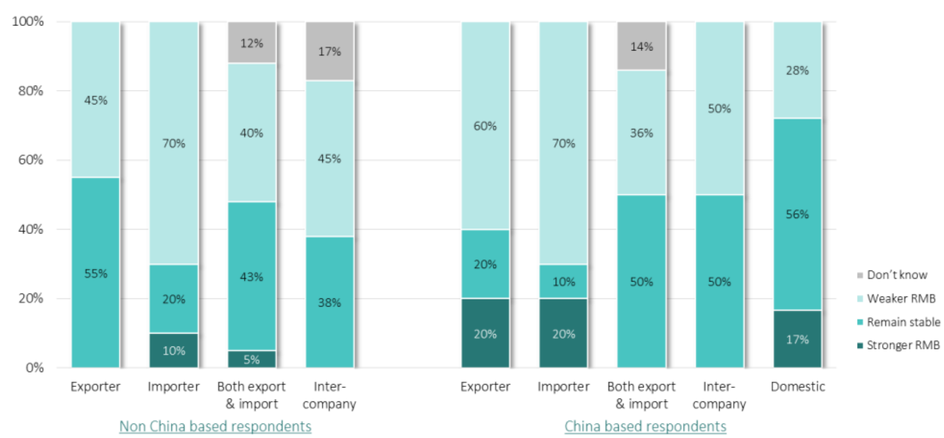

Figure 24. Outlook for USD-CNY in the next three months, by business type

Among international respondents, the largest percentage of importers expect the RMB to weaken (70%). While the largest percentage of overseas exporters expect the RMB to remain stable (55%).

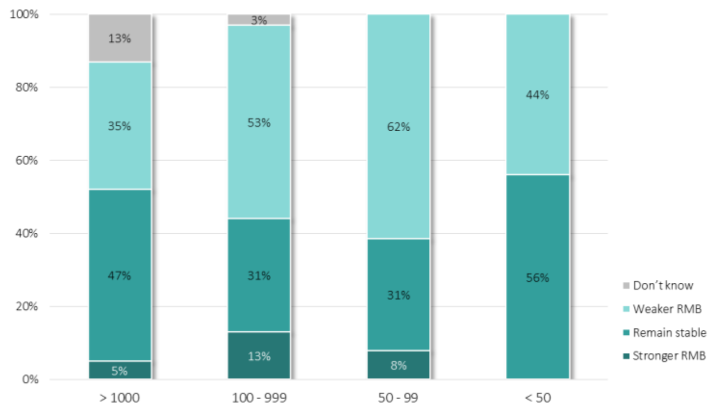

Figure 25. Outlook for USD-CNY in the next three months, by company size

Interestingly, small companies with less than 50 employees are more likely to expect a stable RMB (56%). The majority of slightly larger companies with 50 to 99 employees (62%), on the other hand, expect a weaker RMB.

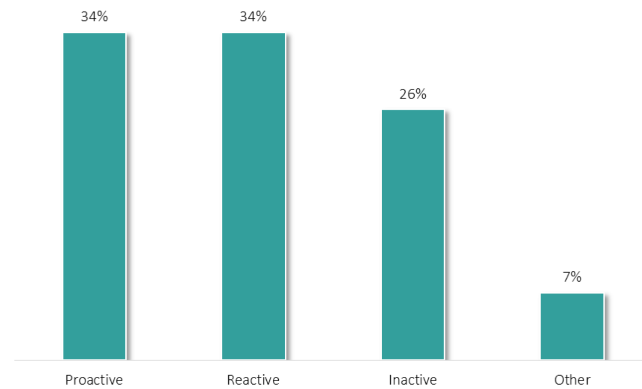

Figure 26. Attitude towards adopting RMB trade settlement

An equal percentage of respondents are both proactive and reactive (34%), 26% are inactive and 7% couldn't categorize themselves in this way and gave an alternate response.

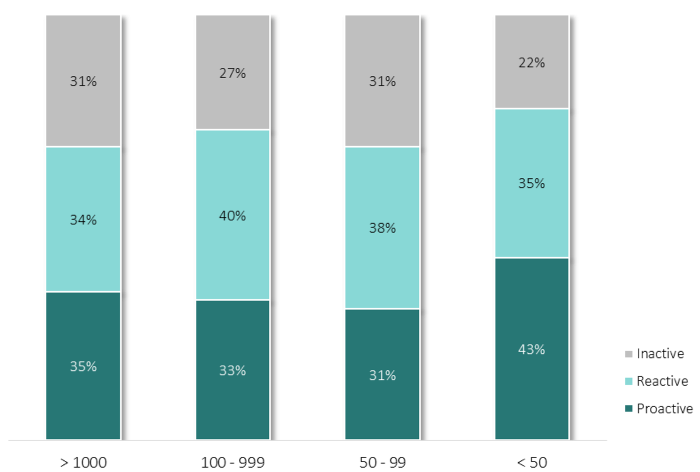

Figure 27. Attitude towards adopting RMB trade settlement, by company size

The majority of firms that have less than 50 employees are proactive (43%). Roughly one third of firms, that have more than 1000 employees and between 50 and 99 employees, are inactive.

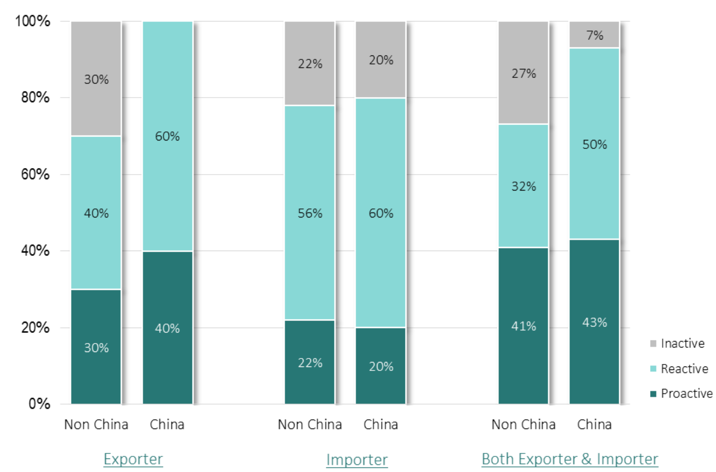

Figure 28. Attitude towards adopting RMB trade settlement, Non China based respondents vs China based respondents, by business type

Firms that are either exporters or importers are most likely to be reactive (regardless of where they are based). Non-China based firms that both import from and export to China, are more likely to be proactive with regards to RMB trade settlement. On the other hand, China-based firms that both import from and export to overseas be most likely to be reactive.

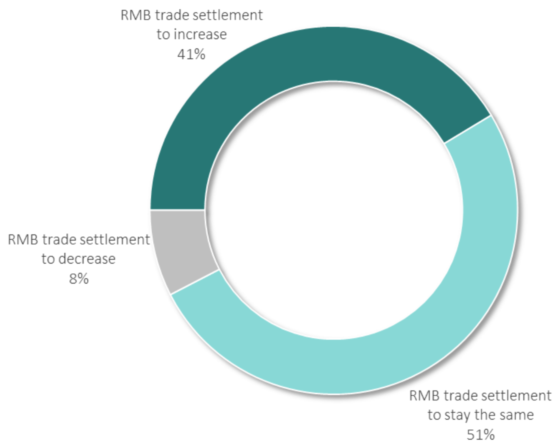

Figure 29. Expected change in RMB trade settlement in the coming six months

The majority of respondents expect their RMB trade settlement to stay the same during the next six months (51%). 41% expect their RMB trade settlement to increase and only 8% expect their volume of trade in the currency to fall.

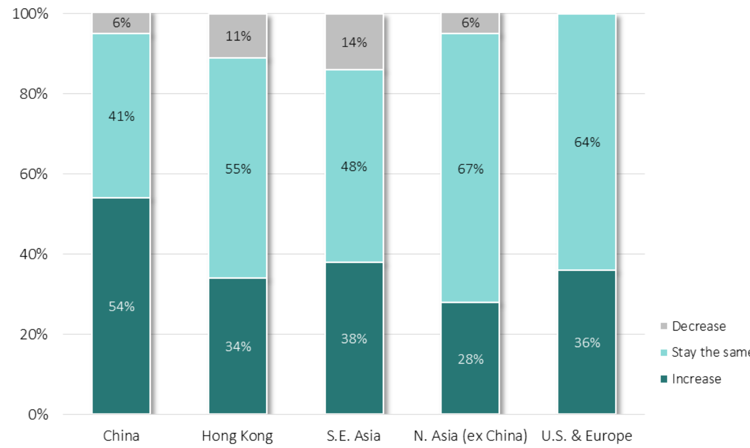

Figure 30. Expected change in RMB trade settlement in the coming six months, by respondent location

China-based companies believe their RMB trade settlement will increase (54%). North Asia-based respondents on the other hand, tend to expect their trade settlement to decrease in the next six months (67%). Among the different regions, firms based in Southeast Asia are more likely than the rest to expect their RMB trade settlement to decrease (14%).

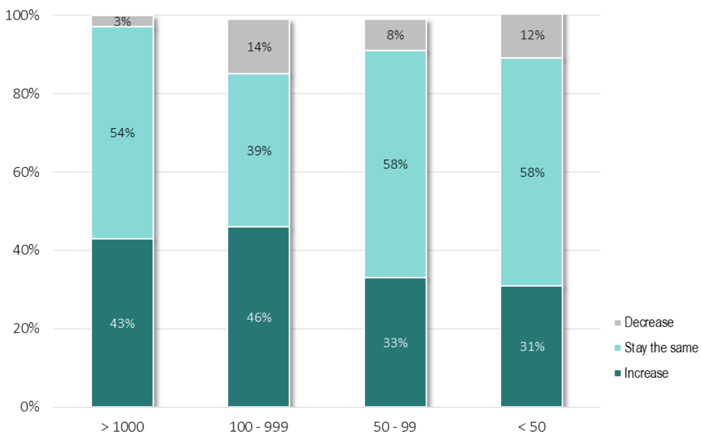

Figure 31. Expected change in RMB trade settlement in the coming six months, by company size

Small firms with fewer than 50 employees are more likely to expect their trade settlement to stay the same in the next half year (58%). Firms with between 100 and 999 employees are the most likely to expect their trade settlement to increase during this period (46%).

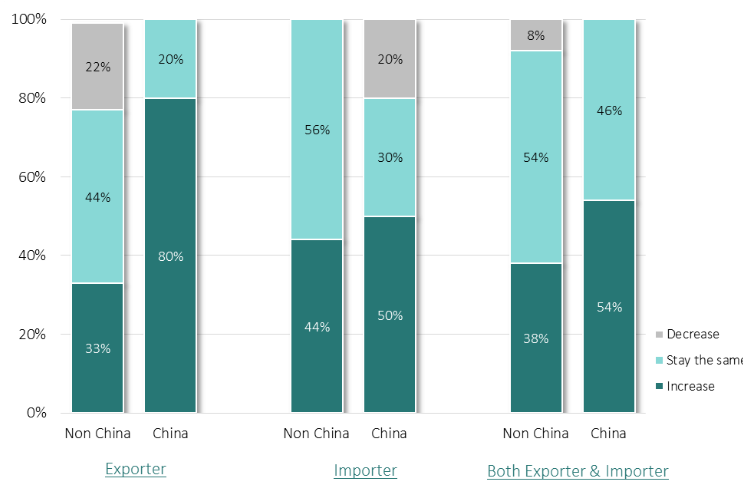

Figure 32. Expected change in RMB trade settlement in the coming six months, non-China based vs China-based, by business type

80% of China-based exporters to overseas expected their RMB trade settlement to increase. For offshore exporters to China, the majority expect their trade settlement in RMB to stay the same (44%), the same is true for overseas firms that are importers from China (56%) and overseas firms that both import from and export to China (54%).

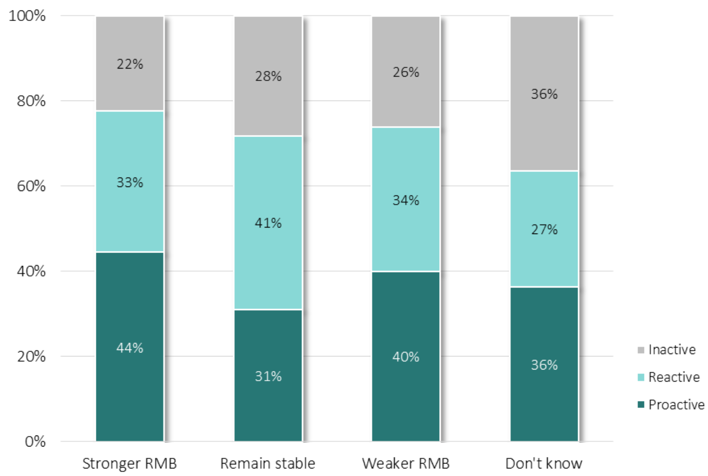

Figure 33. Outlook for the USD-CNY in the next 3 months based on attitude towards adopting the RMB for trade settlement

44% of the firms that expect the RMB to strengthen relative to the US dollar are more proactive with regards to RMB trade settlement. The majority of firms that expect the RMB to remain stable in the next three months (41%) are reactive.

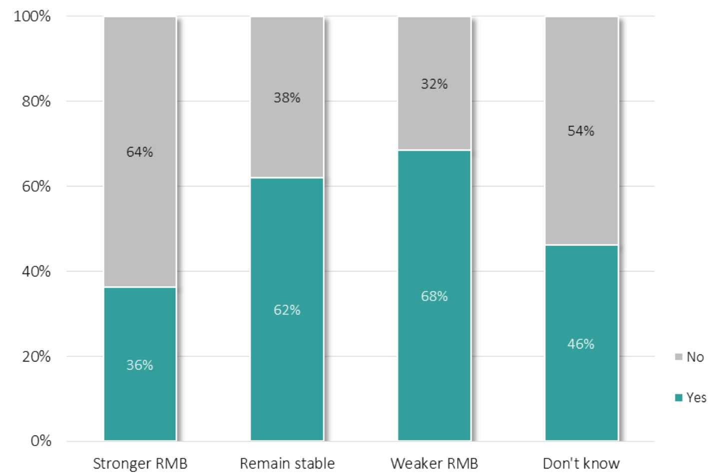

Figure 34. Outlook for the USD-CNY in the next 3 months based on whether or not respondents are more active in RMB FX risk management

Not surprisingly the largest proportion of firms that expect a weaker RMB (68%) are those that are managing their RMB FX risk more actively after the recent volatility. While the largest proportion of firms that expect a stronger RMB are those that are not managing their RMB risk more actively (64%).

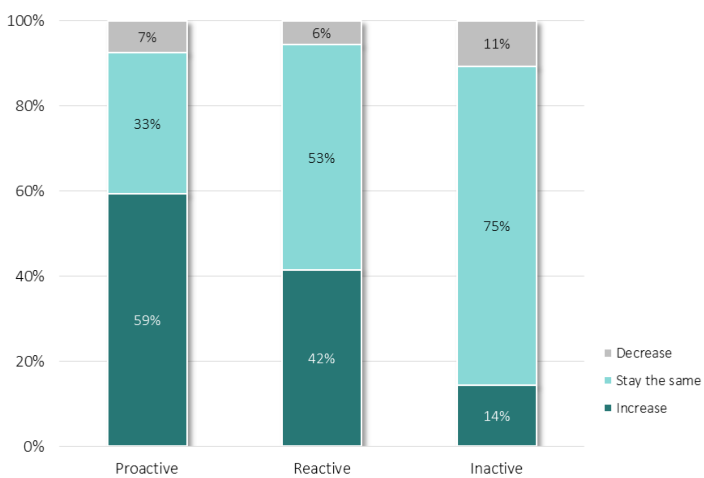

Figure 35. Attitude towards adopting the RMB for trade settlement based on respondents' expected change in RMB trade settlement in the coming 6 months

The largest proportion of firms that are proactive with regards to RMB trade settlement (59%), expect their RMB trade settlement to increase in the next six months. Conversely the largest proportion of firms that are reactive with regards to RMB trade settlement (53%) plan to keep the amount of trade they settle in RMB the same in the next six months.

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Asset Benchmark Research conducts in-depth, product-specific surveys in Asia's financial markets. Part of the group that publishes The Asset magazine, the research team specialises in accessing senior corporate decision-makers and institutional investors to provide accurate quantitative and qualitative data to assist in management decisions.

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