2017 China Business Outlook

Benchmark The Asset Research

Standard Chartered

Contents

INTRODUCTION

Following extreme volatility in 2016, the renminbi has seen increased stability in the first quarter of 2017. But risks to the currency remain. China's economy faces hurdles including worsening debt, non-performing loans (NPL), and increased capital controls. The CNH market has been suffering ever since the August 2015 reference rate devaluation. Recent escalating US-China tensions have also rattled markets. Driven by these events, Asset Benchmark Research conducted a survey on behalf of Standard Chartered Bank to provide constructive insight on the China economy, offshore renminbi usage patterns, risk management and opportunities in the One Belt, One Road (OBOR) initiative.

The project started in mid-March and spanned a month during which 205 treasurers and senior treasury/finance executives from Asia, Europe and the US were surveyed.

The questionnaire focuses on two major groups of respondents: onshore companies based in China and overseas MNCs. The respondents are further segregated according to their business interactions. The onshore companies are split into five categories: firms that import goods or services from overseas companies, export to overseas, do both, buy and sell domestically or firms that buy and/or sell to their overseas subsidiary (labelled inter-company firms).

Similarly, the overseas MNCs are classified as importers from China, exporters to China, those that do both and firms that mainly buy and/or sell to their China subsidiary. A fifth category is offered to overseas companies that have no business or investment in China.

EXECUTIVE SUMMARY

- Treasurers are largely hopeful about the China economy in 2017 but are still concerned about renminbi volatility. They aim to combat this by managing their exposure more effectively.

- The top three China-related risks for respondents include worsening debt and NPL levels, worsening capital outflows and escalating US-China tensions.

- When asked about their own China business, firms are concerned about volatility of the currency, inability to move capital out of China and regional and international political tensions.

- Fewer companies are active in offshore renminbi products this year compared to 2016 and more firms have retreated to the sidelines.

- The largest drop in planned use in 2017 is in offshore renminbi FX transactions and loans.

- Overseas MNCs are more likely to be involved in offshore renminbi products than their onshore counterparts.

- Despite their caution in terms of current offshore renminbi product usage, corporates are in favour of renminbi adoption in the long-term.

- A large proportion (45%) of the overall sample of survey respondents will proactively increase their trade settlement in renminbi in the long-run. China corporates are more likely to opt for renminbi invoicing than their overseas counterparts by a small margin.

- More large and medium-sized companies plan to proactively increase their renminbi trade settlement over the longer term. Small companies in comparison are more likely to react to requests from their trade counterparts.

- More than half the corporate respondents (58%) are more actively managing their renminbi FX risk given the recent volatility of the currency.

- A greater proportion of large companies and medium-sized companies are more actively managing their renminbi risk, while almost two thirds (64%) of small companies have kept their risk management practices the same.

- The most popular tools being used to hedge the currency are forwards or swaps, natural hedging, risk shifting (invoicing in the home currency) and actively tracking renminbi movements.

- If CFOs and treasurers choose not to hedge their renminbi exposure it is more likely to be because their exposure is too small or there is no corporate policy currently in place.

- Most respondents (82%) are aware of the One Belt, One Road (OBOR) initiative. 17% are already engaged in related projects and 23% actively considering opportunities in the future.

- Companies are most interested in gaining guidance on local regulatory, tax, legal and cultural practices and requirements as well as country, geopolitical or industry related risk information for OBOR corridors.

- In two to five years' time companies expect OBOR to boost infrastructure investments (72%), enhance the economic power and influence of China internationally (63%) and increase renminbi use internationally (57%).

METHODOLOGY AND RESPONDENT DISTRIBUTION

Email invitations to take part in the 2017 China Business Outlook:

- The on-line questionnaire was sent to finance directors, CFOs, treasurers and senior treasury managers in corporations in China, North Asia (Hong Kong, South Korea and Taiwan), Southeast Asia (Singapore, the Philippines, Thailand and Vietnam) as well as Europe and the US
- Two language versions were available: English and simplified Chinese
- Follow-up interviews were conducted with 63 respondents
- The respondent distribution of the sample is 59% from China, 30% from North Asia, 10% from Southeast Asia and 1% from Europe and the US

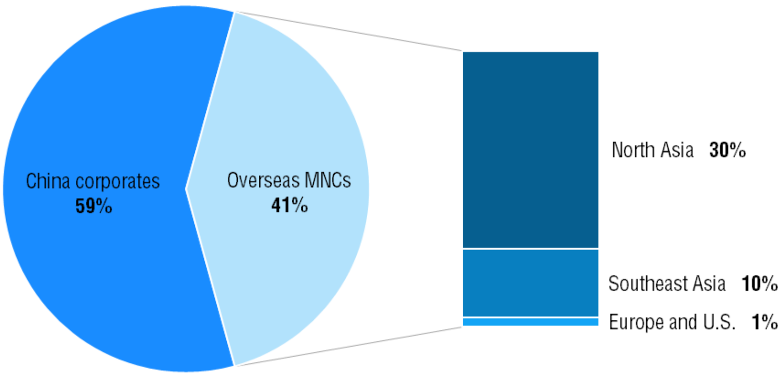

FIGURE 1. Respondent distribution by region

- Over half (56%) the corporates surveyed are large and have a turnover of greater than US$1 billion
- One in five respondents are small companies with a turnover of less than US$250 million
- 43% of respondents have over 1000 employees working in their company at the location where they are based

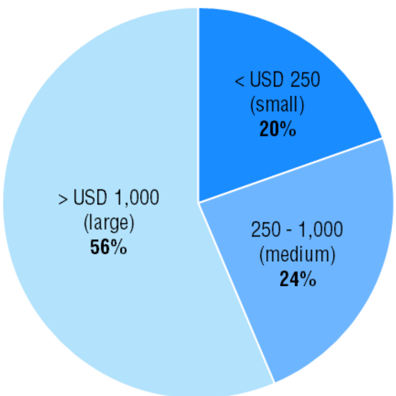

FIGURE 2. Respondent distribution by group turnover (US$ million)

- The majority of companies are in industrials and manufacturing and energy and mining or are conglomerates

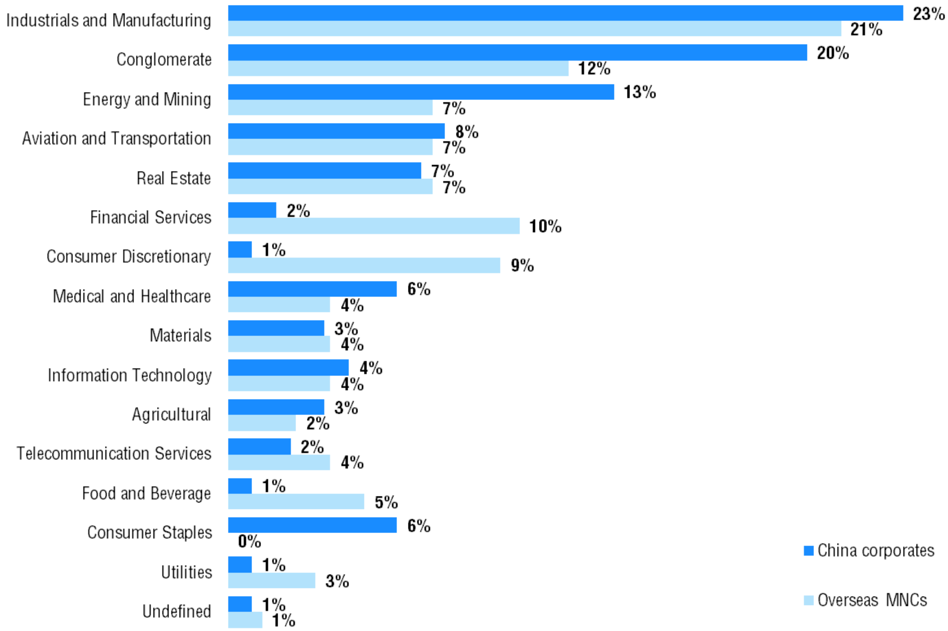

FIGURE 3. Respondent distribution by industry – China corporates vs overseas MNCs

- Two-fifths (41%) of China-based companies have domestic operations and about one quarter (26%) import from and export to overseas companies
- One-third of overseas MNCs either import from and export to mainland China companies or have intercompany operations with their China subsidiary

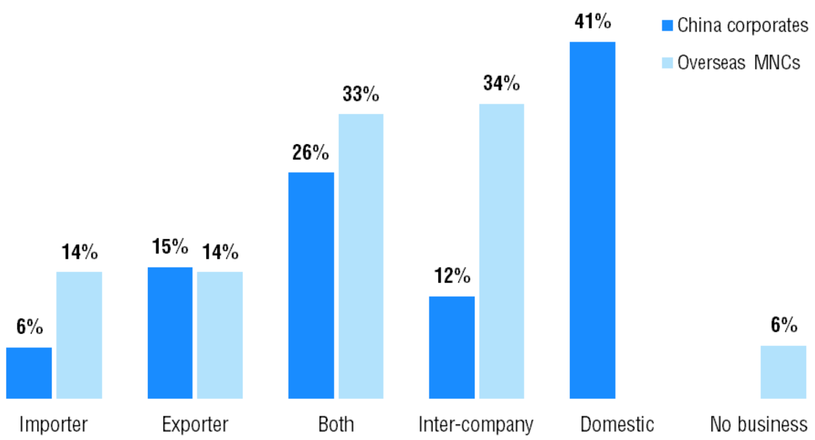

FIGURE 4. Respondent distribution by main business interactions – China corporates vs overseas MNCs

Economic Outlook and Initiatives

Treasurers are largely hopeful about the China economy in 2017. The top three China-related risks for respondents include worsening debt and NPL levels, worsening capital outflows and escalating US-China tensions. In line with this, firms are concerned about renminbi volatility, inability to move capital out of China and regional and international political tensions when asked about their own China business.

Outlook for the China economy

Corporate treasurers and CFOs are generally confident over the outlook of the China economy in 2017: 41% have a positive view, while 40% are neutral. Only 5% have a negative outlook.

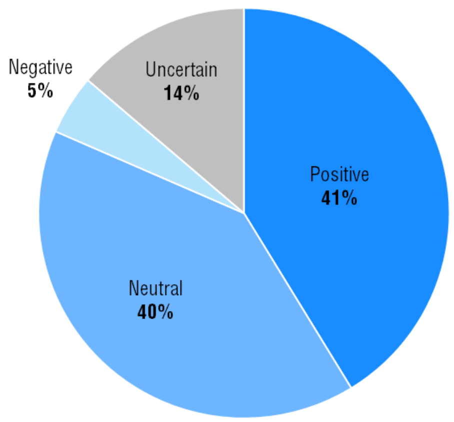

FIGURE 5. China economic outlook

A China-based treasury manager of a large industrials and manufacturing company explains: "Stability of the RMB's forex rate under the context of the Fed rate hikes, and the recovery from the investments in the private sector show that China's economy will maintain its growth in the coming year". A head of treasury at a food and beverage company based in Singapore also sees opportunities with "receding protectionism risks as well as better than expected domestic economic data in China".

A common view among the positive corporates surveyed is that China is now targeting weaker but more sustainable economic growth. Some are also optimistic about the effects of the supply-side reforms imposed by the government to tackle excess capacity in the industrials and manufacturing sector. In contrast, one respondent in China with a negative outlook asserts: "The problem with the structure of the economy has always been there, and the growth incentive is now disappearing, the price of the labour force is increasing, and many Fortune 500 companies have left China." A treasurer from a MNC is concerned about "the general slowdown and the trade policies particularly with the US".

Of the respondents that have a neutral view, 29% nonetheless express a negative tendency. "The policies are relatively stable, but the economy will still be burdened by the risk of a drop in growth. The RMB exchange rate and usage relatively speaking, lacks in momentum," explains one treasurer. "China's economy is increasingly relying on state-owned enterprises. The economy is not dynamic and energetic. The outlook is uncertain," adds another.

13% of neutral respondents are more upbeat. “On one hand, I do not think there will be enough factors to drive economic growth,” the finance manager of a small real estate firm in Beijing says. “But it is unlikely that the government will agree with a decrease in GDP, they will use fiscal policies and other measures to promote the economy.” For others, it is a question of definition. “After touching base last year, this year is going to stabilize,” acknowledges the onshore treasury manager of an industrials and manufacturing MNC. “But a positive outlook seems too optimistic.”

Almost one in six treasury executives (14%) are not certain about the direction of the China economy this year. They are concerned with the unstable global political environment and cite the unpredictability of the new US administration and Brexit. The worsening credit situation and uncertainty of the domestic regulatory regime are also factors they consider. Some point to the lack of a real (non-financial) economy and the growing real estate bubble.

View from China corporates versus overseas MNCs

China corporates are less positive than overseas MNCs on the China economy in 2017 (38% versus 47%). More China corporates on the other hand have a neutral outlook (44%) than their overseas counterparts (35%).

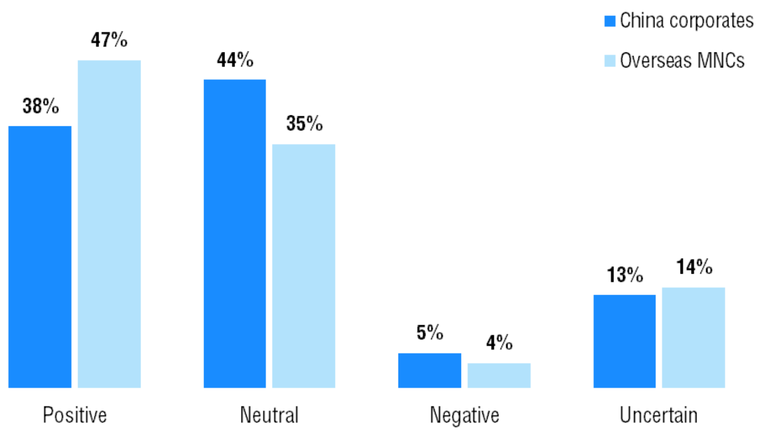

FIGURE 6. China economic outlook – China corporates vs overseas MNCs

Risks

When asked about risks to the economy in 2017, China and overseas corporates have similar worries. Worsening debt and NPL levels, deteriorating capital outflows and escalating US-China tensions come to fore. “The first concern must be non-performing loans, there is a lot of information about this issue, it does not only affect listed companies, but also affects SOEs,” says the Hong Kong-based treasury manager of an industrials and manufacturing firm. The same manager bemoans the effect of the capital controls: “[…] under the depreciation expectation, the PBoC (People’s Bank of China) will continue the restrictions on capital flows, this is not a good tendency for us.”

Only one-fifth of China and overseas respondents are concerned about missing the GDP growth target. Most corporates are comfortable that the target set by Premier Li Keqiang of 6.5% is either within reach or can even be surpassed. "There is a reserve amount of 0.3% on this year's GDP growth target. Despite the potential risk of supply side reform, the actual GDP growth rate may be higher than 6.5%," says the Shanghai-based manager of a large energy company. For some, even if the target is not achieved this will not be a surprise. "Missing the GDP growth target is likely going to happen because of the way they want to do targeted fixed asset investment, right?" says the regional treasury head of a multinational based in Beijing.

View from China corporates versus overseas MNCs

Overseas MNCs are more concerned about the strain on the relationship between the US and China: 42% see this as a risk compared to 29% of China respondents. Conversely the collapse in the real estate market is of greater importance to domestic corporates (28%) than overseas ones (18%). An investment and treasury manager of an onshore real estate firm is vocal. "The [real estate] situation in Beijing, Shanghai and Shenzhen is good, but in the second-tier cities, the situation is not good."

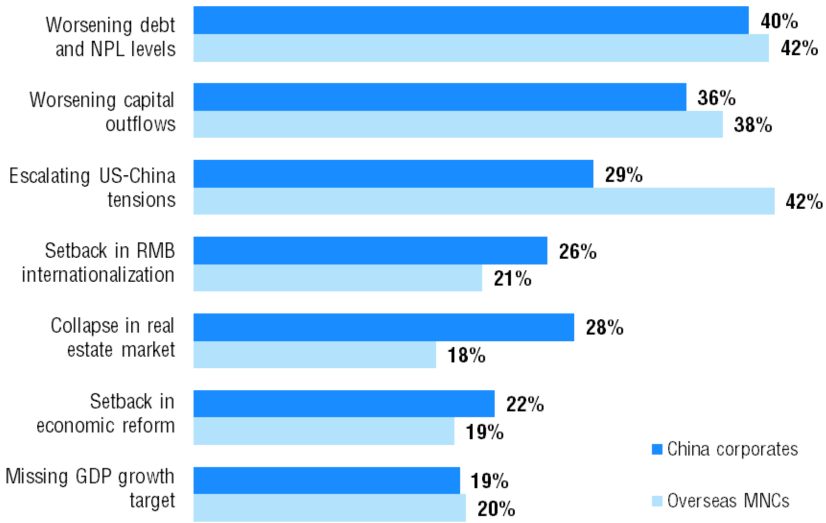

FIGURE 7. China related risks in 2017 – China corporates vs overseas MNCs

Concerns for own China business

Renminbi volatility, inability to move capital out of China and regional or international political tensions are key concerns for survey respondents when queried about their own China business. Renminbi depreciation since the August 2015 surprise devaluation directly relates to the next most pressing concern as government has since imposed controls to stop the outflow of the currency, hindering cross-border capital movement. Regional and international political tensions are also top of mind for treasurers, not least the relationship between China and the US, South Korea and Taiwan.

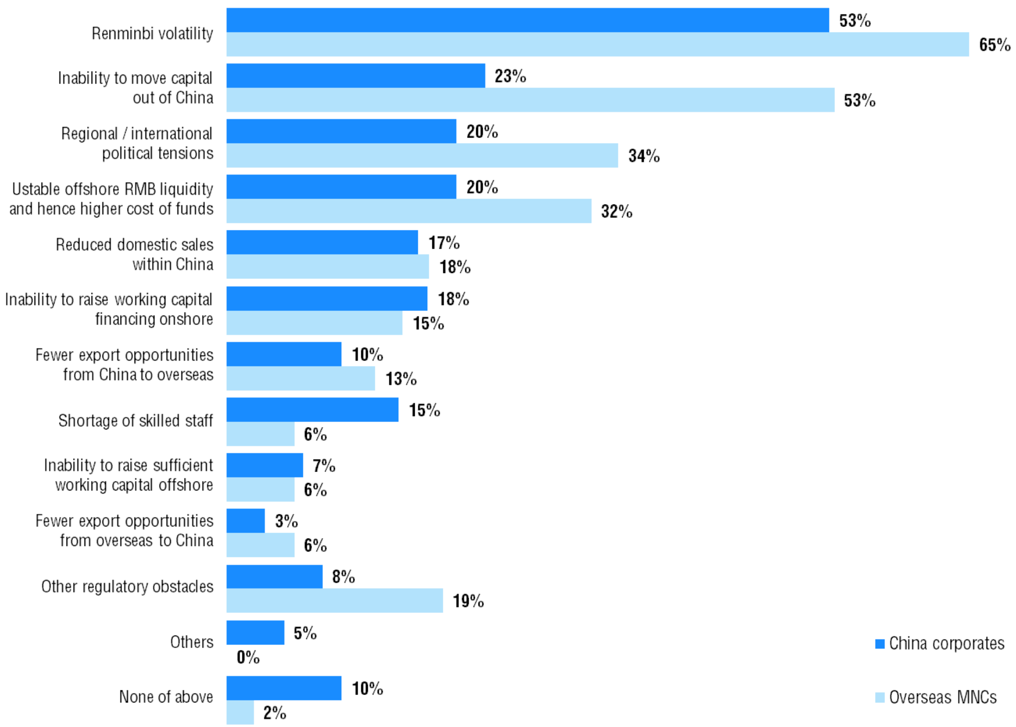

FIGURE 8. Concerns for China business in the current economic environment – China corporates vs overseas MNCs

View from China corporates versus overseas MNCs

Renminbi volatility is a dominant concern for almost two-thirds of overseas MNCs (65%) and over half the China CFOs (53%). "The RMB will have the most impact. Let's say the RMB has more restrictions, this will cause problems with fund transfer," says a Hong Kong-based financial controller involved in consumer discretionary goods. "We have around 40% of our sales in China."

The data suggests the currency volatility and capital controls pose a greater threat to overseas MNCs than China corporates. Overseas respondents that are concerned with moving capital out of China represent over twice the proportion of China treasurers with the same sentiment. "Especially if you have any excess [capital] and you want to move it to other countries…so if you have invested in China and you want to take capital out for the short-term, you can't do that," says a Singapore-based corporate treasury director.

This is expected given a high proportion of China companies surveyed only have domestic operations and would therefore be less likely to consider moving capital out of the country. In contrast, two-thirds (67%) of overseas MNCs have two-way trade flows either to and from their China counterparts or their China subsidiary.

Given their propensity for cross-border trade, it follows that regional or international political tensions are also more likely to affect overseas MNCs and one-third raise this as a concern for their business compared to one in five China respondents. "If they come up with policies like 'Buy China' or 'Make in China', then you basically end up with a challenging situation. I mean everybody is doing it, right? 'Make in India' or 'Make in US'. I wouldn't say it's protectionism but I would say inward-looking policies," says the same corporate treasury director based in Singapore.

Interestingly, one in ten China corporates do not view any of the options provided as being concerns for their own China business. This is five times the proportion of overseas MNCs with this view. "Actually, these are just potential risks. So far, our operations have not really been influenced and are running normally," the Beijing-based treasury manager of a large industrials and manufacturing company says.

By business interactions

Renminbi volatility is the top concern for all China respondents when split by business interactions. One third (32%) of domestic respondents that both import from and export to overseas companies are also anxious about the unstable offshore renminbi liquidity leading to a higher cost of funds. To cope with the rising funding costs, the treasury manager of a consumer staple company based in Shanghai will turn to overseas funding options. "Increase financing of overseas entities in the international market," he says when asked how he will tackle this concern.

Importer	•43% Renminbi volatility •29% Unstable offshore renminbi liquidity and hence higher cost of funds
Exporter	•56% Renminbi volatility •28% Inability to move capital out of China •28% Inability to raise working capital financing onshore
Both	•74% Renminbi volatility •32% Unstable offshore renminbi liquidity and hence higher cost of funds
Inter-company	•57% Renminbi volatility •50% Inability to move capital out of China
Domestic	•38% Renminbi volatility •18% Reduced domestic sales within China

TABLE 1. Concerns for China business in the current economic environment – China corporates by business interactions with overseas

Among overseas MNCs, those exporting to China are overwhelmingly worried about renminbi volatility (92%) possibly given their goods and services would appear more expensive to domestic consumers that are paying in a weaker currency. Capital controls are of concern to 74% of overseas firms that are mainly buying and/or selling to their China subsidiary. This is expected given this group of respondents are more likely

Importer	•50% Renminbi volatility •50% Regional / international political tensions
Exporter	•92% Renminbi volatility •42% Reduced domestic sales within China
Both	•59% Renminbi volatility •56% Inability to move capital out of China
Inter-company	•74% Inability to move capital out of China •67% Renminbi volatility

TABLE 2. Concerns for China business in the current economic environment – overseas MNCs by business interactions with China

to have cross-border flows on a frequent basis. Overseas respondents that are importing goods or services from China companies are as worried about renminbi volatility as they are about political tensions in the region or internationally (50% each).

Initiatives to cope with situation

Common themes emerge when the open-ended question is asked on what initiatives companies are implementing to prosper in the current environment. Respondents are adopting strategies around lowering their FX risk by increasing the use of hedging tools. They are strengthening debt management either by lowering credit exposure to renminbi or overseas currencies or increasing the financing channels available to them. Some are enhancing internal operations by diversifying business lines, expanding into new markets, managing costs or adhering to more conservative risk management practices.

An onshore treasury manager of a large energy and mining company is concerned about renminbi volatility and not being able to raise enough working capital offshore. He aims to seek help from banks and increase his companies' overseas credit exposure to tackle these issues. "Working with banks on cash management business while developing our company's offshore credit obtained from banks through offshore financing vehicles," he says. Another treasury manager of a conglomerate based in Shanghai that has two-way trade flows is concerned about renminbi volatility and fewer export opportunities from China to overseas. He plans to: "Reduce USD financing and strengthen control of FX risk".

A US-based treasury head that imports from mainland China is faced with renminbi volatility, restrictions on capital outflows and unstable offshore renminbi liquidity leading to a higher cost of funds. His solution is to lower his reliance on sourcing from China. "Alternate sourcing outside China, lower inventory levels, [change in] currency of invoicing," he says. A Singapore-based financial controller that imports from China is concerned about regional and international political tensions. To combat this, he will: "Maintain good working relations with Chinese suppliers through entering into long-term contracts and agreements".

Some treasurers admit that there is not much they can do to tackle the concerns that they have. "I can hardly cope with these concerns, because the changes in regulations cannot be controlled by us," says the Shanghai-based manager of a large industrials and manufacturing firm. He has worries on renminbi volatility, capital controls and fewer export opportunities out of China.

OFFSHORE RENMINBI USAGE

Fewer companies are active in offshore renminbi products this year compared to 2016 and more firms have retreated to the sidelines. The largest drop in planned use in 2017 is in offshore renminbi FX transactions and loans. Overseas MNCs are more likely to be involved in offshore renminbi products than their onshore counterparts.

Planned use of offshore renminbi products

CFOs and treasurers active in renminbi outside of China were asked if they planned to increase, maintain or decrease their use of six offshore products in the next half-year. They were also given the option to state if they were not active or did not know about their use. This year, following the same trend as in 2016, corporates are more likely to report no expected change in their use of offshore products in the next six months than report an increase or a decrease.

Also, as in 2016, the most popular products among active respondents are deposits, cross-border trade settlement and FX transactions. While a lower proportion of corporates surveyed are active in these three products than were last year, the proportion that plan to increase their use of these instruments in the next six months remains roughly the same as 2016 levels.

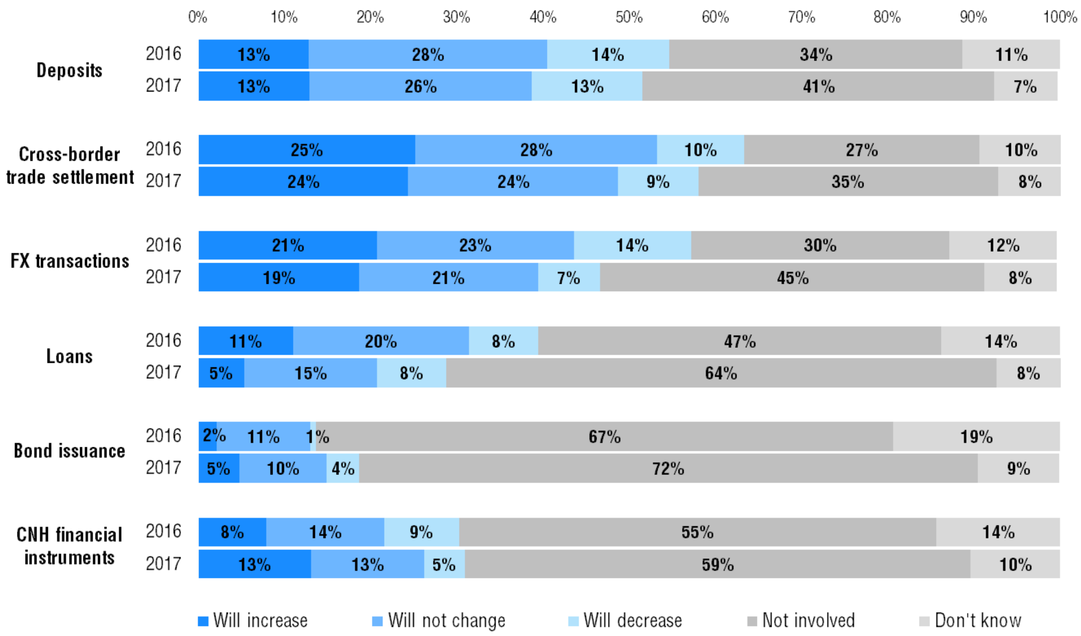

FIGURE 9. Expectation of offshore RMB product usage in the next six months – 2016 vs 2017

Overall, more respondents reported they were not involved in offshore renminbi products than last year. Among the three product types, FX transactions saw the largest drop in use possibly due to tightened capital controls (47% versus 58% in 2016). However, the fact that fewer companies plan to decrease their FX transactions in renminbi out of China in the next six months than was the case last year (7% compared to 14%), is still encouraging.

The interest in offshore renminbi loans has also waned since last year. In 2016, 39% of the respondent sample were active in this product. This year it has dropped to 28%. Also, fewer treasurers plan to increase their involvement in loans the next six months (5% versus 11% in 2016). Instead, the proportion of treasurers that state they are not involved in this product has increased by 17% from last year, the largest increase among the six product types.

The finance manager of a large onshore energy company attributes this trend to the increasing onshore liquidity as compared to offshore. "I think our usage of RMB loans held outside mainland China will also decrease this year, because of the flooding of onshore liquidity. Money is very cheap in the domestic market, so why would we need offshore RMB? We do not have this need," he says.

Despite being the least popular of the six products in overall terms, CFOs and treasurers' involvement in CNH bonds and financial instruments has risen slightly this year.

View from China corporates versus overseas MNCs

Overseas MNCs are more likely to use offshore renminbi products than their onshore counterparts. This is not surprising since more of the China corporates surveyed conduct domestic operations (41%), while the bulk of MNCs profiled conduct two-way trade flows and have a greater need to hold renminbi out of the country.

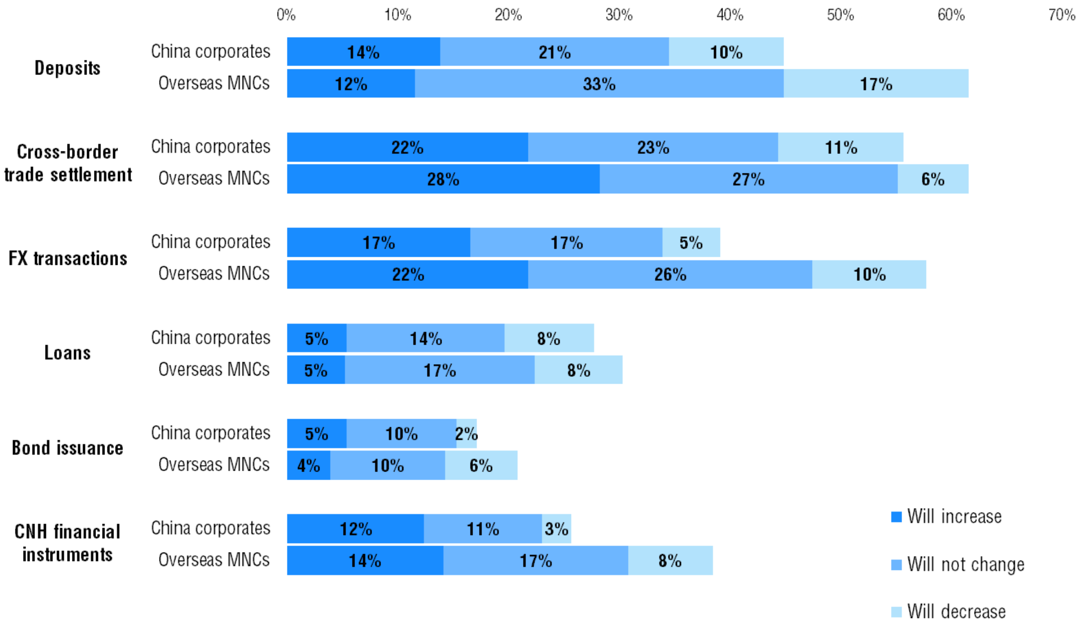

FIGURE 10. Expectation of offshore RMB product usage in the next six months – China corporates vs overseas MNCs

Although there is a decline in activity in renminbi invoicing compared to 2016, 28% of overseas MNCs and 22% of China corporates will increase their cross-border trade settlement in the currency in the next six months, the largest projected increases among the six products. This data is promising in light of the increased scrutiny around cross-border transactions.

17% of overseas MNCs plan to reduce their holding of offshore renminbi deposits in the next half year compared to one in ten China respondents. "RMB deposits to decrease. Our group may not need that much RMB now. It just depends on the operations. We don't have a strong view on the RMB so we try not to hold it," says the Hong Kong-based treasury manager of a real estate company.

Comparing 2017 usage among China corporates to 2016

Onshore CFOs and treasurers are more active in cross-border trade settlement, CNH bonds and CNH financial instruments this year than in 2016. The biggest increase in activity among China-based respondents is in financial instruments, perhaps to meet their FX risk management needs. The proportion of companies that plan to increase their involvement in the next six months has risen from 2% to 12% this year.

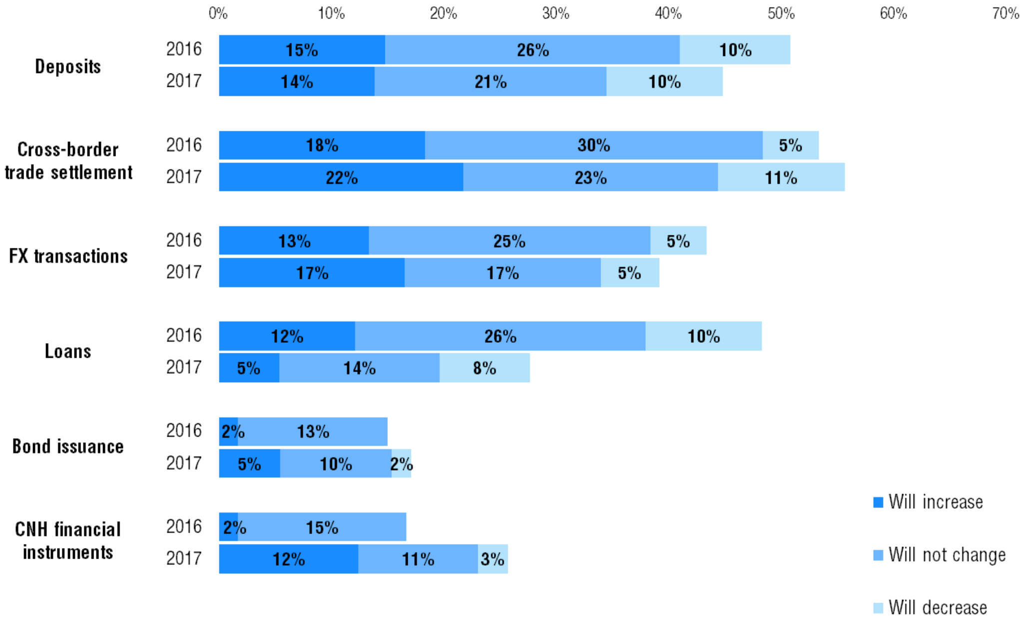

FIGURE 11. Expectation of offshore RMB product usage in the next six months – China corporates 2016 vs 2017

Comparing 2017 usage among overseas MNCS to 2016

Among the six product types, overseas MNCs are slightly more likely to be involved in offshore renminbi deposits and CNH bonds this year than in 2016. The data shows a 7% increase in the activity from overseas MNCs in CNH bonds (20% versus 13% in 2016). "I think our involvement in CNH bonds will increase, but it depends on regulation," says a Europe-based senior funding officer of a large aviation and transportation firm.

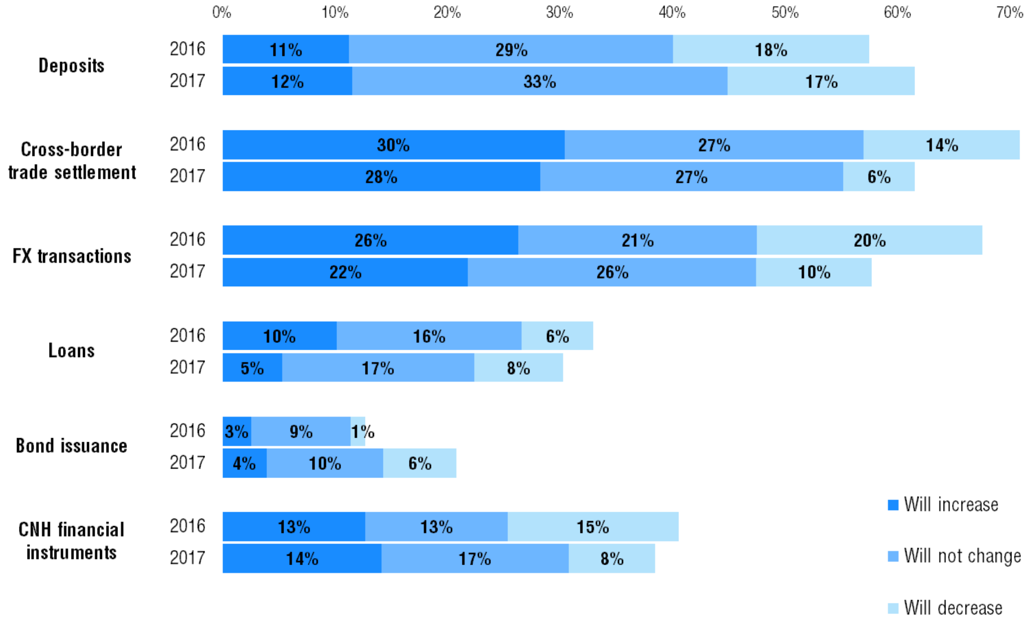

FIGURE 12. Expectation of offshore RMB product usage in the next six months – overseas MNCs 2016 vs 2017

ATTITUDES TOWARDS RENMINBI TRADE SETTLEMENT

rtion (45%) of the overall sample of survey respondents will proactively increase their trade settlement in renminbi in the long-run. China corporates are more likely to opt for renminbi invoicing than their overseas counterparts by a small margin.

Long-term sentiment

When companies active in renminbi trade settlement were asked about their longer-term attitude towards renminbi invoicing, 45% say they will proactively increase their trade settlement in the currency long term. The reasons given by CFOs and treasurers run the gamut, however, confidence in renminbi internationalization and the ability to lower FX risks and therefore business costs, stand out. Only 6% plan to proactively decrease renminbi invoicing in the long run.

The onshore treasury manager of an industrials and manufacturing MNC explains that denominating trades in the currency allows her to avoid the onerous onshore hedging process by risk shifting. “The hedging done onshore requires a lot of documentation and is a controlled process. Therefore, we would rather manage the foreign exchange risk offshore…It’s easier to manage our risk”. Another Hong Kong-based manager is more motivated by her confidence in renminbi internationalization. “I think the percentage of RMB in worldwide settlement will increase, so we will also respond,” she says.

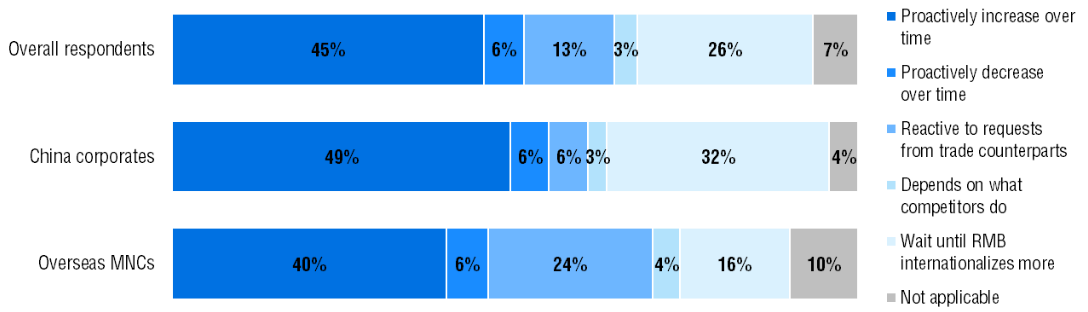

FIGURE 13. Long-term attitude towards adopting RMB trade settlement – China corporates vs overseas MNCs

View from China corporates versus overseas MNCs

Onshore respondents’ views on renminbi invoicing are more polarized than their overseas counterparts. Half (49%) will increase in the long term, but 32% also prefer to wait until the renminbi internationalizes more. When asked for the reason why, onshore corporates that chose the latter option complain about the depreciation of the currency and the fact that their counterparties are not willing to accept RMB. "In the past, the RMB depreciated significantly against USD. So, we still mainly settle in USD," says the onshore finance manager of an information technology multinational.

40% of overseas MNCs plan to increase their trade settlement, 24% will react to their trade counterparts' requests and 16% will wait for the currency to gain more ground internationally. The CEO of a Hong Kong-based industrials and manufacturing company explains his preference for USD. "Normally our trade currency is denominated in USD. It's only the request from counterparts that make us change to RMB," he says.

The handful of overseas MNCs that state they will proactively decrease their renminbi invoicing in the long run are concerned with the fluctuations in the currency. The Singapore-based treasurer of a large European industrials and manufacturing company prefers not to deal with the uncertainty. "Due to the volatility as well as the regulation changes, we never know when things will change. It's safer to not hold RMB," she says.

By business interactions, China corporates

Close to 20% of China-based exporters plan to proactively decrease their renminbi trade settlement in the long run, the largest proportion that chose this option among the different interaction types. For some this is directly correlated with the depreciating trend of the currency. "With USD still being used as the major settlement currency among international trades, it is more favourable for China onshore exporters to settle in USD when RMB depreciation is anticipated," an onshore treasury manager of an information technology firm explains. In this case the devaluing currency means exporters will receive less if overseas buyers choose to pay them in renminbi.

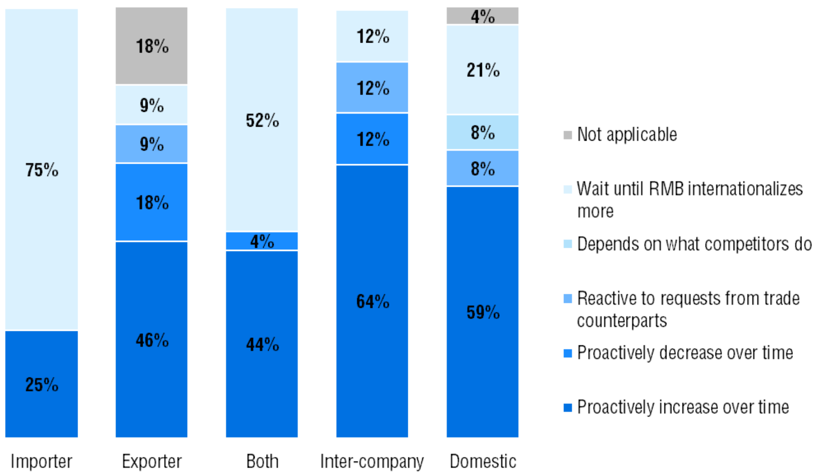

FIGURE 14. Long-term attitude towards adopting RMB trade settlement – China corporates by business interactions with overseas

Three-quarters of China-based importers of goods and services from overseas and 52% of firms that both import from and export to overseas will wait until the currency internationalizes more to invoice in the renminbi. The treasury manager of an onshore conglomerate attributes this to the capital controls. "As the outflow is currently being controlled, thus it is not suitable for importers to settle in RMB," he says.

By business interactions, overseas MNCs

Three in five overseas importers will proactively increase their trade settlement in renminbi in the long run, the largest percentage across the different business interaction groups. “Normally, our order demands have increased and these are mainly in RMB so we need to pay back to our factory in RMB also,” says the Hong Kong-based financial controller of a firm importing from China.

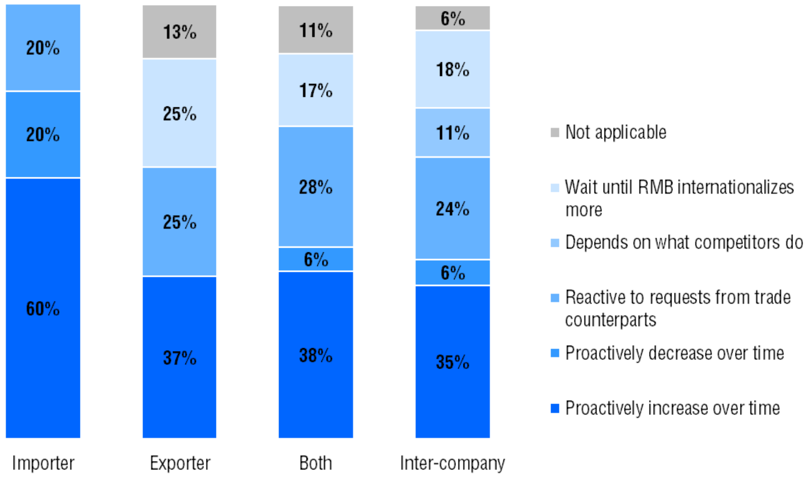

FIGURE 15. Long-term attitude towards adopting RMB trade settlement – overseas MNCs by business interactions with China

By company size

Half the large companies surveyed plan to proactively increase their renminbi trade settlement in the long run, 47% of the medium-sized firms and one in five small firms. More small companies will react to requests from their trade counterparts over the longer-term or will adopt a wait-and-see approach until the renminbi internationalizes more (27% each).

Large and medium-sized companies are more likely to be proactive with regards to renminbi invoicing regardless of if they are based in China or out of the country. For small companies it is a different story. The CFOs and treasurers of small companies based in China prefer to wait until the currency internationalizes more whereas if they are based overseas they will more likely react to requests from their trade counterparts.

RENMINBI RISK MANAGEMENT

More than half the corporate respondents (58%) are more actively managing their renminbi FX risk in reaction to the volatility of the currency. The most popular tools being used to hedge the currency are forwards or swaps, natural hedging, risk shifting (invoicing in the home currency) and actively tracking renminbi movements. If CFOs and treasurers choose not to hedge their renminbi exposure it is more likely to be because their exposure is too small or there is no corporate policy currently in place.

Methods to manage renminbi risk

In the context of the increasing renminbi volatility, the survey asked respondents specific questions related to renminbi FX risk management and the methods they are using. 58% of firms surveyed report they are more actively managing their renminbi FX risk than before given the recent volatility. Three in ten CFOs and treasurers are managing their risk the way they had always done. For 13% the question is not applicable as all their renminbi exposure has already been exited.

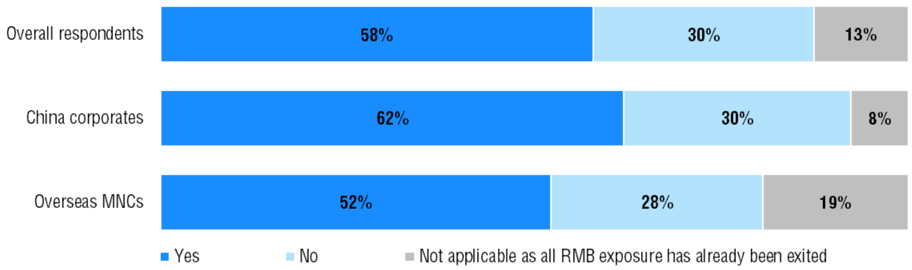

FIGURE 16. More active management of RMB risk – China corporates vs overseas MNCs

View from China corporates versus overseas MNCs

When the sample is broken down to compare China-based and overseas companies, onshore corporates are 10 percentage points more likely to be more actively managing their renminbi risk. “I can only lock in the FX rate using products,” says the finance head of an onshore industrials and manufacturing firm.

Among overseas MNCs, 28% have not changed their risk management policy. The treasury manager of a real estate firm based in Hong Kong explains that their firm already made the change after the new FX regime in August 2015. “A few years ago, before 2015, the renminbi was very hot, but we didn’t spend much time on the hedging or the management or the currency risk that is true. But then after that we managed it more." Almost one in five corporates out of China (19%) have withdrawn their exposure to the currency.

By business interactions, China corporates

China corporates that are more likely to be more actively managing their renminbi FX risk include those that import from overseas (83%) or those that both import from and export to overseas (80%). Only two in five companies that mainly buy and/or sell to their overseas subsidiary are doing so. The onshore director of a large conglomerate that imports from overseas is possibly forced to hedge given that he cannot settle trades in renminbi. "Only a few clients accept RMB settlement at the moment," he grumbles.

China-based firms that deal with their overseas subsidiaries (effectively MNCs), probably already have hedging mechanisms in place to deal with renminbi risk management. The onshore treasury head of a European company is not the least bit concerned about the fluctuations and sees it as business as usual. "I don't see it as increased volatility. I think the volatility is really normal, it's just that maybe for a local, they tend to think that they haven't seen this kind of volatility," he says. "Every day it's up and down 200 points for that matter. So, it's not a big concern from the company's point of view. After all we've instituted enough measures for natural hedging that we are pretty comfortable with our position."

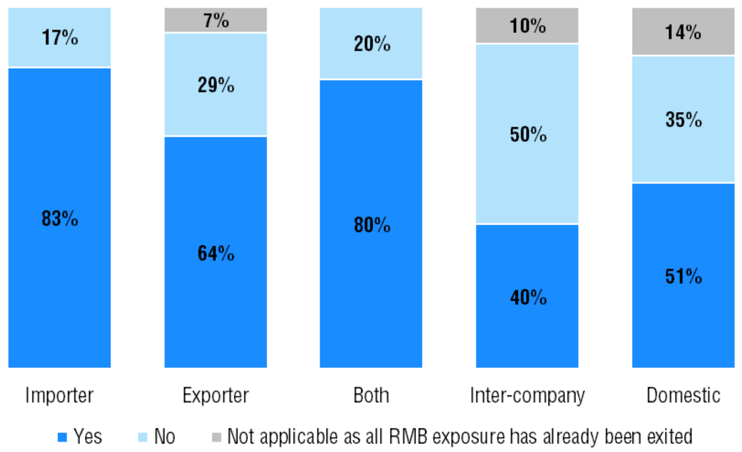

FIGURE 17. More active management of RMB risk – China corporates by business interactions with overseas

By business interactions, overseas MNCs

Overseas MNCs that mainly buy and/or sell to their China subsidiary and those that export to China are the most probable candidates to be managing their renminbi FX risk more actively than before given the volatility. Half the overseas firms that are importing goods or services from China have exited their exposure in the currency.

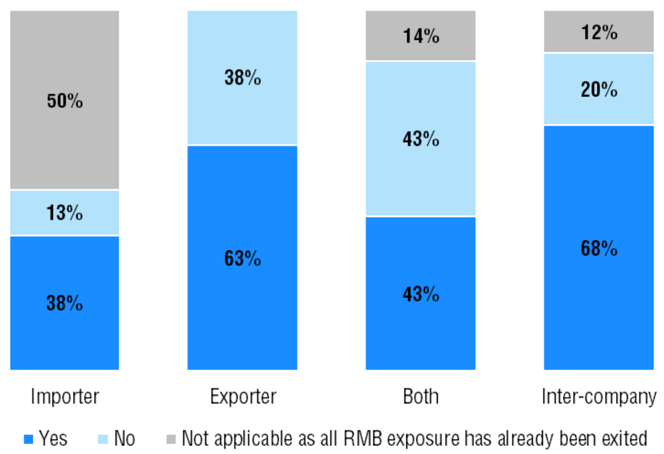

FIGURE 18. More active management of RMB risk – Overseas MNCs by business interactions with China

By company size

A majority (68%) of large companies and 58% of medium companies are more actively managing their renminbi risk given the recent volatility in the currency. However, almost two thirds (64%) of small companies have kept their risk management practices the same. This is an expected outcome given small companies are likely to have less overall renminbi exposure and therefore less motivation to hedge.

Three quarters of small onshore companies have maintained their methods of FX risk management from before compared to half the small overseas MNCs. In fact, 42% of the small companies in China that are managing their risk the same as before do not hedge their renminbi exposure at all.

Methods of hedging renminbi exposure

The most popular methods of hedging renminbi exposure reported by corporates include forwards or swaps (54%), natural hedging (41%), risk shifting (invoicing in the home currency) and actively tracking renminbi movements (both 20%). Interestingly 18% of corporates choose not to hedge their renminbi exposure at all.

View from China corporates versus overseas MNCs

In keeping with the overall sample, China corporates opt to hedge their renminbi exposure using forward contracts or swaps (51%) and natural hedging (38%). However, a smaller proportion of onshore firms use these instruments than their overseas counterparts (58% of overseas MNCs use forward contracts/swaps and 46% use natural hedging).

More onshore CFOs and treasurers prefer to shift the risk by invoicing in their home currency than overseas MNCs (24% versus 15%). China companies are also more likely to use money market hedges, make educated guesses on currency fluctuations or engage in currency risk sharing than overseas firms. Not surprisingly more firms based out of China tend to use multi-currency accounts than those onshore.

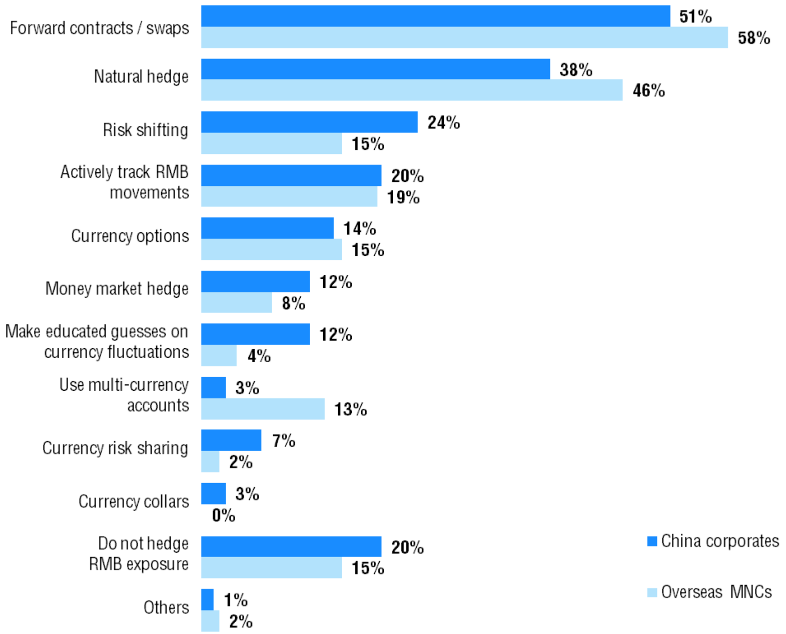

FIGURE 19. Hedging of RMB exposure – China corporates vs overseas MNCs

Reasons not to hedge renminbi exposure

The CFOs and treasurers that state they do not hedge their renminbi exposure at all were asked the reason behind this. Three in five China companies and half the overseas MNCs state their exposure is too small. The next most popular option was that they had no corporate policy to do so, this answer was applicable for three in ten onshore and roughly one in six overseas respondents. One third of the treasurers based outside of China found hedging the currency too expensive.

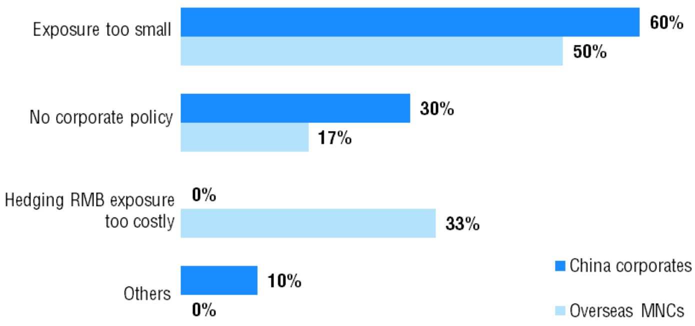

FIGURE 20. Reasons not to hedge RMB exposure – China corporates vs overseas MNCs

ONE BELT, ONE ROAD

Most respondents (82%) are aware of the OBOR initiative. 17% are already engaged in related projects and 23% actively considering opportunities in the future. Companies are most interested in gaining guidance on local regulatory, tax legal and cultural practices and requirements as well as country, geopolitical or industry related risk information for OBOR corridors. In two to five years' time companies expect OBOR to boost infrastructure investments (72%), enhance the economic power and influence of China internationally (63%) and increase renminbi use internationally (57%).

Level of awareness of One Belt, One Road

Over four-fifths of survey respondents (82%) are aware of the OBOR initiative promoted by China's President Xi Jinping since 2013 that promotes linkages along the land-based *Silk Road Economic Belt* and *sea-based 21st Century Maritime Silk Road*. 17% are already participating in projects related to it and nearly one quarter (23%) are considering investment opportunities in the future.

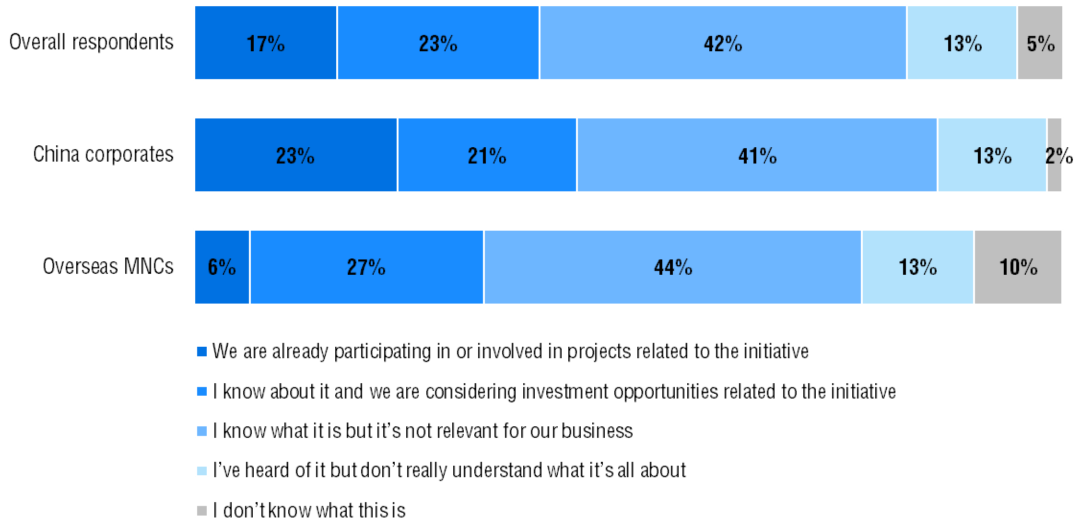

FIGURE 21. Level of awareness of OBOR – China corporates vs overseas MNCs

View from China corporates versus overseas MNCs

Predictably, China companies are more likely to already be involved in existing OBOR projects (23% compared to only 6% of offshore). "All of our projects are located in OBOR countries," says the CFO of a large onshore energy and mining company.

What is promising is that a greater proportion of overseas companies are considering investment opportunities related to this initiative (27%) than their onshore peers (21%). One in ten MNCs based outside of China are not aware of what OBOR is.

Industries and countries of interest

Energy and mining or industrials and manufacturing sectors are the focus for 19% of the companies that are either already participating in OBOR projects or are considering investment opportunities related to the initiative. Aside from the fact that a large proportion of CFOs and treasurers surveyed are already present in these sectors, this is predictable given the OBOR projects that have been promoted in the past few years have generally been focused on infrastructure development.

19%	• Energy and mining • Industrials and manufacturing
8%	• Materials • Telecommunications
6%	• Aviation and transportation • Financial services
4%	•Logistics and courier •Property •Utilities

TABLE 3. Industries of interest in business opportunities related to OBOR

The geographic regions that are most popular among companies that are currently participating in or considering OBOR projects are Southeast Asia, Europe and Africa. The countries that are top of mind for respondents that did specify include Indonesia, Malaysia, Australia, Pakistan, Kazakhstan, Russia and Germany.

Information and product support for opportunities related to One Belt, One Road

The information and product support that companies expect will help them better understand and explore opportunities related to OBOR include obtaining guidance on local regulatory, tax legal and cultural practices and requirements (67%) as well as country, geopolitical or industry related risk information for OBOR corridors (61%). Hand-in-hand with this half hope they can learn more about funding and risk mitigation solutions (namely on country, political and credit risks). The least important information for the companies surveyed includes information sharing about changes or progress on the initiative (16%) as well as escrow and cash management solutions (12%).

View from China corporates versus overseas MNCs

Almost seven in ten China companies are seeking guidance on local regulatory, tax legal and cultural practices and requirements. For companies outside of China, 63% think this would be helpful. Access to country, geopolitical or industry related risk information for OBOR corridors would assist 69% of China firms and half of the overseas MNCs.

More onshore corporates are looking for pre-project support as compared to overseas companies (35% versus 7%). Also 29% care about local help in business match-making along OBOR while only 15% of overseas MNCs do. Companies outside China on the other hand are more concerned about regular information sharing about changes or progress in the initiative (19% compared to 13% of onshore companies), which is expected given they are further away from the action so to say.

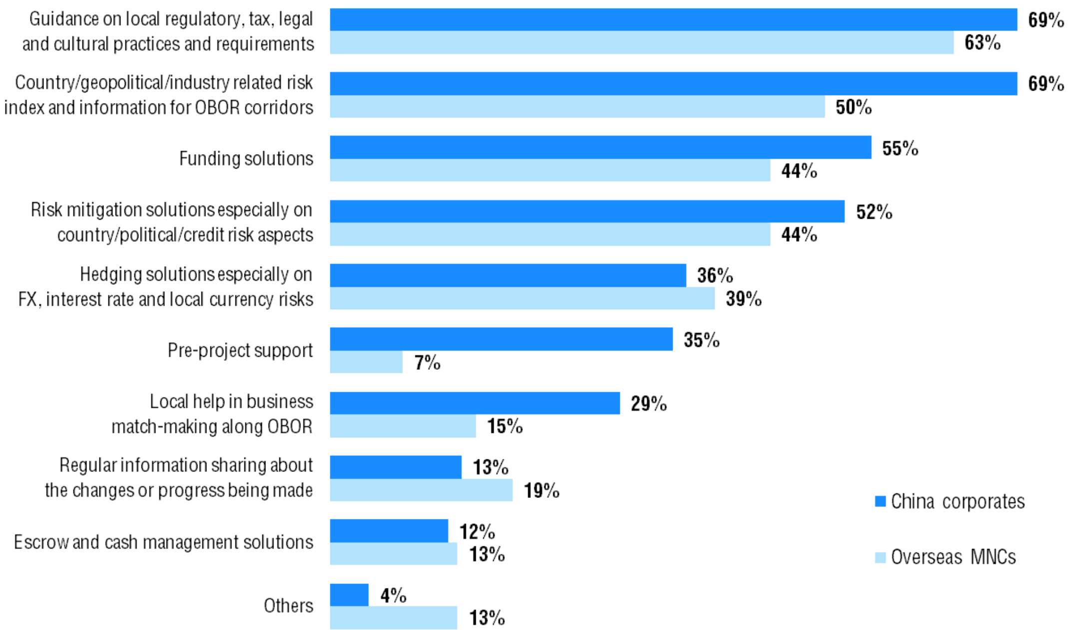

FIGURE 22. Information and product support needed for better understanding and exploring opportunities related to OBOR – China corporates vs overseas MNCs

Expectations of effects of One Belt, One Road

A majority (72%) of companies expect the effects of OBOR in the next two to five years to be a boost in infrastructure investments. "One Belt, One Road is exporting many aspects, such as the export of overcapacity in production, human resources and capital," says an onshore finance director at a large energy and mining corporate. He is referencing the glut in production in industrial sectors such as coal and steel in China that he explains is being exported to the OBOR countries.

Almost two-thirds (63%) of companies expect the initiative to enhance the economic power and influence of China in the international arena and over half (57%) expect an increase in renminbi use internationally. According to one treasury director at a large onshore conglomerate: “It [OBOR] will bring international commercial opportunities for sure. So, the selling and buying which is denominated in RMB…I mean, if the needs of buying and selling of assets increases, then the needs of RMB internationalization will also increase”. Another China-based chief financial officer in aviation and transportation however is not so hopeful: The situation is probably that RMB usage will be increased for certain deals in the short run. But in the long run…when these projects have been finished, then the trade settlement in RMB or the amount of trades dominated in RMB will decrease also.”

View from China corporates versus overseas MNCs

More China companies than overseas ones are optimistic about the effects of OBOR. Close to two in five (38%) think it will create opportunities for their own company while only 26% of overseas MNCs have this sentiment. “This development can create opportunities for us but I think it needs more than five years to develop. I think it will take 10 years,” says one Hong Kong-based treasurer. One in five overseas MNCs (19%) state they do not have enough information to comment on the outcome of OBOR in the next two to five years.

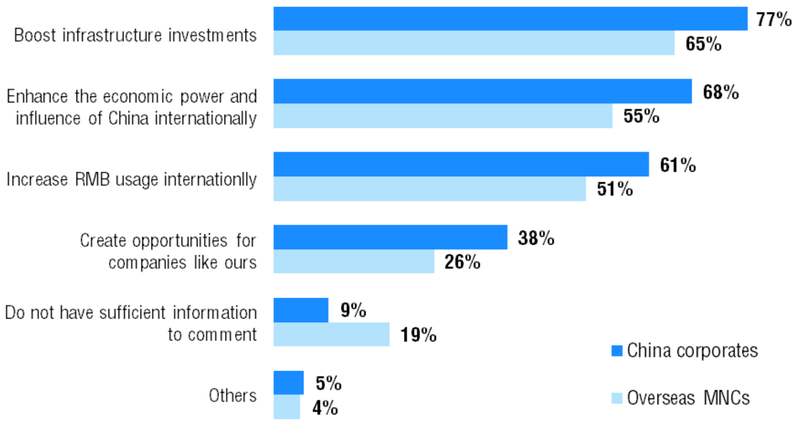

FIGURE 23. Expectation of the effects of OBOR in the next two to five years – China corporates vs overseas MNCs

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