



In association with



# Offshore Renminbi Review 2016



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# INTRODUCTION

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Uncertainty in the offshore Renminbi (RMB) market continued as a theme in 2016 following the August 2015 devaluation in the reference rate. The move had repercussions on currency expectations, capital flows and domestic monetary policy. In this context, Asset Benchmark Research conducted a survey on behalf of Standard Chartered Bank to provide constructive feedback on offshore RMB usage patterns, operational challenges and the outlook for the currency.

The project took place over a 3-week period in August and surveyed 161 treasurers and senior treasury/finance executives from Asia, Europe and the US concerning their usage of and attitude towards the RMB.

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 with China. 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 classified as 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 offered to firms, namely those that have no business or investment in China. This category applied to 13 offshore companies.

The first section of the report focuses on the offshore RMB activities of the core group of 148 respondents that have business or investment in China. The second section refers to the ancillary group of 13 companies.

## METHODOLOGY & RESPONDENT DISTRIBUTION

### Email invitations to take part in the Offshore Renminbi Review

- The on-line questionnaire was sent to finance directors, CFOs, treasurers and senior treasury managers in corporations in China, Hong Kong, the rest of Asia (including Singapore, Malaysia, Taiwan, Thailand and the Philippines) as well as the U.S. and Europe.
- Two language versions were available: English and simplified Chinese.
- Follow-up interviews were conducted with 48 respondents.
- The respondent distribution of the entire sample was 42% from China, 32% from the rest of Asia, 24% from Hong Kong and 2% from the U.S. and Europe.
- 42% of respondents was large companies with more than 1000 employees.

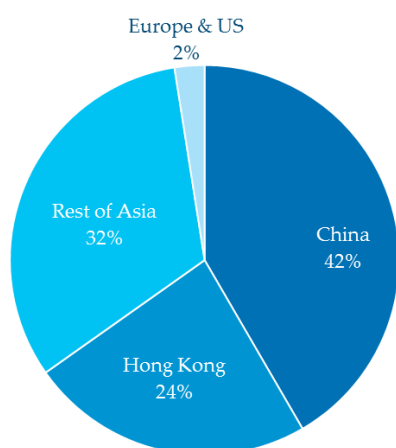


Figure 1. Respondent distribution by location

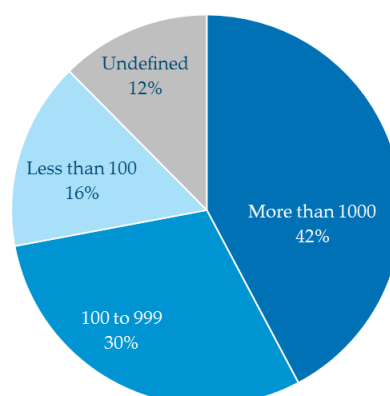


Figure 2. Respondent distribution by company size (number of employees)

- One third of onshore respondents surveyed, the largest proportion, was importing from and exporting to overseas companies.
- The bulk of survey participants based outside of China was involved in buying and/or selling to their China subsidiary (37%).

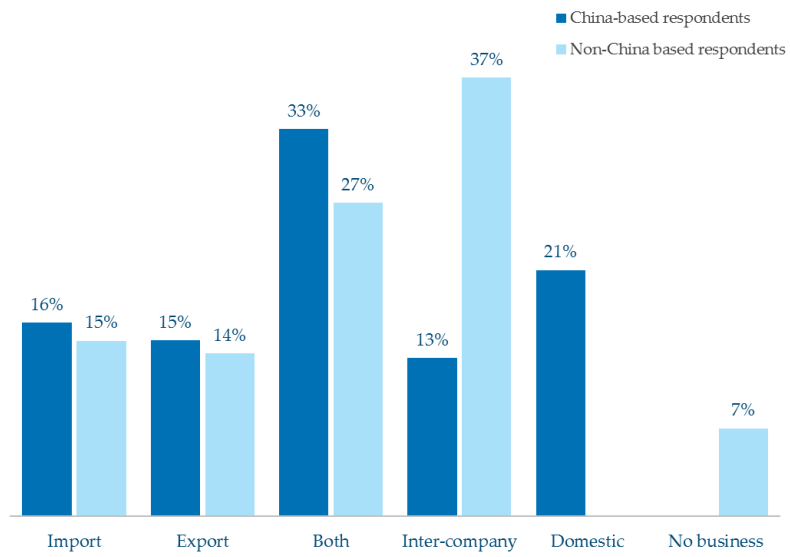


Figure 3. Respondent distribution by main business interaction with China – China-based vs non-China based

- The respondent categorization for the core group of 148 respondents is listed in the table below:

<b>Onshore companies:</b>	<b>67</b>	<b>Offshore companies:</b>	<b>81</b>
Active in offshore RMB activities:	49	Active in offshore RMB activities:	72
Not active or unsure of offshore RMB activities:	18	Not active or unsure of offshore RMB activities:	9

Table 1. Respondent categorization – China-based vs non-China based

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## EXECUTIVE SUMMARY

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- ❖ The most popular offshore RMB products among companies were RMB deposits, cross-border trade settlement and FX transactions. The least popular were offshore RMB bond issuance and financial instruments in CNH.
- ❖ Most firms have maintained the status quo with regards to their activities in offshore RMB products in the past six months and most will not change in the next half year either.
- ❖ The highest proportion of respondents that did increase their use have boosted their involvement in cross-border trade settlement and FX transactions in the past six months. The bulk of those that decreased it have lowered their involvement in offshore RMB deposits and FX transactions in the last half-year.
- ❖ Survey participants preferred to increase their use of cross-border trade settlement and FX transactions in RMB booked outside of China in the next half year across the different product types.
- ❖ In terms of challenges to RMB internationalization, China-based respondents were most concerned about the country's uncertain economic outlook while firms outside of China were more worried about the unclear communication on China's RMB policy direction.
- ❖ The motivators cited by companies that would encourage them to start or increase their current usage of RMB centred upon clearer monetary policy or communication on policy direction from the Chinese government, the willingness of counterparties to settle in RMB and the firms' business need.
- ❖ Although opinions are divided on the outlook for the RMB versus the USD, more than half of the survey participants expect it to depreciate. It is more probable for onshore respondents to expect the currency to weaken than their offshore counterparts.
- ❖ Onshore respondents tend to be optimistic with regards to China's One Belt, One Road policy while offshore respondents say it is too early to conclude.

## SECTION 1 – CORE RESPONDENT GROUP

### CURRENT & PREDICTED USAGE OF OFFSHORE RMB PRODUCTS

Companies tend to be more involved in offshore RMB deposits, cross-border trade settlement and FX transactions. They are least involved in offshore RMB bond issuance and financial instruments in CNH. This trend holds true for the past six months and next half year as well.

- Companies were asked about their involvement in six offshore RMB products namely deposits, cross-border trade settlement, FX transactions, loans, bonds and financial instruments in CNH. Among the core group of 148 respondents, 83% have current or planned activities in these products.
- The largest proportion of firms have maintained the status quo with regards to their activities in offshore RMB products in the past six months and are not likely to change in the next half year either.

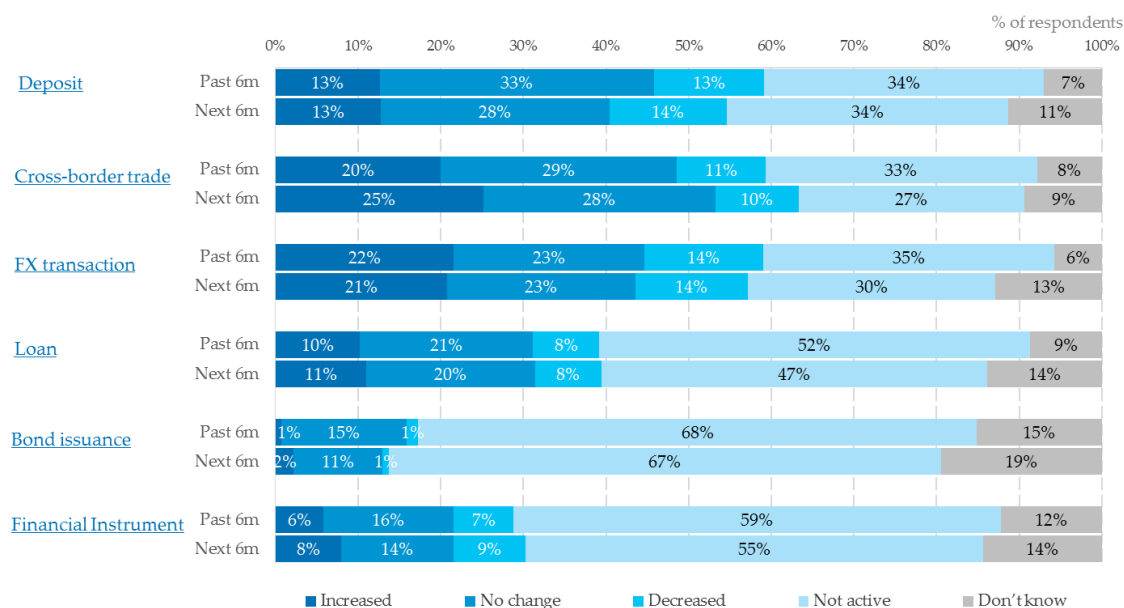


Figure 4. Offshore RMB product usage in the past and next six months – respondents with China activities

- Respondents that did increase their use were more involved in cross-border trade settlement and FX transactions in the past six months. Those that decreased it lowered their involvement in offshore RMB deposits and FX transactions the most in the last half-year.
- In the last six months, offshore survey participants tend to have been involved in offshore RMB deposits, cross-border trade settlement, FX transactions, bond issuance and financial instruments in CNH more so than onshore respondents.

- China-based respondents are more likely to have been involved in offshore RMB loans in the last six months than those based outside of China. In the next half year the same trend holds true.

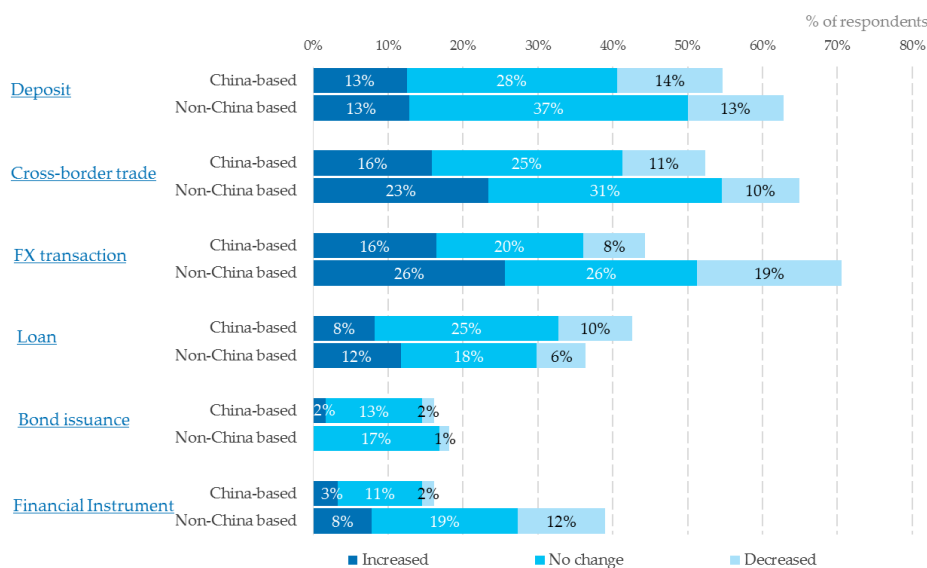


Figure 5. Offshore RMB product usage in the past six months – respondents with China activities, China-based vs non-China based

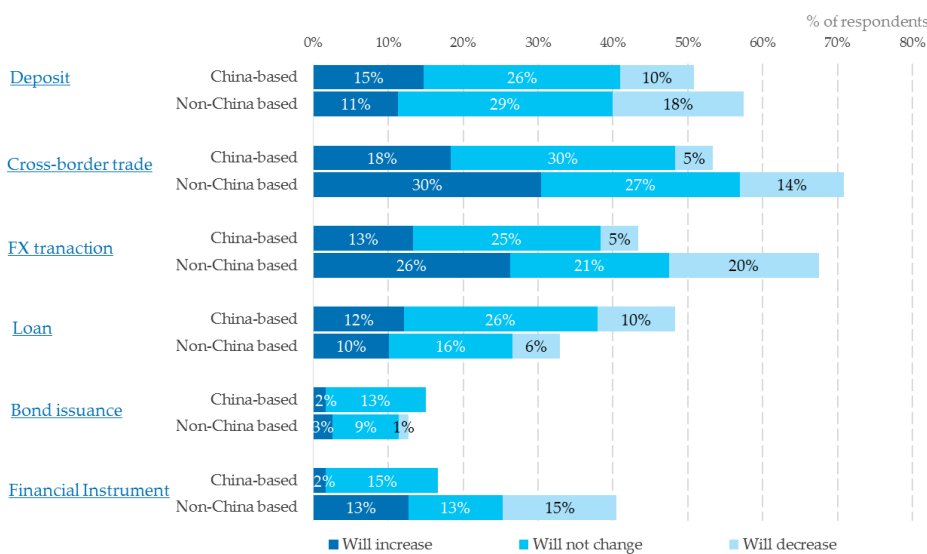


Figure 5. Offshore RMB product usage in the next six months – respondents with China activities, China-based vs non-China based

## Deposits

- Roughly one third (34%) of core respondents were not involved in RMB deposits held outside mainland China in the past six months. When asked if he was involved a Hong Kong-based treasurer explained that the instability of the currency deterred him: “No, we liquidated our position around two years ago because of the fluctuation of the currency. It was difficult to be in that space.” A similar proportion had not changed the level of offshore RMB deposits held in the last half year while 13% of respondents had increased their holdings and the same percentage had decreased them. A Hong Kong-based finance director that decreased the level of deposits held in the past half year also relayed his concerns about the currency: “You know it’s kind of unstable at the moment.”

## Views from onshore versus offshore companies

- In the past six months, offshore companies had a higher chance of being involved in offshore RMB deposits than their onshore counterparts (63% compared to 55%). In the next half-year companies based outside of China are still more inclined to use RMB deposits held outside of mainland China than companies based in the country.

## By different types of business interactions

- In terms of business interactions, 80% of onshore firms that export to overseas companies were involved in RMB deposits held outside mainland China in the past six months. The largest percentage among the different groups. Firms that both import from and export to overseas companies were the most inclined to have increased their offshore RMB deposits in the past six months (24%).
- In the next six months, the same proportion of onshore exporters than in the last half-year (80%) intend to get involved in offshore RMB deposits. Again, this is the largest proportion among the groups according to business interactions.
- For respondents based outside of China, firms that both import from and export to mainland China have been the most involved in offshore RMB deposits in the last half year (74%). One quarter of offshore importers from China increased their deposits in the past six months. This represents the largest proportion to do so among the different business interactions. In the next six months, offshore respondents that import from mainland China were also the most likely to increase their use of offshore RMB deposits (29%) among the respondent groups.

## Cross-border trade settlement

- There is no one dominant trend in cross-border trade settlement. One fifth of respondents in the core group have increased their activity in the past six months. Another 29% showed no change in in the last half year while 11% were settling less trades in RMB. However the six-month horizon is more nuanced with one in four companies intending to increase usage in the next half year. This is the highest percentage of respondents in the core group intending to increase their use among all the products covered.

## Views from onshore versus offshore companies

- Companies based outside of China (64%) were more inclined to engage in cross-border trade settlement in RMB in the past six months compared to onshore companies (52%). The same is true for the next half year also.
- Nearly one quarter (23%) of offshore respondents had increased their involvement in cross-border trade settlement compared to only 16% of onshore respondents in the past six months. In the next six months, the onshore and offshore percentages show an even greater divergence with 18% of the China-based respondents expecting an increase in RMB trade settlement compared to 30% of respondents outside of China. A larger proportion of firms based outside China however also expect to decrease their cross-border trade settlement (14%) compared to onshore companies (5%) in the next six months.



- A Singapore-based head of treasury who saw an increase in his use in the last half year elaborated: “We are getting a better understanding of how it all works – the cross border activities. And I think also with our supply chain on the buy side or sell side our clients and suppliers get a better understanding of the onshore versus offshore possibilities. So I guess it’s more about getting it out there, so in that sense it works a little bit better now.” A VP of corporate finance based in Malaysia was also quite optimistic, basing his decision to increase in the next six months on the exchange rate: “I foresee an increase because I believe the RMB is more stable compared to the USD.”
- 14 survey participants based outside of China that increased their level of cross-border trade settlement in the past six months, will do so in the next half-year also. This compares to only eight onshore respondents. However the number of treasurers that decreased level of cross-border trade settlement in the past six months and will also decrease it in the next half-year is higher for the offshore firms (8 as compared to only 2 onshore firms).

### By different types of business interactions

- Most China-based respondents that both imported from and exported to overseas companies were involved in cross-border trade settlement in the past six months (among the business interaction types). 63% of this group reported use. This is an obvious outcome considering these firms would be most inclined to have two-way flows of the currency. Domestic firms that mainly buy and sell to domestic Chinese companies were the least likely to be involved in cross-border trade in the last half year (36%). Again this makes sense, as this group would probably have payables and receivables in RMB.

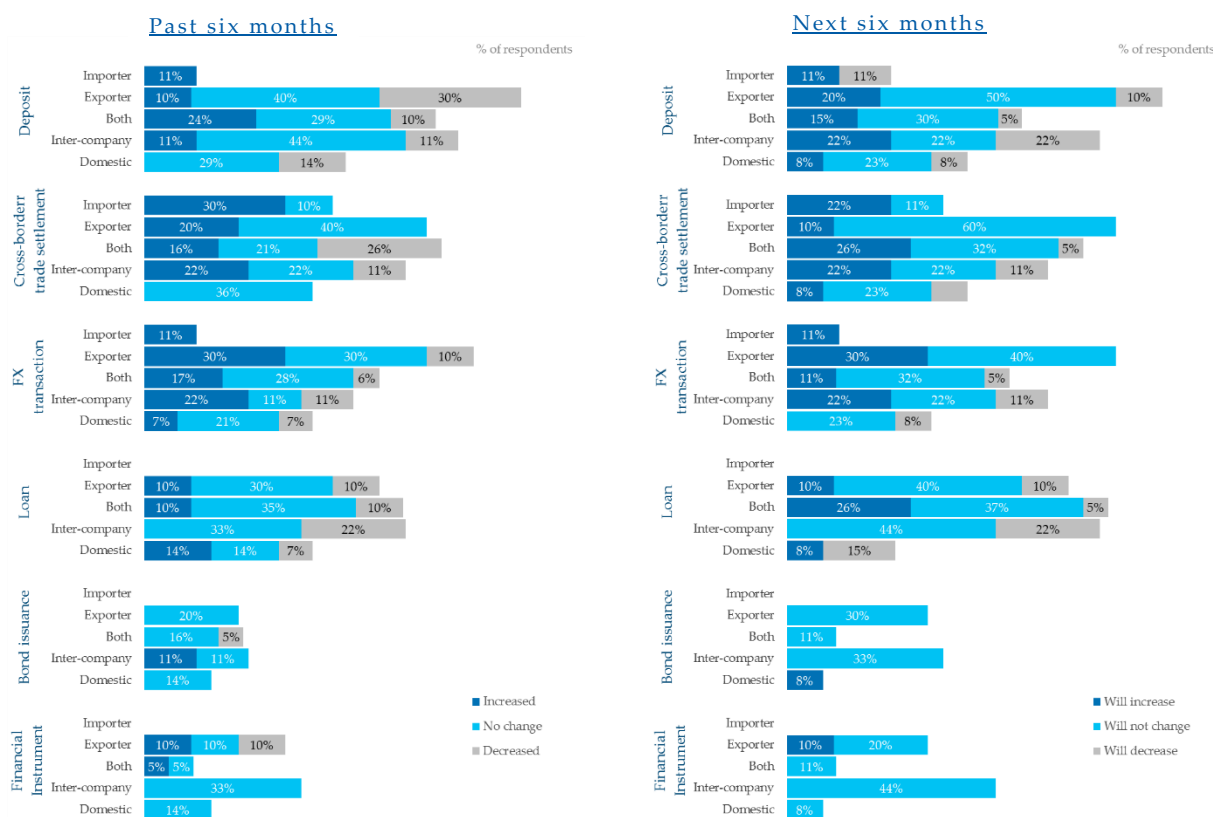


Figure 6. Offshore RMB product usage in the past and next six months – China-based respondents with China activities, by business interactions

- In the next six months, onshore exporters to overseas companies are the group that are most inclined to be involved in cross-border trade (70%). Only 33% of China-based importers from overseas companies expect to be involved in cross-border trade over this period, which is the lowest percentage according to business interactions.
- Outside of China, more than four-fifths (83%) of respondents who both import to and export from mainland China reported being involved in cross-border trade settlement in the past six months. Among the business interaction types, this group was the most involved. Intercompany firms that mostly buy and/or sell to their China subsidiary were the least likely to be involved in cross-border trade during this period (47%).
- In the next half year offshore firms that import from mainland China are the most inclined to get involved in cross-border trade (93%). As in the past six months, intercompany firms that mostly buy and/or sell to their China subsidiary are the group that expects to be involved in cross-border trade the least during this period (50%).

## FX transactions

- In the past half year, 22% of the core group of respondents increased their level of FX transactions in RMB booked outside mainland China. Among the product types, this was the largest proportion that saw an increase. Another 23% maintained the level of their FX transactions in RMB and 14% reduced them.

### Views from onshore versus offshore companies

- It is more probable for companies based outside of China to have been involved in FX transactions in RMB than their onshore counterparts in the past half year (71% of the former group as compared to 44% of the latter).
- Over a quarter of offshore respondents had increased their involvement in FX transactions in RMB booked outside China in the past six months (26%) compared to only 16% of onshore respondents. Among respondents based outside of China, this was the highest proportion that saw an increase over this period across the different product types. When asked about their change in FX transactions, a Singapore-based country treasurer said: *“Increased. Our manufacturing entities have come online in China so now there is a need. And it’s becoming a more traded currency.”* Another head of treasury based there also referenced a need: *“It has increased due to the increase in business.”*
- In the next six months, the same proportion of offshore respondents as in the last half-year, 26%, expect to see an increase in their use of FX transactions in RMB booked outside of China. However, one-fifth of firms based outside of China expect their FX transactions in RMB to decrease. A Hong Kong-based treasurer was pessimistic: *“Actually the market is quite depressed right now, so we don’t see any improvement in the next six months.”*
- 16 offshore companies that increased their level of FX transactions in RMB in the past six months will do so in the next half-year as well. This compares to only 8 respondents based in China. As with cross-border trade settlement however, the number of treasurers that decreased their level of FX transactions in the past six months and will also decrease it in the next half-year is also higher for the firms outside of China (12 as compared to only 2 onshore firms).

## By different types of business interactions

- Onshore respondents that exported to overseas companies were the most inclined to get involved in FX transactions in RMB booked outside of China in the past half year (70%), while importers from overseas were the least inclined during this period (11%). In the next half-year, exporters were also most likely to be involved in RMB FX transactions and importers least likely.
- 83% of importers based outside of China were involved in FX transactions in the past six months, the highest among the groups by business interactions. While 60% of intercompany firms that mostly buy and/or sell to their China subsidiary were involved (the lowest among the groups). In the next half year, firms that both import from and export to the country are the highest percentage that will get involved in FX transactions (83%). During this period, as in the past six months, intercompany firms show the lowest percentage of involvement (53%).

## Funding

- Roughly three-fifths (61%) of the core group were not active or did not know if they were involved in RMB loans held outside of mainland China in the past six months. In terms of offshore RMB bond issuance such as CNH or CNT bonds, 83% were either not active or unsure whether they were involved during this period. The Singapore-based treasurer of a multinational headquartered in China stated: “We haven’t been active in the last six months. We were involved in loans and bonds more than a year ago.” Indeed the popularity of offshore RMB bonds has been waning. The treasurer of a Hong Kong-based firm plainly stated: “In the past there were a lot of dim sum bonds but right now no-one will do it.”

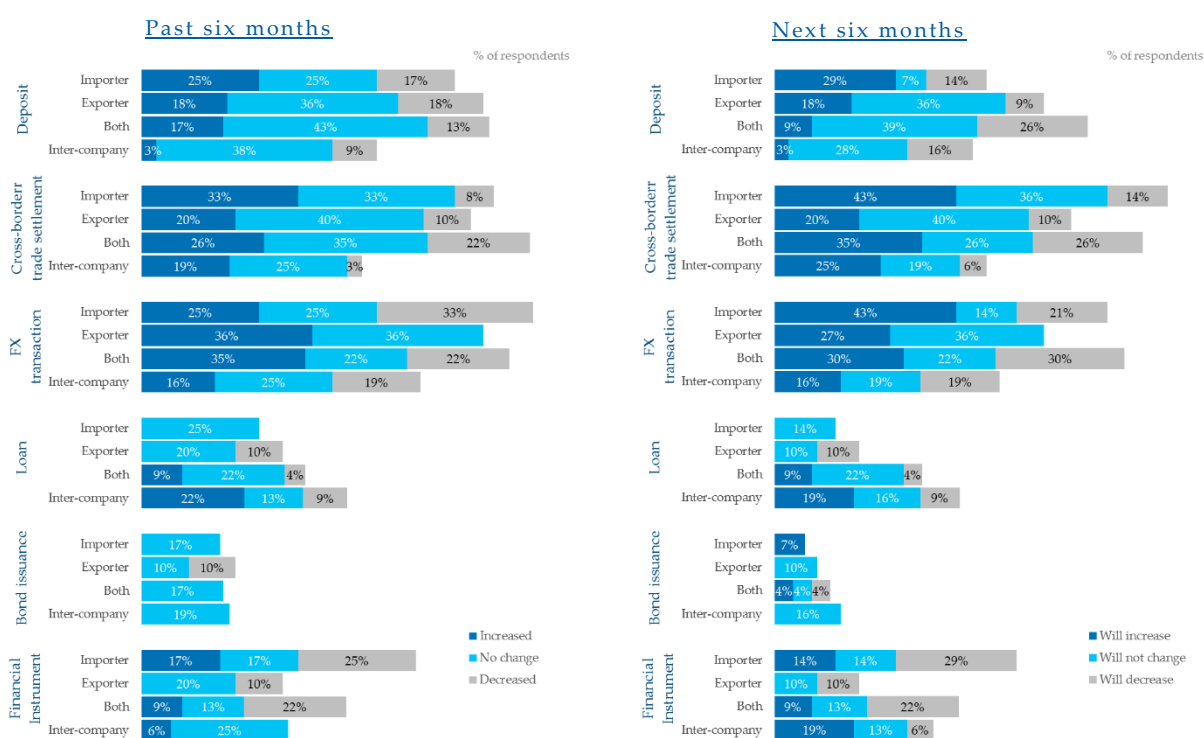


Figure 7. Offshore RMB product usage in the past and next six months – non-China based respondents with China activities, by business interactions

## Views from onshore versus offshore companies

- Onshore companies were more likely to be involved in RMB loans than offshore respondents. 43% of China respondents were involved compared to 36% of non-China based respondents. The manager of a China-headquartered firm gave his explanation: *"We will increase our RMB loans in the future because the interest rate of CNH is lower than CNY, so the financing cost is advantageous in offshore markets."*
- Offshore companies were slightly more inclined than their onshore counterparts to be involved in bond issuance in RMB outside of mainland China in the past six months (18% compared to 16%). In the next half year, China-based respondents intend to be more involved than firms based outside of the country.

## Financial instruments in CNH

- In the last six months, 71% of core respondents were either not active or not aware if they were involved in financial instruments in CNH. A similar percentage expressed these views for the next half year. According to one finance director based in Hong Kong, the weakening of the RMB has made these hedging instruments less attractive for him: *"Because of the depreciation of the RMB it's not necessary to book it anymore."*

## Views from onshore versus offshore companies

- Nearly 40% of respondents based outside of China have been involved in financial instruments in CNH in the last six months as compared to only 16% of onshore companies. These proportions stay roughly the same according to respondents' expectations for their involvement in the next six months.

## TRADE SETTLEMENT ATTITUDES

Onshore respondents are more likely to have a proactive attitude towards adopting the RMB for trade settlement while offshore respondents tend to be more reactive.

- Given the devaluation of the RMB, respondents were asked to describe their attitude towards adopting the RMB for trade settlement as proactive, reactive or inactive.
- Overall, the largest percentage of core companies (36%) were inactive and therefore did not intend to settle any trades in RMB. Less than one-third (30%) were proactive and request counterparts to switch to RMB in order to gain benefits from managing RMB FX exposure outside China at better rates. The lowest proportion, one in four, was reactive thus switching to RMB when their counterparts request them to use RMB for trade settlement.

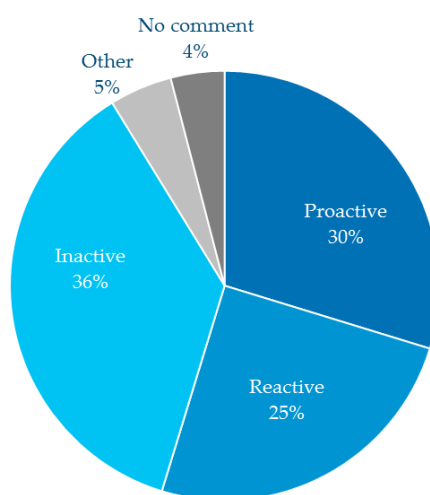


Figure 8. Attitude towards adopting RMB for trade settlement – respondents with China activities

### Views from onshore versus offshore companies

- Unsurprisingly, companies based in China are more proactive with regards to RMB trade settlement (39%). Nearly one-quarter (24%) of onshore respondents were inactive and 21% were reactive.
- The finance head of a China-headquartered firm elucidated: “We are inclined to use the RMB for trade settlement...so that we can avoid currency risk.” The onshore treasury manager of a Europe-headquartered MNC also described his attitude: “Proactive. We try to promote trade settlement in RMB. Specifically, we will reflect to our management the advantages of trade settlement in RMB. One reason is offshore RMB is not controlled by the central bank so it is convenient for risk management. However, our counterparties are somewhat resistant to trade settlement in RMB. In other words the RMB is not widely accepted in the cross-border business because they expect that the RMB will continue to depreciate in the foreseeable future.”

The hindrance of counterparts being reluctant to settle in RMB is explored in the section titled ‘Challenges and Motivators’.

- Nearly half (47%) the companies based outside of China did not intend to settle trades in RMB and more than one-quarter (28%) were reactive. Only 22% of offshore respondents were proactive with regards to RMB trade settlement. The treasurer of a Europe-based multinational in Singapore plainly explained his stance: *“Reactive. It’s far easier to settle in USD.”*

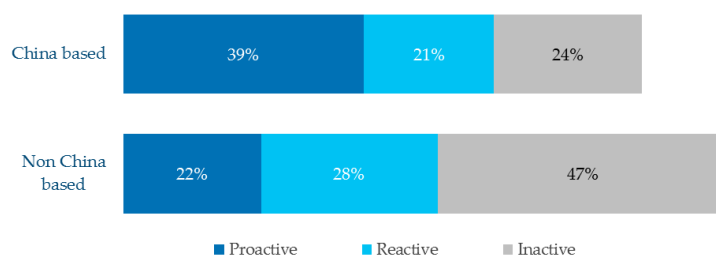


Figure 9. Attitude towards adopting RMB for trade settlement – respondents with China activities, China-based vs non-China based

## Comparing views from 2016 against 2015

- In the ‘Renminbi in 2015’ report, respondents were asked the same question about their attitude towards adopting the RMB for trade settlement.
- As in 2016, the highest proportion of China-based respondents last year was proactive with regards to RMB trade settlement (43%). Nearly 40% were reactive and only 16% were inactive. However this year 21% of onshore survey participants were reactive and about one in four were not settling trades in RMB. The data suggests a shift away from China companies denominating trades in their currency possibly due to the instability and weakening of the RMB. When asked what would encourage her use of RMB, an onshore treasury manager that reported being inactive said: *“When I see the RMB appreciate in the future, or if the RMB is stable, we would be willing to use it for trade settlement.”*

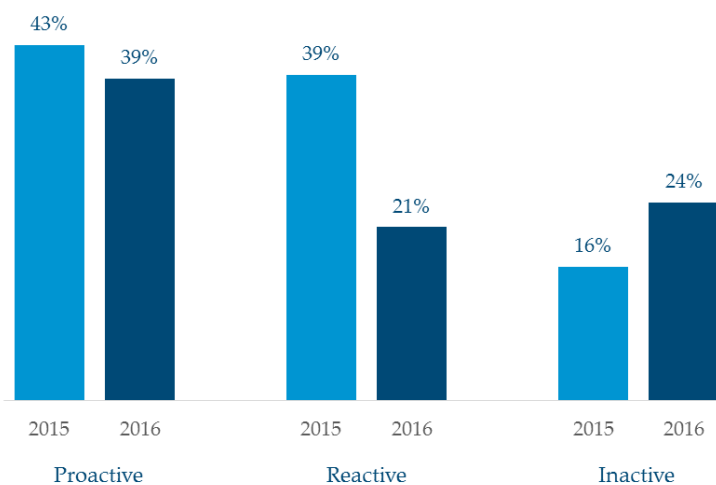


Figure 10. Comparison on adopting RMB for trade settlement – China-based respondents, 2015 vs 2016

- Last year survey participants that were based outside of China were quite evenly split in their views. 31% of respondents were inactive and the same proportion was reactive. They were least likely to be proactive (29%) however not by a large margin. In 2016 more respondents were still reactive (28%) than proactive (22%); however nearly half the offshore treasurers surveyed was inactive in terms of RMB trade settlement. The change in sentiment by offshore respondents could also be attributed to the volatility of the currency however other factors such as clarity on monetary policy or business need could also hold true. A Singapore-based financial controller that said he was inactive explained what would motivate him to settle trades in the currency: *“We currently don’t have a lot of Chinese business, so mainly if our business increased in China.”* In the ‘Challenges and Motivators’ section, the factors encouraging survey participants to start using or increase their use of RMB are discussed in greater detail.

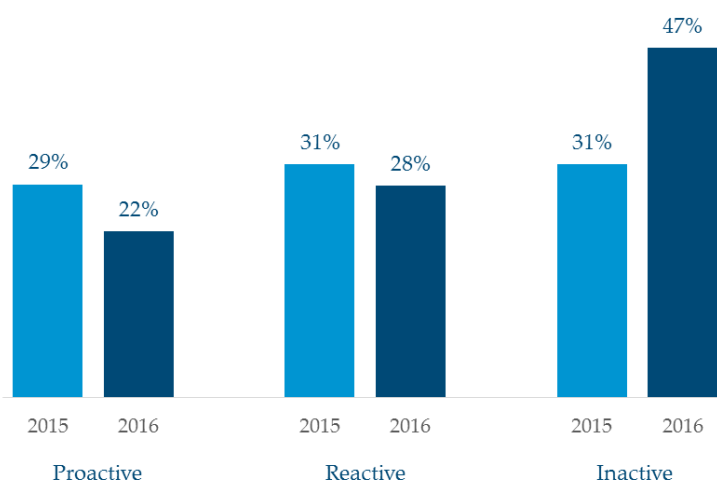


Figure 11. Comparison on adopting RMB for trade settlement – non-China based respondents, 2015 vs 2016

## By different types of business interactions

- Half the onshore companies that both import from and export to overseas companies was proactive, the largest proportion based on their business interactions. Companies based in China that import from overseas tend to be reactive (42%). The bulk of firms that mainly bought and sold to their overseas subsidiary were inactive (50%).
- 43% of respondents based outside of China that imported from the country were proactive, the largest percentage among the different types of business interactions. Given the general consensus is that the currency will depreciate, it is probable they’d rather pay their suppliers in RMB, as the trade terms are more favourable. A finance manager for a Europe-headquartered firm based in Hong Kong explained: *“From my perspective the depreciation of the RMB will translate into cheaper imports for me.”* When asked what would encourage him to use the RMB more, an offshore finance director importing from the country said: *“Trade with China.”*
- Exporters to mainland China tend to be more reactive (36%). This is a reasonable outcome if the company produces outside of China, with production costs in a foreign currency, but sells within China. A Hong Kong-based treasurer of a company that exports to China relayed: *“We won’t actively propose to receive the RMB. It’s more reactive.”*

- Firms that were buying and selling to their China subsidiary had the highest chance of being inactive (61%). Perhaps the higher policy uncertainty, currency volatility and restrictions on the capital account have discouraged survey participants with inter-company transactions (both within and outside China) from dealing in the RMB entirely.

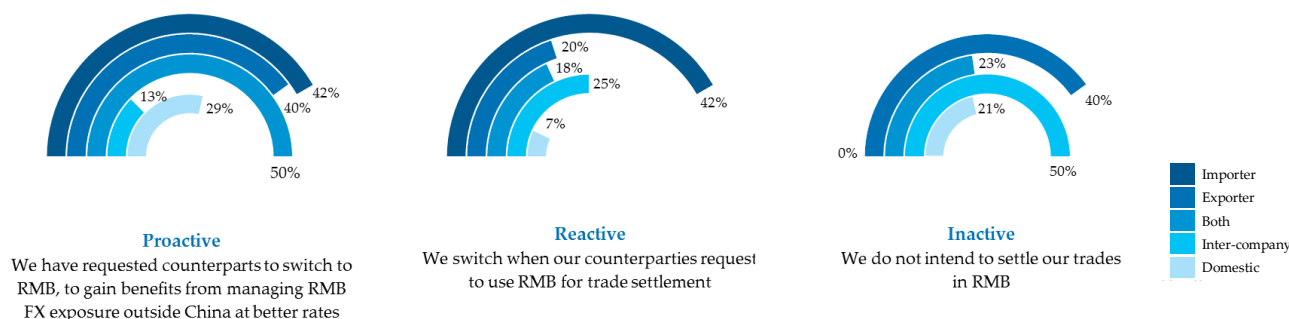


Figure 12. Attitude towards adopting RMB for trade settlement – China-based respondents, by main business interactions

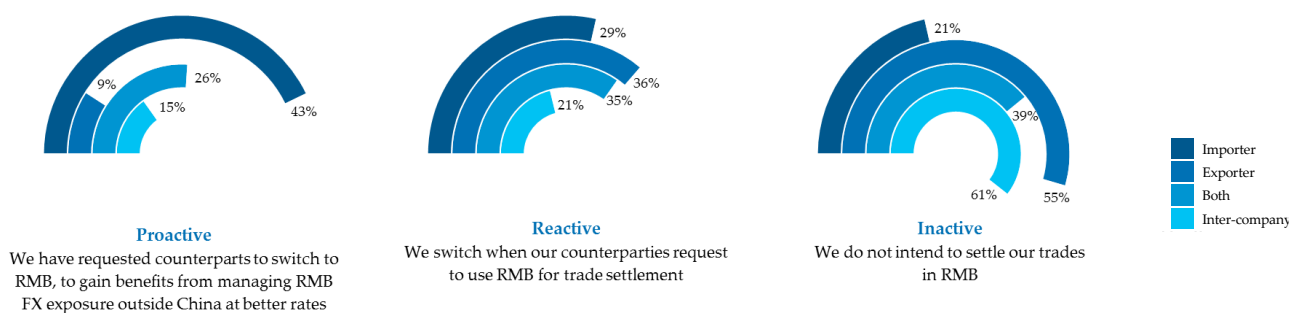


Figure 13. Attitude towards adopting RMB for trade settlement – non-China based respondents, by main business interactions

### Comparing views from 2016 against 2015

- Since last year, the proportion of onshore importers from overseas that reported being proactive increased from 20% to 50%. Considering this group has revenues in RMB, it is probably easier for them to settle expenses in the same currency. Given the weakening of the currency, this can also allow them to reduce their FX risk.
- In 2015, 40% of China-based exporters were proactive and three in five exporters were reactive. This year, while the proportion of proactive survey participants has remained the same at two-fifths, respondents have shifted away from a reactive stance and are more likely to be inactive (40%). Given the strengthening USD it makes sense for exporters to not want to settle trades in RMB.



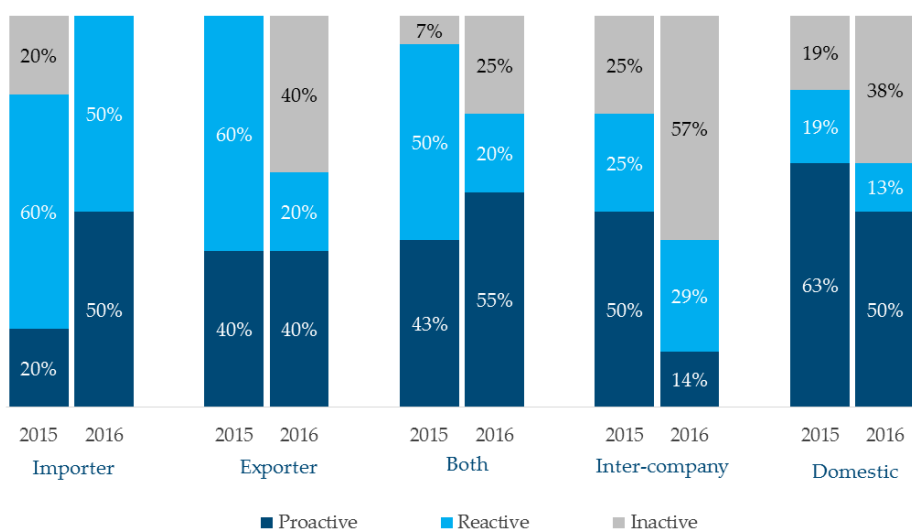


Figure 14. Comparison on adopting RMB for trade settlement – China-based respondents, by main business interactions, 2015 vs 2016

- Looking at respondents based outside of China, overseas importers have become more proactive in the past year (an increase of 22% to 46%). On the other hand, offshore exporters tend to be less proactive and more inactive than in 2015 (the increase in those that reported they were inactive was from 30% to 55%).

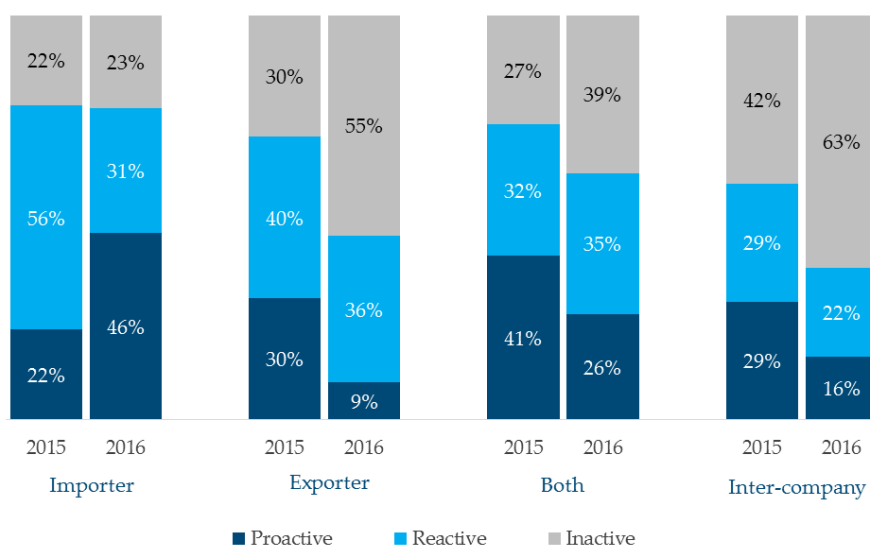


Figure 15. Comparison on adopting RMB for trade settlement – non-China based respondents, by main business interactions, 2015 vs 2016

## CHALLENGES & MOTIVATORS

### CHALLENGES

In terms of challenges to RMB internationalization, China-based respondents are most concerned about the country's uncertain economic outlook while firms outside of China are more worried about the unclear communication on China's RMB policy direction.

- Firms were asked to name the challenges they saw to the adoption of RMB internationally. Overall, the core group was most concerned about the uncertain economic outlook of China (48%), unclear communication on China's RMB policy direction (47%) and the depreciating trend of the RMB (38%).
- More than one-quarter of core respondents (27%) suggest a challenge to the adoption of the RMB internationally is that counterparts are reluctant to settle in RMB. The Singapore-based executive director in treasury of a multinational explained: *"The main reason why people are not using the RMB is that it's not internationally accepted by counterparts. So when you go into trade everybody talks about dollar pricing, dollar invoicing, nobody talks about the RMB pricing or invoicing. So if counterparts or businesses don't move in that direction then we wouldn't create an invoice if a company doesn't want it."*

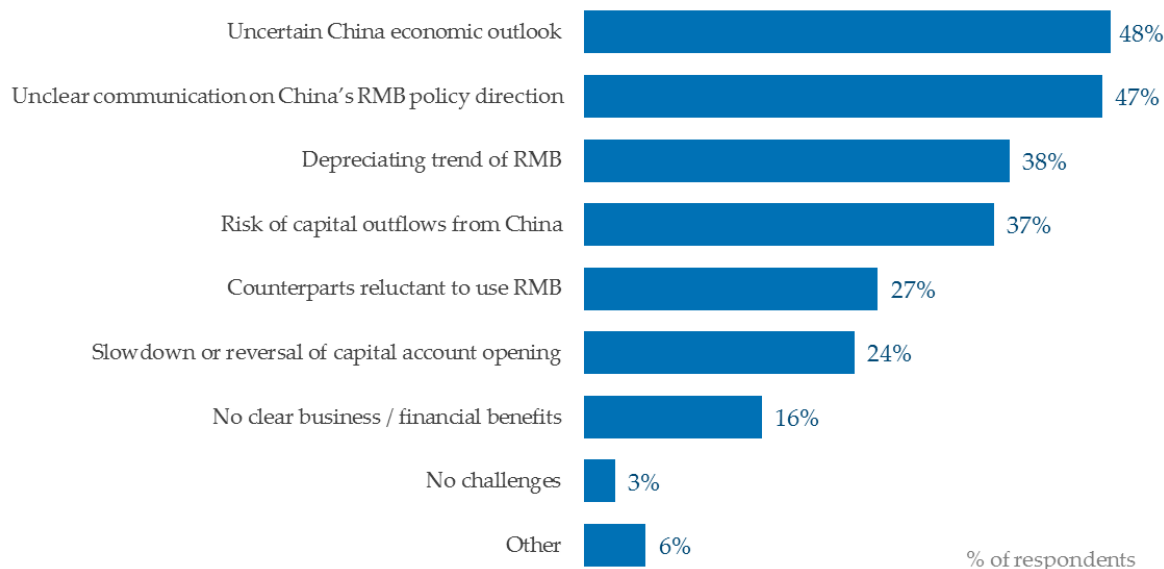


Figure 16. Challenges to the adoption of RMB internationalization – respondents with China activities

## Views from onshore versus offshore companies

- Within China concerns ran high on the uncertain economic outlook of the country among the majority of respondents (44%). A finance executive at a China-headquartered onshore firm clarified: *“If the Chinese economy recovers, it will become a strong support and stabilize the exchange rate of RMB and decrease capital controls, all of which will promote RMB internationalization. The way the PBoC is currently dealing with the liberalization of the capital account is appropriate.”* The respondent suggests that the improvement of the country’s economic condition will be the catalyst for stabilizing the currency and thus promoting the RMB globally.

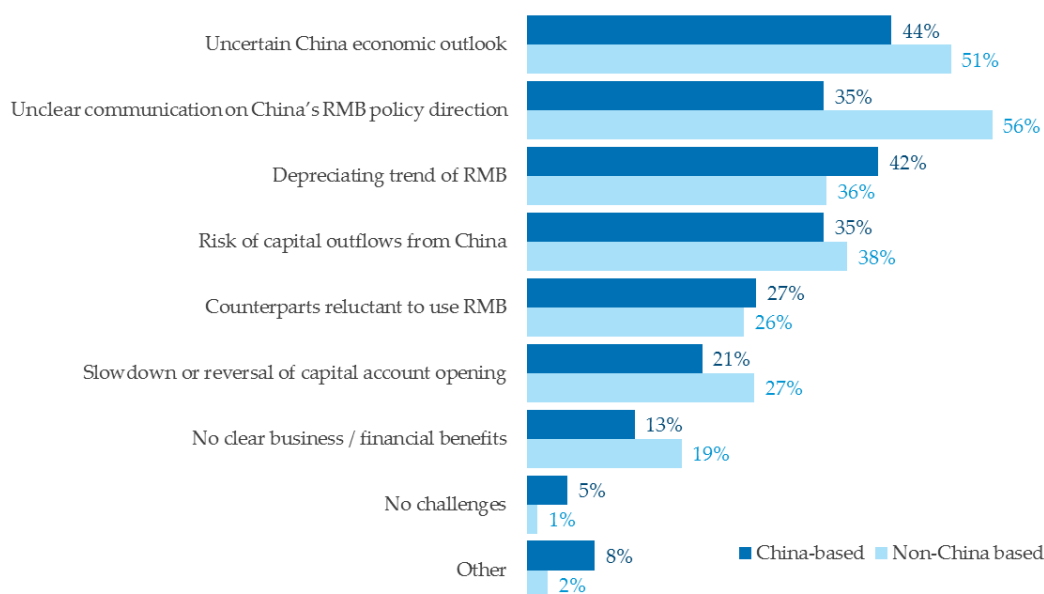


Figure 17. Challenges to the adoption of RMB internationalization – respondents with China activities, China-based vs non-China based

- Over half (56%) the respondents based outside China, the largest proportion, were worried about China’s RMB policy direction being unclear. A Singapore-based CFO of a European-headquartered multinational explained: *“The thing is that there’s an ever-changing landscape and you never really know what happens next. The government is not really transparent there so you’re always afraid that tomorrow the next control might come down. It opens now, and in three weeks somebody thinks we have to bring in controls and then it closes down again, so that uncertainty is the biggest enemy of that.”* It is reasonable for the opacity of China’s monetary policy is more likely to be a key concern among offshore firms that are *“further away from the action”* so to say.
- Offshore respondents were relatively less worried about the economic outlook of China than their onshore counterparts. This factor took second place after the lack of clarity in China’s RMB policy direction. Two-fifths of firms based outside of China have more than 1000 employees suggesting they are MNCs that are probably more used to dealing with unstable macroeconomic environments of the countries they operate in. As one Singapore-based treasurer of an MNC headquartered in Europe explained: *“I wouldn’t care about the uncertain economic outlook of China as it can be like this in any country.”*

## By company size

- An onshore head of finance at a Europe-headquartered MNC described how the challenges could differ based on the size of the firm. She explained: *“But in the current environment I would say depending on whether the companies have pretty strong competence to manage FX risk or not. For those who like us are very experienced in managing FX risk, we will just manage the RMB in the same way as managing any other currency. So then the barrier is the unclear regulation direction. This would be one major concern. But for smaller companies that don’t have very good internal risk management capabilities, then the perceived trend of depreciation would be a key barrier.”* Indeed over half (54%) the core respondents with less than 100 employees were worried about the depreciating trend of the RMB.

## MOTIVATORS

The motivators cited by respondents that would encourage them to start or increase their current usage of RMB centred upon clearer monetary policy or communication on policy direction, the willingness of counterparties to settle in RMB and business need.

- Treasurers were asked the open-ended question of what would encourage them to start using the RMB or increase their current usage. The top three most common answers were clearer monetary policy or communication on policy direction from the Chinese government, the willingness of counterparties to settle in RMB and the firms’ business need.

## Views from onshore versus offshore companies

- For onshore companies the willingness of counterparties to settle in RMB was the biggest motivator for them to use the RMB or increase their current usage. The other two major factors that would influence their use was the appreciation of the currency and clearer monetary policy or communication on policy direction from the Chinese government.
- The treasury executive of an onshore firm plainly stated the lack of willingness of his counterparts to settle in the currency: *“RMB is widely acceptable. As a Chinese company, I look forward to using the RMB in transactions, but in fact our counterparties cannot accept.”* Ironically, firms outside of China hold the same belief of their counterparties onshore. A Hong Kong-based director of finance of a company importing from China was skeptical: *“But the only thing is in China, the supplier themselves may prefer for you to pay them in USD, in a way because the currency is unstable. These days they also want to keep more foreign reserves themselves.”* As such there is a sub-optimal equilibrium reached where both parties are waiting to see who will move first.
- Companies based outside of China were more inclined to be motivated by clearer monetary policy or communication on policy direction from the Chinese government, the firms’ business need and the stability of the RMB. A head of treasury based in Singapore complained about the current lack of action from the government: *“China obviously has its five-year plans when it comes to the economy and also when it comes to new regulations. They start in phase one with pilot one and pilot two and all these kinds of things. That’s all good but then at some point they need to firm up and embed the new regulations and legal requirements*

*around that. And that often is the final step that creates a lack of clarity. They tend to wait with the full embedding in their new legislation. If a certain rule, now we're talking about RMB internationalization, is fully accepted. Yes or no. So it would be good if they launch a pilot and then quickly thereafter when a pilot has been successful that they then fully embed everything in their local legislation and that we then know that this is something we can now use. So it becomes more actionable."*

- When asked what would encourage him to use the RMB more, the treasury manager of a Hong Kong-based corporate summed up: *"Company's business strategy. If it changes, we might want to get more involved. Also if the Chinese economy gets stronger and the RMB is subject to less depreciation, so the currency is more stable."* As mentioned by an onshore treasurer earlier, for many the economic outlook of China is seen to be directly linked to the stability of the currency. The slowdown of China's economy and the weakening of its currency can therefore be viewed as self-reinforcing.
- Additional motivators mentioned by respondents were listed in the table below:

Additional motivators
Recovery of China economy / certain economic outlook of China
Liberalization of capital account
Increased RMB use globally
Favourable trade terms

*Table 2. Additional motivators that would encourage the usage of RMB*

# MACROECONOMIC TRENDS & POLICIES

## CURRENCY OUTLOOK

Although opinions are divided on the outlook for the RMB versus the USD, more than half of the respondents expect it to depreciate. It is more probable for onshore respondents to expect the currency to weaken than their offshore counterparts.

- Over half the respondents in the core group expect the RMB will weaken relative to the US dollar in the next three months (53%). Only 7% expect the RMB to strengthen during this period and 30% expect the RMB to remain stable.

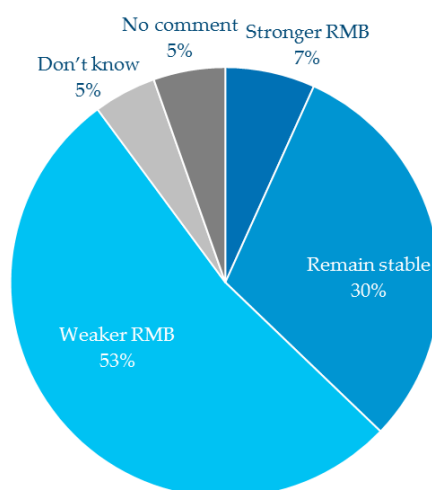


Figure 18. Outlook for USD-CNY in the next three months – respondents with China activities

### Views from onshore versus offshore companies

- Among China-based respondents, nearly three-fifths (58%) expect the RMB to weaken in the three-month period. An onshore treasury manager of a company headquartered in the US went into specifics: “We expect the RMB to continue to depreciate slightly and the reference rate to be 6.7. Besides strong macroeconomic prospects, the fact that the exchange rate is managed and controlled by the central bank will prevent it from depreciating too much.”
- A large number of onshore respondents that we spoke to mentioned the correlation between US economy and the direction of the RMB. A finance manager at a China-headquartered firm explained: “The appreciation of US dollar and strong recovery of American economy will also cause the depreciation of RMB.” The finance director of another China-based corporate also reinforced this view: “The RMB is under

pressure and is fluctuating more, due to strong US economic data for the past two months as well as the potential of a US rate hike.”

- The majority of offshore firms, nearly half (48%) was also of the opinion that the RMB would weaken in the next three months. However, respondents based outside of China were more likely to be optimistic about the fluctuation of the currency than their onshore counterparts. 41% believed it would remain stable over the period as compared to only 18% of onshore companies. A VP of corporate finance and treasury based in Malaysia described his outlook: “Remain stable. I believe that the USD is more volatile compared to the RMB in relation to the ringgit.”

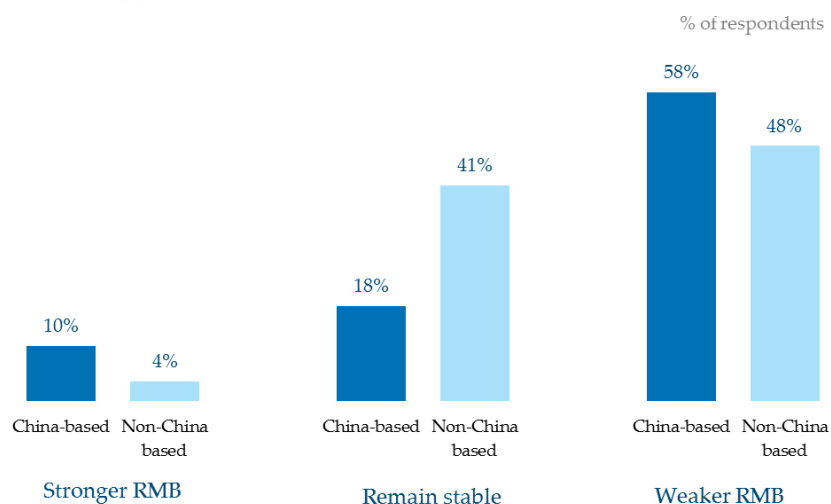


Figure 19. Outlook for USD-CNY in the next three months – respondents with China activities, China-based vs non-China based

## Comparing views from 2016 against 2015

- In the ‘Renminbi in 2015’ report, respondents were asked the same question about their outlook for the currency in the next three months.
- In 2015, China-based respondents were more optimistic on the outlook of the currency. While 44% expected the RMB to weaken this was a comparable percentage to the 42% that expected the currency to remain stable. While in 2016, nearly three in five respondents expect the currency to depreciate. Roughly one in ten onshore respondents expected a stronger RMB in 2015 and the same is the case this year.

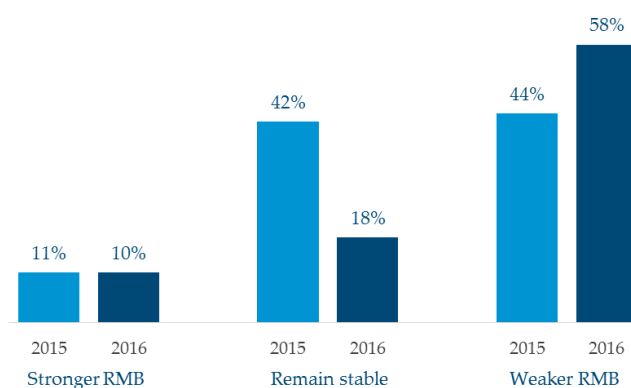


Figure 20. Comparison on the outlook for USD-CNY in the next three months – China-based respondents, 2015 vs 2016

- Last year most of the firms based outside of China expected the currency to remain stable (45%). Again however this was comparable to the proportion that expected the RMB to depreciate (43%). This year offshore survey participants have become slightly more pessimistic and nearly 50% expect the currency to weaken. The proportion that expected the currency to strengthen has stayed the same since 2015 (4%).

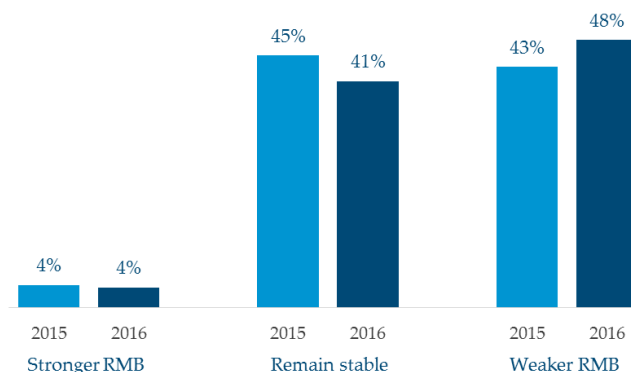


Figure 21. Comparison on the outlook for USD-CNY in the next three months – non-China based respondents, 2015 vs 2016

## CHINA'S ONE BELT, ONE ROAD POLICY

Onshore respondents tend to be optimistic with regards to China's One Belt, One Road policy while offshore respondents say it is too early to conclude.

- Respondents were asked how China's One Belt, One Road policy would affect the internationalization of the RMB in the next couple of years. Overall, 45% of the core companies surveyed thought it would boost RMB usage on trade internationally. Nearly 40% thought it would increase RMB usage on investment globally. Only 29% thought it would raise the usage of the RMB as a financing currency.

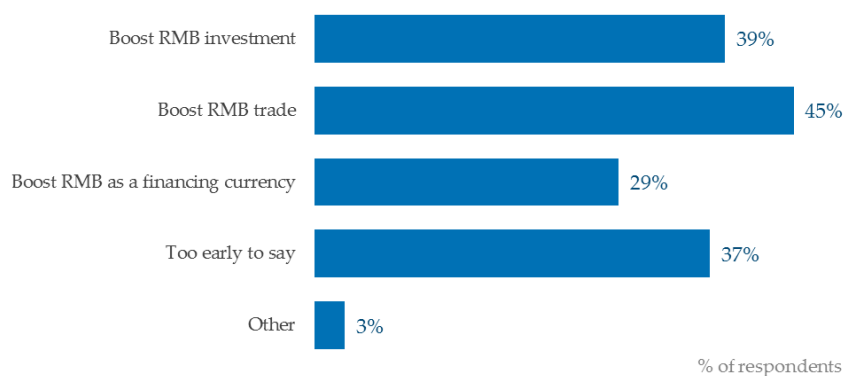


Figure 22. Affection of China's One Belt, One Road policy towards RMB internationalization – respondents with China activities



- When asked about if the policy would encourage the use of the RMB as a financing currency in the next couple of years, most treasurers we spoke to thought it was too early for this. The country treasurer of a Europe-headquartered MNC was firm: *“No, it’s too early for that. It’s being spoken about but I don’t see that in the next three to five years. Maybe after that, but you never know.”* Another SVP of finance at a Singapore-headquartered firm echoed the sentiment: *“I think it will take some time to boost the usage of RMB as a financing currency. I think first of all they need to get it accepted as a global currency and wait for the policies and such before it becomes a financing instrument. I think it will get there; it’s just a matter of time.”*

## Views from onshore versus offshore companies

- Respondents based in China were more optimistic with regards to China’s One Belt, One Road policy than their offshore counterparts. More than three-fifths (61%) of the onshore respondents expect it to raise RMB usage on trade internationally. A China-based finance executive remarked: *“It will promote the internationalization of the RMB and the usage of RMB in trade settlement especially in Southeast Asia.”* 44% of onshore respondents thought the policy would boost the use of RMB on investment internationally and 41% thought it would cause the usage of the RMB as a financing currency to increase. The onshore head of finance of a Europe-based MNC explained her view: *“I think that is a very ambitious plan. I have yet to see how the strategy will be translated into an implementation plan. Definitely there will be mature investment from China in those countries involved in major infrastructure projects. That will definitely make a positive move on RMB internationalization. But the doubt is on how quickly that strategy gets to be implemented.”*
- Nearly half (48%) of respondents based outside of China, the largest percentage, thought it was too early to say how the policy would affect the internationalization of the currency. A Singapore-based treasurer of a multinational explained: *“It’s too early to say. I guess it’s the financial flow and then the trade flows also will be denominated in that which could help. But it’s fairly early as it’s just an announcement anyway. We haven’t actually seen anything going on. It’s a project that’s going to last for years, I would guess years down the road that becomes more acceptable.”*
- The Hong Kong-based treasurer of a UK-headquartered corporate did not see the efficacy of the policy at all and thought the RMB inclusion in the SDR basket was a more promising development: *“I don’t think it [the policy] would encourage the RMB usage on investment or trade internationally. I don’t think it will increase the usage of RMB as a financing currency either. I think what would boost it [RMB internationalization] is the fact that it’s going to be in the basket of currencies going forward.”*

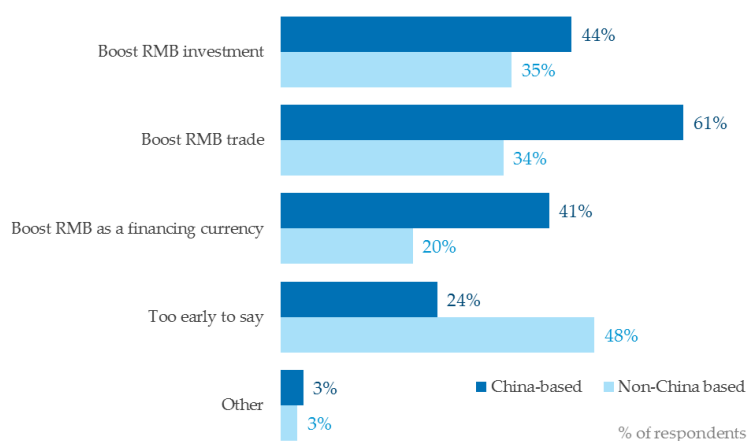


Figure 23. Affection of China’s One Belt, One Road policy towards RMB internationalization – respondents with China activities, China-based vs non-China based

## SECTION 2 – ANCILLARY RESPONDENT GROUP

### CHALLENGES

- For the ancillary group of 13 companies based outside of China with no business or investment in the country, the key challenges to the adoption of the RMB internationally were the same as the core group. They were concerned about the uncertain economic outlook of China (46%), unclear communication on China's RMB policy direction (38%) and the depreciating trend of the RMB (31%).

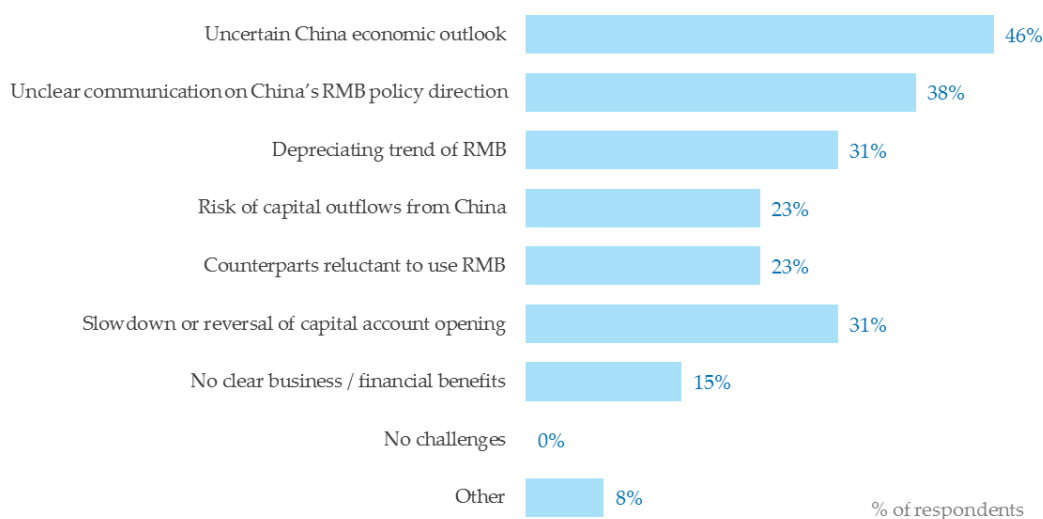


Figure 24. Challenges to the adoption of RMB internationalization – respondents without China activities

### MACROECONOMIC TRENDS & POLICIES – CURRENCY OUTLOOK

- A greater proportion of the ancillary group had a negative view on the outlook of the USD-CNY in the next three months relative to the core group. Nearly seven in ten respondents expected the currency to depreciate, 23% expected a stable currency and only one out of the thirteen thought the RMB would strengthen.

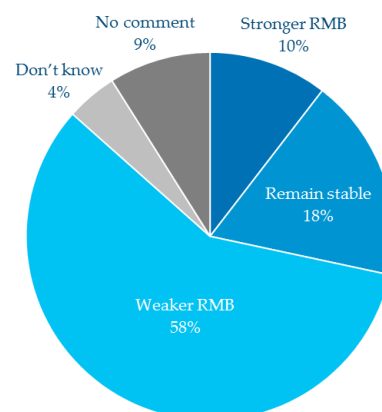


Figure 25. Outlook for USD-CNY in the next three months – respondents without China activities

## CHINA'S ONE BELT, ONE ROAD POLICY

- With regards to China's One Belt, One Road policy, the offshore firms with no business or investment in China overwhelmingly thought it was too early to say how it would affect the internationalization of the currency in the next couple of years (67%). Only one of the thirteen companies thought the policy would boost the use of the RMB as a financing currency. When asked about the potential of the policy in this regard, a Hong Kong-based CFO plainly said: *"Not in the near future. It will take a while for the operators to actually sink in."*

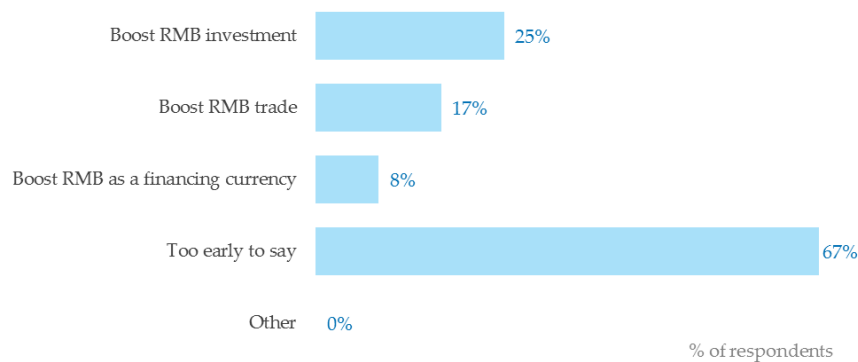


Figure 26. Affection to China's One Belt, One Road policy towards RMB internationalization – respondents without China activities

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